

# DELIVERING ECONOMICS OF EXPERTISE

A N N U A L R E P O R T 2 0 0 4 - 2 0 0 5

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A complete version of this book is available at the site [www.polaris.co.in](http://www.polaris.co.in)

# POLARIS

power of precision

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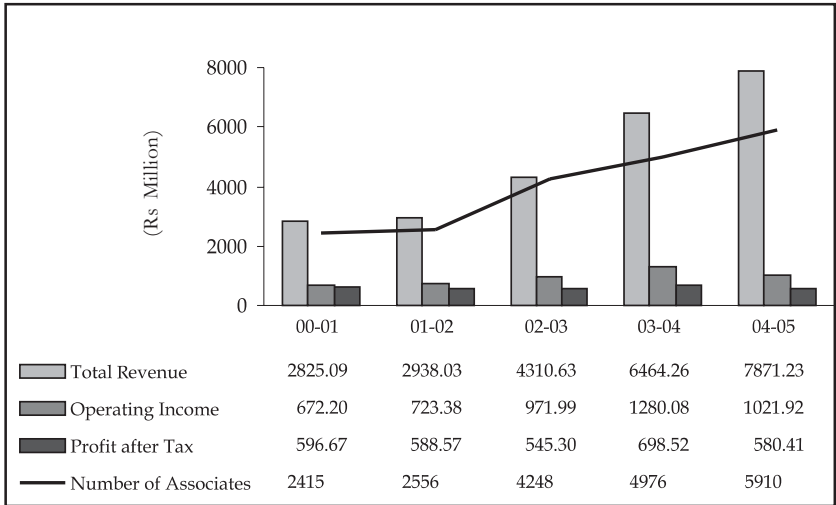
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# FINANCIAL HIGHLIGHTS



## POLARIS SOFTWARE GROUP

### FINANCIAL HIGHLIGHTS

For the Year	00-01	01-02	02-03	03-04	04-05
					(Rs Million)
Total Revenue	2825.09	2938.03	4310.63	6464.26	7871.23
Operating Income	672.20	723.38	971.99	1280.08	1021.92
Profit after Tax	596.67	588.57	545.30	698.52	580.41
<b>At the Year end</b>					
Total Fixed Assets	555.78	876.35	1829.12	2011.30	2162.64
Shareholder Equity	1900.52	2388.90	4334.90	4904.00	5311.00
Number of Shares					
Outstanding of Rs. 5 each	34.12	51.19 *	97.35**	97.70	98.01
Earnings Per Share - Basic	17.49	11.50	7.76	7.17	5.93
Dividend (%)	30%	35%	35%	35%	35%
Number of Associates ***	2415	2556	4248	4976	5910

\* - Bonus Issue of 1 : 2

\*\* - Orbitech Solutions and Polaris Software Lab Merger

\*\*\* - Employees at Polaris are called Associates

# LETTER TO SHAREHOLDERS



Dear Shareholders,

This moment is very special for me. Every year, I go through intense introspection and hours of reliving every moment of the year that has gone by before I reach out to each and every one of you.

At our visioning exercise in 1996, aptly called *Lakshya*, we came up with two goals for Polaris: to be among the Top 10 IT organizations from India; and to be an expert niche player serving global customers on the basis of quality and relationships.

A decade later, we serve the largest financial institutions in the world in Asia Pacific, Europe, and the US. Last year, NASSCOM ranked Polaris amongst the Top 10 software exporters from India. We have reached this far because of our belief, 'If you can dream it, you can do it!'

Polaris is now going through another transformation. This transformation is not so much about enhancing our ranking among Indian players. Instead, our goal is to be among the Top 10 most respected global organizations in our area of expertise.

Transformations are exciting, transformations are challenging. They can often be stressful. Yet how we handle a transformation shapes our personality and destiny. I am sure we can recall our own transformation from teenagers to mature adults.

Polaris picked up the warning signals early, on the challenges confronting mid-tier IT companies. We foresaw that operating margins in the services business would come under competitive pressure, and customers would increasingly look to specialists rather than generalists for value.

We took several steps to address these challenges and transform ourselves:

- When we acquired a world class banking product suite, 'Intellect', we could have gone to market right away and registered quick wins and profits. Instead, we opted to invest time and money to augment the product and make it even more powerful and comprehensive to fully meet the needs of Tier 1 financial institutions.
- We developed a premium first-of-its-kind offering called 'Smart Build' that combines our domain expertise, service excellence, and products. Through Smart Build, we offer unparalleled agility and value to customers.
- We moved away from the economics of cost arbitrage to the 'economics of expertise'. We began creating an environment in Polaris to facilitate continuous learning at all levels and to cultivate an expertise mind-set.

- We began shifting focus to the customer's customer. Our singular focus on the banking and financial services space and our association with customers who are leaders in that space, has given us deep domain expertise, a clear understanding of the market, and an insight to the customer's spoken and unspoken needs.

Building a strong foundation is the first crucial step in building a global corporation. We deployed a team of over 700 engineers and bankers to develop our 'Intellect' product suite. This year we launched Intellect in Singapore for the Asia-Pacific region. The response from the banking world has been encouraging, and products like Intellect Treasury, Intellect Cash, Intellect Collections, Intellect Lending, Intellect Origination, and Intellect Cards have generated significant interest.

Our product initiatives have been funded from our own revenues, and what encourages us is that despite these significant investments, we still grew our revenues from Rs 646 crores to Rs 787 crores, and made a healthy profit of Rs 58 crores.

The growth has been accompanied by significant learning. One of the biggest lessons has been setting expectations when the organization is going through a transformation. For several years, Polaris has enjoyed one of the highest cumulative growth rates in the Indian IT industry, and we continued to expect similar growth during a time of intense internal transformation. We learned that preparing an organization for a solid future during a transformation involves as much internal focus as external or market focus. The gestation cycle for go-to-market during transformations is normally 24-36 months. But in our case, going to only Tier 1 banks meant a gestation cycle time of anywhere between 24 and 60 months. In our eagerness to show results, we put undue stretch through multiple initiatives instead of asking for time and your patience.

We believe there are strong indications now that our strategies and service offerings are gaining acceptance in the market:

- Polaris has strong relationships with six out of the Top 10 investment banks in the world.
- Our expertise in treasury and wealth management is attracting significant interest in advanced markets like the UK.
- We are servicing leasing specialists in Germany, and mortgage and insurance specialists in the US.
- Polaris is a preferred business partner for leading public sector banks in India.
- Customers believe we have moved from the utility space ("They will do as we say") to the enhancement space ("They are also capable of advising us on what best needs to be done").
- We undertook a landmark consulting engagement with Citigroup that integrated our services, Smart Build, and BPO offering in a cross-functional manner.

During the next four to eight quarters, I am confident that we will reap the benefits of this focused go-to-market strategy. We are already making tremendous improvements in our conversion ratio—by working on a focused sales pipeline, we are able to convert more opportunities into relationships.

This is a period of investment for the Polaris of the future. This is the period for delivering our ‘Economics of Expertise’. For my 6000 colleagues and me, this is the Polaris Way.

I am tremendously energized by your understanding, support and patience. Your faith in us will be the catalyst to our transformation.

Warm regards,

A handwritten signature in black ink, appearing to read 'Arun Jain', written over a light grey rectangular background.

Arun Jain

CEO  
Chairman and Managing Director

Chennai, May 29, 2005



di Arabia

ngapore

Switzerland

U.K.

U.S.A.

# THE ECONOMICS OF EXPERTISE

*Dr. Ashok Korwar, Strategic Advisor - CEO's Office*



What is this 'Economics of Expertise' and what is it for? How does it benefit the customer? These are crucial concerns.

The Software 2005 conference held recently in California had large users of IT telling the software industry that software is no longer something 'cool', so that bugs can be tolerated—software fuels the modern economy, nothing less. This insight can be seen, as through a prism, in a number of different ways:

- The way business and IT are getting intertwined today
- The real meaning of 'bugs'
- The kinds of solutions that make sense for customers.

## **IT and business intertwined - 'Financial Technology'**

In the world of banking and financial services, 'financial technology' is a new emerging form. Technology is no more a bit player, playing a support role—technology itself can shape the business. Consider the way web interfaces can allow a bank's customer to surf across the bank's channels for instance, or the way securities can be stripped, combined and modified to create new securities—clearly IT can itself directly transform the financial services landscape. When management gurus speak today of customers co-creating products jointly with product companies, it is evident that only technology can make such dreams a reality.

What does this mean for IT companies? Clearly, it is not enough to understand IT, or even how IT can support a given industry. IT companies must be expert enough in the subtleties of the customer's business to be able to see how technology can change the dynamics of the business. This calls for expertise in the customer's domain, in technology, and most importantly, in the way the two interact—a space we call 'Financial Technology'.

## **Bugs and defects**

Gurus like Fred Brooks have long held that the most pernicious defects in software come not from the way the software is written, but from the way the software system is visualized or conceptualized. It is almost humanly impossible to represent a software system in a conventional diagrammatic representation, for it is too complex, too organic, and too dependent on how it is used in the first place. To conceptualize the software system correctly in a way that customers themselves

conceptualize it, requires the IT company to be able to think and feel like the customer. If IT providers are to deliver the ‘bug-free’ software customers seem to be demanding, they must have enough expertise to understand a software system which is too complex to explain or depict in diagrams and process flow charts alone.

### **Right solutions for the customer**

Unless the customer has the good fortune to find a software product that exactly matches his requirements (which we have never seen except perhaps in our fantasy), a great deal of customization is always required. The IT company doing this work must understand which of the customer’s processes are truly unique and should not be force-fitted to the package, and where the customer can safely follow some industry-standard process without sacrificing competitive advantage. Building solutions around a product, which we call ‘Smart Build’, calls for a deep and detailed understanding of the customer’s business processes—an expertise of a high order.

### **Polaris and the Economics of Expertise**

Expertise for us comes from focus on a given industry (BFSI), working hard to understand the details of the industry, and investing in building products and components that embody world-class banking processes. This is the investment Polaris has made over the past three years, which enables us to provide the right solutions for the customer.

Our 19 years of experience with Citibank in developing the widest possible range of applications from support to mission-critical, has taught us the processes of a world-class bank. No other Indian IT company has had the benefit of this hard schooling. The expertise Polaris has developed from this experience is one of our key differentiators.

Over the past several years, Polaris has moved, consciously and decisively, to build expertise in financial technology. This is the Polaris differentiator, when we compete with other IT companies from India. When we compete with the handful of other financial technology companies across the globe, the traditional Indian offshoring advantage is brought to bear, to reduce cost and improve quality.

### **What this expertise means for our customers**

Our expertise enables us to deliver solutions to our customers that not merely support their business, but helps them shape and redefine it. Customers get solutions that are ‘defect free’, not merely in the narrow sense of fewer errors, but in the larger sense of being closer to what they visualized the system to be when they commissioned it.

Expertise permits Polaris to read between the lines, to hear the unspoken needs of the customer. This helps us deliver a solution faster because there is less time wasted in knowledge transfer. In turn, this helps our customers reach their market ahead of the competition.

# DELIVERING ECONOMICS OF EXPERTISE THROUGH PRODUCTS

*Koen Van den Brande, President—Product Group*



The product business contributes about 15% of revenues at Polaris, and in the coming years this contribution will increase as we gradually develop what was originally a vision into a reality. The Intellect product business and the ‘Smart Build’ approach are central to our strategy of delivering ‘Economics of Expertise’ to our customers.

## **What is Economics of Expertise?**

For over 19 years, we have delivered domain focused, high quality, and cost-effective IT services to our customers across the world.

As the benefits of determined focus on a single domain—banking and financial services—are increasingly translated into the creation of value for our customers, we continue to look for ways of capturing that expertise and ‘bottling’ it. What that means is that we look for the ability to package and reliably repeat accumulated experience so that successive projects can benefit in terms of reduced risk and improved timelines.

## **And what does it have to do with building a product business?**

As a company, we are always looking for ways to ‘crystallize’ our operational best practices built over several years of working with global BFSI customers. What better way to do that than to ‘productize’ our solutions.

When we set out to build products, we were fortunate to be able to start with the best practices of one of the world’s leading banks which had already been captured in the systems built to a high standard and largely by Polaris teams.

Now, as we start to sign up with leading banks in different parts of the world and further enhance and fine-tune those operational practices in our products, we are increasingly adding value to the overall services we offer.

Combining operational best practice in products with deep domain expertise in services, translates into a premium offering for us, and a faster and better solution for the customer. This is the ‘Economics of Expertise’ in action.

## **What is so smart about Smart Build?**

A big challenge in the product business is that traditionally, the largest banks in the world have preferred ‘in-house build’ projects to products because ‘universal banking’

does not offer enough functional depth, and ‘best of breed’ does not provide enough of a customized and tightly integrated solution.

As the focus shifts increasingly towards creating a consistent customer experience and optimization of processes across functional silos, the world’s leading banks are looking for a new approach to the objectives of continuous improvement and agility.

There is a growing consensus that a new set of standards originally developed to enable businesses to connect with each other across the Internet, can be used inside their complex organizations to transform legacy systems and start to break down the silos.

This transition towards a ‘Services Oriented Architecture’ is closely aligned with our strategy which positions product components we call GeneS for ‘Generalized Services’ as building blocks which can be used to add value to existing legacy systems. We call this offering ‘Smart Build’.

What is smart about Smart Build is that these building blocks can deliver the benefits of ‘productization’ without sacrificing the ability to provide functional depth or the need to customize for a close fit to requirements.

So whether it is:

- a high street bank in the UK looking to enhance its sweeping and pooling capabilities as part of an existing cash management capability,
- a major bank in Malaysia launching an electronic dividends service,
- a leading money market desk in Europe looking for a new trading platform closely matched to the needs of traders,
- a leasing specialist in Germany adding dealer finance extensions to a lending system,
- a US mortgage specialist connecting thousands of agents to its origination process to automate the workflow around searches, or
- a bank in Thailand adding Islamic banking capabilities to more traditional core and lending operations,

each of these organizations has benefited from the combination of innovation with faster time - to - market, an improved project risk profile, and a lower total cost of ownership.

This ability to add value to existing systems and our customers’ business, is growing evidence that Smart Build will help Polaris deliver on the ‘Economics of Expertise’ promise.

# DELIVERING ECONOMICS OF EXPERTISE THROUGH IT SERVICES

Govind Singhal, Executive Director



Offshore IT services have evolved tremendously over the last decade and a half. A journey that began because of cheaper offshore programming resources has moved up the value chain significantly. Customers now leverage their offshore programs to support initiatives ranging from utility (cost arbitrage), to value enhancement, to transformation.

The offshore IT services model is a huge opportunity, and the banking, financial services and insurance (BFSI) segment is one of its largest beneficiaries. While institutions in the US and the UK have reached an advanced stage in their offshore programs, institutions in other parts of the world too, are fast embracing an offshore strategy. So while on the one hand the market is growing, at the same time it is also maturing and expects higher value through enhancement and transformational benefits.

The competencies and capability requirements to support this agenda are also changing. While application management services and application development services, the staple diet of offshore services providers currently, are primarily based on the technology competence of the providers, services delivering enhancement and transformation call for a high order of competence and expertise in specific industry verticals. It is in this context that Polaris, with its credible track record and current capabilities, is uniquely placed to deliver compelling value to its customers through what we call 'Economics of Expertise.'

## Expertise in domain, expertise in delivery

Over nearly two decades, Polaris teams have delivered thousands of end-to-end solutions to global banking giants like Citigroup. These include solutions in areas like comprehensive consumer banking platforms, completely integrated high performance credit cards processing solutions, global trade finance management platforms, administered and self-managed corporate banking services technology infrastructure, straight through processing frameworks for securities and global self banking channels. In many of these solutions, Polaris experts have delivered and serviced three or more generations of technology innovations! The rigor of the business needs, the expanse of the solution space, and two decades of relentless pursuit of customer delight has helped Polaris build expertise in providing compelling financial technology optimization solutions.

Being the first organization to be assessed at CMMi Level 5, Polaris delivers unparalleled value to its customers through continuously improving processes for optimization, efficiency and speed of delivery. Over the years, we have built replicable and rigorous methodologies, standard validated and replicable architecture and design templates, a concurrent and independent quality assurance stream, standardized checklists to prevent defect leakages to subsequent work stages, and mindsets to deliver 'first time right' solutions.

Our experience across several thousand global projects has created an unparalleled pool of financial domain experts. Indeed, we have over 400 banking, financial services and insurance experts on our rolls. We deliver enhanced value for our customers because our IT solutions are built on a deep understanding of the business and the best practices in industry. This allows us to deliver high value by managing the completeness of the customers' requirements and certifying the solution around its objectives. This has been the key to Polaris partnering various customers to deliver on enhancement and transformational initiatives.

The Polaris promise is simple: through a combination of expert domain knowledge, rigorous engineering practices and a culture of continuous quality improvement, Polaris services strive to deliver 'first time right, zero defect solutions'. To the customer this means reduced maintenance and support, faster time - to - market, and a lower total cost of ownership.

# DELIVERING ECONOMICS OF EXPERTISE THROUGH BPO

Uma Krishnan, Chief Operating Officer, Optimus



*A famous consultant was invited by a company to help them locate a problem in an intricate system of complex machines. After spending some time with the system, he chalk-marked an 'X' on a small component. The company's engineers examined the component, and were amazed to find the defect at the precise location of the mark. Some time later, the company received an invoice from the consultant: "Making one chalk mark, \$1". "Knowing where to place it, \$9,999."*

Today's business is all about focus and knowledge, about knowing where to place the mark. It is this philosophy of focus and expertise that is the driving force behind Optimus, the business processing outsourcing arm of Polaris.

In an environment dotted with numerous outsourcing outfits trying to service all markets, Optimus focuses on niche verticals and on servicing clients with skill and domain knowledge. In a market predominantly focused on cost savings, Optimus believes that expertise driven outsourcing has more to deliver than just cost savings.

Even within the BFSI (banking, financial services and insurance) vertical, Optimus focuses on niche verticals like credit cards and mortgages, where it provides clients with an integrated portfolio of in-depth offerings.

We believe companies need to simultaneously harness the advantages of two key enablers—technology and process expertise. A strong technological backbone allows easy scalability leading to improved efficiency and reduced costs. This combined with knowledgeable people, domain expertise and robust infrastructure leads to a highly competitive business operation.

## Cards on demand

'Optimum', the company's portfolio of Transformational Business Infrastructure services for the cards market aims to be the transformational lever that will enable banks to garner leadership slots in the credit card industry. It encompasses the complete portfolio of card services—process outsourcing, voice services, card management platform, data hosting services and business consultancy.

With Optimum, clients have the option of outsourcing their entire back office services (from sales, acquisition, processing, customer service, collections and risk management) and solely concentrate on strategic decision making.

Launched initially in the Indian market with a vision to expand globally, the portfolio offers clients end-to-end services on a ‘pay as you profit’ model. Optimum leverages the proven Intellect Cards Management Platform (CAMP) to offer clients a highly scalable and flexible back end. The product leverages over 19 years of Polaris’ experience in supporting market leader Citibank’s innovative India card initiatives. A comprehensive futuristic cards solution, the platform covers all critical business areas including issuing, acquiring, collections, and fraud management, over a period of time.

The Optimum offering is backed by more than 1200 person-years of experience across varied segments of the cards business. The Optimum team has a holistic view of the card business—technology, process, and operations, allowing the team to partner clients in developing an action oriented blueprint for success.

Within three months of launch, Optimum won prestigious assignments from two of India’s leading banks.

### **Collection services**

Optimus also offers an integrated portfolio of mortgage solutions to help clients face demanding consumers and aggressive competitors in the evolving mortgage business. Faster mortgage decisions, large volumes, flexible products, and personalized service are the order of the day in the mortgage market and this again demands the combined use of the twin enablers—technology and process expertise.

Optimus offers clients a seamless outsourcing experience backed by its extensive technology capabilities, process expertise, and robust infrastructure. It leverages the unique Smart Build approach for rapid development and deployment of efficient mortgage services applications using the Polaris Intellect Suite of products. Our portfolio of BPO services is custom designed to offer clients all the back office support needed to run a successful mortgage operation, be it lead management, loan processing, customer service or collections. Process outsourcing services offered include back office transaction processing and customer interaction services (inbound/outbound and web-based).

We believe our expertise driven portfolios of integrated outsourcing solutions offer our clients much more than cost savings—they can achieve business transformation. Faster time - to - market, lower processing costs, enhanced revenues, greater customer satisfaction and investment efficiency. ...through focus and expertise, we deliver on our promise of ‘Economics of Expertise.’

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Australia

Bahrain

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India

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# COMPREHENSIVE 'BETTER BANKING' SOLUTIONS FOR A FAR EAST BANK

## The Client

One of the fastest growing regional banks in the Far East committed to providing 'Better Banking' to its individual and institutional customers.

## The Need

The bank wanted to accelerate the growth of its retail banking business through better and improved products and services.

## The Solution

Polaris teams delivered diverse and complex solutions that covered:

### *Customer Satisfaction and Loyalty Management*

- Statement Engine: Generates statements and can process data for about 8 million transaction in 8 hours
- Balance Certificate: Generates online / batch mode balance certificates of customers and their portfolios residing on heterogeneous systems
- Cross Border Fund Transfer: Back end and front end automation of funds transfer outside the country
- Internet Enabled: The platform can connect to any back end product processor through standard interfaces and provides a unified view to the customer



### ***Business Continuity and Contingency Solution***

To ensure true 24 x 7 banking availability, a business continuity and contingency solution was provided through an alternate platform to perform critical transactions in case the base application was not available for transactions across all channels, namely ATM, Branch, and Internet.

### ***Growth by Acquisition***

The Polaris team's capability to set up new loan portfolios as well as migrate existing portfolios to Intellect Lending in a specified period of time gives the client the confidence to migrate to more portfolios.

### ***Unified View of Customer Portfolios***

A customer information solution provides a unified view of the corporate customer with linkages to subsidiaries and their assets/liabilities positions with a flexible information display.

### **The Benefit**

The Polaris 'Smart Build' approach resulted in the following benefits to the bank:

- Reduced time - to - market
- Prior evaluation of solution fitment
- Visibility of available components and clarity on required enhancements
- Choice of the best of breed solutions

# ISSUER SERVICES SOLUTION FOR ONE OF THE WORLD'S LARGEST INVESTMENT BANKS

*“The whole project was professionally managed and met all deadlines and success criteria we had set out at the beginning of the project. We were able to consolidate numerous different systems under one platform. Look forward to working with you again.”*

— Client Manager, and Vice President

## The Client

One of the largest global investment banks. The agency business group of this bank covers the issuer and paying agency services, depository, custody, registrar and other services for equity and debt markets in Europe. The business manages US\$ 1 trillion of assets.

## The Challenge

- Tight schedules—re-engineering a legacy technical architecture
- Multiple applications, with interface and reconciliation issues
- Existing applications constrained the business throughput
- Functional enrichment
- Needed additional interfaces to funds transfer and clearing systems



## **The Solution**

- Polaris integrated the new application over and above the existing applications to maintain the look and feel, and added new functionality
- Developed the new system over an existing client/server system
- Integrated the system with new functional roles Registrar, Repack agent, and Custody etc
- Provided event driven processing for corporate actions
- Retained the existing interfaces and provided new interfaces to funds transfer and clearing systems

## **The Benefit**

- Improved throughput
- Resolved issues due to multiple applications
- Significant cost savings achieved
- Ease of application maintenance
- Minimal user training due to retention of look and feel
- Support team members drawn from development, ensuring customer comfort

# TREASURY SOLUTION FOR ONE OF THE WORLD'S LARGEST TREASURY GROUPS

*"Overall this is a great achievement and would not have been possible without the hard work the team has put in."*—Project Director

*"We are extremely happy with the outcome of the initiative."* —Managing Director

## The Client

The Risk Treasury group of a renowned global conglomerate. The group consolidates all treasury positions in Europe and manages the Money Market/ Forex operations in 53 countries.

## The Need

- Replace a globally run 20-year-old legacy system in eight locations simultaneously
- Incorporate innovations in front office trading and risk management
- Multi-location trading
- Centralized treasury
- User configurable workspace
- Real time and intra-day risk numbers
- Improve existing performance, scalability, and high availability SLAs
- Tight delivery schedule, flexibility to accommodate change requests
- Complexity in operations and uniqueness in bank's processes



## **The Solution**

The solution was built around the Intellect Suite and the Smart Build approach. The products used were Intellect MM supplemented by Intellect Armor, Intellect Integrator, and Intellect Reports. The front end, interfaces, reports and hand-offs were customized.

The Smart Build approach was used to customize the base components to meet the dealer's specific requirements and ensure a total solution that fully meets the customer's requirements. Smart Build is the answer to the 'build vs. buy' dilemma in situations where customers need form-fitting solutions with minimal efforts on development and customization.

## **The Benefit**

- Multi-currency support, centralized treasury environment
- Multi-entity system to support global positions /risk
- One system for complete straight through processing in the entire region
- 20% savings in costs
- Reduced operational risks through online limit tracking
- Automation of deal booking across branches in the same region
- Improved risk management at group treasury
- Improved exposure management and profit booking

# BUSINESS TRANSFORMATION FOR A EUROPEAN CUSTODY BASED SERVICES PROVIDER

## The Client

A Europe-based custody services provider

## The Need

As the securities environment changed to non-paper based real time clearing and settlement, the client wanted to transform its business by 'productizing' its services and improving their ease of use to their client banks.

## The Solution

Polaris redesigned and developed a web based WorkPlace to track and view corporate actions in an events calendar and capture instructions on voluntary and proxy events on behalf of the client's clients. The solution sends email notifications and reminders for actions from customers.

An XML based event reference model compatible with SWIFT standards was used to dynamically publish corporate actions event messages. It has a calendar based task scheduler for the user. The product was subjected to extensive security audit by specialized agencies.



## **The Benefit**

- Significantly reduced client's operating costs through automation of routine activities, line data collection, verification and completion
- The solution only requires an Internet-based workstation
- The rapid capture PF validated information improves workflow and reduces cycle times
- The matching, enrichment and refinement of the collected corporate action information significantly reduced settlement risk

# PLATFORM UPGRADE FOR INVESTMENT BANK

## **The Client**

One of the largest U.S. diversified financial services company delivering personalized solutions crafted from a comprehensive array of investor and securities services to the global investment industry. The company manages more than 57 million shareholder accounts and \$1.8 trillion in total assets.

## **The Need**

The client wanted to upgrade its existing software to a new platform that would enable them to offer simple IRA plans on a self-service portal to its plan sponsors, third party, and plan participants. Each of the client's customers would be enabled to log in and access their individual accounts. The application would be able to handle queries and transactions such as exchanges, redemptions, purchases, SWP and AIP maintenance, and internal allocations. The application should be easy to use for the three different types of users—retail users, the management company, and participants.

## **The Solution**

Polaris developed a portal-like prototype to demonstrate its understanding of the business requirements and to showcase user interface design capability. Role based menus changed according to the type of user and their entitlement. The application was also compliant with the American Disabilities Act.



The solution was tested based on test cases prepared using the BRD, Use case, and approved prototype. System testing was performed based on the Business Use cases and Mercury was used for automating the test cases. The project was cutover to production after users had successfully tested the application system. Over 8000 test cases were executed.

### **Result**

- Robust system with capacity to handle large numbers of transactions and users
- Process flow approach across the platform
- Capability to handle multiple clients
- Dynamic user interface

### **Benefits**

- Helped in planning the migration of 33 clients to the new platform
- Domain expertise helped the smooth execution of the project
- Timely completion of the project provided the client the advantage of time - to - market
- Cost effective solutions
- Value addition in terms of J2EE technology expertise to their internal technology team
- Enhanced product capability for the client

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# CORPORATE SOCIAL RESPONSIBILITY- ULLAS TRUST

Ullas Trust, founded and funded by associates (employees) of Polaris Software Lab since 1997, helps support the education of children from economically backward sections of society. The Trust seeks to recognize academic excellence in economically underprivileged students and provide them with financial support through annual scholarships. The Trust also identifies and encourages corporation, government, and non-aided schools that excel in academic achievement through awards for the best performing schools and principals.

Highlights of the year:

## **Chennai**

- A special book was launched for Ullas achievers called the 'Diary of Dreams' to encourage young achievers
- 915 students from 217 schools were selected for the Ullas Scholarships after going through the selection processes. The selection test was designed and conducted by our associates
- Nine Ullas toppers in Plus Two were selected for the Higher Education Scholarship. In all, four professional and fourteen degree students were the beneficiaries of the Ullas Higher Education Scholarship
- The annual scholarship distribution ceremony was held at Image Auditorium on August 28, 2004 in the presence of the following dignitaries: film director and actor Partheban; senior IPS officer R.Natraj; Joint Director, Secondary Board of Education, Uma Maheshwari; cricketer Krishnamachari Srikant; Director, STPI, Rajalakshmi; and Vice Chancellor, Dr M.G.R deemed University, Prof Bramanatham
- The Ullas Triple-E Award (Encouraging Excellence in Education Award) was awarded to Government Girl's Higher Secondary School, Ashok Nagar
- Four best Ullas schools were chosen and awarded the Math Lab Package (Polaris gifted one computer loaded with the Mathematics software to each of the schools) and Sankhya offered the Hey Math technology-based learning system used to teach Mathematics. The schools were Gen.Cariappa Higher Secondary School, Government Girl's Higher Secondary School, Government Nagar, Madras Seva Sadan Higher Secondary School, Tambaram, and Sri Ahobila Mutt Oriental Higher Secondary School
- Computer classes, personality development, communications skill and career development classes were organized for about 800 Ullas students

- The Velachery Chapter conducted awareness sessions on World Diabetes Day, AIDS Day, besides drawing and elocution competitions
- 25 computers were exclusively allotted for Ullas usage and computer classes are being conducted in the new training room in the ground floor of the Carex Center office
- V.Saravan Kumar, an Ullas beneficiary in 1997 (the first year of Ullas Trust) has joined the Polaris family as a PATT trainee in SEC 1 and has proved a shining example to the remaining Ullas achievers
- Senior Polaris associates took on the mentoring role for students receiving scholarships for higher education

## **Mumbai**

- Ullas Trust Mumbai Chapter conducted its first annual workshop in October 2004. A total of 350 students from government schools were awarded scholarships
- Career counseling sessions and motivational workshops were held for all Ullas scholars
- A book donation campaign was launched to distribute books to schools that did not have an established library. Close to 1500 books were collected from associates

## **Delhi**

- Ullas Trust Delhi Chapter was launched at a function held in Gurgaon on May 4, 2005. Scholarships were awarded to 285 students selected from six government schools in Gurgaon. Magsaysay Award winner and distinguished former police officer, Kiran Bedi, whose life sketch is featured in the 'Diary of Dreams', was the chief guest.

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Canada

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**POLARIS SOFTWARE LAB LIMITED**

Financial Statements for the year ended 31<sup>st</sup> March 2005

‘Polaris House’, 244, Anna Salai, Chennai - 600 006.  
INDIA

# POLARIS SOFTWARE LAB LTD

## Board of Directors



**Arun Jain**  
Chairman & Managing Director



**Govind Singh**  
Executive Director



**Nanoo G Pannani**  
Director - Strategic Technology,  
Operations & Special Projects,  
Citibank N.A.



**Anil Sachdev**  
Founder & CEO - Grow Talent  
Company Limited



**R C Bhargava**  
Former Chairman & Managing  
Director of Maruti Udyog Ltd.



**Satya Pal**  
Former - Secretary (Telecom),  
Chairman MTNL and a telecom  
Expert



**Abhay Agarwal**  
Practicing Chartered Accountant



**Ajit Bhushan**  
Managing Director - Citigroup  
Venture Capital International



**Arvind Kumar**  
Sr. Lawyer - Supreme Court



**Dr. Ashok Jhunjunwala**  
Head - Dept. of Electrical  
Engineering, IIT Chennai.



**V Balaraman**  
CEO  
Adrenalin eSystems Limited



**Anil Khanna**  
Managing Director - Citigroup  
Venture Capital International

# POLARIS SOFTWARE LAB LTD

## BANKERS

Citibank N.A  
ICICI Bank Ltd  
HDFC Bank Ltd  
Fleet Bank, New Jersey  
Chase Bank, New Jersey

## AUDITORS

M/s. BSR & Co.,  
Wescare Towers  
No.16, Cenotaph Road  
Teynampet  
Chennai 600 018

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**DIRECTORS' REPORT**

## POLARIS SOFTWARE LAB LIMITED

### Directors' Report

To the Members,

Your Directors have great pleasure in presenting the Twelfth Annual Report together with the Audited Statements of Accounts for the year ended March 31, 2005.

#### 1. Financial Results

##### a. Stand alone results of Polaris Software Lab Limited

*Rs. in lakhs*

Year ended March 31	2005	2004
Profit( including other income) before Depreciation, Finance Charges, provision for diminution in value of investments and Tax	9,893	11,304
Less:Finance charges	82	118
Provision for diminution in value of investments	-	10
Depreciation & amortisation	3,840	3,161
<b>Profit Before Tax</b>	<b>5,971</b>	<b>8,015</b>
Less: Provision for tax (including Deferred tax)	628	1,245
<b>Profit After Tax</b>	<b>5,343</b>	<b>6,770</b>
Add: Surplus brought forward	11,955	7,791
<b>Profit available for appropriation</b>	<b>17,298</b>	<b>14,561</b>
<b>Appropriations</b>		
Provision for proposed dividend	1,715	1,710
Tax on Distributed profits	245	219
Transferred to General Reserve	535	677
<b>Balance Transferred to Balance Sheet.</b>	<b>14,803</b>	<b>11,955</b>

##### b. Consolidated results of Polaris Software Lab Limited and its subsidiaries

*Rs. in lakhs*

Year ended March 31	2005	2004
Profit ( including other income)before Depreciation, Finance Charges, provision for diminution in value of investments & Tax	11,550	12,194
Less:Finance charges	113	142
Provision for diminution in value of investments & Share of loss of Associate Companies	487	236
Depreciation & amortisation	4,070	3,318
<b>Profit Before Tax</b>	<b>6,880</b>	<b>8,498</b>
LES : Provision for tax (including Deferred tax)	1,076	1,513
<b>Profit After Tax</b>	<b>5,804</b>	<b>6,985</b>

Add : Surplus brought forward	11,805	7,426
<b>Profit available for appropriation</b>	<b>17,609</b>	<b>14,411</b>
<b>Appropriations</b>		
Provision for proposed dividend	1,715	1,710
Tax on Distributed profits	245	219
Transferred to General Reserve	535	677
<b>Balance Transferred to Balance Sheet.</b>	<b>15,114</b>	<b>11,805</b>

## 2. Results of operations

The consolidated income of Polaris Software Lab Limited from Software development services & products and Business Process Outsourcing for the year ended March 31, 2005 stood at Rs. 78,712 lakhs, registering a growth of around 22% over the previous year's revenues of Rs. 64,643 lakhs. The consolidated Net Profit for the fiscal year ended March 31, 2005 stood at Rs. 5,804 lakhs, representing a decline of around 17% over the previous year's Net Profit of Rs. 6,985 lakhs. The Reserves increased from Rs. 44,156 lakhs in 2003-2004 to Rs. 48,209 lakhs in 2004-2005.

The Company caters to its clients through its worldwide offices and its global business distribution encompasses North America, Europe, Asia Pacific, India and Middle East.

During the year 2004-05, North America contributed 41.10%, Europe contributed 24.80%, Asia Pacific, India & Middle East contributed 34.10% to revenue.

## 3. Future outlook

Over the next year, and beyond, we anticipate that the industry will mature, with sophisticated customers seeking a service provider who provides a degree of exclusivity, with highly expertise-driven solutions, rather than merely cost and quality, which would increasingly be taken for granted. We expect Polaris to be well positioned to serve these increasingly discriminating customers, with our expertise-driven strategy. Expertise comes from focus on a given industry (BFSI), working hard to understand the details of the industry, and investments in building products and components that embody world-class banking processes. This is the investment Polaris has made over the past 3 years, which enable us to provide the right solutions for the customer.

Over the past several years, Polaris has moved, consciously and decisively, to build expertise in financial technology. This is the Polaris differentiator, when we compete with other IT companies from India. When we compete with the handful of other financial technology companies across the globe, the traditional Indian offshoring advantage is brought to bear, to reduce cost and improve quality. Over the next few years, we look forward to this investment paying off in the shape of much better growth opportunities, stable customers, and premium pricing for our services and enterprise solutions.

While the outlook for IT budgets in the coming year are promising, according to market research surveys by leaders like Gartner and Forrester, what is even more significant for us is that business managers are moving to play a bigger role in

setting IT priorities and choosing IT systems. According to one survey, more than two-thirds of respondents reported that business managers would be playing a major role in the next year. This is good news for a company like Polaris, because we expect business managers to be able to appreciate the value of a service provider who understands their business and can speak their language.

#### **4. Dividend**

Your Directors are pleased to recommend a dividend of 35% (Rs. 1.75 per share, on par value of Rs.5) for the year ended March 31, 2005, maintaining the dividend declared during the previous year. The dividend, if approved at the forthcoming Annual General Meeting, will be paid out of the profits of the Company for the year to all those equity shareholders whose names appear on the Register of Members of the Company on 11<sup>th</sup> July 2005 and to those whose names appear as beneficial owners in the records of National Securities Depository Limited and Central Depository Services (India) Limited as on the said date.

#### **5. Strategic Initiatives during the Year**

##### **a. Alliance with CTG, USA**

Your Company has entered into a strategic alliance with CTG, a US-based International information technology (IT) services Company to support banking, financial services and insurance (BFSI) clients in the United States and Europe. The alliance will provide BFSI clients with the quality and cost benefits offered by your Company's offshore centers, and the ability to drive measurable business results using both companies, in-depth business knowledge and CTG's onsite engagement management expertise.

##### **b. Launch of Optimum**

During the year, Optimus, the wholly owned Business Process Outsourcing subsidiary launched "OPTIMUM", comprehensive Business Infrastructure Solutions to support the credit card market. OPTIMUM offers Banks the complete portfolio of technology/ infrastructure and business services required to build a profitable cards portfolio.

##### **c. Launch of Diploma Programme in Financial Technology**

Your Company and the Institute for Financial Management and Research (IFMR) have launched a three year Postgraduate Diploma Programme in Financial Technology which will offer modules in banking and finance topics, system architecture, industry trends and practices, the use of IT in operations, project and change management. The program combines the expertise and experience of two leaders, one in academia and the other in industry to offer leading-edge knowledge and skill sets. The first batch of the course scheduled to start in July/August 2005.

##### **d. Launch of Smart Build**

During the year, your company has launched an innovative offering called 'Smart Build' aimed at rapidly deploying robust solutions in mission-critical banking

applications. The Smart Build approach draws on the IPRs acquired and developed over the past few years to deliver more effective solutions to banks. The Smart Build approach enables Polaris to build solutions for the customers without disturbing with existing architecture, which is very important benefit for the customers. The Company has already begun to realise significant traction with this offering, and hopes to develop significant business with leading financial services firms across the globe with this offering.

## 6. Increase in share capital

The Company allotted 3,11,090 number of Equity Shares of Rs.5/- each allotted pursuant to exercise of employee stock options during the year as detailed hereunder:-

Date of Allotment	Scheme	Option Price	No. of Allottees	No. of Shares	Total
19-May-04	ASOP 2000	71.50	19	3,280	55,010
	ASOP 2000	126.70	52	22,730	
	ASOP 2000	123.65	24	5,400	
	ASOP 2001	57.00	27	8,850	
	ASOP 2001	71.50	2	2,400	
	ASOP 2001	126.70	23	10,350	
	ASOP 2001	123.65	1	2,000	
28-Jul-04	ASOP 2000	71.50	5	2,640	22,330
	ASOP 2000	126.70	7	4,220	
	ASOP 2000	123.65	3	2,200	
	ASOP 2001	57.00	10	4,320	
	ASOP 2001	71.50	2	3,000	
	ASOP 2001	126.70	6	1,950	
	ASOP 2001	123.65	2	4,000	
19-Oct-04	ASOP 2000	71.50	4	2,670	107,150
	ASOP 2000	126.70	5	2,980	
	ASOP 2000	123.65	2	300	
	ASOP 2001	57.00	206	98,100	
	ASOP 2001	71.50	2	2,300	
	ASOP 2001	126.70	3	800	
21-Jan-05	ASOP 2000	71.50	146	45,320	126,600
	ASOP 2000	126.70	7	3,250	
	ASOP 2000	123.65	2	200	
	ASOP 2001	57.00	105	52,920	
	ASOP 2001	71.50	26	22,500	
	ASOP 2001	126.70	6	2,410	
	<b>TOTAL</b>		<b>697</b>	<b>311,090</b>	<b>311,090</b>

In view of above, the outstanding issued, subscribed and paid-up equity share capital increased, during the year, from 97,699,182 shares of Rs. 5/- each as on 31<sup>st</sup> March 2004 to 98,010,272 shares of Rs. 5/- each as on 31<sup>st</sup> March, 2005.

All the above shares are currently listed and traded on stock exchanges.

Further your company is also considering the proposal of purchase of company's own equity shares (i.e. Buy-back of shares) during the Financial Year 2005-06.

## 7. Employee Stock Option Scheme

The Company has, as on 31st March 2005, three stock options schemes. During the year, your company has granted options to eligible Associates only under Associate Stock Option Plan 2003, which complies with the revised SEBI Guidelines on (ESOP & ESPS). Company has not granted any options under ASOP 2000 & ASOP 2001, during the year 2004-05

### (I) The Details of options under ASOP 2000 during the year 2004-05

	Options outstanding as on 01-04-2004	1,091,255
(a)	Options granted	Nil
(b)	The pricing formula	NA
(c)	Options vested	221,120
(d)	Option exercised	97,200*
(e)	The total number of shares arising as a result of exercise of options	97,200*
(f)	Options lapsed / surrendered	245,545
(g)	Variation of terms of options	Nil
(h)	Money realized by exercise of options in Rs.	9,218,103
(i)	Total number of options in force	748,510
(j)	Employee wise details of options granted to:	
	(i) Senior managerial personnel	Nil
	(ii) any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during the year.	Nil
	(iii) identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant;	Nil
(k)	Diluted Earnings Per Share (EPS) pursuant to issue of Shares on exercise of option	5.43

\* Includes 2,010 shares which were allotted on 26th April 2005.

### (II) The Details of options under ASOP 2001 during the year 2004-05

	Options outstanding as on 01-04-2004	1,037,122
(a)	Options granted	Nil
(b)	The pricing formula	NA
(c)	Options vested	251,980
(d)	Option exercised	224,995*

(e)	The total number of shares arising as a result of exercise of options	224,995*
(f)	Options lapsed/surrendered	204,237
(g)	Variation of terms of options	Nil
(h)	Money realized by exercise of options in Rs.	14,772,562
(i)	Total number of options in force	607,890
(j)	Employee wise details of options granted to:	
	(i) Senior managerial personnel;	Nil
	(ii) any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during the year.	Nil
	(iii) identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions ) of the company at the time of grant;	Nil
(k)	Diluted Earnings Per Share (EPS) pursuant to issue of Shares on exercise of option	5.43

\* includes 9,095 shares which were allotted on 26th April 2005

**Note:** Since Company has not granted any Options under ASOP 2000 and ASOP 2001 during the year, disclosures as required under sub-clause (l), (m) and (n) of regulations 12.1 of SEBI (ESOP & ESPS) Guidelines, 1999 are not applicable.

### (III) The Details of options issued under ASOP 2003 during the year 2004-05

	Options outstanding as on 01-04-2004	Nil
(a)	Options granted	2,569,250
(b)	The pricing formula	At market price
(c)	Options vested	Nil
(d)	Option exercised	Nil
(e)	The total number of shares arising as a result of exercise of options	Nil
(f)	Options lapsed/surrendered	390,300
(g)	Variation of terms of options	Nil
(h)	Money realized by exercise of options in Rs.	Nil
(i)	Total number of options in force	2,178,950
(j)	Employee wise details of options granted to:	
	(i) Senior managerial personnel; (List given hereunder)	525,500
	(ii) any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during the year.	Nil
	(iii) identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant;	Nil

(k)	Diluted Earnings Per Share (EPS) pursuant to issue of Shares on exercise of option	5.43
(l)	Employee compensation based on	
	(1) Intrinsic value of the stock option (Rs.)	0.00
	(2) Fair value of the stock option (Rs.)	3,56,09,779
	(3) Difference between (1) and (2) (Rs.)	3,56,09,779
	Impact of said Difference on (Rs.)	
	- Profit	(3,56,09,779)
	- EPS	(0.36)
(m)	Options whose exercise price either equals or exceeds or is less than the market price of the stock on the grant date:-	
	- Weighted average exercise prices of options (Rs.)	148.1
	- Weighted average fair values of options (Rs.)	62.9
(n)	A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted-average information:-	Please refer the Note below
	(i) risk-free interest rate	5.5%
	(ii) expected life	3 Years
	(iii) expected volatility	0.33
	(iv) expected dividends	Nil (ignored)
	(v) the price of the underlying share in the market at the time of option grant	Rs. 148.1

**List of Options granted under ASOP 2003 to senior managerial personnel during 2004-05**

Name(s)	No. of Options
Albert Eng	25,000
Aruna Kashinath	25,000
Aruna Rao	25,000
Ashish Sinha	20,000
Ashok Korwar	10,000
Bikash Mathur	25,000
Gopal Shrikanth	25,000
Govind Singhal	25,000
G N Mathur	5,000
Jaideep Billa	20,000
Kartik Kaushik	15,500
Kedarnath Udiyavar	15,000
Koen Van den Brande	100,000
K Srinivasan	5,500
N Vaidyanathan	5,000
Manoj Kumar	10,500

Prabal Basu Roy	50,000
Rahul Petkar	10,000
Ramaswami S R	5,000
Shekar R	10,000
Sitaraman P	25,000
Subramanian P T	20,000
Tarachand Dethe	10,000
Uma Ratnam Krishnan	25,000
Vijayaraghavan Narasimhan	9,000
V Balakrishnan	5,000
<b>Total</b>	<b>525,500</b>

## NOTE

### **A. Methodology of valuing Polaris's stock options**

Implied volatility could not be used from the options in the market (F&O) as the expiry of these options were in the region of 3 months and hence not comparable with the ASOP scheme grants. Hence implied volatility was not found out.

Therefore, historical volatility was derived as follows:

- ◆ Daily returns were computed of data from Jan 2002 to June 2004(till date of first grant)
- ◆ Daily return was computed as current days return divided by earlier day return
- ◆ Natural logarithm was applied to the daily return as Daily returns are Log-Normally distributed
- ◆ A standard deviation was then found of the log of daily returns. This standard deviation was then stretched by multiplying with the appropriate factor to stretch the standard deviation of daily returns to standard deviation of yearly returns. Hence the volatility of yearly returns was obtained
- ◆ A binomial tree was constructed using this volatility and the risk free rate was assumed at 5.5%.
- ◆ The strike price of the 8th June 2004 option grant was almost identical to the 21st Jan 2005 option grant. Similarly the 28th July 2004 option grant was very similar to the 19th Oct 2004 grant in terms of strike price. Hence only 2 discreet strike prices are considered
- ◆ 10 Binomial trees were drawn because of 5 stages in which options vest completely, for example 20% in the first year, 20% in the next year etc and the 2 strike prices.
- ◆ After the trees were arrived at, the attrition rate of the employees was assumed at 15.5% and multiplied to the value of the options to each year of vesting of the employees

### **B. Assumptions made for the purpose of the valuation**

- ◆ Attrition rate of the employees was assumed at 15.5%
- ◆ Dividend payout in the various years was ignored because of its insignificant proportion to the strike price.

The company has appointed M/s Karvy Investor Services Limited as the Merchant Banker for the implementation of Associate Stock Option Plan 2003 as per the SEBI (ESOP & ESPS) Guidelines, 1999. The methodology adopted and the figures disclosed under clauses (l), (m) & (n) of the above table are as per the valuation of fair value done by the Merchant Banker. The Company is not responsible for the losses, if any, suffered in the event of any transaction entered into based on the aforesaid valuations. The valuation is affected by the assumptions made by the valuer and any changes to these assumptions will affect the outcome of the valuation.

#### (IV) Approval of ASOP 2004

Orbitech Employees Welfare Trust (OEWT) as on date holds 10,84,745 shares, which are not covered by corresponding Options issued under the existing ESOP Scheme. In order to extend the benefits of such shares to the beneficiaries of the OEWT further options are required to be granted under a new scheme, which will be in compliance with the revised ESOP guidelines issued, by SEBI. In view of this, approval of members are being obtained in the ensuing Annual General Meeting by means of Special Resolution to approve a new Employees Stock Option Scheme that may be called "Associate Stock Option Plan 2004" (ASOP 2004) which will be administered for the benefit of the employees and Directors of erstwhile Orbitech Solutions Ltd who continue to remain employees of Polaris and its subsidiaries.

#### 8. Subsidiaries

The following are the wholly owned subsidiaries of the Company along with their country(s) of incorporation:

Polaris Software Lab Pte Ltd.	Singapore
Polaris Software Lab Ltd.	United Kingdom
Polaris Software Lab GmbH	Germany
Polaris Software Lab S.A	Switzerland
Polaris Software Pty Ltd.	Australia
Polaris Software Lab Ireland Ltd.	Ireland
Polaris Software Lab Japan KK	Japan
Polaris Software Lab Canada Inc.	Canada
Polaris Retail Infotech Ltd	India
Optimus Outsourcing Company Ltd	India

The overseas subsidiaries in addition to providing service to various international clients have greatly enhanced the capability of the Company in generating more business opportunities in the various international markets. The Company has during the year incorporated a subsidiary company in Canada. Further Board of Directors of your company have reviewed the affairs of the aforesaid subsidiaries.

During the year, additional investments made by the Company in its subsidiaries were Rs. 1,309.38 Lakhs. The details of investments made are shown in Note No.(B) 15 under Significant Accounting Policies & Notes on Accounts to the Balance Sheet.

Further your Company has been exempted by the Ministry of Company Affairs (MCA) vide its letter No. 47/ 55/ 2005-CL-III dated 4<sup>th</sup> April 2005 from attaching

the Balance Sheet, the Profit and Loss Account, Directors' Report and Auditor's Report of its aforesaid wholly owned subsidiaries to the Annual Report. Accordingly, the Annual Report of your Company does not contain the financial statements of above-mentioned subsidiaries, but contains the audited consolidated financial statement of the Company and its Subsidiaries.

As advised by MCA, information in aggregate for each subsidiary has been disclosed in one page abstract forming part of the consolidated balance sheet detailing the (a) Capital (b) Reserves (c) Total Assets (d) Total Liabilities (e) Details of Investment (except in case of investment in subsidiaries) (f) Turnover (g) Profit before taxation (h) Provision for taxation (i) Profit after Taxation (j) Proposed Dividend.

Further, Annual Accounts of the subsidiary companies and the related detailed information will be made available to the holding and subsidiary company investors seeking such information at any point of time. Annual accounts of the subsidiary companies will also be kept for inspection during business hours at the Company's Regds. Office and Head/Regd. Office of the subsidiary company concerned.

## 9. Notable accolades received during the year

- a. Polaris ranked 12<sup>th</sup> in DQ Top 20 Survey.
- b. In the NASSCOM Top 20 Exporters List, Polaris ranked 9<sup>th</sup> in 2003-04, as compared to 14<sup>th</sup> ranking in 2002-03
- c. Polaris ranked No. 79 in BT 500
- d. The Institute of Company Secretaries of India, New Delhi, rated Polaris among the top 25 companies with best practices and procedures on Corporate Governance for 2<sup>nd</sup> consecutive year.

## 10. Social Responsibility

The *Ullas* Trust is founded and funded by Associates (employees) of Polaris Software Lab, which helps support the education of children from economically needy sections of society. "*Give back to the society what the society gave you*" has been the underlying philosophy of the Trust. The main objective of the Trust is to recognize academic excellence in economically underprivileged students and provide them with financial support through annual scholarship. Commendably, the *Ullas* Trust, has been conducting events and workshops over the last nine years. Every year, the Trust identifies deserving students through a simple yet effective selection process and rewards them with a scholarship that takes care of their annual education expenses. After its success in Chennai, Ullas Trust spread its wings in Mumbai and soon planning to expand in Delhi also.

Other *Ullas* initiatives include...

**Ullas Chapters** for Young Achievers: These are fora in which the bright young achievers get together and chalk out activities for their own personality development and build a network of fraternity.

**Ullas Classes** are conducted by mentors for young achievers to hone their skills in computers, communication skills, etc.

**Ullas Triple-E Awards** to encourage outstanding schools in their quest for academic excellence for the deserving schools.

Ullas associates provide the time, money and effort. Our mentors coordinate the activities of Ullas Chapters.

### 11. Fixed Deposits

Your Company has not accepted any deposits and as such no amount of principal or interest was outstanding on the date of the Balance Sheet.

### 12. Auditors

M/s BSR & Co., (*formerly* M/s Bharat S Raut and Co.) Chartered Accountants, who are the Statutory Auditors of the Company retire at the forthcoming Annual General Meeting and are eligible for re-appointment. The retiring Auditors have furnished a Certificate of their eligibility for re-appointment under Section 224 (1B) of the Companies Act, 1956, and have indicated their willingness to continue.

### 13. Directors

During the year 2004-05, Mr. Nanoo G Pamnani has been inducted as an Additional Director of the Company while Mr. Venkatachalam Krishnakumar resigned from Board of the Company. Further, Mr. Ram Bhagwat took an early retirement from the Company/Board during the year. Mr. Dipak K Rastogi has also resigned and Board of Directors in their meeting held on 27<sup>th</sup> April 2005 have approved his resignation. The Company expresses sincere appreciation and gratitude to all the outgoing Directors for their valuable assistance and advice tendered by them during the tenure of their association with the Board and the Company. Further Board in their meeting held on 27<sup>th</sup> April 2005 approved the appointment of Mr. Anil Khanna and Mr. Anil Sachdev as Additional Directors of the Company.

Mr. Arvind Kumar, Mr. Govind Singhal and Mr. Ajit Bhushan, Directors, retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

### 14. Corporate Governance

In line with the recommendations of the Securities and Exchange Board of India (SEBI) on Corporate Governance, three separate Committees for audit, remuneration and protection of Shareholder's interest were formed in the year 2000 and named as the Audit Committee, the Remuneration & Compensation Committee and the Shareholders Committee respectively. The Company has taken steps to comply with the provisions of the Corporate Governance under the Listing Agreements of the Stock Exchanges. Further Board in their meeting held on 22.10.2003 formed Corporate Governance Committee, which review & recommends to the Board the best practices in Corporate Governance to be implemented in the Company.

Separate reports on Corporate Governance and Management Discussions & Analysis are being provided as part of the Annual Report.

### 15. Impending Litigation(s)

Details of impending litigations are shown in Note No.(B)17 under Significant Accounting Policies and Notes to Accounts provided as an annexure to the Balance Sheet and Profit and Loss Account.

### 16. Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo

The particulars, as prescribed under sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are set out in the Annexure included in this report.

## **17. Particulars of Employees**

As required under the provisions of Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of employees are set out in the Annexure included in this report. The Department of Company Affairs, has vide its letter no. GSR. 212(E) dated 24.03.2004, amended the Companies (Particulars of Employees) Rules, 1975 to the effect that particulars of employees of companies engaged in Information Technology sector posted and working outside India not being directors or their relatives, drawing more than rupees twenty four lakh per financial year or rupees two lakh per month, as the case may, need not be included in the statement but, such particulars shall be furnished to the Registrar of Companies. Accordingly, the statement included in this report does not contain the particulars of employees who are posted and working outside India. Further on specific request, such particulars shall be made available to any shareholders during the course of Annual General Meeting.

## **18. Director's Responsibility Statement**

Pursuant to Section 217(2AA) of the Companies (Amendment) Act, 2000, the Directors confirm that:

- (i) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) 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 or loss of the company for that period;
- (iii) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (iv) the directors had prepared the annual accounts on a "going concern basis";

## **19. Acknowledgment**

Your directors take this opportunity to thank all investors, clients, vendors, banks, regulatory and government authorities, and stock exchanges, for their continued support. Your Directors also wish to place on record their appreciation of the contribution made by Associates at all levels.

**Place: Chennai,**  
**Date: April 27, 2005**

**By Order of the Board**  
**For Polaris Software Lab Limited**

**Arun Jain**  
**Chairman & Managing Director**

## **POLARIS SOFTWARE LAB LIMITED**

### **Annexure to Directors' Report**

**The particulars as prescribed under sub-section (1) (e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.**

#### **1. Details of Conservation of Energy**

The operations of your company do not consume high levels of energy. Adequate measures have been taken to conserve energy by using energy-efficient computers and equipment with the latest technologies. Your company is on a constant look out for newer and efficient energy conservation technologies and introduces them appropriately. As the cost of energy consumed by the Company forms a very small portion of the total costs, the impact of changes in energy cost on total costs is insignificant.

#### **2. Research and Development**

Your company is associated with global leaders in Banking, Financial Services & Insurance (BFSI) vertical space, which propels the demand on continuous research and development in all pervasive areas of information technology like business analysis, development, deployment, and upgrades. A lot of effort has been put into development of methodologies, framework and tools to help your company delivering the best solution to customers.

##### **a. Specific Areas of R & D at Polaris**

During the reporting period, your company focused on substantial business process flow driven functionality and architectural enrichments to earlier product suite 'OrbiOne', it's flagship banking product. As a result, OrbiOne was relaunched as 'Intellect Product Suite' marching towards Service Oriented Architecture (SOA). Under SOA, Intellect Product Suite will now be architected as independent Generic Services called GeneS. It breaks monolithic systems into smaller manageable pieces and services for ease of implementation & replacement.

Your company also conceptualised and crystalised 'Smart Build' Solutions, which is the unique way of integrating Intellect products, GeneS and Custom development for speedy & quality delivery of end-to-end solution to the complex banking scenarios.

Apart from these areas, your company has taken an initiative to improve delivery capabilities by implementing uniform & automated project management system called iPlan and implementation of automated resource management system under PeopleSoft.

## **b. Benefits Derived**

Your company was able to attract new customers, which are global players in the BFSI space using Smart Build approach as customers using banking products and GeneS. With the help of other initiatives, your company was able to track resource utilisation more effectively.

## **3. Technology Absorption, Adaptation, and Innovation**

The year 2004-05, declared as 'technology year' has emerged as one of the best years for 'information technology' for your organisation. As planned, BS7799 certification was completed for all BFSI focused Software Engineering Centers in India and USA. The project COIN that COnsolidates and INtegrates storage, backup and Disaster Recovery activities, has progressed as planned in the last year and is well on its way to completion in this year. This will give all our clients a robust and faster DR solution.

Your company has also started to build a 'multi tier security network' that will provide complete comfort and relief to all our clients on the protection of their information assets located in our organisation. We will further protect these assets by having improved controls on access and policy compliance. We have also adapted the fast changing 'mobile technologies' without compromising any security standards and guidelines.

New information systems built using Peoplesoft are well integrated to Finance, HR and sales functions. Project management got a special focus in the last year through the launch of new application "IPlan" and got integrated with other enterprise applications - Associate Portal (EmPower) and Peoplesoft systems.

As part of our regular expansion plans, the work got started at new offices in Mumbai and Hyderabad. Your company's wide spread network and the information resources are getting managed by world class tools from CA Unicenter. In line with our practice of adapting the right technology at the right time to get the maximum business benefits, we plan to consolidate Data centers within and across cities by leveraging the new trends in the 'communication space' in India.

The most interesting and innovative plan for this year is the implementation of RFID (Radio Frequency Identification) for tracking of physical assets and documents at the new center coming up at Hyderabad and then to replicate to all other centers. Next comes the launch of "Global Data Center" at USA to meet the technology needs of new offices at new cities and countries in fastest time.

#### 4. Foreign Exchange Earnings and Outgo

##### a. Export Initiatives and Development of New Export Markets

Your Company is registered as a 100% Export Oriented Unit with the Software Technology Park of India and has a network of international offices across the Globe. In North America, Polaris has offices at four locations and subsidiary in Canada. In Europe, your Company has set up wholly owned subsidiaries in United Kingdom, Ireland, Germany and Switzerland. In the Asia Pacific region, Polaris has wholly-owned subsidiaries in Singapore, Australia and Japan. Polaris also has long-term business partnerships in the Middle East for its client operations

In the year 2004-2005, the revenue derived out of software exports stood at Rs. 58,182.71 lakhs, which is 86.97% of the total revenue from operations generated by the Company, out of which the US/North America contributed 58.13%, Europe contributed 19.23%, Asia Pacific & Middle East contributed 22.64% of the total export revenues.

##### b. Foreign Exchange Earned and Used for the Year-ended March 31

*Rs. In lakhs*

	2005	2004
Foreign exchange earnings	58,182.71	51,178.46
Foreign exchange outgo (including capital goods)	28,799.93	21,926.02

Place: Chennai,

Date: April 27, 2005

By Order of the Board,

For Polaris Software Lab Limited

Arun Jain

Chairman & Managing Director

**POLARIS SOFTWARE LAB LIMITED  
PARTICULARS OF EMPLOYEES FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED MARCH 31, 2005  
Information pursuant to section 217 (2A) of the Companies Act, 1956 and the Companies (Particulars of the Employees) Rules 1975**

Sl. No.	Employee Name	Designation	Qualification	Age	Date of Joining	Exp. Yrs.	Gross Remuneration (Rs.)	Designation - Previous Employment
1	Arun Jain	C.E.O and Managing Director	BE.	45	24-July-1993	22	2,634,765	Director - Nucleus Software Workshop Pvt. Ltd.,
2	Aruna Kashmath	Managing Partner	M.Sc.	48	05-Aug-1996	27	4,667,480	Deputy Manager, Straw Products Limited
3	Aruna Rao	Executive Vice President	M.S.(US)	46	01-Nov-2002	23	3,360,682	Senior Consultant, Citicorp Overseas Software Limited
4	Arunkumar Nerur Thiagarajan *	Senior Vice President	B.Sc, PGDM	36	01-Nov-2002	14	859,523	Vice President - Citi Bank N.A
5	Bikash Mathur*	Senior Vice President	Master of Manufacturing Engineering, MBA	38	27-Nov-2003	17	2,118,763	Executive Director - Maverick Systems Limited
6	Gopal Shrikantli*	Senior Vice President	B.Com.	42	16-Apr-2004	20	3,581,632	Vertical IT Head-Cognizant Technology Solutions India Pvt Ltd
7	Govind Singhal	Executive Director	M.Sc.	44	01-Nov-1996	20	9,795,200	Assistant Vice President-Systems, Bank of America
8	Jadeep Billa	Senior Vice President	B.Tech., MBA	40	06-Aug-2003	19	3,142,730	Vice President - Sutherland Technologies
9	K.R.Chandrasekaran*	Senior Vice President	BE., MBA	44	05-Mar-2003	18	2,067,056	Vice President - Marketing, TVS Electronics Limited
10	K.S.Subramanian	Senior Vice President	BE.(Mech)	45	09-Oct-2000	23	2,409,599	Divisional Manager-Development, Ramco Systems.
11	Kedlarnath Udiyavar	Senior Vice President	M.M.S	46	01-Nov-2002	23	2,542,304	Senior Consultant, Citicorp Overseas Software Limited
12	Koen Vandenbrande*	President - Product Group	B.Sc. (Computer Science)	43	06-May-2004	23	8,325,086	Director-Product Strategy-Misys Wholesale Banking Systems, Wimbledon
13	Manoj Kumar Kambath	Senior Vice President	B.Com., M.C.A.,	41	05-Apr-1995	15	2,926,800	EDP Manager - CHAMAK Holdings Ltd.,
14	N. Suryanarayanan*	Senior Vice President	B.Com	41	01-Nov-2002	19	1,579,813	Sales Manager - BEA Systems HK Limited

**POLARIS SOFTWARE LAB LIMITED**

**PARTICULARS OF EMPLOYEES FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED MARCH 31, 2005**  
**Information pursuant to section 217 (2A) of the Companies Act, 1956 and the Companies (Particulars of the Employees) Rules 1975**

Sl. No.	Employee Name	Designation	Qualification	Age	Date of Joining	Exp. Yrs.	Gross Remuneration (Rs.)	Designation - Previous Employment
15	Prabal Basu Roy*	Group CFO and Executive Vice President	B.Sc.(Hons), MBA, A.C.A.	44	1-Nov-2004	20	1,947,046	Director-Strategic Alliances & Business Operations-Jucent Technologies Limited
16	Prem Tilak Iyer*	Senior Vice President	B.Sc., MBA	45	01-Nov-2002	14	2,674,758	Vice President - Citi Bank N.A
17	Rajiv Malhotra*	Senior Vice President	B.Tech., MBA	43	31-May-1999	16	1,745,696	Asst Vice President, Bank of America
18	Ram Bhagwat*	President & Executive Director	M.Tech	58	01-Nov-2002	37	14,478,671	Vice President - Citi Bank N.A
19	S. R. Ramaswamy	Senior Vice President	BE., C.E.A.	49	04-Oct-2002	25	2,620,703	President & COO - Indchem Software Technologies Ltd.,
20	Sanjay Sarkar	Senior Vice President	DHSc-Ind.Mgrt-Dip.in Law M.Sc	44	01-Nov-2002	21	3,373,102	Vice President - Citi Bank N.A
21	Shakar Rangarajan	Senior Vice President	BE., MBA	54	21-Apr-2000	31	3,853,080	Director Quality-Citi Bank N.A- Global Consumer Banking
22	PSitaraman	Senior Vice President	B.A.Econ., MMS.	46	16-Apr-2004	21	2,918,530	Regional Head-Personal Bankings, Standard Chartered Bank
23	Subramanian P T	Senior Vice President	BE.-Mech, M.E.-Comp.Science	48	9-Jul-2003	23	3,216,585	E-commerce Solutions Division Head, Saudi American Bank, Riyadh.
24	Tarachand Dethle	Senior Vice President	BE., PGDBM	46	01-Nov-2002	23	3,408,402	Vice President - Citi Bank N.A
25	Uma Ratnam Krishnan	Chief Operating Officer	M.A., MBA	43	01-Oct-2003	17	4,526,828	Head - Cards Division, HDFC Bank
26	Vaidyanathan.N	Senior Vice President&CFO	BSc, F.C.A.	52	12-Mar-1997	29	2,911,837	Vice President-Finance, Shriram Group of Companies
27	Vikas Misra	Senior Vice President	B.Tech.	37	08-Apr-1996	15	2,916,596	Senior-System Analyst - Tata Consultancy Services
28	Vinay Garg	Financial Controller - US Operations	MBA, M.S., B.S.	49	26-Feb-1997	23	5,690,582	Finance Controller - Polaris Software Lab Inc.,

1) Remuneration includes salary, company's contribution to Provident Fund, Superannuation Fund and Taxable value of perquisites.

2) All appointments are contractual.

3) None of the above employees are related to any Director of the Company, excepting Sl.No.28, who is related to a Director of the Company.

4) \* Employed for part of the year.

**REPORT ON CORPORATE GOVERNANCE**

## POLARIS SOFTWARE LAB LIMITED

### Report on Corporate Governance

#### 1. Company's Philosophy

Polaris perceives Corporate Governance as an endeavor for transparency, and a wholehearted approach towards establishing Professional Management, aimed at continuous enhancement of Shareholders' value.

#### 2. Board of Directors

##### Composition of the Board of Directors as on 31<sup>st</sup> March, 2005

The Managing Director along with the other Executive Director manages the day-to-day affairs of the Company. The Company has an optimum combination of executive and non-executive directors with eighty two percent of the board of directors comprising of non-executive directors. All pecuniary relationship or transactions of the non-executive directors viz-a-viz. the company is disclosed in the Annual Report.

##### Composition of the Board of Directors

Directors	No. of Directors	Percentage of total no. of Directors
Executive	2	18
Non-Executive	9	82
Total	11	100

Our Board of Directors met four times during the period under review on the following dates:

1. 19<sup>th</sup> May, 2004
2. 28<sup>th</sup> July, 2004
3. 20<sup>th</sup> October, 2004
4. 21<sup>st</sup> January, 2005

The maximum gap between two meetings was 92 days.

##### Attendance record of Directors attending the Board Meetings and Annual General Meeting during the year 2004-2005

Name	Designation	No. of Board Meeting		Last AGM attendance
		Held	Attended	
Arun Jain	Chairman & Managing Director	4	4	Yes
Abhay Agarwal	Non-Executive Director	4	4	Yes
Ajit Bhushan	Non-Executive Director	4	1	No
Arvind Kumar	Non-Executive Director	4	4	Yes
Ashok Jhunjhunwala	Non-Executive Director	4	2	No
Dipak Kumar Rastogi	Non-Executive Director	4	0	No

Govind Singhal	Executive Director	4	4	Yes
Nanoo G.Pamnani*	Non-Executive Director	4	1	NA.
R C Bhargava	Non-Executive Director	4	4	No
Ram Bhagwat#	President & Executive Director	4	3	Yes
Satya Pal	Non-Executive Director	4	4	Yes
V Balaraman	Non-Executive Director	4	4	Yes
Venkatachalam	Non-Executive Director	4	0	No
Krishnakumar§				

**Notes:**

\* Appointed Additional Director on 20.10.2004

§ Resignation approved by Board of Directors on 20.10.2004

# Retired on 21.01.2005

Detailed attendance of each director during the year 2004-05 is given hereunder

Sl.	Members	Date of Meeting - Attended [Y/N]			
		19 <sup>th</sup> May 2004	28 <sup>th</sup> July 2004	20 <sup>th</sup> Oct 2004	21 <sup>th</sup> Jan 2005
1	Arun Jain – Chairman & Managing Director	Y	Y	Y	Y
2	Abhay Agarwal	Y	Y	Y	Y
3	Ajit Bhushan	Y	N	N	N
4	Arvind Kumar	Y	Y	Y	Y
5	Ashok Jhunjhunwala	N	Y	N	Y
6	Dipak Kumar Rastogi	N	N	N	N
7	Govind Singhal	Y	Y	Y	Y
8	Nanoo G Pamnani	N.A.	N.A.	Appointed	Y
9	R C Bhargava	Y	Y	Y	Y
10	Ram Bhagwat	Y	Y	Y	Retired
11	Satya Pal	Y	Y	Y	Y
12	V Balaraman	Y	Y	Y	Y
13	Venkatachalam Krishnakumar	N	N	Resigned	N.A.

**The brief profile of each of the Directors is given below:**

**Mr. Arun Jain - Chairman & Managing Director**

Mr. Arun Jain, **Chairman, Managing Director and CEO** of Polaris Software Lab Ltd., is the man behind Polaris, one of the top 10 global companies in the Financial Technology Optimisation space today. Arun started Polaris in 1993 with Rs. 10,000 and a dream. Today, Polaris is a \$ 180 Million organisation, with over 5800 talented professionals and a leading provider of expert solutions to the

Banking, Financial Services & Insurance industry. Polaris is debt free, cash-rich and has 22 relationship offices in 13 countries, 6 Software Engineering Centers in India and Business Continuity Centers in New Jersey and Singapore.

Arun has always done things differently. In the late eighties, when the Silicon Valley beckoned everyone, he refused a lucrative offer to migrate to the US and opted to pursue his dream of building a global corporation from India. His first assets (and his prized possessions even today) were a typewriter and scooter. Armed with twenty four hours a day, a strong conviction, a large smile and 'We can do it' shining in his eyes, he started, with a few friends, Nucleus Software Workshop, which provided customized software solutions to banks that were technology pioneers in 1980's. Since then, there has been no looking back.

Polaris has the highest CAGR amongst Indian IT companies and has been rated as a Forbes Global Top 200 'Best Under a Billion' corporation. Polaris' domain expertise in the Financial Technology space stems from its 18-year old relationship with Citibank and its singular focus on the financial services industry. With its product suite Intellect and a robust services model, Polaris has made an impact in the global arena. Polaris has an enviable list of clients who are world leaders in the Banking and Insurance Vertical.

If you can dream it, we can do it! A strong believer in the power of the organizational subconscious and 'common destiny', Arun is the architect behind "Lakshya" the annual 'visioning' and goal setting exercise of Polaris. Lakshya continues to involve and inspire one and all at Polaris.

The 'emotional bank balance' of Polaris is largely, the Konark population - almost 13% of the total strength. "Konark" is the symbol of energy and excellence. 'Konark' refers to the role models in Polaris, who are the change agents and the catalysts for the transformation of Polaris - then, from a 100 crore company to a \$100 million company and now, to a global corporation.

Arun founded the *Ullas* Trust to integrate Polaris employees with a larger community and to encourage the "Can Do It" spirit in students from Corporation and Government schools. The Trust has reached over 12000 students in Tamil Nadu and Mumbai, so far.

Arun was nominated for the coveted Ernst & Young Entrepreneur of the Year Award in 1999. He has served as the Chairman for the Tamil Nadu State Council of CII - Southern Region, the Indo-American Chamber of Commerce, (Tamil Nadu division) and on the board of Xavier's Institute of Management.

Arun's chief hobby, in his own words, is "dreaming". Born & brought up in Delhi, in a large middle class family, Arun moved to Chennai over a decade back. He enjoys South Indian food and can wax eloquent on anthropology, philosophy, Roman architecture and child psychology

Mr. Arun Jain is also a director in Polaris Holdings Private Limited, Maverick Systems Limited, n-Logue Communications Pvt. Ltd. and Adrenalin eSystems Limited (Formerly Empower Works Limited).

Mr. Arun Jain also holds directorships in Polaris Software Lab Limited, United Kingdom, Polaris Software Lab Pte Ltd., Singapore, Polaris Software Lab Pty Ltd, Australia, Polaris Software Lab Ireland Ltd., Ireland, Polaris Software Lab Japan K.K., Japan, Polaris Retail Infotech Limited, India and Optimus Outsourcing Company Limited, India all subsidiaries of the Company. Mr. Arun Jain is a member of Compensation and Audit Committee of Adrenalin eSystems Ltd. Further he is Trustee of Konark Trust, ChandrPrabhu TTD Charities Trust, Polestar Foundation Trust, ADK Jain Memorial Trust and Ullas Trust. As on 31<sup>st</sup> March 2005, Mr. Arun Jain holds 3,062,416 equity shares of the Company.

**Mr. Abhay Agarwal,  
Practicing Chartered Accountant**

Mr. Abhay Agarwal is a practicing Chartered Accountant based at Delhi. He is well experienced in the areas of accounting, finance, management and corporate advisory and his proficiency and competency in the said areas are an asset to the company. Mr. Abhay Agarwal was invited to join the Board of Directors in May, 1995 as an independent director. Mr. Agarwal is a member of Audit Committee, Corporate Governance Committee and Shareholders Committee of the Company. Mr. Abhay Agarwal is also a director in Sunshine India Pvt. Ltd., Milky Investment & Trading Company, British Health Products (India) Limited, Sahiwal Investment & trading Company, Upvan Farms and Services Pvt. Ltd., Dabon International Pvt. Ltd., Welltime Investments Private Ltd., Param Investments Private Ltd., Expo Investments Private Ltd., Northern Herbals Private Limited, Intelligent Information Systems Private Ltd., Burman Resorts Private Ltd., Super Hoze Industries Private Ltd. and Regent Square Promoters Private Ltd. As on 31<sup>st</sup> March 2005, Mr. Abhay Agarwal holds 15,822 equity shares of the Company.

**Mr. Ajit Bhushan,  
Managing Director-Citigroup Venture Capital International**

A graduate from Indian Institute of Technology, Delhi in 1985 in Electrical Engineering, with specialization in Computer Science. He joined Citibank India in 1987. Presently, Mr. Ajit Bhushan is a Managing Director in Citigroup Venture Capital International and is responsible for IT & IT enables services sector investments in Asia Pacific, Latin America and CEEMEA (Central and Eastern Europe, Middle East and Africa).

Prior to his current assignment, Mr. Ajit Bhushan worked on strategy and business development for the CEEMEA region. This entailed developing a five-year plan for the region, specific responsibility for India and the Middle East countries, and leading the e-Value initiatives. Earlier, Mr. Ajit Bhushan was responsible for developing the Cash Management business for Citibank Poland and worked in Citibank India in the Cash Management business. Mr. Ajit Bhushan joined the Board of Polaris in July 2003. He is also a Director of Citicorp Technology Holding Inc and member of Remuneration & Compensation Committee of Polaris. As on 31<sup>st</sup> March 2005, Mr. Ajit Bhushan does not hold any shares of the Company.

**Mr. Anil Khanna,  
Managing Director, Citigroup Venture Capital International**

Mr. Anil Khanna recently joined Citigroup Venture Capital International and is responsible for cross-border investment opportunities and business services. Prior to this role, Mr. Khanna held a variety of business management roles at Citigroup and Marsh and McLennan Company. Most recently, Mr. Khanna managed Marsh and McLennan's US consumer business. At Citigroup from 1986-2000, Mr. Khanna held the positions of President and Chief Executive Officer of Travellers Personal Lines, Head of Corporate Planning, Head of Global Derivative Origination and Structuring and Head of Corporate Banking and Trading at Citibank Canada. Mr. Khanna began his career at McKinsey and Co. and has an MBA from the Ivey School at the University of Western Ontario. Mr. Khanna joined the Board of Polaris on 27<sup>th</sup> April 2005 and does not hold any shares of the Company.

**Mr. Anil Sachdev,  
Founder & CEO - Grow Talent Company Limited**

Mr. Anil Sachdev is the Founder and Chief Executive Officer of Grow Talent Company Limited. Grow Talent is a specialist talent management consultancy that enables organizations to achieve breakthrough performance by realising the potential of their people and creating a talent advantage. It has 60 staff, four offices in South Asia and is a partner of Right Management, the \$500 million consulting firm and Great Places To Work Institute.

Mr. Anil's consulting experience in India and across the world covers areas such as talent management, strategic change and organizational transformation. His clients include Global firms such as Unilever, American Express, Reckitt and Benkiser, Cadburys, Pepsico, Dell, Microsoft, Oracle, Citicorp, Electrolux, Seagram and several others in South Asia such as John Keells Group and Brandix of Sri Lanka and Tatas, Aditya Birla Group, Godrej, Larsen and Toubro of India. Recognised as a thought leader in talent management, leadership development and Organizational transformation, Anil has done pioneering work with leading global and Indian firms. He has spoken at national and global conferences all over the world and has written contributory pieces for leading publications. He has been adjunct Faculty to leading business schools such as Indian School of Business, Hyderabad, Indian Institute of Management, Ahmedabad, India, Kellys School of Business, Indiana University, GMI, Flint Michigan, Antioch University, Seattle and Ohio University, Athens, Ohio.

He is active in the management circles and has held several public offices such as Chairman of National Committee on Industrial relations and Regional Committee on Human Resource Development of Confederation Indian Industry. He was also the President of the National HRD Network of Delhi. He has received several National Awards such as "The HR professional of the year" award etc. His biography appeared in "Who's who of the world" published by Marquis in 1991.

An MBA from Pune University, he began his career in 1975 with Tata Motors. He joined the Eicher Group in 1978 and set up Eicher Consultancy Services (ECS) as the CEO of the firm. Mr. Anil shaped ECS as one of India's leading management consulting firms.

Mr. Sachdev also holds Directorship in Grow Talent Company Ltd., Acquire Talent Service Ltd. and Max Health Staff International Ltd. and membership of Charity Aid Foundation, Delhi Chinmaya Sewa Trust & Devki Devi Foundation. Mr. Sachdev joined the Board of Polaris on 27<sup>th</sup> April 2005 and holds 6,150 equity shares of the Company.

**Mr. Arvind Kumar,  
Sr. Lawyer, Supreme Court**

Mr. Arvind Kumar, who is an M.A., L.L.B. enrolled as an Advocate on 12<sup>th</sup> November, 1963 at Kanpur from the U.P. Bar Council at Allahabad, and practiced in the High Court of Judicature at Allahabad from 1966 to 1972. Later in the year 1972 he shifted to Supreme Court of India at New Delhi and started practicing there. He is a Senior Lawyer having 41 years of professional standing at Bar, and has gained enough global experience by participating in civil and corporate cases around the world. Presently serving as a Senior Advocate of Supreme Court, he is a reputed corporate legal expert and advises Polaris on issues relating to Corporate Governance and other Legal and Statutory Compliance issues. He was appointed as a Director on the Board of Polaris in May 1995 and Chairs the Audit Committee of the Company. He is also a member of the Corporate Governance Committee. Mr. Arvind Kumar is also a Director in Nucsoft Limited, Associated Legal Advisors (P) Limited and Second Innings India (P) Limited. As on 31<sup>st</sup> March 2005, Mr. Arvind Kumar holds 52,512 equity shares of the Company.

**Dr. Ashok Jhunjhunwala,  
Head - Department of Electrical Engineering,  
Indian Institute of Technology (IIT) Madras, India.**

Dr. Ashok Jhunjhunwala aged 52 is a technical and a research scholar in the field of Engineering and Science. He completed his B.Tech in I.I.T. Kanpur and pursued his M.S.Ph.D from the University of Manie, U.S.A. He is currently the Professor of the Department of Electrical Engineering at the Indian Institute of Technology, Chennai. Dr. Jhunjhunwala has over 200 research publications to his credit. Dr. Jhunjhunwala leads the team that developed corDECT, India's indigenous Wireless Local Loop technology that is winning accolades the world over. His research interests span Telecommunications, Computer Networks and Fibre Optics, and he is particularly active in developing cost-effective wireless telecommunication solutions. Awarded Dr. Vikram Sarabhai Research Award in 1997, Bhatnagar Award in 1999 and H.K. Firodia award in 2002, Jhunjhunwala's contributions to the fields of Electronics, Informatics, Telematics and Automation have been commendable. Dr. Jhunjhunwala, with his group's mission to enable India to have 200 million telecom and Internet connections, is leading a movement to make India a premier design house for telecom and IT products. Dr. Ashok Jhunjhunwala, has also been awarded by the Central Government with Padma

Shri for his pioneering work in the Science, Engineering and Telecommunications category on the eve of India's 53<sup>rd</sup> Republic Day. He has been a pioneer in enhancing industry-university interaction in India and is leading an effort to launch Internet Exchange in India. His vision is to provide Internet connection in every village and use it to double the Rural GDP of India.

He was invited to join the Polaris Board in June, 2001 as a director, and he advises Polaris on various Operational, Strategic and Technical issues. Dr. Jhunjhunwala is a member of Audit Committee, Shareholders Committee and Remuneration & Compensation Committee of the Company.

He is a director in Bharat Sanchar Nigam Limited, Videsh Sanchar Nigam Limited, Sasken Communications Technologies Ltd., Jataayu Software (P) Ltd., HTL Ltd., Shyam Telecom Limited, Tejas Networks Private Limited, Integrated Soft Tech Solutions Private Limited, Midas Communication Technologies Private Ltd., Vishal Bharath Comnet and National Research Development Corporation Ltd.. He is also a member of Governing Council of National Internet Exchange of India Ltd. and member of Prime Minister Scientific Advisory Committee.

He is also Member of Compensation Committee and Audit Committee of Sasken Communications Technologies Limited, Tejas Networks Private Limited. Further Dr. Jhunjhunwala is Member of Audit Committee, Shareholders Committee and Ethics & Compliance Committee of Videsh Sanchar Nigam Limited and Audit Committee of Midas Communication Technologies Private Limited. As on 31<sup>st</sup> March 2005, Dr. Jhunjhunwala holds 4,500 equity shares of the Company.

### **Mr. Govind Singhal , Executive Director**

Mr. Govind Singhal is a member of Office of the CEO, and is primarily responsible for operationalising and Executing Lakhsya Plan of the Company. Mr. Govind Singhal also has additional responsibility of providing leadership to Business Solutions Group, Corporate HR and Corporate IT infrastructure for Polaris. He is also CEO of Optimus Outsourcing Company Limited.

With a Master's degree in Physics from Delhi University, he started his career with Nucleus Software in 1985 setting up its Mumbai branch office. In 1991, he joined Bank of America and went on to manage their technology infrastructure and data center operations. He joined Polaris in 1996, and was placed in charge of a separate Strategic Business Unit (SBU5), which under his stewardship became one of the largest SBUs at Polaris both in terms of revenue and manpower. He headed the Strategic Practice Unit on the Banking vertical specializing in Consumer Credit and Insurance, and the EG Orion delivery organization which was engaged in delivery of solutions for Banking and Financial Services. He had been responsible for worldwide Business Development in the BFSI (Banking, Financial Services and Insurance) segment.

He was co-opted to the Board of Polaris on 18th October, 2000. He is also a director on the Board of Polaris Software Lab Japan K.K., Japan, Polaris Retail Infotech Limited, India and Optimus Outsourcing Company Limited, India all

subsidiaries of the Company. He is also a member of Shareholders Committee of the Company. As on 31<sup>st</sup> March 2005, Mr. Govind Singhal holds 1,16,800 equity shares of the Company.

**Mr. Nanoo G. Pamnani, Director – Strategic Technology, Operations and Special Projects, Citibank, N.A., Asia Pacific Consumer Group.**

Mr. Pamnani began his career with Citibank. He joined Citibank in India as a Management Trainee in 1967. Between 1967 and 1981, he handled various assignments in Operations (including Senior Country Operations Officer for India/Sri Lanka), Country Credit, Country Financial Control, and Corporate Banking assignments in Calcutta and Madras (Regional Manager-South India).

In 1982, he took over as Chief Executive Officer covering all of Citibank's operations and businesses in India, Sri Lanka, Nepal and Bangladesh. At the end of 1985, Mr. Pamnani was assigned overseas as Chief Executive Officer covering Citibank, N.A.'s businesses in the Philippines. In 1989, he was promoted to Division Head, based in Singapore, covering Citibank's Private Banking businesses in Singapore, Hong Kong, Taiwan, Indonesia, Thailand and Australia, and for non-presence locations in all other countries across Asia-Pacific. In 1995, when Citicorp restructured its Corporate Banking businesses globally into those covering OECD countries and those covering all Emerging Markets (Asia, Latin America, Central Eastern Europe and Middle East), he was appointed as Head of Operations and Technology for its businesses in over 70 countries, based in London. He was charged with establishing a technology roadmap for Citibank's Corporate Banking businesses in Emerging Markets as also ensuring upgradation of its Operations processes, controls and standards in all these countries across the globe.

Mr. Pamnani returned to India at the end of September 1997 to take on responsibilities with Citicorp in India, and was appointed as Chairman of Citicorp Finance (India) Ltd. In December 1998, he took over as the Global Consumer Bank Head, and, in August 1999, he was also designated the Chief Executive Officer, Citibank, N.A., India. Effective August 2001, Mr. Pamnani was given the additional responsibility as Regional Head for Corporate and Investment Bank for India, Sri Lanka, Bangladesh and Nepal.

In October 2002, Mr. Pamnani retired from his executive responsibilities and was appointed Chairman, Citibank, N.A., India on a non-executive capacity. He relinquished this position on December 31, 2004.

On August 13, 2004, Mr. Pamnani was appointed to the role of Director, Strategic Technology, Operations and Special Projects for Asia Pacific Consumer Business.

Mr. Pamnani holds a B.Sc. degree in Economics from London School of Economics. Mr. Pamnani also holds Directorships in E-serve International Ltd., Orbitech Ltd. and Bajaj Auto Ltd. He was invited to join the Polaris Board in October 2004 and he is a member of the Corporate Governance Committee of the Company. As on 31<sup>st</sup> March 2005, Mr. Pamnani does not hold any shares of the Company.

**Mr. R.C. Bhargava,  
Former Chairman and Managing Director of Maruti Udyog Ltd.**

A post graduate in Mathematics from Allahabad University, India, Mr. R C Bhargava joined the Indian Administrative Service (I.A.S.), in 1956 and stood 1st in the batch and was allotted to the U.P. cadre. He is also a post graduate in Development Economics from Williams College, Williamstown (Mass), USA.

From 1968 to 1973, he was the Agricultural Production Commissioner and Secretary to the Government of the State of Jammu and Kashmir for the Departments of Agriculture, Horticulture, Animal Husbandry, Forests, Co-operation. He was a Special Assistant to the Union Minister of Energy, Government of India from 1973 to 1974, and between 1974 to 1978, he served as the Joint Secretary to the Government of India, Ministry of Energy and the Cabinet Secretariat. Thereafter he moved to Bharat Heavy Electricals Limited as the Director (Commercial). From 1981 to 1997, he was working in Maruti Udyog Limited. Initially on deputation from the I.A.S. as Director (Marketing), in 1985 he was appointed as the Managing Director and as a Chairman cum Managing Director in 1990. In 1992, when Suzuki acquired 50% equity in Maruti, he continued as a Managing Director as Suzuki's nominee. While in Maruti, he was on the National Committee of the Confederation of Indian Industry (CII), a member of the Steering Committee of CII as well as Chairman of the Economic Affairs Committee of CII for four years.

Mr. Bhargava was invited to join the Board of Polaris in March, 1999. He chairs the Polaris Board Committee on Remuneration & Compensation Committee and is a member of the Audit Committee of Polaris.

Mr. Bhargava is also Director in IL&FS Limited, Grasim Industries Limited, Machino-Bassell (India) Limited, RCB Consulting Pvt. Ltd., Lord Krishna Bank Ltd., Roulands Codan India Ltd. Maruti Udyog Limited, Omax Auto Ltd., Thomson Press Limited, Dabur India Limited, Ultra Tech Cement Company Limited, Global Education Management Systems (India) Private Limited and Optimus Outsourcing Company Ltd.

Further he chairs the Audit Committee of ILFS Limited, Thomson Press Ltd, Ultra Tech Cement Company Limited, Remuneration & Grievance Committee of Thomson Press Ltd. and Compensation Committee of Optimus Outsourcing Company Ltd. He is a member of Audit Committee of Grasim Industries Ltd., Roulands Codan India Ltd., Dabur India Ltd. & Optimus Outsourcing Company Ltd., Shareholder Grievance Committee of Maruti Udyog Ltd., Customer Service Committee of Lord Krishna Bank Ltd. and Shareholder Grievance Committee of UltraTech Cement Company Limited. As on 31<sup>st</sup> March 2005, Mr. R C Bhargava holds 9,200 equity shares of the Company.

**Mr. Satya Pal, Former Secretary (Telecom), Chairman MTNL and a telecom expert.**

A graduate in electrical technology and electrical communication engineering from Indian Institute of Science, Bangalore, Mr. Satya Pal joined the Department of Telecommunications in 1955 and became Member of Telecom Board in 1986. In 1988, he became Secretary, Department of Telecommunications, and he also became Chairman of Telecom Board and MTNL. He retired in August 1989. He is a Founder Fellow of The Institute of Electronics and Telecommunication Engineers. Mr. Satya Pal was invited to join the Board of Polaris in April 1997. He is the Chairman of Shareholders Committee and a member of Remuneration & Compensation Committee of Polaris. Mr. Satya Pal advises Polaris on Operational and Strategic issues. He is also a director and members of Audit Committee of Paramount Communications Limited. As on 31<sup>st</sup> March 2005, Mr. Satya Pal holds 13,700 equity shares of the Company.

**Mr. V Balaraman, CEO – Adrenalin eSystems Limited (Formerly Empower Works Limited)**

Mr. V. Balaraman is an MBA from the Indian Institute of Management, Ahmedabad and a B.Tech in Chemical Engineering from the University of Madras. Between 1991 and 1998 he was the Managing Director and CEO of Pond's India Limited during which period the company grew aggressively in both sales and profits both in the domestic and export markets and its stock was amongst the blue chips in the Madras and Bombay stock exchanges; in 1998 following the amalgamation of Pond's India Limited with Hindustan Lever Limited, Mr. Balaraman became the Director, Exports of Hindustan Lever Limited and handled a business that touched nearly Rs 1800 cr. in value.

Mr Balaraman has also served with distinction in a number of business/trade bodies; he had served in various positions such as President of Madras Management Association, Chairman, South Region Of Federation of Indian Export Organisations, Chairman, Footwear Design and Development Institute, Noida ,New Delhi [a Govt of India enterprise], President, Indian Shoe Federation, Chairman of the Committee appointed by Ministry of Commerce for accelerating Footwear Exports; he is expected to take over as President of the Madras Chamber of Commerce and Industry by middle of this year.

Mr. Balaraman is a well known and acknowledged public speaker on business / management related topics and has addressed business gatherings all over the country and abroad. He has a passion for Branding and Marketing and has organised and run the first two International Brand Summits for the Confederation of Indian Industry and supported the Advertising conventions run in Chennai.

He is on the Board of Pond's Exports Limited, Mahindra Industrial Parks Limited, Polaris Software Lab Limited, Adrenalin eSystems Limited, UK and Empower Works Inc., New Jersey, he is also Chairman and Director in Computer

Age Management Services Pvt. Limited and is a trustee of the Pond's Supervisory Welfare Trust and Ullas Trust; he was appointed as a Director on the Board of Polaris in July 2002. He is a member of the Shareholders' Committee of Polaris and also the Chairman of the Corporate Governance Committee. He is currently the CEO and member of the Board of Directors of Adrenalin eSystems Limited (Formerly Empower Works Limited). As on 31<sup>st</sup> March 2005, Mr. V Balaraman does not hold any shares of Company.

### 3. Audit Committee

The Company has a qualified and independent Audit Committee with all members being non-executive Directors. The Chairman of the Committee is an independent director. The Company Secretary acts as the Secretary to the Committee.

In the meeting held on 21<sup>st</sup> January 2005, Board of Directors adopted a charter that meets the requirements of the proposed Clause 49 of the Listing Agreement with the Stock Exchanges.

The Audit Committee had met 5 times during the year 2004-2005 on 17<sup>th</sup> May 2004, 19<sup>th</sup> May 2004, 28<sup>th</sup> July 2004, 19<sup>th</sup> October 2004 and 20<sup>th</sup> January 2005.

#### Members of the Audit Committee and the number of Meetings attended by each director for the financial year 2004-2005

Name	Designation	No. of Meeting	
		Held	Attended
Arvind Kumar	Chairman/ Non-Executive Director	5	5
Abhay Agarwal	Non-Executive Director	5	5
Ashok Jhunjhunwala	Non-Executive Director	5	2
R C Bhargava	Non-Executive Director	5	5

#### Power of the Committee

- ◆ To investigate any activity within its terms of reference.
- ◆ To secure attendance of and seek information from any employee including representative of Prime Shareholders (subject to their internal approvals).
- ◆ To obtain outside legal or other professional advice, if necessary.
- ◆ To secure attendance of outsiders with relevant expertise, if it considers necessary.
- ◆ Compliance with accounting standards

#### Role/ Functions of the Committee

- ◆ Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- ◆ Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.

- ◆ Approval of payment to statutory auditors for any other services rendered.
- ◆ Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
  - a. Matters required to be included in the Director's Responsibility Statement and Board's Report in terms of clause (2AA) of section 217 of the Companies Act, 1956.
  - b. Changes, if any, in accounting policies and practices and reasons for the same
  - c. Major accounting entries involving estimates based on the exercise of judgment by management.
  - d. Significant adjustments made in the financial statements arising out of audit findings.
  - e. Compliance with listing and other legal requirements relating to financial statements.
  - f. Disclosure of any related party transactions.
  - g. Qualifications in the draft audit report.
- ◆ Reviewing with the management, the quarterly financial statements before submission to the Board for approval.
- ◆ Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
- ◆ Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- ◆ Discussion with internal auditors any significant findings and follow up there on.
- ◆ Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board
- ◆ Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern
- ◆ To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors
- ◆ To review the functioning of the Whistle Blower mechanism, in case the same is existing
- ◆ Carrying out any other function as may be referred to by the Board or the Chairman of the Board from time to time.

### **Review of information**

- a. Management discussion and analysis of financial condition and results of operations

- b. Statement of significant related party transactions, as defined by the Committee, submitted by management
- c. Management letters/letters of internal control weaknesses issued by the statutory auditors
- d. Internal audit reports relating to internal control weaknesses and
- e. The appointment, removal and terms of remuneration of the Chief Internal Auditor.

#### 4. Remuneration & Compensation Committee

The Remuneration & Compensation Committee consisting of only Non-executive Directors, evaluates and finalise among other things, compensation and benefits of Executive Directors and the procedures and modalities for giving effect to the Employee Stock Option Scheme which inter alia includes determination of eligibility criteria, maximum number of options/ shares offered to each employee and the aggregate number of options / shares offered during the period covered under the Scheme, identification of classes of employees entitled to participate in the scheme, framing of a detailed pricing formula, mode or process of exercise of the option, etc.

#### Members of the Remuneration & Compensation Committee and the number of Meetings attended by each director for the financial year

2004-2005

Name	Designation	No. of Meeting	
		Held	Attended
R C Bhargava	Chairman / Non-Executive Director	4	4
Ajit Bhushan	Non-Executive Director	4	2
Ashok Jhunjunwala	Non-Executive Director	4	2
Satya Pal	Non-Executive Director	4	4

The Committee had met on 19<sup>th</sup> May 2004, 28<sup>th</sup> July 2004, 19<sup>th</sup> October 2004 and 21<sup>st</sup> Jan 2005 during the year.

#### Remuneration policy

The remuneration policy of the Company has been so structured in order to match the market trends of the IT industry. The Board in consultation with the Remuneration & Compensation Committee decides the remuneration policy for whole time directors. The Company has made adequate disclosures to members on the remuneration paid to directors from time to time. Remuneration/ Commission payable to directors is determined by the contributions made by respective directors for the betterment of the Company.

**Gross Remuneration paid/ payable to directors during the financial year 2004-2005**

Name of the Director	Salary Perquisites & Allowances	Contribution to PF & other funds	Commission ®	Sitting Fees	Stock Options
Arun Jain	2,451,165	183,600	0	0	0
Abhay Agarwal	0	0	408,140	65,000	0
Ajit Bhushan	0	0	0	0	0
Ashok Jhunjhunwala	0	0	188,372	40,000	0
Arvind Kumar	0	0	334,884	40,000	0
Dipak Kumar Rastogi	0	0	0	0	0
Govind Singhal*	9,267,200	528,000	0	0	25,000
Nanoo G Pamnani	0	0	0	0	0
R C Bhargava	0	0	366,280	65,000	0
Ram Bhagwat#	18,418,994	1,059,677	0	0	0
Satyapal	0	0	251,163	60,000	0
V. Balaraman	0	0	251,163	40,000	0
Venkatachalam					
Krishnakumar	0	0	0	0	0

**Notes:**

\* Includes variable pay of Rs.48 Lakhs.

# Retired on 21.01.2005. Remuneration includes variable pay of Rs.48.50 Lakhs and compensation payable amounting to Rs.50 Lakhs.

® Paid based on the attendance of Directors in Board and Committee Meeting. SEBI has vide circular No. SEBI/PMD/MBD/ESOP/2/2003/30/06 dated 30<sup>th</sup> June 2003 revised the existing guidelines on Employees Stock Option Scheme (ESOP). Since none of the previous schemes viz ASOP 2000 and ASOP 2001 are as per revised SEBI Guidelines, Company has not granted options under the said schemes.

Further Shareholders in their meeting held on 12<sup>th</sup> March 2004 approved the new Associate Stock Option Plan (ASOP 2003), which was in accordance with the then revised SEBI Guidelines on ESOP. SEBI has subsequently amended the definition of Market Price vide its Circular No. SEBI/CFD/DIL/ESOP/3/2004/22/7 dated 22<sup>nd</sup> July 2004. Consequently, the Remuneration and Compensation Committee had in their meeting held on 28<sup>th</sup> July 2004 by virtue of power vested in it, taken cognizance of the amendment and the market price of options granted subsequently is in accordance with the revised definition.

During the year 2004-05, the Option were granted only under ASOP 2003 as per the definition of Market Price prevailing on the date of grant as detailed hereunder:-

Sl	Date of Grant	Option price Rs	No. of Associates	No. of Options
1	08.06.04*	137.40	190	673,000
2	28.07.04	152.95	511	1,689,750
3	19.10.04	152.85	28	81,500
4	21.01.05	139.85	31	125,000

\* Options were granted as per the then prevailing definition of Market price.

## 5. Shareholders Committee

The Shareholders Committee focuses on shareholders' grievances and strengthening of investor relation. The Committee specifically look into the redressing of shareholder complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. The purpose of forming this Committee is to uphold the basic rights of the shareholders including right to transfer and registration of shares, obtaining relevant information on the company on a timely and regular basis, participating and voting in shareholder meetings, electing members of the board and sharing in the residual profits of the Company. Further the committee is empowered to act on behalf of the Board, in the matters connected with allotment of shares, issuing of duplicate share certificates, split and consolidation of shares into marketable lots etc.

### Members of the Shareholders Committee and the number of Meetings attended by each director for the financial year 2004-2005

Name	Designation	No. of Meeting	
		Held	Attended
Satya Pal	Chairman/Non-Executive Director	4	4
Abhay Agarwal	Non-Executive Director	4	4
Ashok Jhunjhunwala	Non-Executive Director	4	2
Govind Singhal	Executive Director	4	4
Ram Bhagwat	Executive Director	4	3
V Balaraman	Non-Executive Director	4	4

The Committee had met on 19<sup>th</sup> May 2004, 28<sup>th</sup> July 2004, 19<sup>th</sup> October 2004 and 21<sup>st</sup> Jan 2005 during the year. Mr. Anubhav Kapoor, Company Secretary is the Compliance Officer

**During the year total 2,020 Requests and Complaints have been received by the Company as detailed hereunder:-**

<b>STATUS OF REQUEST &amp; COMPLAINTS DURING THE PERIOD 01/04/2004 TO 31/03/2005</b>				
<b>Sl.</b>	<b>Subject</b>	<b>Received</b>	<b>Replied / Resolved</b>	<b>Pending</b>
<b>A. REQUESTS</b>				
1	Change/Correction of Address	107	107	Nil
2	Receipt of Dividend Warrants for Revalidation	124	124	Nil
3	Change/Correction of Bank Mandate	123	123	Nil
4	Receipt of IB For Issue of Duplicate DW	166	166	Nil
5	Query Regarding Payment of Dividend Warrant	4	4	Nil
6	Receipt of DD(s) against DW/DW(s) after revalidation from Company	83	83	Nil
7	Request for ECS Facility (Electronic Clearance Services)	250	250	Nil
8	Postal Return Documents Queries	334	334	Nil
9	Letter Regarding Investor Service	27	27	Nil
10	Receipt of DD Against Refund Order from Company/Bank	1	1	Nil
11	Loss of Securities and request for issue of duplicate	11	11	Nil
12	Request for Consolidation/Split of Securities	106	106	Nil
13	Option of Shares in Physical/Electronic Form	5	5	Nil
14	Intimation of No Objection/Instruction for transfer of Securities	1	1	Nil
15	Receipt of Ack from SEBI/Stock Exch./DCA for complaints	2	2	Nil
16	Correspondences/Query relating to NSDL operations	12	12	Nil
17	Intimation of Specimen Signature	2	2	Nil
18	Request for Transfers/ Demats	456	456	Nil
19	Revalidation/Issue of Duplicate RPO	2	2	Nil
20	Request for Stop Transfer	2	2	Nil
21	Others	74	74	Nil
	<b>Total (A)</b>	<b>1,892</b>	<b>1,892</b>	<b>Nil</b>
<b>B. COMPLAINTS</b>				
1	Non-receipt of Annual Report	10	10	Nil
2	Non-receipt of Dividend Warrants	100	100	Nil
3	Non-receipt of Securities	6	6	Nil
4	Non-receipt of Securities after Transfer	6	6	Nil
5	Letter from Advocates	1	1	Nil

6	Complaints Relating to Transfer of Shares	1	1	Nil
7	Correction of Name on Securities	4	4	Nil
<b>TOTAL(B)</b>		<b>128</b>	<b>128</b>	<b>Nil</b>
<b>TOTAL (A) + (B)</b>		<b>2,020</b>	<b>2,020</b>	<b>Nil</b>

The Company allotted 311,090 number of Equity Shares of Rs.5/- each allotted pursuant to exercise of employee stock options during the year as detailed hereunder:-

Date of Allotment	Scheme	Option Price	No. of Allottees	No. of Shares	Total
<b>19-May-04</b>	ASOP 2000	71.50	19	3,280	<b>55,010</b>
	ASOP 2000	126.70	52	22,730	
	ASOP 2000	123.65	24	5,400	
	ASOP 2001	57.00	27	8,850	
	ASOP 2001	71.50	2	2,400	
	ASOP 2001	126.70	23	10,350	
	ASOP 2001	123.65	1	2,000	
<b>28-Jul-04</b>	ASOP 2000	71.50	5	2,640	<b>22,330</b>
	ASOP 2000	126.70	7	4,220	
	ASOP 2000	123.65	3	2,200	
	ASOP 2001	57.00	10	4,320	
	ASOP 2001	71.50	2	3,000	
	ASOP 2001	126.70	6	1,950	
	ASOP 2001	123.65	2	4,000	
<b>19-Oct-04</b>	ASOP 2000	71.50	4	2,670	<b>107,150</b>
	ASOP 2000	126.70	5	2,980	
	ASOP 2000	123.65	2	300	
	ASOP 2001	57.00	206	98,100	
	ASOP 2001	71.50	2	2,300	
	ASOP 2001	126.70	3	800	
<b>21-Jan-05</b>	ASOP 2000	71.50	146	45,320	<b>126,600</b>
	ASOP 2000	126.70	7	3,250	
	ASOP 2000	123.65	2	200	
	ASOP 2001	57.00	105	52,920	
	ASOP 2001	71.50	26	22,500	
	ASOP 2001	126.70	6	2,410	
	<b>TOTAL</b>		<b>697</b>	<b>311,090</b>	<b>311,090</b>

In view of above, the outstanding issued, subscribed and paid-up equity share capital increased from 97,699,182 shares of Rs.5/- each during the previous year, to 98,010,272 shares of Rs.5/- each as at March 31, 2005.

All the above shares are currently listed and traded on stock exchanges.

### Corporate Governance Committee

Board in its meeting held on 22.10.2003 constituted a Corporate Governance Committee. The functions of the Committee's are to identify and recommend the best Corporate Governance practices to the Board and do such duties as may be assigned to it by the Board from time to time. During the year Committee met 4 times. No sitting fee is paid to the members participating the meeting.

### Members of the Corporate Governance Committee and the number of Meetings attended by each director for the financial year 2004-2005

Name	Designation	No. of Meeting	
		Held	Attended
V Balaraman	Chairman / Non-Executive Director	4	4
Abhay Agarwal	Non-Executive Director	4	4
Arvind Kumar	Non-Executive Director	4	4
Ram Bhagwat	Executive Director	4	3
Venkatachalam			
Krishnakumar	Non-Executive Director	4	0

The Committee had met on 19<sup>th</sup> May 2004, 28<sup>th</sup> July 2004, 19<sup>th</sup> Oct 2004 and 21<sup>st</sup> January 2005.

### Share Transfer Committee

The share transfer committee is empowered to consider and approve the physical transfer, transmission and transposition etc. of the shares of the Company. The Committee has met 19 times during the year 2004-2005. The Committee is comprised of the following members:

Name of Member	Designation
Govind Singhal	Executive Director
N Vaidyanathan	Chief Finance Officer
Anubhav Kapoor	Company Secretary

### 6. General Meetings of the Company

Sl.	Resolutions Passed	Type	Resolutions Passed	Type	Resolutions Passed	Type	Resolutions Passed	Type	Resolutions Passed	Type		
1	Adoption of Annual Accounts(31/3/02)	O	Adoption of Annual Accounts (31/3/03)	O	Adoption of Annual Accounts (31/3/04)	O	Amalgamation of Obitech Solutions Limited with Company	O	EGM 30 <sup>th</sup> December,2002 4:00 PM Karamaj Arangan, Chennai	O	EGM 12 <sup>th</sup> March 2004 3.30 PM. Music Academy, Chennai	S
2	Declaration of Dividend (35%)	O	Declaration of Dividend (35%)	O	Declaration of Dividend (35%)	O		O		S		S
3	Appt. of M/s.Bharat S. Raut & Co, as Statutory Auditors	O	Appt. of M/s.Bharat S. Raut & Co, as Statutory Auditors	O	Appt. of M/s.Bharat S. Raut & Co, as Statutory Auditors	O		O		S		S
4	Appt.of Mr. M.J.Garg as a director under sec 256	O	Appt.of Mr. Satya Pal as a director under sec 256	O	Appt.of Mr.Abhay Agrwal as a director under sec 256	O		O		S		S
5	Appt.of Mr. Abhay Agrwala as a director under sec 256	O	Appt.of Mr. Avind Kumar as a director under sec 256	O	Appt.of Dr.Ashok Jhunjhunwala as a director under sec 256	O		O		S		S
6	Appt.of Dr. Ashok Jhunjhunwala as a director under sec 257	O	Appt.of Mr. Govind Singhal as a director under sec 256	O	Appt.of Mr. R.C. Bhargava as a director under sec 256	O		O		S		S
7	Appointment of Mr.V Balaraman as a director under sec 257	O	Appointment of Mr.Dipak Kumar Rasogi as a director under sec 257	O	Appointment of Mr.V. Balaraman as a director under sec 256	O		O		S		S
8	Reappointment of Mr.G.N.Madhur as a Whole-time director for 2 years	O	Appointment of Mr. Ajit Bhushan as a director under sec 257	O	Approval of shareholders pursuant to Section 309(4)(b) of the Companies Act, 1956 for payment of Commission to Directors	S		S		S		S
9	Amendment of Associate Stock Option Plan 2000&2001	S	Appointment of Mr.Vekasachalam Krishnakumar as a director under sec 257	O	Appointment of Mr.Vekasachalam Krishnakumar as a director under sec 257	O		O		S		S
10			Appointment of Mr. Ram Bhagwat as a director under sec 257	O	Appointment of Mr. Ram Bhagwat as a director under sec 257	O		O		S		S
11			Appointment of Mr. Ram Bhagwat as "President & Executive Director" for 2 years	O	Appointment of Mr. Ram Bhagwat as "President & Executive Director" for 2 years	O		O		S		S
12			Re-appointment of Mr. Govind Singhal as "Executive Director" for 2 years	O	Re-appointment of Mr. Govind Singhal as "Executive Director" for 2 years	O		O		S		S
13			Approval of shareholders pursuant to Section 309(4) of the Companies Act, 1956	S	Approval of shareholders pursuant to Section 309(4) of the Companies Act, 1956	S		S		S		S
14			Adoption of new Articles of Association under Section 31(1) of the Companies Act, 1956	S	Adoption of new Articles of Association under Section 31(1) of the Companies Act, 1956	S		S		S		S

Type - O = Ordinary Resolution, S = Special Resolution

Note: No resolutions were put through postal ballots till the last AGM/ Extra-Ordinary General Meetings

## 7. Disclosures

### Related Party Transactions

Related Party Transactions are defined as transactions of the Company of material nature, with Promoters, Directors or the Management, their subsidiaries or relatives etc. that may have potential conflict with the interest of the Company at large.

Details on materially significant related party transactions are given in Note No. (B)14 under Significant Accounting Policies and Notes to Accounts to the Balance Sheet.

### Statutory Compliance, Penalties & Strictures

Details of non-compliance by the Company, penalties, strictures imposed on the Company by the stock Exchange or SEBI or any other statutory authority, on any matter related to capital markets during the last three years:-

Securities and Exchange Board of India vide their Settlement by consent Order letter no. CFD/DCR/RC/TO/23040/04 dated November 16, 2004 had proposed a penalty of Rs.125,000/- for alleged violation of filing of returns under Regulations 6 & 8 of SEBI (Substantial Acquisition of Shares & takeover) Regulations, 1997. Company had replied vide its letter dated 13<sup>th</sup> December 2004 clarifying its position in the matter.

## 8. Means of communication

### Quarterly and Half-yearly financial results

Quarterly/ Half-yearly financial results of the Company are published in one widely circulated English Newspaper (Business Standard) and a Vernacular (Tamil) Newspaper (Makkal Kural). The results are also promptly forwarded to stock exchanges in which the shares of the Company are listed and simultaneously displayed in EDIFAR and on the Company's website [www.polaris.co.in](http://www.polaris.co.in). The website also displays all official news releases issued by the Company from time to time.

### Investor Education

Investors are being provided with timely information on all company related matters including recruitment/appointment and remuneration of executive directors, circulars on the advantages of Dematerialization and sub-division of shares were sent to shareholders at the appropriate time.

The company's official web site [www.polaris.co.in](http://www.polaris.co.in) has in it a separate page for investor relations in which the quarterly, half-yearly and annual results of the Company are displayed. All press releases issued by the Company from time to time are informed to the respective stock exchanges in which the shares of the Company are listed and the same are also hosted in the Company's web site for the knowledge of the investors. A separate column in the website called "Frequently Asked Questions" is given, which answers substantially all the expected queries of investors about the Company, its history, its promoters, the public issue, employees, its Registrars, share transfers, dematerialization, etc.

### The Management Discussion & Analysis (MD&A)

The MDA giving an overview of the Industry, Company's business and its Financials, etc, is provided separately as a part of this Annual Report.

## 9. General Shareholder information

Date of incorporation	5 <sup>th</sup> of January 1993
Registered Office	Polaris House, 244, Anna Salai, Chennai – 600 006
Date and time of Annual General Meeting	22 <sup>nd</sup> July 2005 at 3.30 P.M.
Venue of Annual General Meeting	Music Academy, Mini Hall, Old No. 306, New No. 168 T.T.K.ROAD, Chennai - 600014
<b>Financial Calendar (tentative and subject to change)</b>	
Financial reporting for the first quarter ending June 30, 2005	Between 20 <sup>th</sup> to 25 <sup>th</sup> of July 2005
Financial reporting for the second quarter ending September 30, 2005	Between 20 <sup>th</sup> to 25 <sup>th</sup> of October 2005
Financial reporting for the third quarter ending December 31, 2005	Between 20 <sup>th</sup> to 25 <sup>th</sup> of January 2006
Financial results for the year ending March 31, 2006	Between 20 <sup>th</sup> to 30 <sup>th</sup> of April 2006
Annual General Meeting for the year ending March 31, 2006	July / August 2006
Date of Book closure for dividend	From 12.07.05 to 22.07.05
Dividend Payment Date	Within 30 days from the date of the Annual General Meeting
Listing on Stock Exchanges	Polaris shares are traded in
w.e.f.	1.Madras Stock Exchange Ltd.
	27 <sup>th</sup> September 1999.
w.e.f.	2.The Stock Exchange,Mumbai
	29 <sup>th</sup> September 1999.
	3.National Stock Exchange w.e.f. 24 <sup>th</sup> November 1999.
Reuters code	POLS.BO (BSE)
Scrip Code (BSE)	POLS.NS (NSE)
Scrip Code(NSE)	532254
	POLARIS

ISIN Code INE763A01023  
Bloomberg Code POL@IN

- The Company's scrips are traded in "Group A" category in the Stock Exchange, Mumbai since 26<sup>th</sup> March 2001.
- The Company hereby confirms that the listing fee for the year 2005-06, payable to each of the stock exchanges pursuant to clause 38 of listing agreement in which the Company's shares are listed have been paid.

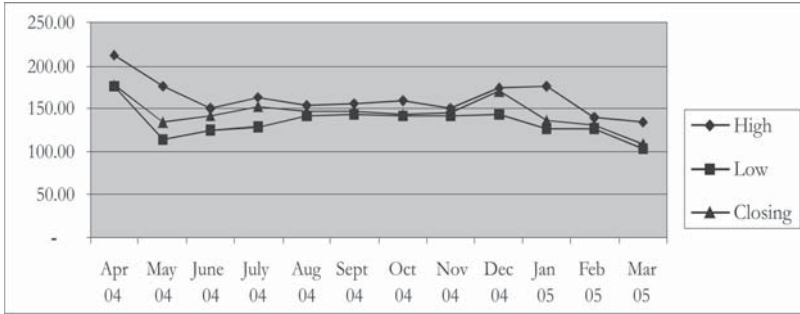
**Registrars & Share Transfer Agent : Karvy Computershare Pvt. Ltd.**  
Unit: Polaris Software Lab Limited  
"Karvy House" 46, Avenue  
Street No.1, Banjara Hills,  
Hyderabad -500034  
Tel:040-23312454/23320251/71  
E-mail: mailmanager@karvy.com  
Website: www.karvy.com

**Market Price Data of The Stock Exchange, Mumbai (BSE) and National Stock Exchange of India (NSE) : High, Low, Closing prices and number of shares traded during each month in the last financial year viz April 2004 to March 2005:**

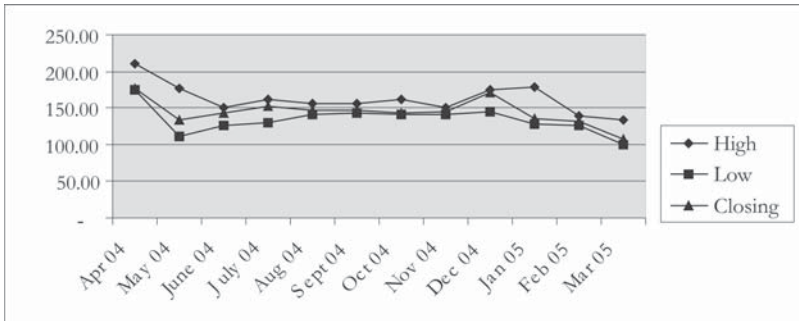
Month	BSE Price High	BSE Price Low	BSE Price Closing	BSE Volume for the month	NSE Price High	NSE Price Low	NSE Price Closing	NSE Volume for the month
Apr 04	211.40	175.50	177.30	15,450,839	211.00	174.85	177.20	41,589,027
May 04	176.20	113.50	133.45	11,106,618	177.40	110.00	133.45	32,685,364
June 04	150.80	125.10	142.05	13,441,058	150.45	125.15	142.15	42,453,105
July 04	162.50	128.00	151.70	15,255,394	162.50	129.30	151.70	43,973,118
Aug 04	154.40	141.45	146.05	7,351,124	155.70	141.05	146.10	27,689,258
Sept 04	155.75	144.00	146.00	9,125,468	155.80	143.75	146.00	33,252,670
Oct 04	159.80	141.10	143.55	9,448,655	161.00	141.35	143.65	30,466,509
Nov 04	150.00	141.25	144.55	2,272,753	150.00	141.25	145.10	9,672,042
Dec 04	174.25	143.80	171.05	7,448,693	174.20	143.80	171.30	26,529,334
Jan 05	175.00	127.10	136.15	4,439,789	177.90	127.25	136.25	17,471,327
Feb 05	139.35	126.05	130.50	2,890,938	139.70	126.40	130.75	11,379,092
Mar 05	133.40	102.75	108.40	3,697,916	133.40	100.00	107.80	13,928,233
<b>TOTAL</b>				<b>101,929,245</b>	<b>TOTAL</b>			<b>331,089,079</b>

Graphical representation of the movement of closing market prices of the Company's shares quoted in the Mumbai (BSE) and National(NSE) Stock Exchanges from April, 2004 to March, 2005

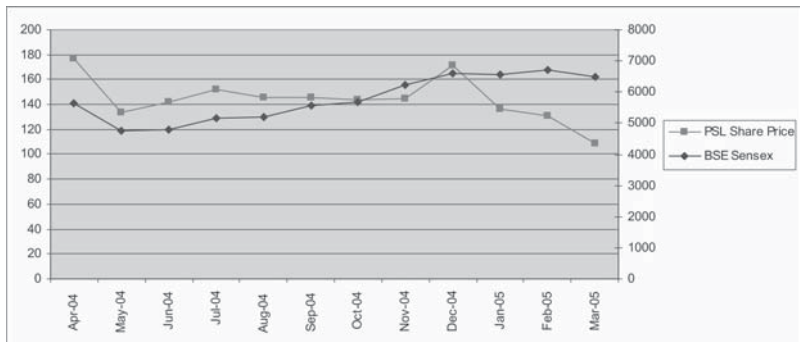
**Monthly High, Low and closing Prices of Company's Shares in BSE**



**Monthly High, Low and Closing Prices of Company's Shares in NSE**



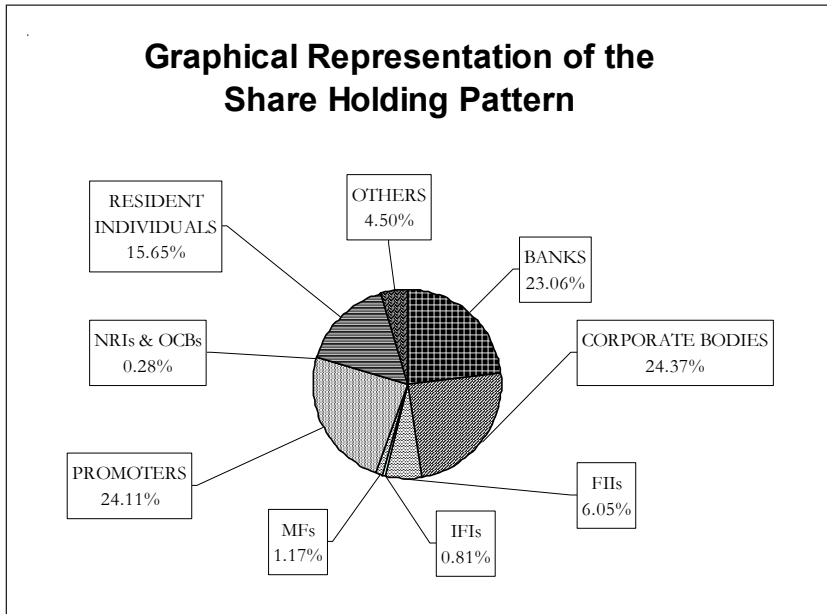
**Polaris Share Price on BSE Vs BSE Sensex**



**Shareholding Pattern of the Company as on 31<sup>st</sup> March 2005**

Sl. No.	Category	No. of Holders	No. of Shares	% Holdings
1	BANKS	10	22,601,657	23.06
2	CORPORATE BODIES	1,709	23,886,056	24.37
3	FOREIGN INSTITUTIONAL INVESTORS	13	5,925,230	6.05
4	INDIAN FINANCIAL INSTITUTIONS	3	796,493	0.81
5	MUTUAL FUNDS	7	1,149,178	1.17
6	NRIs & OCBs	423	273,563	0.28
7	PROMOTERS	6	23,626,314	24.11
8	RESIDENT INDIVIDUALS	45,449	15,340,955	15.65
9	Others	13	4,410,826	4.50
	<b>TOTAL</b>	<b>47,633</b>	<b>98,010,272</b>	<b>100.00</b>

The non-promoter holding in the Company as on 31<sup>st</sup> March 2005 is 75.89%



**List of persons holding more than 1% of Shares as on 31.03.2005**

Sl. No.	Name	No. of Shares	% of Share Capital
1	Citibank A/C Orbitech Limited	22,576,015	23.03
2	Orbitech Limited	20,179,606	20.59
3	Polaris Holdings Private Limited	18,555,938	18.93
4	Arun Jain	3,062,416	3.12
5	Ajit Bhushan & Ajay Relan (Orbitech Employees Welfare Trust)	2,278,575	2.32
6	Yogesh Andlay	2,019,901	2.06
7	Societe Generale	1,456,000	1.49
8	Konark Trust	993,308	1.01
	<b>Total</b>	<b>71,121,759</b>	<b>72.55</b>

**Distribution Schedule of Shareholding as on 31.03.2005**

	Category From To	No. of Holders	Cumulative Holders	% of Holders	No. of Shares	Cumulative Shares	% of Shares
<b>Total</b>	Up to 10	2,415	2,415	5.07	16,370	16,370	0.02
	11 - 25	3,941	6,356	8.27	84,049	100,419	0.09
	26 - 50	8,052	14,408	16.90	374,095	474,514	0.38
	51 - 100	11,134	25,542	23.37	1,048,737	1,523,251	1.07
	101 - 500	17,694	43,236	37.15	4,169,941	5,693,192	4.25
	500 - 1000	2,342	45,578	4.92	1,799,273	7,492,465	1.84
	1000 - 5000	1,676	47,254	3.52	3,471,021	10,963,486	3.54
	5000 - 10000	189	47,443	0.40	1,340,923	12,304,409	1.37
	10000+	190	47,633	0.40	85,705,863	98,010,272	87.45
	<b>TOTAL</b>	<b>47,633</b>		<b>100</b>	<b>98,010,272</b>		<b>100</b>
<b>Physical</b>	Up to 10	12	12	0.63	20	20	0.00
	11 - 25	5	17	0.26	91	111	0.02
	26 - 50	89	106	4.69	4,430	4,541	0.88
	51 - 100	215	321	11.34	21,360	25,901	4.23
	101 - 500	1,447	1,768	76.32	267,199	293,100	52.94
	500 - 1000	47	1,815	2.48	31,250	324,350	6.19
	1000 - 5000	74	1,889	3.90	121,600	445,950	24.09
	5000 - 10000	6	1,895	0.32	36,500	482,450	7.23
	10000+	1	1,896	0.05	22,300	504,750	4.42
	<b>TOTAL</b>	<b>1,896</b>		<b>100</b>	<b>504,750</b>		<b>100</b>
<b>Demat</b>	Up to 10	2,403	2,403	5.25	16,350	16,350	0.02
	11 - 25	3,936	6,339	8.61	83,358	100,308	0.09
	26 - 50	7,963	14,302	17.41	369,665	469,973	0.38
	51 - 100	10,919	25,221	23.87	1,027,377	1,497,350	1.05
	101 - 500	16,247	41,468	35.52	3,902,742	5,400,092	4.00
	500 - 1000	2,295	43,763	5.02	1,768,023	7,168,115	1.81
	1000 - 5000	1,602	45,365	3.50	3,349,421	10,517,536	3.44
	5000 - 10000	183	45,548	0.40	1,304,423	11,821,959	1.34
	10000+	189	45,737	0.41	85,683,563	97,505,522	87.88
	<b>TOTAL</b>	<b>45,737</b>		<b>100</b>	<b>97,505,522</b>		<b>100</b>

### Comparative distribution schedule

Benpos Dates	Physical Shares Nos	Physical Shares %	Demat Shares Nos	Demat Shares %	Total Shares Nos	Total Shares %
31/03/05	504,750	0.51	97,505,522	99.49	98,010,272	100.00
31/03/04	594,870	0.61	97,104,312	99.39	97,699,182	100.00
	Holders Nos	Holders %	Holders Nos	Holders %	Holders Nos	Holders %
31/03/05	1,896	3.98	45,737	96.02	47,633	100.00
31/03/04	2,179	5.49	37,530	94.51	39,709	100.00

#### ◆ Share Transfer System

The application for transfers, transmission and transposition are received by the Company at its Registered office address at Chennai or at M/s Karvy Computershare Private Limited, Registrar and Transfer Agents, Hyderabad. As the Company's shares are currently traded in dematerialized form, the transfers are processed and approved in the electronic form by NSDL/CDSL through their depository participants. The Registrar & Share Transfer Agent on a regular basis processes the physical transfers and the duly transferred certificates sent to respective transferee on priority basis.

#### ◆ Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity

Not applicable

#### ◆ Share Transaction Regulatory System in place for controlling Insider Trading

A Policy on insider Trading has been implemented and continues to be in force since December 1999. This Policy deals with the rules, regulations and process for transactions in the shares of the Company and shall apply to all transactions and for all associates in whatever capacity they may be, including Directors. This code forms part and parcel of the service conditions of the employees of the Company.

#### Corporate Governance initiatives

Board of Directors of the Company has adopted the following corporate governance initiatives:

##### i. The Corporate Ombudsman

The Ombudsman in Polaris is an independent, neutral, informal and confidential sources to handle associates internal complaints and problems. Ombudsman is also an alternate channel of communication for receiving information and observation regarding fraud or misappropriation, illegal or improper business practice, potential security matter, violation of Company's policy, breach in Corporate Governance.

The Polaris Ombudsman is a member of The Ombudsman Association at United

States and meticulously adheres to the Code of Ethics clearly spelt out by the Association. The Ombudsman at Polaris makes himself available at all centres in India regularly and even visits offices abroad for the same purpose.

To get in touch with Ombudsman in Polaris, send an E-mail to [ombudsman@polaris.co.in](mailto:ombudsman@polaris.co.in) or contact on 0124-2345588 or 9899222333.

‘Ombudsman guarantees full confidentiality’.

## **ii. Whistle Blower Policy**

The Board of Directors in its meeting held on 20<sup>th</sup> October 2004 adopted the Whistle Blowing Policy of the company and the Corporate Ombudsman is responsible for reporting and implementation of the same. The policy encourages whistle blowing against unethical behaviour, issues of integrity or financial irregularities by providing early and confidential access with further protection and without risk of reprisal.

## **iii. Code of Conduct for Directors & Senior Management**

The Board of Directors have approved the code of conducts for Directors and Senior Management on 10<sup>th</sup> March 2005, and the same is available at <http://www.polaris.co.in/new/investors/investors.htm>

## **iv. Risk Management Framework**

The Board of Directors in its meeting held on 21<sup>st</sup> January 2005 adopted risk management framework to be implemented during the year. The framework provides an integrated approach for managing the risk inherent in various aspect of business. The framework recommends key design principles for risk management, building blocks of risk framework, classification of risk, roadmap for desired Risk Management structure. As part of this framework the Board shall periodically review risk assessment and minimisation procedures.

### **◆ Locations**

Polaris Software Lab Ltd. has its worldwide headquarter in Chennai, twelve development centers in India, offices in Chennai, Gurgaon, Hyderabad, Mumbai, Manama (Bahrain), Riyadh (KSA), Vincennes (France), and four in the USA. Polaris Software Lab Ltd also operates as wholly owned subsidiaries in Switzerland, Germany, Australia, Singapore, UK, Ireland, Japan and Canada. Polaris has also two Indian subsidiary companies namely Optimus Outsourcing Company Limited and Polaris Retail Infotech Limited.

### **◆ Address for correspondence**

The Company Secretary  
POLARIS SOFTWARE LAB LIMITED  
Regd. Office: Polaris House,  
244, Anna Salai, Chennai - 600 006.  
Phone: 044-2852 4154  
Fax: 044-2852 3280  
E-mail: [investor@polaris.co.in](mailto:investor@polaris.co.in)

**AUDITORS' CERTIFICATE ON COMPLIANCE WITH THE  
CONDITIONS OF CORPORATE GOVERNANCE UNDER CLAUSE  
49 OF THE LISTING AGREEMENT.**

**TO THE MEMBERS OF POLARIS SOFTWARE LAB LIMITED**

We have examined the compliance of conditions of Corporate Governance by Polaris Software Lab Limited ("the Company") for the year ended on 31<sup>st</sup> March 2005, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchanges.

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

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

We state that no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Shareholders/ Investors Grievance Committee, except in cases of any legal disputes or constraints.

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

For **BSR & Co.**  
(formerly Bharat S Raut & Co.)  
Chartered Accountants

Sd/-  
**Subramanian Suresh**  
Membership No. 83673  
Partner

Chennai  
April 27, 2005

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## **AUDITORS' REPORT**

Financial statement for the year ended 31 March 2005

## AUDITORS' REPORT

### To the Members of Polaris Software Lab Limited

- 1 We have audited the attached Balance Sheet of Polaris Software Lab Limited ("the Company"), as at 31 March 2005, the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3 As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956 ("the Act"), 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 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 the 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 the Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;
  - (v) On the basis of written representations received from the directors, as on 31 March 2005, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March 2005 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act,
  - (vi) 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 Act, 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 2005;
    - b. in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
    - c. in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

**for BSR & Co.**

(formerly Bharat S Raut & Co.)

Chartered Accountants

**Subramanian Suresh**

Partner

Membership No: 83673

Chennai

27 April 2005

**Annexure to the Auditors' Report  
(Referred to in our report of even date)**

- 1 (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified in a phased manner over a period of three years. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
- (c) Fixed assets disposed off during the year were not substantial and therefore do not affect the going concern assumption.
- 2 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.
- 3 (a) The Company has granted an interest free advance to a company covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount outstanding during the year was Rs. 38.02 lakhs and no amounts were outstanding at year end.
- (b) In our opinion, the terms and conditions on which the advance has been granted to the company listed in the register maintained under section 301 of the Companies Act, 1956 are not, prima facie, prejudicial to the interest of the company.
- (c) The company has been regular in repaying the principal amounts.
- (d) There is no overdue amount of more than Rupees one lakh in respect of the interest free advance granted to the company listed in the register maintained under section 301.
- (e) The Company has not taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
- 4 In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of fixed assets and sale of services. The activities of the Company do not involve purchase of inventory and the sale of goods. We have not observed any major weakness in the internal control system during the course of the audit.
- 5 (a) 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.
- (b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements referred to in (a) above and exceeding the value of Rs 5 lacs with any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- 6 The Company has not accepted any deposits from the public.
- 7 In our opinion, the Company has an internal audit system, commensurate with the size and nature of its business.
- 8 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.
- 9 (a) According to the information and explanations given to us and on the basis of our examination of the records of the company, amounts deducted/acrued in the books of account in respect of undisputed statutory dues including Provident Fund,

Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Service tax, Customs duty, Cess and other material statutory dues have been regularly deposited during the year by the Company with the appropriate authorities. As explained to us, the Company did not have any dues on account of Investor Education and Protection Fund.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Customs duty, Cess and other material statutory dues were in arrears as at 31 March 2005 for a period of more than six months from the date they became payable.

- (b) According to the information and explanations given to us, the following dues of Income-tax have not been deposited by the Company on account of disputes.

Name of the Statute	Nature of the Dues	Amount (in Rs lacs)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	Income Tax	698.59	Financial year-2000-2001 (Assessment year-2001-2002)	Deputy Commissioner of Income Tax
Income Tax Act, 1961	Income Tax	1,104.86	Financial Year-2001-2002 (Assessment Year-2002-2003)	Additional Commissioner of Income Tax

- 10 The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the immediately preceding financial year.
- 11 The Company did not have any outstanding dues to any financial institution, banks or debentureholders during the year.
- 12 The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- 13 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.
- 14 According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
- 15 According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
- 16 The Company did not have any term loans outstanding during the year.
- 17 The Company has not raised any funds on short term basis
- 18 The Company has not made any preferential allotment of shares to companies/firms/ parties covered in the register maintained under Section 301 of the Companies Act, 1956.
- 19 The Company did not have any outstanding debentures during the year.
- 20 The Company has not raised any money by public issues.
- 21 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 BSR & Co.**

(formerly Bharat S Raut & Co.)  
Chartered Accountants

**Subramanian Suresh**

Partner

Membership No: 83673

Chennai

27 April 2005

Auditors' Report

**Polaris Software Lab Limited  
Balance Sheet as at***(Rs in Lacs)*

	Schedule	31 March 2005	31 March 2004
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Share Capital	1	4,900.51	4,884.96
Reserves and Surplus	2	48,035.08	44,490.74
		<b>52,935.59</b>	<b>49,375.70</b>
<b>DEFERRED TAX LIABILITY</b>			
	10	41.15	424.30
		<b>52,976.74</b>	<b>49,800.00</b>
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>			
Cost	3	31,116.46	22,989.32
Less: Depreciation and amortisation		12,408.81	8,523.99
Net Book Value		18,707.65	14,465.33
Capital Work in Progress including Capital advances		1,837.23	4,577.17
		<b>20,544.88</b>	<b>19,042.50</b>
<b>INVESTMENTS</b>			
	4	11,069.07	5,817.48
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Cash and Bank balances	5	3,858.38	2,724.05
Sundry Debtors	6	13,188.10	15,292.25
Loans and Advances	7	13,599.58	14,208.39
		<b>30,646.06</b>	<b>32,224.69</b>
<b>CURRENT LIABILITIES AND PROVISIONS</b>			
Current Liabilities	8	6,967.76	5,140.76
Provisions	9	2,315.51	2,143.91
		9,283.27	7,284.67
<b>NET CURRENT ASSETS</b>			
		<b>21,362.79</b>	<b>24,940.02</b>
		<b>52,976.74</b>	<b>49,800.00</b>

Significant accounting policies and notes to accounts 15

The Schedules referred to above and the notes thereon form an integral part of these financial statements.

This is the Balance Sheet referred to in our report of even date.

for **BSR & Co.**

(formerly Bharat S Raut &amp; Co)

Chartered Accountants

**Subramanian Suresh**

Partner

Membership No 83673

Chennai

Anubhav Kapoor

27 April 2005

**Arun Jain**

Chairman &amp; Managing Director

**Govind Singhal**

Executive Director

**Arvind Kumar**

Director

**Satya Pal**

Director

**R C Bhargava**

Director

**V Balaraman**

Director

**Ashok Jhunjunhuala**

Director

**Abhay Agarwal**

Director

**Ajit Bhushan**

Director

**Anil Sachdev**

Director

**Anil Khanna**

Director

**Nanoo G Pamnani**

Director

**Prabal Basu Roy**

Group CFO &amp; Executive Vice President

Company Secretary

**POLARIS SOFTWARE LAB LIMITED**  
**Profit and Loss Account for the year ended**

(Rs in Lacs)

	Schedule	31March2005	31March2004
<b>INCOME</b>			
Software development services and products			
- Overseas		58,182.71	51,178.46
- Domestic		8,713.87	6,670.12
		<b>66,896.58</b>	<b>57,848.58</b>
<b>EXPENDITURE</b>			
Software development expenses	12	44,545.20	36,123.53
Selling, Administration and other General expenses	13	14,063.29	9,888.90
		<b>58,608.49</b>	<b>46,012.43</b>
<b>Operating profit before interest, depreciation and amortisation</b>			
		8,288.09	11,836.15
Finance charges	14	81.53	117.65
Depreciation and amortisation		3,840.27	3,160.73
		<b>3,921.80</b>	<b>3,278.38</b>
<b>Operating profit after interest, depreciation and amortisation</b>			
Other income	11	4,366.29	8,557.77
Provision for diminution in value of investments		1,605.17	(532.33)
		0.25	10.14
<b>Profit before taxation</b>			
		<b>5,971.21</b>	<b>8,015.30</b>
Income taxes - Current tax		1,011.50	950.00
- Deferred tax		(383.14)	295.62
<b>Profit after taxation</b>			
Profit brought forward from previous year		<b>5,342.85</b>	<b>6,769.68</b>
		11,954.77	7,790.84
<b>Amount available for appropriation</b>			
		<b>17,297.62</b>	<b>14,560.52</b>
<b>Appropriations</b>			
Proposed Dividend		1,715.18	1,709.74
Tax on Proposed Dividend		240.55	219.01
Additional Tax paid on previous year dividend		4.58	-
Amount transferred to General Reserve		535.00	677.00
Balance carried to Balance Sheet		14,802.31	11,954.77
		<b>17,297.62</b>	<b>14,560.52</b>
<b>Earnings per share</b>			
(equity shares par value Rs.5 each)			
Basic		5.46	6.94
Diluted		5.43	6.87
<b>Number of shares used in computing earnings per share</b>			
Basic		97,833,640	97,460,457
Diluted		98,346,484	98,469,303

Significant accounting policies and notes to accounts 15

The Schedules referred to above and the notes thereon form an integral part of these financial statements. This is the Profit and Loss account referred to in our report of even date.

for BSR & Co.

(formerly Bharat S Raut & Co)

Chartered Accountants

Subramanian Suresh

Partner

Membership No 83673

Chennai  
 Anubhav Kapoor

Arun Jain  
 Chairman & Managing Director

Satya Pal  
 Director

Abhay Agarwal  
 Director

Nanoo G Pamnani

Director

Govind Singhal  
 Executive Director

R C Bhargava  
 Director

Ajit Bhushan  
 Director

Prabal Basu Roy

Group CFO & Executive Vice President

Arvind Kumar  
 Director

V Balaraman  
 Director

Anil Sachdev  
 Director

Company Secretary

Company Secretary

Auditors' Report

**POLARIS SOFTWARE LAB LIMITED***(Rs in Lacs)***Statement of cash flow for the years ended**

	<b>31 March 2005</b>	<b>31 March</b>
<b>2004</b>		
<b>Cash flows from operating activities</b>		
Profit before taxation	5,971.21	8,015.30
Interest and dividend income considered separately	(277.42)	(200.96)
Effect of exchange differences on translation of foreign currency cash & cash equivalents	(108.40)	15.01
Depreciation	3,840.27	3,160.73
(Profit)/ Loss on sale of Investments	8.62	(22.94)
(Profit)/ Loss on sale of fixed assets	(6.76)	(13.84)
Provision for diminution in value of investments	0.25	10.14
Taxes paid, including taxes on dividend	(1,184.18)	(2,057.41)
<i>Changes in current assets and liabilities</i>		
Decrease / (Increase) in sundry debtors	2,104.15	(1,255.21)
Decrease/(Increase) in loans and advances	(250.15)	(4,758.30)
Increase/(Decrease) in current liabilities and provisions	1,932.73	(340.24)
<b>Net cash flows from operating activities</b>	<b>12,030.32</b>	<b>2,552.28</b>
<b>Cash flows from financing activities</b>		
Proceeds from share capital issued on exercise of stock options	15.55	17.70
Stamp duty and expenses incurred on merger	-	(82.75)
Proceeds from share premium on exercise of stock options	217.30	208.75
Dividends paid during the year	(1,706.43)	(1,697.77)
<b>Net cash flows from financing activities</b>	<b>(1,473.58)</b>	<b>(1,554.07)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of fixed assets	96.00	317.63
Purchase of fixed assets and changes in capital work in progress	(5,431.89)	(5,312.32)
Investment in subsidiaries	(1,309.38)	(822.76)
Decrease/ (increase) in advances to subsidiaries and associates	843.62	(827.61)
Investment in associate companies	(470.70)	(332.88)
Net (increase)/ decrease in non-trade investments	(3,480.37)	1,201.72
Interest and dividend received	277.41	200.15
<b>Net cash flows from investing activities</b>	<b>(9,475.31)</b>	<b>(5,576.07)</b>
<b>Effect of exchange differences on translation of foreign currency cash &amp; cash equivalents</b>	<b>52.90</b>	<b>(15.01)</b>
Total increase/(decrease) in cash and equivalents during the year	<b>1,134.33</b>	<b>(4,592.87)</b>
Cash and equivalents at the beginning of the year	2,724.05	7,316.92
<b>Cash and equivalents at the end of the year</b>	<b>3,858.38</b>	<b>2,724.05</b>

Significant accounting policies and notes to accounts 15

This is the Cash Flow Statement referred to in our report of even date.

for **BSR & Co.** **Arun Jain** **Govind Singhal** **Arvind Kumar**  
*(formerly Bharat S Raut & Co)* *Chairman & Managing Director* *Executive Director* *Director*

Chartered Accountants **Satya Pal** **R C Bhargava** **V Balaraman** **Ashok Jhunjunhwal**  
*Partner* *Director* *Director* *Director* *Director*

**Subramanian Suresh** **Abhay Agarwal** **Ajit Bhushan** **Anil Sachdev** **Anil Khanna**  
*Partner* *Director* *Director* *Director* *Director*

Membership No 83673

**Chennai** **Nanoo G Pamnnani** **Prabal Basu Roy**

**Anubhav Kapoor**

27 April 2005

*Director**Group CFO & Executive Vice President**Company Secretary*

**POLARIS SOFTWARE LAB LIMITED****Schedules to the balance sheet as at***(Rs in Lacs)*

	<b>31March 2005</b>	<b>31March 2004</b>
<b>1 SHARE CAPITAL</b>		
<b>Authorised Capital</b>		
120,000,000 equity shares of Rs 5 each. (2004: 120,000,000 equity shares of Rs 5 each)	6,000.00	6,000.00
10,000,000 11 % preference shares of Rs 5 each. (2004: 10,000,000 11% preference shares of Rs 5 each)	500.00	500.00
	<b>6,500.00</b>	<b>6,500.00</b>
<b>Issued, Subscribed and Paid-up Capital</b>		
98,010,272 Equity shares of Rs.5 each (2004: 97,699,182 Equity Shares of Rs 5 each) fully paid up.	4,900.51	4,884.96
Of the above :		
i) 17,062,550 Equity Shares of Rs 5 each ( 2004 :17,062,550 equity shares of Rs 5 each) were issued as Bonus shares by capitalisation of Securities Premium account during the year 2001-02		
ii) 45,850,549 Equity shares of Rs 5 each (2004 : 45,850,549 equity shares of Rs 5 each) were issued pursuant to a scheme of amalgamation of Orbitech Solutions Limited with the Company during the year 2002-03		
	<b>4,900.51</b>	<b>4,884.96</b>
<b>2 RESERVES AND SURPLUS</b>		
<b>General Reserve</b>		
As per last Balance Sheet	14,804.79	13,660.54
Add : Transferred from Profit and Loss Account	535.00	677.00
Less : Stamp duty and expenses incurred on issue of shares relating to merger	-	467.25
(Represents reversal of excess provision made in the previous year)	<b>15,339.79</b>	<b>14,804.79</b>
<b>Foreign currency translation reserve</b>	(55.50)	-
<b>Securities Premium Account</b>		
As per last Balance Sheet	17,731.18	17,522.44
Add :Premium received on issue of shares to employees	217.30	208.74
	<b>17,948.48</b>	<b>17,731.18</b>
<b>Profit and Loss account balance</b>	14,802.31	11,954.77
	<b>48,035.08</b>	<b>44,490.74</b>

POLARIS SOFTWARE LAB LIMITED  
Schedules to the Balance Sheet as at 31 March 2005

3 FIXED ASSETS

(Rs. in lacs)

Sl. No.	Assets	Cost				Depreciation and Amortisation			Net Book value	
		1 April 2004	Additions	Deletions	31 March 2005	1 April 2004	For the year	on deletions	31 March 2005	31 March 2004
<b>A</b>	<b>TANGIBLE ASSETS</b>									
1	Land (Refer Note 1)	1,031.88	64.27	-	1,096.15	-	-	-	1,096.15	1,031.88
2	Buildings (Refer Note 2)	5,023.83	404.92	-	5,428.75	411.58	2,09.39	620.97	4,807.78	4,612.25
3	Plant and machinery	583.37	198.58	6.86	775.09	226.12	175.47	401.19	373.90	357.25
4	Computer equipment and accessories	9,476.29	2,536.10	13.49	11,998.90	5,301.32	2,243.49	1.32	7,543.49	4,174.97
5	Electrical fittings	1,200.49	166.02	65.40	1,301.11	402.40	162.81	53.89	511.32	798.09
6	Office equipment	1,522.67	239.23	-	1,761.90	432.36	162.23	-	594.59	1,167.31
7	Furniture and fixtures	1,971.57	185.60	16.86	2,140.31	605.69	238.82	0.25	844.26	1,365.88
8	Vehicles (Refer Note 3)	774.99	114.07	112.98	776.08	375.58	201.35	70.46	506.47	399.41
	Less: Capitalisation (Refer note 4)	-	-	-	-	-	(170.87)	-	-	-
		<b>21,585.09</b>	<b>3,908.79</b>	<b>215.59</b>	<b>25,278.29</b>	<b>7,755.05</b>	<b>3,222.69</b>	<b>126.32</b>	<b>11,022.29</b>	<b>13,830.04</b>
<b>B.</b>	<b>INTANGIBLE ASSETS</b>									
1	Software Products	804.33	4,433.94	-	5,238.27	169.04	617.58	-	786.62	635.29
2	Intellectual property rights	599.90	-	-	599.90	599.90	-	-	599.90	-
	<b>Total</b>	<b>22,989.32</b>	<b>8,342.73</b>	<b>215.59</b>	<b>31,116.46</b>	<b>8,523.99</b>	<b>3,940.27</b>	<b>126.32</b>	<b>12,408.81</b>	<b>14,465.33</b>
	Previous year	20,897.73	2,602.20	510.61	22,989.32	5,570.08	3,160.73	206.82	8,523.99	14,465.33

Note 1: Land includes 7.89 acres of land amounting to Rs 131.63 (2004: 7.07 acres of land amounting to Rs 100.68) acquired from Andhra Pradesh Industrial Infrastructure Corporation, pending registration in favour of the Company subject to fulfillment of certain conditions under the Andhra Pradesh Information Technology Incentives Policy

Note 2: Building includes leasehold improvements amounting to Rs 553.21 (2004: Rs 553.21)

Note 3: Vehicles include assets acquired under finance leases amounting to Rs 661.25 (2004: Rs 719.96)

Note 4: Represents depreciation on asset used for development of software products capitalised as part of cost of Software Products amounting to Rs 170.87 (2004 : Rs 233.10)

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the Balance Sheet as at**

(Rs in Lacs)

	31 March 2005	31 March 2004
<b>4 INVESTMENTS (AT COST)</b>		
<b>LONG TERM INVESTMENT</b>		
<b>TRADE (UNQUOTED)</b>		
<b>A) In Subsidiary Companies</b>		
<b>Polaris Software Lab Pte Ltd</b>	94.60	94.60
A wholly owned subsidiary company incorporated in Singapore 385,000 ordinary shares of Sing \$ 1 each fully paid (2004:385,000 ordinary shares of Sing \$ 1 each fully paid)		
<b>Polaris Software Lab Limited UK</b>	617.50	617.50
A wholly owned subsidiary company incorporated in the UK 889,000 ordinary shares of GBP 1 each fully paid (2004:889,000 ordinary shares of GBP 1 each fully paid)		
<b>Polaris Retail Infotech Limited</b>	900.00	900.00
A wholly owned subsidiary company incorporated in India 9,000,000 Equity shares of Rs. 10 each fully paid (2004: 9,000,000 Equity shares of Rs. 10 each fully paid)		
<b>Polaris Software Lab GmbH</b>	261.99	261.99
A wholly owned subsidiary company incorporated in Germany Common stock of 600,000 Euros fully paid (2004: Common stock of 600,000 Euros fully paid)		
<b>Polaris Software Lab SA</b>	112.76	112.76
A wholly owned subsidiary company incorporated in Switzerland 35,000 Equity shares of CHF 10 each fully paid (2004:35,000 Equity Shares of CHF 10 each fully paid)		
<b>Polaris Software Lab Pty Ltd</b>	8.11	8.11
A wholly owned subsidiary company incorporated in Australia 25,000 Ordinary Shares of A\$ 1 each fully paid (2004:25,000 Ordinary Shares of A\$ 1 each fully paid)		
<b>Polaris Software Lab Ireland Ltd</b>	88.96	88.96
A wholly owned subsidiary company incorporated in Ireland 176,186 Ordinary Shares of Euro 1 each fully paid (2004: 176,186 Ordinary Shares of Euro 1 each fully paid)		
<b>Polaris Software Lab Japan KK</b>	79.04	79.04
A wholly owned subsidiary company incorporated in Japan 400 Ordinary Shares of 50,000 yen each fully paid (2004: 400 Ordinary Shares of 50,000 yen each fully paid)		
<b>Optimus Outsourcing Company Limited</b>	1,699.99	499.99
A wholly owned subsidiary company incorporated in India 8,50,00,000 Equity shares of Rs.2 each . (2004: 9,999,880 Equity shares of Rs.5 each fully paid) ( Refer Schedule 15 note B15(b))		

## Auditors' Report

**POLARIS SOFTWARE LAB LIMITED****Schedules to the Balance Sheet as at***(Rs in lacs)*

	<b>31March 2005</b>	<b>31March 2004</b>
<b>INVESTMENTS (AT COST) (contd..)</b>		
<b>Polaris Software Lab Canada Inc</b> A wholly owned subsidiary company incorporated in Canada 296,350 Ordinary Shares of Canada \$ 1 each fully paid (2004: Nil) (Refer Schedule 15 note B15(b))	109.38	-
<b>(A)</b>	<b>3,972.33</b>	<b>2,662.95</b>
<b>B ) IN OTHERS</b>		
<b>Software Sidoun GmbH Germany</b> A company incorporated in Germany Common stock of Euros 1,175,990 fully paid (2004: Common stock of Euros 1,175,990 fully paid) Less: Diminution in value of investments	527.61     (527.61)	527.61     (527.61)
	-	-
<b>Eternet Inc.</b> A company incorporated in USA 1,250,000 shares of US\$ 0.2 each fully paid (2004 : 1,250,000 shares of US\$ 0.2 each fully paid) Less: Diminution in value of investments	116.25    (116.25)	116.25    (116.25)
	-	-
<b>NMS Works Software Limited</b> A company incorporated in India 500,000 Equity Shares of Rs.10 each (2004:500,000 Equity shares of Rs.10 each) fully paid 147,228, 12% Optionally Convertible Cumulative Preference shares of Rs. 10 each. (2004 : 147,228, 12 % Optionally Convertible Cumulative Preference shares of Rs. 10 each fully paid.) ( Refer Schedule 15 note B15(d))	50.00     350.00	50.00     350.00
<b>Adrenalin eSystems Limited (Formerly Empower Works Limited)</b> A Company incorporated in India 12,078,080 Equity shares of Rs.5 each fully paid (2004 : 10,638,080 Equity shares of Rs.5 each fully paid.) ( Refer Schedule 15 note B15(c))	733.88	589.88
<b>AIG Systems Solutions Private Limited</b> A company incorporated in India 462,100 Equity Share of Rs.10 each fully paid. (2004 :1 Equity Share of Rs.10 each fully paid.)	326.70	-
<b>(B)</b>	<b>1,460.58</b>	<b>989.88</b>
<b>Total I - (A)+(B)</b>	<b>5,432.91</b>	<b>3,652.83</b>

(Rs in lacs)

	31March 2005	31March 2004
<b>INVESTMENTS (continued)</b>		
<b>CURRENT INVESTMENTS ( NON- TRADE QUOTED)</b>		
<b>Mutual Funds</b>		
Sundaram Bond Saver Nil units (2004: 374,491 units) Face value: Rs 10 per unit	-	38.91
Birla Bond Plus Institutional Plan - Div Payout 5,399,564 units (2004: Nil units) Birla Bond Plus Fund Long Term-2,408,593 units(2004:Nil units) Face value: Rs 10 per unit	810.55	-
ICICI Prudential Floating Rate 5,068,119 units ( 2004 : Nil units ) Face value : Rs. 1000 per unit ICICI Prudential Long Term Floating Rate -2,519,953 units ( 2004: Nil units ) Face value: Rs 10 per unit	759.94	-
Templeton Short Term Income Plan - Monthly Div Plan 29,632 units (2004:29,632 Units) Face value Rs.1000 per unit Templeton Long term Income Plan - Monthly Div 4,877,562 Units ( 2004 : Nil units ) Face value: Rs 10 per unit	804.79	300.00
Deutsche Short Maturity Fund - Monthly Div Plan 2,952,320 units (2004: 2,952,320 Units) Deutsche Weekly Dividend - 4,426,158 ( 2004 : Nil Units ) Face value: Rs 10 per unit	753.85	300.00
GMBD GSSIF- Medium Term Inst Plan Nil units (2004: 5,046,286 Units) Face value: Rs 10 per unit	-	513.74
GCDB Grindlays Cash Fund 3,876,629 units (2004: Nil Units) Floating rate fund - 1,003,835 units ( 2004 : Nil units ) Long Term - 2,504,711 units ( 2004 : Nil units ) Face value: Rs 10 per unit	763.87	-
HSBC - Cash Fund Institutional Daily Dividend 3,931,171 units (2004 : Nil Units ) HSBC- Floating Rate - Long Term Plan 3,520,852 units ( 2004 : Nil units ) Face value: Rs 10 per unit	763.41	-
HDFC Floating Income Fund Short Term Plan 4,547,007 units (2004: Nil Units) HDFC Cash Management Fund- Saving plan Nil units(2004:4,782,497 units) Face value: Rs 10 per unit	456.08	508.38
Kotak Liquid Institutional Plan 5,286,615 units (2004: 5,084,109 Units) Face value: Rs 10 per unit	529.99	509.69
	5,642.48	2,170.72
Less : Provision for diminution in value of investments	(6.32)	(6.07)
<b>II</b>	<b>5,636.16</b>	<b>2,164.65</b>
<b>Total (I + II)</b>	<b>11,069.07</b>	<b>5,817.48</b>
(Aggregate market value of the quoted investments as at 31 March 2005: Rs 5,636.16 (2004: Rs 2,167.85)		

Auditors' Report

**POLARIS SOFTWARE LAB LIMITED**  
Schedules to then balance sheet as at

(Rs in Lacs)

	31March 2005	31March 2004
<b>5 CASH AND BANK BALANCES</b>		
Cash on hand	5.65	6.06
Balances with scheduled banks		
- in current accounts *	3,308.83	2,038.14
- in deposit accounts	3.08	3.28
Balances with non-scheduled banks in current accounts		
- Fleet Bank, New Jersey	298.09	348.54
- Chase Bank, New Jersey	242.73	328.03
	<b>3,858.38</b>	<b>2,724.05</b>
*includes balance in unclaimed dividend account	19.81	17.43
<b>Maximum balances held in non-scheduled banks</b>		
- Fleet Bank, New Jersey	709.76	2,391.64
- Chase Bank, New Jersey	1,088.81	1,064.83
<b>6 SUNDRY DEBTORS</b>		
Debts outstanding for a period exceeding six months		
Unsecured		
- considered good	1,251.87	1,626.04
- considered doubtful	1,937.37	1,039.75
Other debts - unsecured, considered good	11,936.23	13,666.21
	15,125.47	16,332.00
<b>Less: Provision for doubtful debts</b>	1,937.37	1,039.75
	<b>13,188.10</b>	<b>15,292.25</b>
<b>7 LOANS AND ADVANCES</b>		
(Unsecured considered good)		
Advances recoverable in cash or in kind or for value to be received	2,765.60	3,626.27
Advance income tax (Including tax deducted at source) (Net of provision for tax )	634.12	768.03
Loans to employees	347.05	531.27
Loans to Employees Welfare Trust	926.65	1,095.24
Other advances	121.99	46.31
Interest/dividend receivable	0.97	0.83
Revenues in excess of billings	7,373.65	6,772.83
Rent, maintenance and security deposits	1,429.55	1,367.61
	<b>13,599.58</b>	<b>14,208.39</b>
<b>8 CURRENT LIABILITIES</b>		
Sundry creditors		
- for goods	302.86	402.98
- for expenses	6,150.54	4,194.50
Lease Obligations	244.68	425.24
Unclaimed dividends	19.81	16.50
Advances received from customers	2.80	8.40
Billings in excess of revenue	247.07	93.14
	<b>6,967.76</b>	<b>5,140.76</b>
<b>9 PROVISIONS</b>		
Provision for Gratuity	324.22	215.16
Provision for taxation ( net of Advance Income tax )	35.56	-
Proposed dividend	1,715.18	1,709.74
Provision for tax on proposed dividend	240.55	219.01
	<b>2,315.51</b>	<b>2,143.91</b>
<b>10 DEFERRED TAX LIABILITY</b>		
<u>Deferred Tax Liability</u>		
Fixed assets	695.47	717.04
<u>Deferred Tax Asset</u>		
Sundry debtors	(652.12)	(246.64)
others	(2.20)	(46.10)
Deferred Tax Liability ( net )	<b>41.15</b>	<b>424.30</b>

**POLARIS SOFTWARE LAB LIMITED****Schedules to the Profit and Loss Account for the year ended***(Rs in Lacs)*

	<b>31 March 2005</b>	<b>31 March 2004</b>
<b>11 OTHER INCOME</b>		
Interest received on deposits with banks and others (Tax deducted at source Rs 9.56 ; 2004 : Rs 7.73)	153.43	45.18
Profit on sale of investments, net	(8.62)	22.94
Dividends received	123.99	125.08
Profit on sale of assets	6.76	13.84
Miscellaneous income ( Refer sch 15 note B18 )	770.42	7.76
Foreign exchange gains / ( Loss ), net	559.19	(747.13)
	<b>1,605.17</b>	<b>(532.33)</b>
<b>12 SOFTWARE DEVELOPMENT EXPENSES</b>		
Salaries and bonus including overseas staff expenses and outsourced consultants cost	36,457.04	27,416.43
Staff welfare	1,493.26	1,240.58
Contribution to provident and other funds	969.43	945.44
Gratuity	74.53	90.71
Foreign tour and travel	4,131.85	4,968.00
Consumables and computer maintenance	90.95	133.90
Communication expenses	1,209.23	1,248.06
Licence and Royalty	118.91	80.41
	<b>44,545.20</b>	<b>36,123.53</b>
<b>13 SELLING, ADMINISTRATION AND OTHER GENERAL EXPENSES</b>		
Salaries and bonus including overseas staff expenses	5,222.57	3,688.21
Contribution to provident and other funds	241.43	221.32
Professional charges	902.45	785.57
Legal expenses	506.07	480.37
Travelling and conveyance	613.60	707.99
Rent	1,295.08	1,008.96
Business promotion	515.78	588.73
Power and fuel	995.61	666.33
Printing and stationery	152.37	147.13
Office maintenance	232.19	227.30
Provision for doubtful debts	897.62	(74.56)
Insurance charges	450.20	215.95
Advertisements	183.50	17.58
Bad debts written off	91.75	237.74
Rates and taxes	31.77	42.01
Auditor's remuneration	24.61	31.03
Repairs - Building	57.89	105.15
Repairs - Plant and machinery	215.13	279.35
Repairs - Others	727.60	223.68
Directors' sitting fees	3.10	3.30
Donations	24.38	26.41
Miscellaneous expenses	678.59	259.35
	<b>14,063.29</b>	<b>9,888.90</b>
<b>14 FINANCE CHARGES</b>		
Interest paid towards lease obligations	47.79	103.50
Bank Charges and others	33.74	14.15
	<b>81.53</b>	<b>117.65</b>

## **POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

### **15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS**

#### **A. SIGNIFICANT ACCOUNTING POLICIES**

##### **1. Basis of preparation of Financial Statements**

The financial statements are prepared under the historical cost convention on the accrual basis in accordance with Generally Accepted Accounting Principles (GAAP) in India, and materially comply with the mandatory accounting standards issued by the Institute of Chartered Accountants of India (ICAI) and the provisions of the Companies Act, 1956 (the Act).

##### **2. Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period reported. Actual results could differ from these estimates.

Management periodically assesses using external and internal sources whether there is an indication that an asset may be impaired. An impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the asset and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the asset's net sales price or present value as determined above. Contingencies are recorded when it is probable that a liability will be incurred, and the amount can be reasonably estimated. Actual results could differ from those estimates.

##### **3. Revenue recognition**

###### **Software Development and support services**

Revenue from software development and support services comprises income from time-and-material and fixed price contracts. Revenue with respect to time-and-material contracts is recognized as related services are performed. Revenue from fixed-price contracts is recognized in accordance with the percentage of completion method. Provision for estimated losses on incomplete contract is recorded in the period in which such losses become probable based on the current contract estimates.

Revenue in excess of billings represent earnings on ongoing fixed price and time and material contracts over amounts invoiced to customers.

Billings in excess of revenue represent amounts received in advance in case of ongoing fixed price contracts wherein amounts have been billed in accordance with the billing cycle and efforts would be incurred subsequent to period end.

###### **Product licenses and related revenues**

Revenues from product licenses and related services comprise income under multiple element arrangements recognized as follows:

## POLARIS SOFTWARE LAB LIMITED

Schedules to the Balance Sheet and Profit and Loss Account

### 15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

- ◆ License fees and fees for customization/implementation services are recognized under percentage of completion method. Provision for estimated losses, if any, on incomplete contracts is recorded in the period in which such losses become probable based on current contract estimates
- ◆ Product maintenance revenues are recognised over the period of the maintenance contract.

#### 4. Fixed assets and capital work in progress

Fixed assets are stated at cost, after reducing accumulated depreciation until the date of the balance sheet. Direct costs are capitalized until the assets are ready for use and include borrowing costs related to the acquisition or construction of qualifying assets for the period up to the completion of installation or construction of such assets respectively. Capital work-in-progress includes advances paid to acquire fixed assets and cost of assets not ready for intended use before the balance sheet date.

#### 5. Assets acquired on finance lease

Assets acquired on finance leases are capitalized and a corresponding liability disclosed as lease obligations under "Current Liabilities". Such assets are capitalized at fair values or present value of lease payments, whichever is lower. Rentals paid by the Company are apportioned between the finance charge and as a reduction of the outstanding liability. Finance charge reflects a constant periodic rate of interest on the remaining balance of liability for each period.

In respect of assets acquired on finance lease prior to 1 April 2001, the corresponding lease rentals are expensed to the Profit and Loss account.

#### 6. Depreciation

Depreciation on fixed assets is provided pro-rata to the period of use, using the straight-line method based on rates specified in Schedule XIV to the Act or on estimated useful lives of assets, whichever is higher. Individual assets costing less than Rs 5,000 are depreciated in full in the year of purchase.

The estimated useful lives considered for depreciation of fixed assets are as follows:

Asset category	Estimated Useful Life(years)
<b>Tangible assets</b>	
Buildings	29
Leasehold improvements	10
Plant and machinery	6-7
Computer equipment and Software	3
Servers and computer accessories	5
Electrical fittings, office equipment and furniture and fixtures	10
Vehicles	6

## POLARIS SOFTWARE LAB LIMITED

Schedules to the Balance Sheet and Profit and Loss Account

### 15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

<b>Intangible assets</b>	
Software Products ( indigenously developed)	5
Intellectual property rights	1

In respect of assets acquired on finance lease after 1 April 2001, the leased assets are depreciated over the period of the lease.

### 7. Research and development expenses for software products

#### Expenditure

Software product development costs are expensed as incurred until technological feasibility is established. Software development costs incurred subsequent to the achievement of technological feasibility are capitalised and amortised over estimated useful life of the products. This capitalisation is done only if the Company has the intention and ability to complete the product, the product is likely to generate future economic benefits, adequate resources to complete the product are available to the Company and the Company is able to accurately measure such expense.

Such software development costs comprise expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to development of the product.

#### Amortization

The amortization of software development costs is allocated on a systematic basis over the best estimate of its useful life after the product is ready for use. The factors considered for identifying the basis include obsolescence, product life cycle and actions of competitors. The products are amortized over a period of five years.

The amortization period and the amortization method is reviewed at each period end. If the expected useful life of the product is shorter from previous estimates, the amortization period is changed accordingly.

### 8. Foreign currency transactions and translations

Transactions in foreign currencies are recorded at a rate that approximates the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the rate of exchange as at the balance sheet date. Exchange differences arising on foreign currency transactions are recognised in the profit and loss account except in respect of liabilities incurred for acquiring fixed assets from a country outside India, in which case such differences are adjusted to the cost of the fixed assets.

The financial statements of a non-integral foreign operation are translated into Indian Rupees as follows:

## POLARIS SOFTWARE LAB LIMITED

Schedules to the Balance Sheet and Profit and Loss Account

### 15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

- (a) Income and expense items are translated at the average exchange rate for the period.
- (b) Assets and liabilities, both monetary and non-monetary, are translated at the closing rate.
- (c) All resulting exchange differences are accumulated in foreign currency translation reserve, which is reflected under reserves and surplus.

### 9. Forward contracts in foreign currencies

The Company uses foreign exchange forward contracts to hedge its exposure to movements in foreign currency rates. The use of these foreign exchange forward contracts reduces the risk or cost to the Company and the Company does not use the foreign exchange forward contracts for trading or speculation purposes. The premium or discount on all such contracts arising at the inception of each contract is amortised as income or expense over the life of the contract. Any profit or loss arising on the cancellation or renewal of forward contracts is recognised as income or as expense for the period.

In relation to the forward contracts entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date, the exchange difference is calculated as the difference between the foreign currency amount of the contract translated at the exchange rate at the reporting date, or the settlement date where the transaction is settled during the reporting period, and the corresponding foreign currency amount translated at the latter of the date of inception of the forward exchange contract and the last reporting date. Such exchange differences are recognised in the profit and loss account in the reporting period in which the exchange rates change.

### 10. Investments

Investments are classified as long term investments and current investments. Long term investments are stated at cost and any decline other than temporary, in the value of such investments is charged to the Profit and Loss account. Current investments are stated at the lower of cost and market value.

### 11. Retirement benefits

#### *Provident Fund*

Employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and the Company make monthly contributions to the Regional Provident Fund equal to a specified percentage of the covered employee's salary. The Company has no further obligations under the plan beyond its monthly contributions.

#### *Gratuity*

The Company provides for gratuity in accordance with the Payment of Gratuity Act, 1972, a defined benefit retirement plan (the Plan) covering all employees.

## **POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

### **15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**

The plan, subject to the provisions of the above Act, provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment.

The Company estimates its liability as of each balance sheet date based on an actuarial valuation and such liability is not funded except in respect of certain employees taken over on merger, where the Company contributes gratuity to a fund maintained by The Life Insurance Corporation of India.

#### *Superannuation*

The Company contributes a specified percentage of the eligible employees' basic salary towards superannuation (the plan) to a fund managed by The Life Insurance Corporation of India. A trust has been created and approved by the Income-tax authorities for this purpose. This plan provides for various options for payment of pension at retirement or termination of employment as per the trust rules. The Company has no further obligations under the plan beyond its annual contribution.

#### *Leave Encashment*

As per the employment policy of the Company, employees are required to avail their annual leave by the end of the respective financial year and leave is not allowed to be encashed.

### **12. Income taxes and Deferred Tax**

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company. The current tax provision and advance income tax as at balance sheet date have been arrived at after setting off advance tax and current tax provision where the Company has 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.

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to timing differences that result between the profit offered for income taxes and the profit as per the financial statements. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the period that includes the enactment date.

Deferred tax assets in respect of losses carried forward and unabsorbed depreciation are recognised only to the extent that there is virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Other deferred tax assets are recognised only if there is a

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

**15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**

reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised and are reassessed for the appropriateness of their respective carrying values at each balance sheet date

**13. Stock based Compensation**

In accordance with the Employee Stock Option Scheme and Employee Stock Purchase Scheme Guidelines, 1999 issued by the Securities and Exchange Board of India ("SEBI"), the 'Option Discount' has been amortised on a straight-line basis over the vesting period of the shares to be issued under Stock Option Plans and disclosed as 'employee stock compensation expense' in the Profit and Loss Account.

'Option Discount' means the excess of the market price / fair value of the underlying shares at the date of grant of the options over the exercise price of the options.

**14. Earnings per share**

The basic earnings per share is computed by dividing the net profit attributable to equity shareholders for the period by the weighted average number of equity shares outstanding during the period. The number of shares used in computing diluted earnings per share comprises the weighted average shares considered for deriving basic earnings per share and also the weighted average number of equity shares which would have been issued on the conversion of all dilutive potential equity shares. Dilutive potential equity shares are deemed converted as at the beginning of the period, 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 (ie the average market value of the outstanding shares). In computing dilutive earnings per share, only potential equity shares that are dilutive and that either reduce earnings per share or increase loss per share are included.

**15. Change in accounting policy**

Accounting Standard 11, 'The effect of changes in foreign exchange rates' was revised with effect from 1 April 2004 and prescribes classification of foreign operations and the applicable translation procedures. The Company has adopted the revised accounting standard effective 1 April 2004 and has classified foreign branch as a non-integral foreign operation. Consequent to the change in the accounting policy, the profits for the year is higher by Rs 55.5 Lacs.

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

**15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**

**B. NOTES TO ACCOUNTS**

- All amounts in the financial statements are presented in Rupees Lacs, except for per share data and as otherwise stated.
- Earnings in foreign currency**

Particulars	Year ended 31 March 2005	Year ended 31 March 2004
Income from software development services and products	58,182.71	51,178.46

- Expenditure in foreign currency**

Particulars	Year ended 31 March 2005	Year ended 31 March 2004
Travel expenses	3,347.94	4,967.99
Professional charges	306.28	522.91
Other expenditure incurred overseas for software development	23,180.98	15,802.96
Others	462.00	-

- CIF Value of Imports**

Particulars	Year ended 31 March 2005	Year ended 31 March 2004
Capital goods	1,502.73	632.16

- Capital and other commitments**

The estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) as at 31 March 2005 is Rs 1,891.66 (2004: Rs 636.45).

As at 31 March 2005, the Company has outstanding guarantees and counter guarantees of Rs 249.57 (2004: Rs 276.79) issued to various banks, in respect of guarantees given by the banks in favour of various government authorities.

The future obligation for vehicles taken on lease is given below.

Particulars	As at 31 March 2005	As at 31 March 2004
Not later than one year	191.06	243.43
Later than one year and not later than 5 years	86.94	265.91
	278.00	509.34
Less: Amount representing future interest	(33.32)	(84.10)
Present Value of minimum lease rentals	<b>244.68</b>	<b>425.24</b>

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

**15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****6. Capitalisation of Product Costs**

As explained in Schedule 15, Note A (7) of Significant Accounting Policies, the Company capitalises software development costs pertaining to the development of the software product. The costs include directly attributable costs and other costs allocated on a reasonable basis to the product. The Company has during the year established commercial acceptability of the Intellect suite of software products and accordingly capitalised the software product by December 2004.

The details of the costs considered for capitalisation during the year are detailed below.

<b>Particulars</b>	<b>Year ended 31 March 2005</b>	<b>Year ended 31 March 2004</b>
Salaries and wages	1,155.43	1,894.20
License fees	-	12.10
Premises costs	66.92	101.33
Power and fuel	53.79	69.83
Communication	72.89	94.18
Repairs and maintenance	55.93	63.71
Depreciation	170.87	233.10
	<b>1,575.83</b>	<b>2,468.45</b>

**7. Quantitative details**

The Company is engaged in the development of computer software. The production and sale of such software cannot be expressed in any generic unit. Hence, it is not possible to give the quantitative details of sales and the information as required under paragraphs 3, 4C and 4D of part II of Schedule VI to the Companies Act, 1956.

**8. Managerial remuneration**

<b>Particulars</b>	<b>Year ended 31 March 2005</b>	<b>Year ended 31 March 2004</b>
<b><u>Chairman and Managing Director</u></b>		
Salary and perquisites	24.51	25.33
Contribution to provident and other funds	1.84	1.84
<b><u>Executive Directors and Other Directors</u></b>		
Salaries and perquisites	244.86	189.26
Contribution to provident and other funds	15.87	10.76
Sitting fees	3.10	3.30
<b>Total</b>	<b>290.18</b>	<b>230.49</b>

The Chairman and Managing Director and Executive Directors are covered under the Company's gratuity policy along with the other employees of the Company. Proportionate amount of gratuity is not included in the disclosure above. However actual payments, if any, made on their resignation / retirement is considered.

## POLARIS SOFTWARE LAB LIMITED

Schedules to the Balance Sheet and Profit and Loss Account

### 15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

Salaries and perquisites to Executive Directors and Other Directors include commission of Rs 18 payable to Non-Executive Directors. This Commission is being paid as per the special resolution passed by the shareholders of the Company at the Annual General Meeting held on 29 July 2004.

During the current year, the Company issued Nil stock options (2004: 20,000 stock options) under the ASOP 2000 plan, Nil stock options (2004:50,000 stock options) under the ASOP 2001 plan and 25,000 stock options (2004: Nil) under the ASOP 2003 plan to certain Directors. No compensation cost arises as a result of these options, as these were issued at prevailing market prices.

The Company has made a provision towards consideration in connection with retirement from office of a Director amounting to Rs 50 (2004: Nil).

#### 9. Auditors' remuneration

Particulars	Year ended 31 March 2005	Year ended 31 March 2004
Statutory audit fees	22.00	22.00
Taxation matters	1.65	6.25
Other services	-	1.81
Out of pocket expenses	0.96	0.97
<b>Total</b>	<b>24.61</b>	<b>31.03</b>

#### 10. Stock option plans

The Company has three stock option plans that provide for the granting of stock options to employees including Directors of the Company (not being promoter Directors and not holding more than 10% of the equity shares of the Company). The objectives of these plans include attracting and retaining the best personnel, providing for additional performance incentives and promoting the success of the Company by providing employees the opportunity to acquire equity shares.

The option plans are summarized below;

##### Associate Stock Option Plan 2000

On 9 March 2000, the Company's shareholders approved in the Extraordinary General Meeting (EGM) an Associated Stock Option Plan ("the 2000 Plan"). The 2000 Plan provides for issuance of 938,400 equity shares of Rs 5 each to the employees including Directors. Employee Compensation Committee administers the 2000 Plan. Under the Plan, based on the recommendation of Employee Compensation Committee, the options were granted at a discount not exceeding 25% of the market price of shares on the date of grant. The option vests over a period of five years from the grant date.

Subsequently, the shareholders of the Company approved the following modifications to the 2000 Plan:

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

**15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**

- ◆ At the EGM held on 7 March 2001, the Plan was modified to permit cancellation/ accept surrender of options; and
- ◆ At the Annual General Meeting held on 6 September 2002, the exercise price of the options to be granted will be the market price of the shares on the date of the grant.

A summary of the status of the 2000 Plan at 31 March 2005 is presented below.

<b>Number of options granted, exercised, cancelled / surrendered and forfeited</b>	<b>Year ended 31 March 2005</b>	<b>Year ended 31 March 2004</b>
Options outstanding at the beginning of the year	1,091,255	1,190,265
Granted during the year	-	113,000
Exercised during the year	(97,200)	(85,700)
Forfeited /Surrendered during the year	(245,545)	(126,310)
Outstanding at the end of the year	<b>748,510</b>	<b>1,091,255</b>

**Associate Stock Option Plan 2001**

The Shareholders of the Company in the Extraordinary General Meeting (EGM) held on 7 March 2001 approved an Associate Stock Option Plan (the 2001 Plan). The 2001 Plan provides for issuance of 1,194,000 equity shares of Rs 5 each to the employees including Directors at the closing market price of shares on the date of grant. The option vests over a period of five years from the grant date.

A summary of the status of the 2001 plan at 31 March 2005 is presented below.

<b>Number of options granted, exercised, cancelled / surrendered and forfeited</b>	<b>Year ended 31 March 2005</b>	<b>Year ended 31 March 2004</b>
Options outstanding at the beginning of the year	1,037,122	1,438,440
Granted during the year	-	50,000
Exercised during the year	(224,995)	(268,268)
Forfeited/surrendered during the year	(204,237)	(183,050)
Outstanding at the end of the year	<b>607,890</b>	<b>1,037,122</b>

During the year ended 31 March 2002, the Company announced and allotted bonus shares by capitalising a part of share premium account in the ratio of 1 equity share for every 2 shares held on the record date. The Associate Stock Option Schemes (ASOP) mentioned above provide power to the compensation committee for suitable adjustments to the quantum and price of ASOPs in case of corporate actions such as stock split, bonus etc. The holders of options granted prior to issuance of bonus shares by the Company are entitled to receive

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

**15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**

additional options in the ratio of one additional option for every two options held.

At the Ninth Annual General Meeting held on 6 September 2002, a special resolution was passed, effective 7 March 2001, wherein the total number of options to be granted under the 2000 Plan and 2001 Plan along with options already granted by the Company and outstanding under the schemes shall not at any time exceed 6.25 % (2.75 % under 2000 Plan and 3.5% under the 2001 Plan) of the total shares issued by the Company on the date (s) of grant of such options.

**Associate Stock Option Plan 2003**

The Shareholders of the Company in the EGM held on the 12 March 2004 approved an Associate Stock Option Plan (the 2003 Plan). The 2003 Plan provides for issuance of 3,895,500 equity shares of Rs 5 each to the employees including Directors at the market price of the shares on the date of grant. The market price under the 2003 Plan scheme prior to the revised SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999 (amended upto July 22, 2004), was the average of the two weeks high and low price of the share preceding the date of grant of option on the stock exchange, where the highest trading volumes are recorded during the aforesaid period. Consequent to the the revised SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999, (amended upto July 22, 2004), the market price under the 2003 Plan scheme is the latest available closing price prior to the date of the meeting of the Board of Directors in which options are granted/shares are issued, on the stock exchange on which the shares of the Company are listed and, where there is highest trading volume on the said date. The option vests over a period of five years from the grant date.

A summary of the status of the 2003 plan at 31 March 2005 is presented below.

<b>Number of options granted, exercised, cancelled / surrendered and forfeited</b>	<b>Year ended 31 March 2005</b>	<b>Year ended 31 March 2004</b>
Options outstanding at the beginning of the year	-	-
Granted during the year	2,569,250	-
Exercised during the year	-	-
Forfeited /Surrendered during the year	(390,300)	-
Outstanding at the end of the year	<b>2,178,950</b>	-

**11. Segment reporting**

The Company's operations predominantly relate to providing IT services to customers operating in various industry segments globally. Accordingly, IT service revenues represented along industry classes comprise the primary basis of segmental information set out in these financial statements. Secondary segmental reporting

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

**15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**

is based on the geographical location of customers.

The accounting policies consistently used in the preparation of the financial statements are also applied to record revenue and expenditure in individual segments.

Business (primary) segments of the Company are:

- a) Banking and financial services; and
- b) Emerging verticals.

Revenue and direct expenses in relation to segments are categorised based on items that are individually identifiable to that segment, while other costs, wherever allocable, are apportioned to the segments on an appropriate basis. Certain expenses are not specifically allocable to individual segments as the underlying services are used interchangeably. The Company believes that it is not practicable to provide segment disclosures relating to such expenses, and accordingly such expenses are separately disclosed as 'unallocated' and directly charged against total income.

Fixed assets used in the Company's business or liabilities contracted have not been identified to any of the reportable segments, as the fixed assets and services are used interchangeably between segments. The Company believes that it is currently not practicable to provide segment disclosures relating to total assets and liabilities since a meaningful segregation of the available data is onerous.

Customer relationships are driven based on the location of the respective client. The geographical segments comprises:

- a) United States of America;
- b) Europe;
- c) Asia Pacific; and
- d) India and Middle East.

**Primary segment information**

<b>Particulars</b>	<b>Year ended 31 March 2005</b>	<b>Year ended 31 March 2004</b>
<b><u>Segment revenues</u></b>		
Banking and financial services	59,840.71	50,189.62
Emerging verticals	7,055.87	7,658.96
	<b>66,896.58</b>	<b>57,848.58</b>
<b><u>Segment Profit before Finance charges and Tax-</u></b>		
Banking and financial services	17,355.73	13,989.60
Emerging verticals	828.49	505.65
Finance charges	18,184.22	14,495.25
Other unallocable expenditure net of unallocable income	(81.53)	(117.65)
	(12,131.48)	(6,362.30)
<b><i>Profit before taxation</i></b>	<b>5,971.21</b>	<b>8,015.30</b>
Income tax and Deferred Tax	(628.36)	(1,245.62)
<b><i>Profit after taxation</i></b>	<b>5,342.85</b>	<b>6,769.68</b>

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

**15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**

**Secondary segment information**

<b>Region</b>	<b>Year ended 31 March 2005</b>	<b>Year ended 31 March 2004</b>
<i>Segment revenues</i>		
United States of America	33,822.45	28,355.19
Europe	11,186.52	14,346.22
Asia Pacific	10,513.55	8,368.98
India and Middle East	11,374.06	6,778.19
	66,896.58	57,848.58

Revenues by geographic area are based on the geographic location of the customer.

**12. Earnings per Share ("EPS")**

Reconciliation of basic and diluted shares used in computing EPS:

<b>Particulars</b>	<b>Year ended 31 March 2005</b>	<b>Year ended 31 March 2004</b>
Weighted average number of equity shares outstanding during the year-Basic	97,833,640	97,460,457
<i>Add:</i> Effect of dilutive issue of stock options to be converted	512,844	1,008,846
Weighted average number of equity shares outstanding during the year-Diluted	98,346,484	98,469,303

In computing the diluted EPS, only potential equity shares that are dilutive and that either reduce earning per equity share or increase Loss per equity share are included.

**13. Dividend remitted in foreign currency**

<b>Particulars</b>	<b>Year ended 31 March 2005</b>	<b>Year ended 31 March 2004</b>
Number of non-resident shareholders	436	377
Number of shares on which dividend was remitted	6,198,793	3,711,907
Dividend remittance during the year		
-for the year ended 31 March 2003	-	64.96
-for the year ended 31 March 2004	93.26	-

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

**15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****14. Related party transactions**

Following are the related parties where control exists:

<b><u>Subsidiaries</u></b>	
Polaris Software Lab Pte Limited, Singapore ('PSL Singapore')	Polaris Software Lab Pty Ltd, Australia ('PSL Australia')
Polaris Software Lab Inc, Canada	Polaris Software Lab Ireland Ltd., Ireland
Polaris Software Lab Limited, UK ('PSL UK')	Polaris Software Lab Japan KK ('PSL Japan')
Polaris Software Lab GmbH, Germany ('PSL Germany')	Polaris Retail Infotech Limited, India
Polaris Software Lab SA, Switzerland	Optimus Outsourcing Company Limited, India ('Optimus')

<b><u>Associates</u></b>	
Eternet Inc.	
NMS Works Software Limited ('NMS')	Orbitech Employees Welfare Trust ('Orbitech trust')
AIG Systems Solutions Private Limited ('AIGSS')	Adrenalin eSystems Limited (formerly known as Empower Works Limited) (Adrenalin eSystems)

<b><u>Others</u></b>	
(a) (enterprises that directly, or indirectly through one or more intermediaries, control the Company and enterprise of which the Company is an associate)	
Citi Bank and its branches	Orbitech Limited
Polaris Holdings Private Limited	
(b) (enterprises that have a member of Key Management in common with that of the Company)	
Ullas Trust	

<b><u>Key management personnel</u></b>	
Mr. Arun Jain, Chairman and Managing Director	Mr. Ram Bhagwat, Executive Director
Mr. Govind Singhal, Executive Director	(Up to 31 December 2004)

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

**15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**

**14 Related party transactions (Continued)**

Figures in brackets denote previous year figures

PARTICULARS	SUBSIDIARIES					ASSOCIATES					OTHERS		
	Optimus* Australia	PSL Germany	PSL Japan*	PSL Singapore*	PSL UK	Others	Adrenalin eSystems*	NMS*	AUGSS	Obitech trust		Others	
<b>Balances due to / from related parties</b>													
Receivables - trade debts	65.50 (-)	200.13 (-)	404.17 (53.41)	268.41 (483.67)	305.59 (282.38)	1,235.75 (490.64)	60.99 (-)	19.46 (-)	- (-)	- (-)	- (-)	7,889.76 (11,388.57)	
Receivables - loans and advances	- (38.02)	- (267.47)	- (29.19)	- (119.98)	- (1,621.72)	- (-)	2.98 (-)	- (7.05)	- (13.75)	- (-)	926.65 (1,095.24)	- (-)	2,056.61 (1,832.59)
Advance towards share capital	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	150.00 (-)	35.00 (-)	- (-)	- (-)	- (-)	- (-)
Payables	- (-)	5.62 (3.69)	45.90 (-)	38.98 (33.00)	- (-)	279.89 (381.44)	9.17 (34.20)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)
Investments	1,699.99 (499.99)	8.11 (8.11)	261.99 (261.99)	79.04 (79.04)	94.60 (94.60)	617.50 (617.50)	1,211.10 (1,101.72)	733.88 (589.88)	400.00 (400.00)	326.70 (-)	- (-)	- (-)	- (-)
<b>Related party transactions</b>													
Advances given	- (700.00)	-1.92 (4.79)	22.46 (20.76)	-50.34 (187.81)	83.38 (7.57)	-49.69 (5.19)	-0.79 (-)	- (230.51)	- (-)	- (-)	- (-)	- (-)	- (-)
Payments received against loan	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	1,685.59 (-)	- (-)	- (-)	- (-)
Software development service income	- (-)	560.18 (579.58)	605.31 (-)	1,327.57 (880.40)	1,902.45 (1,183.63)	4,012.84 (1,113.68)	- (-)	- (-)	- (-)	421.74 (-)	- (-)	- (-)	41,641.31 (55,470.03)
Software development expenses	- (-)	223.52 (64.55)	- (-)	- (-)	- (-)	1,783.85 (862.90)	75.39 (-)	- (30.22)	- (-)	- (-)	- (-)	- (-)	- (-)

### 14 Related party transactions (Continued) Figures in brackets denote previous year figures

PARTICULARS	SUBSIDIARIES						ASSOCIATES					OTHERS	
	Optimus* Australia	PSL Germany	PSL Japan*	PSL Singapore*	PSL UK	Others	Adrenalin eSystems*	NMS*	AISSG	Obitech trust	Others		
Reimbursement of expenses to the Company	29.93 (-)	- (9.51)	6.85 (8.03)	300.70 (188.03)	154.41 (404.08)	52.70 (49.23)	21.93 (-)	9.46 (-)	- (-)	92.61 (-)	- (-)	- (-)	26.64 (84.17)
Reimbursement of expenses by the Company	257.02 (223.20)	- (-)	250.43 (555.51)	233.86 (-)	- (66.66)	1,957.75 (1,506.00)	53.46 (0.15)	- (-)	- (-)	- (-)	- (-)	- (-)	115.28 (102.58)
Lease Payments	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	117.80 (117.80)
Investments	1,200.00 (295.00)	- (-)	- (-)	- (-)	- (-)	- (-)	109.38 (527.76)	144.00 (289.88)	- (43.00)	326.70 (-)	- (-)	- (-)	- (-)
Advance towards share capital	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	150.00 (-)	35.00 (-)	- (-)	- (-)	- (-)	- (-)
Donations	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	19.43 (18.26)
Provision for investments	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (407)
<b>Maximum balance outstanding</b>													
<b>DURING THE YEAR</b>													
Receivables - trade debts	27.49 (-)	301.02 (78.12)	433.69 (53.41)	785.83 (483.68)	698.61 (282.38)	1,495.85 (490.64)	47.01 (26.15)	19.46 (-)	- (-)	68.98 (-)	- (-)	- (-)	9,441.94 (13,993.00)
Receivables - loans and advances	(564.64)	(267.47)	(294.45) (125.72)	13.67 (119.98)	1,346.52 (1,621.72)	93.93 (179.88)	2.98 (353.69)	(1,250.00)	(70.99)	- (-)	1,095.24 (-)	- (-)	- (-)
Advances towards share capital	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	150.00 (-)	35.00 (-)	- (-)	- (-)	- (-)	- (-)
Payables	- (-)	5.97 (8.03)	45.90 (-)	138.99 (33.00)	- (-)	- (381.44)	12.62 (34.20)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)

\* Companies in which directors are interested

Details of remuneration and other amounts paid/payable to directors are given in note B(8) of schedule 15  
Amount received under pre-merger contingencies are given in note B(18) of schedule 15.

## POLARIS SOFTWARE LAB LIMITED

Schedules to the Balance Sheet and Profit and Loss Account

### 15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS(Contd.)

#### 15. Investments in subsidiaries and associates

a)The movement during the year comprises of the following:

- ◆ Subscribed additionally for 1,440,000 equity shares of Rs.5 each at a premium of Rs.5 Per share amounting to Rs.144.00 during the year in Adrenalin eSystems Limited (formerly known as Empower Works Limited);
- ◆ Subscribed additionally for 60,000,000 equity shares of Rs.2 each amounting to Rs.1,200.00 during the year in Optimus Outsourcing Company Limited.
- ◆ Subscribed for 296,350 ordinary shares of Canada \$ 1 each amounting to Rs.109.38 during the year in Polaris Software Lab Canada Inc; and
- ◆ Subscribed additionally for 462,099 equity shares of Rs.10 each at a premium of Rs.60.70 Per share amounting to Rs.326.70 during the year in AIG Systems Solutions Private Limited.

b)The subsidiaries of the Company were incorporated to provide software development services, business processing outsourcing services and to promote Company's software products and work on the business development efforts in the regions where the subsidiaries are located. The details of the accumulated Losses as per the audited financial statements of the loss making subsidiaries as at 31 March 2005 are given below.

Subsidiary	Accumulated Loss as at 31 March 2005
Polaris Software Lab Canada Inc	55.38
Optimus Outsourcing Company Limited	1,123.64

Accumulated losses of the subsidiaries are on account of initial / start-up stage of operations and subsidiaries are expected to earn profits in the future. Accordingly, management believes that there is no permanent diminution in the value of its investments in the subsidiaries and hence it is stated at cost.

c)The Company's equity ownership interest in Adrenalin eSystems Limited (formerly known as Empower Works Limited) has reduced from 49% as at 31 March 2004 to 46.59% as on 31 March 2005. Adrenalin eSystems Limited is primarily engaged in the business of providing specific solutions relating to Human Relations suite of software solutions and products. The accumulated losses to the extent of Rs.1,173.30 as per the unaudited financial statements as on 31 March 2005 are on account of initial / start-up stage of operations and the Company is expected to generate Profits in the future. Accordingly, management believes that there is no permanent diminution in the value of its investments in Adrenalin eSystems Limited and hence it is stated at cost

d)The Company's equity ownership interest in NMS Works Software Limited is 44.96% as on 31 March 2005. NMS Works Software Limited is primarily engaged

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

**15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**

in the business of designing network management in Telecommunication and Internet Services. The accumulated losses to the extent of Rs 230.40 as per the unaudited financial statements as on 31 March 2005 are on account of initial / start-up stage of operations and the Company is expected to generate Profits in the future. Accordingly, management believes that there is no permanent diminution in the value of its investments in NMS Works Software Limited and hence it is stated at cost.

16. The following are the aggregate amounts incurred on certain specific expenses that are required to be disclosed under Schedule VI to the Companies Act, 1956.

<b>Particulars</b>	<b>Year ended 31 March 2005</b>	<b>Year ended 31 March 2004</b>
Salaries and bonus including overseas staff expenses	41,679.61	31,104.64
Contribution to provident and other funds	1,210.86	1,166.76
<b>Total</b>	<b>42,890.47</b>	<b>32,271.40</b>

**17. Litigation, claims and Contingencies****Data Inc.**

Arun Verma and Data Inc. (the plaintiffs) have filed a complaint against the Company in a US Court for damages towards breach of contract and fraud, for non-acquisition of Data Inc. On 27 November 2001, the Court granted the Company motion and dismissed all claims of the plaintiff except their breach of contract claim for liquidated damages under the terms of MOU and limited the extent of claim by the plaintiff to US \$ 100,000. Data Inc. has appealed against the trial court order dated 27 November 2001. During the previous year, the parties entered into an agreement to dismiss all remaining claims subject to re-asserting all their claims that existed before November 27, 2001 under certain conditions. On 9 September 2003 the court of appeals referred the matter to the appellate mediator for a settlement prior to the court rendering a decision. However the mediation proved to be unsuccessful and the matter was referred back to the court in December 2003. The court of appeals after obtaining supplemental briefing from the parties dismissed the appeal on 20 April 2004 and remanded the matter to the District Court. During the year under review the District Court appointed a retired Judge as a mediator to resolve the matter amicably. The mediation proceedings are continuing. The Company is vigorously contesting the case and continues to believe that allegations of Data Inc. are without merit and have been proved by various orders of the Court so far.

**Suit filed by ex-employees**

Two former employees of the Company have instituted a suit in Mumbai for wrongful termination of their services and publication of defamatory material. Since the case is in the preliminary stage, it is not possible for the Company to predict the outcome of the case. The Company believes that the allegations are

**POLARIS SOFTWARE LAB LIMITED**

Schedules to the Balance Sheet and Profit and Loss Account

**15. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**

without merit and is vigorously contesting the case. Pending the outcome of the case, the management is not able to estimate the financial effect of the contingency. However, the management believes that the claim can be successfully resisted by the Company.

**Bank Artha Graha**

Due to a commercial dispute, Bank Artha Graha (BAG), Indonesia, had not paid the monies due to the Company under a contract and terminated the contract prematurely in November 2002. This dispute was under arbitration at Singapore's International Arbitration Centre (SIAC).

During the year, the Company entered into a settlement with Bank Artha Graha and agreed to make full restitution to Bank Artha Graha of the sum of US\$ 1,000,000 (Rs 462) received under the Licence Agreement. The above said amount was paid to Bank Artha Graha and the charge to the profit and loss account has been included under Miscellaneous expenses (refer Selling, administration and other general expenses - schedule 13).

**Income-tax matters**

The Company received two orders in the month of March 2005 from the Deputy Commissioner of Income Tax and Additional Commissioner of Income Tax, Chennai for the assessment years 2001-02 and 2002-03 respectively wherein mainly certain expenditure incurred in foreign currency were excluded from the export turnover for determining allowable deduction u/s 10A of the Income Tax Act. Consequently a demand, inclusive of interest, of Rs.1,803.45 was raised on the Company. The Company has subsequent to the balance sheet date filed a stay petition against the demand notices received from the Income Tax Department. Considering the facts and nature of disallowances, the Company believes that the final outcome of the disputes will be in its favour and will not have any material impact on the financial statements.

**Others**

The Company is also involved in other law suits, and claims which arise in the ordinary course of business. However, there are no such matters pending that the Company expects to be material in relation to its business.

- 18 Miscellaneous income (under Other income (schedule 11)) includes Rs 750 received during the year from Orbitech Limited, the erstwhile shareholder of Orbitech Solutions Limited (which has been amalgamated with Polaris Software Lab Limited on 1 November 2002) towards the pre merger contingencies and/ or any merger related matters.
19. As at 31 March 2005, the Company had no outstanding dues to small-scale industrial undertakings (SSI) (2004: Rs Nil). The list of SSI undertakings was determined by the Company on the basis of information available with the Company.
20. Previous year figures have been regrouped / reclassified, wherever necessary, to conform to the current year presentation.

**POLARIS SOFTWARE LAB LIMITED**  
**Balance Sheet Abstract And Company's General Profile**

<b>I. Registration Details</b>			
Registration No	18-24142	State Code	18
Balance Sheet	31.03.2005		
<b>II. Capital Raised during the Year</b>			
Public issue	Nil	Rights Issue	Nil
Bonus Issue	Nil	Private Placement	Nil
<b>III. Position of Mobilisation and deployment of funds (Amount in Thousands)</b>			
Total Liabilities	52,976.74	Total Assets	52,976.74
<b>Source of funds</b>			
Paid up Capital	4,900.51	Reserves & Surplus	48,035.08
Secured Loans	-	Deferred Tax Liability	41.15
<b>Application of funds</b>			
Net fixed assets	20,544.88	Investments	11,069.07
Net Current Assets	21,362.79	Misc Expenditure	-
<b>IV. Performance of the Company (Amount in thousands)</b>			
Total Turnover	66,896.58	Total expenditure	60,925.37
Profit before tax	5,971.21	Profit after tax	5,342.85
Earning per share in Rs	5.46	Dividend Rate	35%
<b>V. Generic names of three principal products/services of Company (as per monetary terms)</b>			
Item Code No (ITC Code)	Not Applicable		
Product description	Computer Software		
<b>Arun Jain</b>		<b>Govind Singhal</b>	
Chairman & Managing Director		Executive Director	
<b>Arvind Kumar</b>	<b>Satya Pal</b>	<b>R C Bhargava</b>	
Director	Director	Director	
<b>V Balaraman</b>	<b>Ashok Jhunjunwala</b>	<b>Abhay Agarwal</b>	
Director	Director	Director	
<b>Ajit Bhushan</b>	<b>Anil Sachdev</b>	<b>Anil Khanna</b>	
Director	Director	Director	
<b>Nanoo G Pamnanai</b>	<b>Prabal Basu Roy</b>	<b>Anubhav Kapoor</b>	
Director	Group CFO & Executive Vice President	Company Secretary	
Chennai 27 Apr 2005			













**POLARIS SOFTWARE LAB LIMITED****STATEMENT PURSUANT TO MINISTRY OF COMPANY AFFAIRS  
EXEMPTION APPROVAL U/S 212 OF THE COMPANIES ACT, 1956  
DATED 01.04.2005**

1. Name of subsidiary Polaris Software Lab Ireland Ltd,  
Ireland
2. Financial year ended March 31 2005
3. Holding Company's interest 100%
4. Shares held by the holding company 176,186 Shares @ Euro 1/- each  
in the Subsidiary's common stock
5. Details pertaining to the subsidiary for the year ended 31<sup>st</sup> March 2005 are given below

		<b>Euro</b>	<b>Rs. In Lakhs</b>
a)	Capital	176,186	99.65
b)	Reserves	(12,935)	(7.32)
c)	Total Assets	404,690	228.89
d)	Total Liabilities	241,439	136.56
e)	Details of Investment	Nil	Nil
f)	Turnover	467,273	264.29
g)	Profit Before Taxation	101,697	57.52
h)	Provision for Taxation	13	735.28
I)	Profit After Taxation	101,684	57.51
j)	Proposed Dividend	Nil	Nil

**Note:**

The Rupee Equivalent of Euro has been arrived at by converting it at the closing rate of 1 Euro = Rs. 56.56 as on 31<sup>st</sup> March 2005.



**POLARIS SOFTWARE LAB LIMITED****STATEMENT PURSUANT TO MINISTRY OF COMPANY AFFAIRS  
EXEMPTION APPROVAL U/S 212 OF THE COMPANIES ACT, 1956  
DATED 01.04.2005**

1. Name of subsidiary Polaris Software Lab Japan K.K,  
Japan
2. Financial year ended March 31 2005
3. Holding Company's interest 100%
4. Shares held by the holding company 400 Shares @ JPY 50,000/- each  
in the Subsidiary's common stock
5. Details pertaining to the subsidiary for the year ended 31<sup>st</sup> March 2005 are given below

		<b>JPY</b>	<b>Rs.in Lakhs</b>
a)	Capital	20,000,000	8.15
b)	Reserves	29,704,478	120.98
c)	Total Assets	184,681,543	752.21
d)	Total Liabilities	134,977,065	549.76
e)	Details of Investment	Nil	Nil
f)	Turnover	615,252,073	2,505.92
g)	Profit Before Taxation	43,589,623	177.54
h)	Provision for Taxation	18,676,010	76.07
I)	Profit After Taxation	24,913,613	101.47
j)	Proposed Dividend	Nil	Nil

**Note:**

The Rupee Equivalent of Japanese Yen (JPY) has been arrived at by converting it at the closing rate of 1 JPY = Rs. 0.4073 as on 31<sup>st</sup> March 2005.



## **MANAGEMENT DISCUSSION & ANALYSIS**

Forming part of the Financial Statements for the year ended 31 March 2005

## History and Evolution of the Company

- ◆ Polaris is among India's leading software solution providers', specializing in providing quality and customized information technology (IT) solutions to several multinational clients in the Banking, Financial Services and Insurance (BFSI) segment.
- ◆ Polaris Software Lab Ltd. was incorporated in 1993 as a Private Limited Company in Chennai, and was subsequently converted to a Public Limited Company in June 1996. The Company's Registered Office is at Polaris House, No. 244, Anna Salai, Chennai – 600 006 and the telephone number of the office is +91-44-2852-4154.
- ◆ In August 1999, Polaris went in for an Initial Public Offering (IPO). The Company is today listed on the National Stock Exchange (NSE), the Bombay Stock Exchange (BSE), and the Madras Stock Exchange (MSE). Polaris enjoys an "A" group listing on the BSE and is among the stocks that determine the BSE Tech Index movement, a premium rating of technology stocks. The scrip is also part of the Junior Nifty Index.
- ◆ Polaris launched a Business Continuity Center (BCC), Singapore in August 2002, as part of its ongoing global growth strategy to ensure the continuity of services and solutions, across various customer engagements throughout the world. The launch of the BCC enhances Polaris' global prospects, especially in the wake of the heightened need for more stringent and detailed business continuity processes, and simultaneously ensures that the organization is continuously available to customers and other stakeholders.
- ◆ In October 2002, Polaris Software Lab Ltd. announced the inking of the final agreement through which OrbiTech Solutions Limited, a 93.25% technology subsidiary of the Citigroup, was merged with itself to form one of the largest and most comprehensive solution providers in the global BFSI (Banking, Financial Services and Insurance) market.
- ◆ In May 2004, Polaris Software launched the "*Intellect Suite*" – a modern enterprise platform for financial services institutions. The "*Intellect Suite*" is the new global version of Polaris' highly successful 'OrbiOne Suite' of banking products.
- ◆ Headquartered in Chennai - India, Polaris operates across the globe, with twelve development centers in India, and offices in Chennai, Mumbai, Bangalore, Hyderabad, London, New Delhi, Dubai and four more in the US. Polaris also has wholly owned subsidiaries in India, Singapore, UK, Germany, Switzerland, Australia, Ireland, Canada and Japan.
- ◆ OPTIMUS, the wholly-owned Business Process Outsourcing subsidiary of Polaris, launched "OPTIMUM" a pioneering, comprehensive Business Infrastructure Solution, to support the credit card market. This is a first in the Indian market.
- ◆ In the third quarter of the financial year ended 31 March 2005, Polaris started its operations through a wholly owned subsidiary in Canada with the opening of an office in Ottawa, Ontario.

## **Industry**

It is predicted by Industry analysts that the year ahead promises opportunities for Indian IT organizations catering to the BFSI/FSS sector. There are definite signs of thawing in the IT spending freeze of the past few years. Forrester, in a survey of North American business executives and IT managers, found that a majority of financial services firms expect to increase IT spending in the year 2005. This is the first time in 3 years that IT spending is actually expected to increase.

*The financial services industry will offer pockets of relatively strong growth as they address some interesting special challenges of their own.*

## **Cost Reduction Spurs Move to Software As A Service (SAAS)**

Gartner analysts see software and services converging in a war of survival.

By 2010, Gartner predicts that 30 percent of new software will be delivered via the SAAS model. By then, the research firm asserts that five of the top 10 application suppliers will be external service providers that leverage SAAS models to deliver industry-specific service-oriented business architectures.

This change is expected to result in an industry upheaval as less than one-third of ISVs make a successful transition to an SAAS model and ISVs that leverage SAAS models gain market share over vendors that don't.

## **The Impact of Web Services Continues to Grow**

Gartner predicts that the impact of web services will continue to grow. By 2006, 45 percent of U.S. companies will be using some form of IT utility enabled by web services and by 2007 web services will enable the emerging real-time infrastructure capabilities underlying 80 percent of the hybrid IT utilities deployed by U.S. companies. Gartner expects that standardization in service-powered portals and service oriented business applications (SOBAs) will provide the means through which many companies will begin to exploit web services strategically.

## **Financial Services Firms Continue to Invest in IT**

Financial services firms already spend 8.7 percent of revenues on IT, more than any other vertical industry. The financial services marketplace is growing more competitive by the day, as mergers and consolidation force a shrinking number of companies to compete for the same pool of consumers. In this environment, it is imperative that financial services companies look to technology to differentiate themselves from the competition, and Gartner predicts that technology will continue to have an effect on virtually all segments of this market.

Gartner expects financial services companies to expand their pace of spending by utilizing prepaid cards, wireless micro transactions, and business intelligence tools to streamline operations, generate new revenue, serve new markets and comply with regulations.

Banking and nonbanking prepaid card use will increase as new products are developed for medical spending accounts, gift cards, telephone cards, and payroll cards. By 2015 adult consumers worldwide will make an average of at least 20 micro transactions per month, up from less than one per month in 2004. At the same time, Gartner anticipates the rapid pace of change in operational and financial disclosure laws and market rules is stretching firms' ability to comply.

## Offshore IT Services Demand Grows

Gartner forecasts a dramatic increase in global sourcing of IT services, rising from a \$20 billion market in 2004 to about \$50 billion by 2007. The global outsourcing market is also growing as a percentage of the total market, expected to increase to 7 percent in 2005 from just 3 percent the previous year. According to Gartner, the emergence of global sourcing will have a profound impact on the entire IT services market, even though it will continue to represent a small portion of the market.

Global sourcing has proven to be a robust and mature method of IT service delivery, and many Fortune companies will continue to leverage the cost, speed and quality advantages that they receive today. Organizations that have not yet dipped their toes in the water are expected to seriously evaluate whether or not global delivery can deliver the quality and value that their business requires.

Global sourcing as a part of the outsourcing strategy, as a business model has definitely become established, thanks to the efforts of Indian outsourcing players, as well as the global giants who have pioneered outsourcing as a business. The result is a kind of layering of outsourcing customers – at distinct maturity levels one can discern. There are those customers who obviously are believers of global sourcing as an outcome of matured outsourcing and then there are those who are experimenting with outsourcing for the first time – they tend to look for proven track records, and companies they can feel comfortable with. At the other end of the spectrum, there are highly sophisticated customers who have wrung out the last drop of value from cost arbitrage alone, and are looking for the next level of benefits.

Increasingly, success in outsourcing, from the customer's point of view, is beginning to be seen as highly dependent on the IT service provider's ability to deliver high quality solutions, which in turn depends crucially on his ability to understand the customer's business and functional requirements.

Several major outsourcing deals have failed in the past 12 months because of the IT vendor's lack of domain knowledge. Increasingly, sophisticated customer organizations are looking for outsourcing partners who can be relied on to work closely with business managers to evolve solutions, rather than simply deliver code to some pre-set specification.

Increasingly, in more than two-thirds of financial services companies around the globe, business managers are taking a hand in setting IT priorities, and determining IT budgets. This is in turn leading to a demand for IT service providers who can speak the language of the business manager and create solutions that add business value, not just save cost.

The challenges therefore for IT Services companies are threefold:

- How to build deep knowledge of the domain and the customer, while continuing to focus on IT solutions. This will require excellent knowledge management systems, and ability to create solutions for the customer.
- While at the same time managing to hold the line on costs, so that the cost advantage is not completely lost.
- While at the same time retaining people more so in an increasingly competitive market for talent.

## **Company Outlook**

Our belief is that over a period of time, pure services margin will drop down and finally settle down in line with global services companies' margins. Polaris has invested into the INTELLECT suite of banking products in order to come up with a "next-generation" product to serve top-notch banks in chosen markets. We went to specific markets last year with our unique offering called "Smart-Build", which combines our domain expertise, track record in the service industry and our product GeneS. Advanced markets (such as the High Street banks in the UK and the top Investment Banks in the US) have given a "Thumbs-Up" for Smart-Build and we intend to build on this market validation in the next financial year as well. We expect to build on our successes of Intellect and Smart Build in coming years. With product getting better acceptance we will be focusing on improving net profitability. In the fourth quarter of financial year 31 March 2005 we put four significant corporate level programs in place in to bring about profitable growth in the next four quarters by focusing better on:

- a. Talent pool management & competency development
- b. Delivery excellence,
- c. Smart-spend initiatives and
- d. Global relationship management.

## **Strategy**

As we noted in the Industry discussion above, there is clearly a strong demand emerging, for an IT player who:

- Has the domain knowledge and expertise to offer solutions that create business value and help differentiate themselves from competition,
- Have the size and scale as well as proven delivery processes to actually deliver the solutions that are faster, better and cost effective, those deliverable of an expert,
- Has the India offshoring advantage to retain cost advantages.

Polaris is positioned to meet this demand, being focused on the banking, financial services and insurance sector (BFSI). The merger with OrbiTech consummated two years ago, which is now fully completed, was a major step on the road to building expertise in this domain.

Polaris remains diversified across the major markets of the world – North America, UK, Europe and Asia Pacific. In the past few years, the value of this diversification has been proven repeatedly – when growth in one region slows, it is often compensated by a surge in another part of the globe. However, the focus on BFSI continues, no matter where in the world we are.

However the Polaris business model is not based on offering services alone, but on simultaneously building expertise in the product segment.

A key element of the Polaris strategy is the deliberate nurturing of the Intellect Suite, our product portfolio. With the merger with OrbiTech, Polaris also acquired an invaluable set of components, which we call GeneS (Generalized Solutions) that together is called Intellect Suite. This represents yet another significant channel for us to go to market with our expertise-led solutions. With these

components, Polaris is in a position to quickly and effectively stitch together solutions for BFSI/FSS leaders, in a significantly shorter time and more effectively, than our competitors.

The product business started the year with the launch of Intellect Suite in Singapore, the culmination of much of the investment that transformed the Orbi set of products acquired as a result of the merger with OrbiTech into a suite of applications with a consistent technology base.

In preparation for this launch the group's product management team gave careful consideration to the longer-term strategy and concluded that the emerging trend towards Services Oriented Architectures (SOA) was closely aligned with the existing design of Intellect Suite. This strategy was reflected in the positioning of the Intellect brand towards larger banks seeking to add value to existing systems by combining re-usable components called GeneS with Polaris' domain expertise and significant services capacity.

The Intellect brand was subsequently enhanced and used to profile Polaris more clearly in the Indian market with what is thought to be the first ever television advertising for a banking application product.

The strategy has found positive response from industry analysts, our customers and prospects and across Polaris. It was subsequently encapsulated into the 'Smart Build' proposition and has already found several takers in the market.

In addition to investing in product development, we have also undertaken initiatives to bring on board more product management and banking operational experience. This is reflected in many of our Client Wins in the marketplace.

### **Opportunities, Threats, Risks and Concerns**

We are in a growing market with the right offering, which is getting tremendous validation in the market place. Our product portfolio has opened new markets for Polaris in Asia and South America, which were not open to our service offerings. Our expertise-based model will fuel Polaris growth in the years to come and command a niche position in the global market place.

With the software industry becoming more and more mature and therefore the price points will start getting stabilized and increased focus by global players on India could lead to a cost-spiral. Since expertise will always come at a premium, the input costs could go up and the increased salary costs would put tremendous pressure on the margins.

To meet the demands and service our opportunities pipeline, ready-made talent in the market might not fit in with the requirements. For delivering the economics of expertise, we would require high quality talent. Our focus would also be more and more in grooming such talent. In an industry marked by high attrition, attracting and retaining high quality resources would indeed be a prime challenge.

Rupee appreciation could again put pressure on our business, as we incur most of the costs in Indian Rupees and the revenues are predominantly in US Dollars. We are trying to mitigate the impact of appreciation by booking forward contracts and enhancing operational efficiency.

### Analysis of Business Segment performances:

The company operates in the IT services business along industry classes namely Banking, Financial Services & Insurance ( BFSI) and Emerging verticals.

Customer relationships are driven based on their location comprising of USA, Europe, Asia Pacific, and India & Middle East.

The segment wise revenues are as follows:

*Rs. in Crores*

Sl.	Particulars	Year ended 31 March 2005	Year ended 31 March 2004
1.	BFSI	598.41	501.90
2.	Emerging Verticals	70.56	76.59
	<b>Total</b>	<b>668.97</b>	<b>578.49</b>

Location wise revenues are as follows:

*Rs. in Crores*

Sl.	Locations	Year ended 31 March 2005	Year ended 31 March 2004
1.	USA	338.22	283.56
2.	Europe	111.87	143.46
3.	Asia Pacific	105.14	83.69
4.	India & Middle East	113.74	67.78
	<b>Total</b>	<b>668.97</b>	<b>578.49</b>

### Client wins

During the year, Polaris added 41 new clients to its client base including Lloyds TSB Corporate (a High Street bank in the UK) and National Bank of Abu Dhabi - one of the largest banks in the Middle East. Our Smart-Build (Product offering) is a next-generation offering that is finding pride of place with the Tier 1 Banks, in advanced markets such as the United Kingdom.

### Partnerships

Besides strong existing partnerships with CTG (US & Europe), Plenum (Europe), Polaris also commenced partnerships with strategic partners in US, Latin America, Europe and the Nordic. For expanding the channel for business, Polaris' partnership strategy focuses on Market access, supply chain and implementation.

### Products

Towards the end of the financial year, our sales force endorsed the growth plan for the product group business, reflecting the potential we can see in the markets we have already accessed.

It has also been clear over the past year that significant investment across a broad range of different products at the same time can take its toll in terms of the group's ability to deliver on so many initiatives at the same time – both with respect to a rapidly growing cost base and the necessary management focus.

Hence it was decided to focus the group's efforts more around a few well-defined market segments and products, opt for a less aggressive growth strategy aimed at building sound foundations and start the process of leveraging the software engineering centers (SECs) as systems integration partners for product implementations.

All of these initiatives should prepare the group for the rapid growth that we anticipate, once the initial reference sites have been established.

The year 2004 also saw the test launch of Polaris' Marketing campaign for Intellect Suite- the enterprise platform for boundaryless banking. The 360-degree communication effort was aimed at enabling our customers to take well-informed decisions. And within few months of its test launch, a leading Indian business daily positioned Intellect Suite as a serious competition to brands that have been in the market for more than a decade.

Polaris became the first Indian Software Company to air its TV commercials. The films directed by a leading French director used foreign models and were aired on the leading business channel in India.

Even in international events like Meftec, Bahrain, Intellect suite made its presence felt among its customers and the competition.

Year 2005 will see emergence of the new Polaris identity and launch of a focused marketing campaign to promote services and products, specific to the markets. The company is committed towards building strong global technology brands, in the BFSI space, that would stand the test of quality, performance and trust.

### **Recognitions**

- ◆ Polaris was ranked No. 79 in a survey conducted by Business Today among Top 500 Most Valuable Private Companies in the country. Polaris has moved from 98 position last year to 79 this year. The annual survey conducted by Business Today was based on market capitalization, sales and net profits.
- ◆ Polaris Software Lab Ltd has moved five notches up in the NASSCOM Top 20 exporters list for 2003-04. Polaris which is ranked at No.9 in the latest list was placed at No. 14 in 2002-03.
- ◆ Polaris Software has been ranked No. 12 among the top twenty software exporters from India according to the 'DQ Top 20 ranking' conducted by Dataquest for the year 2003-04.
- ◆ The Institute of Company Secretaries of India, New Delhi, rated Polaris among the top 25 companies with best practices and procedures on Corporate Governance for 2<sup>nd</sup> consecutive year.

### **Senior Talent Recruitment**

Polaris added senior talent and capabilities, to cater to the growth phase of the company.

**Prabal Basu Roy joined Polaris as Executive Vice President & Group Chief Financial Officer.**

Prabal comes on board with two decades of rich experience. His experience has

been across all business cycles including start-up, growth and the turnaround phase with leading MNCs in India and abroad. A Chartered Accountant and a Sloan Fellow, Prabal holds a Master's degree in Management from the London Business School's prestigious Sloan Program. Having worked for companies such as Xerox, Digital and British Telecom, his vast experience combines an uncommon mix of business and finance. Prior to joining Polaris, he was the Director - Strategic Alliances, with Lucent Technologies, responsible for managing business operations, complex outsourcing relationships and transnational M & A deals. He has also been the CFO, and the shareholder nominee of the overseas partner, in two large MNC joint ventures in India and South East Asia.

**Uwe Damian joined Polaris as Sales Director - Central and Eastern Europe.**

Uwe started his professional career with CGEY where he worked as IT consultant mainly in the BFSI industry. He joined CMG plc in 1991 and held various management positions and prior to joining Polaris was the National Director, responsible for all the development and sales of CMG's products for the German BFSI market, as well as for sales in professional services. In that role he was member of the German board of CMG and represented Germany in the business committees of CMG plc in the UK.

**Gopal Shrikant joined Polaris as Head of Software Engineering Center-1.**

Gopal has an IT/Leadership track record of 20+ years, focused on BFSI. He has reported into CEOs of MNCs such as Cognizant - as a Director Projects & Vertical Head, EDS and ANZ Bank. He has worked closely with CEOs on Geographic & Business Diversification, Change Management, and Re-engineering initiatives while concurrently leading multiple Fortune 500 accounts as a Vertical Head, galvanizing a 1000+ cross functional, culturally diverse, global project team. He is an Alumnus of Wharton (AMP) and IIM-B (FTGMP).

**Dilip Londhe joined Polaris as Operations Director for the Mumbai Software Engineering Center.**

Dilip has over 27 years of rich and diverse experience in IT Project Management, Marketing, Human Resources Development and General Management, of which, over 9 years were in leadership positions (Center Head Mumbai, Global HR head and Head India Operations at Silverline). Dilip began his IT career at Tata Consultancy Services in 1976 and during his 17 years of experience at TCS, he has worked on various domestic and international assignments in software development, maintenance, migration, marketing and administrative assignments.

**Sudha Kunkalienkar joined Polaris as an Enterprise Group Head in the Mumbai Software Engineering Center.**

Sudha has over 18 years experience in the software industry. She joined us from ICICI Infotech Ltd where she held the position of Head of Software Delivery for Mumbai Center reporting to the Head of Technology Solutions Group. She was responsible for all off-shore as well as ICICI projects and was the single point contact for UAE region. Prior to ICICI Infotech, Sudha worked with Patni Computer Systems.

### **Gregory Williams, who joined the Euro Polaris Sales team**

Gregory has an entrepreneurial and successful career background having worked in board level positions in IBM, SAP, Barclays and BT, from where he joined us. He also founded three companies in the software services arena, one of which has now been listed. He began his career in sales and marketing in 1987 with IBM.

### **Leonhard de Planque joined Polaris as a Business Development Manager for the Benelux region.**

Leonhard brings with him a 20+ years experience, working in various roles in Corporate Sales, Sales Management and Marketing (mainly business development) with a BFSI focus. Leonhard joined us from Cognizant Technology Solutions Benelux, where he held the position of Business Development Manager and was also a member of Cognizant's Benelux Management team. Earlier in his career, Leonhard worked with IBM and Microsoft in the Netherlands.

## **I. Discussion on Financial Performance of Polaris Software Lab Limited:**

### **1. Overview**

The financial statements are prepared under the historical cost convention, on the accrual basis in accordance with Generally Accepted Accounting Principles (GAAP) in India, and materially comply with the mandatory accounting standards issued by the Institute of Chartered Accountants of India (ICAI) and the provisions of the Companies Act, 1956.

### **2. Balance Sheet as at 31 March 2005**

#### **a) Equity Shares**

- ◆ As at 31 March 2005, the authorized share capital of the company was Rs.65.00 crores comprising
  - Equity shares of Rs 60.00 crores (120,000,000 equity shares of Rs 5 each)
  - 11% Preference shares of Rs 5.00 crores (10,000,000 shares of Rs 5 each)
- ◆ As at 31 March 2005 the total issued, subscribed & paid-up capital was Rs.49.01 crores (98,010,272 equity shares each of Rs 5)
- ◆ During the year, 311,090 equity shares (Rs 0.16 crores) were allotted to 697 associates under various Associate Stock Option Plans.

#### **b) Reserves and surplus**

- ◆ Reserves & Surplus stood at Rs 480.35 crores as at 31 March 2005, an increase of Rs 35.44 crores compared to Rs 444.91 crores as on 31 March 2004
- ◆ Transfer to the General Reserve from Profit & Loss Account for the year was Rs 5.35 crores
- ◆ Premium received on shares issued to employees during the year was Rs 2.17 crores
- ◆ Foreign Currency Translation Reserve stands at negative Rs 0.55 crores.

#### **c) Fixed assets**

- ◆ Capital expenditure incurred during the year was Rs 53.87 crores.
- ◆ The Company has during the year established commercial acceptability of the

Intellect Suite of software products and accordingly capitalized the software products by December 2004. Total costs incurred in respect of Intellect Suite of products capitalized in the current year amount to Rs 44.34 crores. Costs incurred in the current year in respect of the Intellect Suite of products amount to Rs 15.76 crores.

- ◆ The charge towards depreciation increased from Rs 31.61 crores to Rs 38.40 crores due to increase in capital expenditure.

**d) Investments**

Investments of the Company comprise long term trade investments in associates and subsidiaries and non-trade, current investments.

During the year the company made additional investments in the following Subsidiaries and Associates

**i) Subsidiaries:**

- ◆ Subscribed for 296,350 ordinary shares of Canada \$ 1 each amounting to Rs 1.09 crores in Polaris Software Lab Canada Inc.
- ◆ Subscribed additionally for 60,000,000 equity shares of Rs.2 each amounting to Rs.12 crores in Optimus Outsourcing Company Limited.

**ii) Associate Companies**

- ◆ Subscribed additionally for 1,440,000 equity shares of Rs.5 each at a premium of Rs.5 per share amounting to Rs.1.44 crores in Adrenalin eSystems Limited (formerly known as Empower Works Limited);
- ◆ Subscribed additionally for 462,099 equity shares of Rs.10 each at a premium of Rs.60.70 per share amounting to Rs.3.27 crores in AIG Systems Solutions Private Limited.

Further, during the year, the Company made additional investments in mutual funds amounting to Rs 34.72 crores

**e) Cash & Cash Equivalents**

Cash and bank balances as at 31 March 2005 have increased to Rs 38.58 crores from Rs 27.24 crores as at 31 March 2004. Details of Cash & Bank balances are given below

<i>Rs. in Crores</i>	
Cash In Hand	0.06
Rupee Current Accounts	15.78
Foreign currency Current Accounts	22.74
<b>Total</b>	<b>38.58</b>

- ◆ Investment in mutual fund (included under non-trade, current, investment as at 31 March 2005 amount to Rs 56.36 crores. Average yield on investments in mutual funds for the year was 4.43%.
- ◆ The company's treasury policy calls for investing surpluses with highly rated companies, banks and financial institutions for short term maturities and with liquid mutual funds with a limit on investments in individual entities.

**f) Sundry Debtors**

- ◆ Sundry debtors (net of provision) as at 31 March 2005 are Rs.131.88 crores as against Rs.152.92 crores in the previous year excluding unbilled debtors. These balances are considered good and realisable. The Company assesses the need for provisioning for doubtful debts based on collectibility, risk perception, and other general economic factors.
- ◆ The days of sales outstanding were 72 days at the end of the current year, excluding unbilled debtors, down from 96 days in the previous year

**g) Loans & Advances**

- ◆ Loans and advances have decreased to Rs.136.00 crores as at 31 March 2005 from Rs 142.08 crores in the previous year. Loans and advances balances include revenue in excess of billing of Rs.73.74 crores as at 31 March 2005 (Previous year: Rs.67.73 crores)
- ◆ Loans to employees have decreased to Rs 3.47 crores as at 31 March 2005 from Rs 5.31 crores as at 31 March 2004.

**h) Deferred tax assets/liability**

- ◆ The company recorded deferred tax liability (net) aggregating Rs 0.41 crores as of 31 March 2005 (Rs 4.24 crores as at 31 March 2004). Deferred tax assets/liability represent timing differences in the financial and tax books arising out of depreciation on assets, investment provisions and provision for sundry debtors.
  - Deferred tax liability towards fixed assets was Rs 6.95 crores as on 31 March 2005 as compared to Rs 7.17 crores as on 31 March 2004 – a reduction of Rs 0.22 crores
  - Deferred tax assets towards sundry debtors was Rs 6.52 crores as on 31 March 2005 as compared to Rs 2.47 crores as on 31 March 2004 – an increase of Rs 4.05 crores.

**i) Current Liabilities**

Total current liabilities have increased by Rs 18.27 crores, primarily on account of increase in sundry creditors for expenses which has increased by Rs19.55 crores. The following table gives details of current liabilities as at 31 March 2005.

*Rs.in Crores*

CURRENT LIABILITIES	31 March 2005	31 March 2004
Sundry creditors		
- for goods	3.03	4.03
- for expenses	61.50	41.95
Lease Obligations	2.44	4.25
Unclaimed dividends	0.20	0.16
Advances received from customers	0.03	0.08
Billings in excess of revenue	2.47	0.93
<b>Total</b>	<b>69.67</b>	<b>51.40</b>

j) Provisions

Total provisions have increased by Rs 1.72 crores compared to the previous year as detailed below:

*Rs. in Crores*

PROVISIONS	31 March 2005	31 March 2004
Provision for Gratuity	3.24	2.15
Provision for taxation ( net of Advance Income tax )	0.36	-
Proposed dividend	17.15	17.10
Provision for tax on proposed dividend	2.41	2.19
<b>Total</b>	<b>23.16</b>	<b>21.44</b>

3. Profit & Loss Statement for the year ended 31 March 2005

a) Income from software development services and products

- ◆ Total revenue has increased to Rs. 668.97 crores in the current year from Rs.578.49 crores in the previous year, resulting in a growth of 15.64%
- ◆ Export revenue has increased to Rs. 581.83 crores in the current year from Rs.511.78 crores in the previous year, resulting in a growth of 13.69%.
- ◆ Domestic revenue has increased to Rs. 87.14 crores in the current year from Rs.66.70 crores in the previous year, resulting in a growth of 30.64%.

b) Other income

- ◆ Other income includes foreign exchange gain of Rs.5.59 crores earned during the year compared to loss of Rs.7.47 crores incurred for the previous year.
- ◆ Foreign Exchange is due to proactive hedging measures taken by the Company despite extreme volatility in Rupee – Dollar movements, resulting in net foreign exchange gain of Rs 5.6 crores in an adverse exchange rate environment.
- ◆ As of 31<sup>st</sup> March 2005, the forex hedged position was \$54 million at an average rate of Rs 44.96.

c) Software Development Expenses

*(Rs in crores)*

Particulars	Year ended 31 March 2005		Year ended 31 March 2004	
	Amount	%	Amount	%
Salaries and bonus including overseas staff expenses and outsourced consultants cost	364.57	54.50	274.16	47.39
Staff welfare	14.93	2.23	12.41	2.14
Contribution to provident and other funds	9.69	1.45	9.45	1.63
Gratuity	0.75	0.11	0.91	0.16
Foreign tour and travel	41.32	6.18	49.68	8.59

Consumables and computer maintenance	0.91	0.14	1.34	0.23
Communication expenses	12.09	1.81	12.48	2.16
Licence & Royalty	1.19	0.18	0.80	0.14
<b>Total</b>	<b>445.45</b>	<b>66.60</b>	<b>361.23</b>	<b>62.44</b>
<b>Income from software development services and products</b>	<b>668.97</b>	<b>100.00</b>	<b>578.49</b>	<b>100.00</b>

Software development expenses increased by 4.16% compared to the previous year. This is primarily due to increase in salary cost due to revision in remuneration to software developers/incentives and increase in staff strength.

**d) Selling, Administration & Other General Expenses**

*(Rs in crores)*

Particulars	Year ended 31 March 2005		Year ended 31 March 2004	
	Amount	%	Amount	%
Salaries and bonus including overseas staff expenses	52.23	7.81	36.88	6.38
Contribution to provident and other funds	2.41	0.36	2.21	0.38
Professional charges	9.02	1.35	7.86	1.36
Legal expenses	5.06	0.76	4.80	0.83
Travelling and conveyance	6.13	0.92	7.08	1.22
Rent	12.95	1.94	10.09	1.74
Business promotion	5.16	0.77	5.89	1.02
Power and fuel	9.95	1.49	6.67	1.15
Printing and stationery	1.52	0.23	1.47	0.25
Office maintenance	2.32	0.35	2.27	0.39
Provision for doubtful debts / Bad debts written off	9.90	1.48	1.63	0.28
Insurance charges	4.50	0.67	2.16	0.37
Advertisements	1.84	0.27	0.18	0.03
Rates and taxes	0.32	0.04	0.42	0.07
Auditor's remuneration	0.25	0.04	0.31	0.05
Repairs - Building	0.58	0.09	1.05	0.18
Repairs - Plant and machinery	2.15	0.32	2.80	0.48
Repairs - Others	7.28	1.09	2.24	0.39
Directors' sitting fees	0.03	0.00	0.03	0.01
Donations	0.24	0.04	0.26	0.05
Miscellaneous expenses	6.79	1.01	2.59	0.45
<b>Total</b>	<b>140.63</b>	<b>21.03</b>	<b>98.89</b>	<b>17.08</b>
<b>Income from software development services and products</b>	<b>668.97</b>	<b>100.00</b>	<b>578.49</b>	<b>100.00</b>

Total Selling, Administration and other General expenses have increased by 3.95% compared to last year. This increase is due to:

- ◆ Increase in salaries & bonus of sales and administrative support staff
- ◆ Increase in overseas headcount for sales & marketing
- ◆ Increase in provision for doubtful receivables based on evaluation performed by management
- ◆ Increase in rent on account of new offices taken on lease at various places.
- ◆ Increase in Advertisement and Business promotion expenses on participation in various IT fairs and product promotional expenses
- ◆ Increase in Power & Fuel is due to additional office space and increased fuel costs.
- ◆ Increase in Insurance Charges due to additional liability insurance covered during the current year.
- ◆ Increase in Repairs & Maintenance-Others due to increase in AMCs for hardware and software.
- ◆ Increase in Miscellaneous expenses due to Rs.4.50 crores compensation paid to Bank Artha Graha.

**e) Finance Charges**

Finance charge for the current year was Rs 0.81 crores compared to Rs 1.17 crores in the previous year. Finance charges represent mainly the associates' related car lease interest payouts and Bank Charges & others.

**f) Income Taxes**

The Income Tax for the year is Rs.6.28 crores [current tax Rs 10.11 crores & deferred tax (Rs 3.83 crores)] compared to Rs.12.46 crores [current tax Rs 9.50 crores & deferred tax Rs 2.96 crores] in the previous year.

**g) Appropriations from Profit**

The amount available for appropriation of Rs.172.98 crores (including Rs.119.55 crores brought forward from previous year) is apportioned as follows:

- Proposed dividend on equity shares of Rs. 17.15 crores
- Tax on proposed dividend of Rs. 2.45 crores
- Transfer to General Reserve of Rs. 5.35 crores
- The remaining Rs.148.02 crores transferred to the Balance Sheet.

**II. Discussion on Consolidated Financial Performance of Polaris Software Lab Limited and its subsidiaries**

**a) Income from Software development Services & Products and Business Process Outsourcing**

- ◆ Total revenue has increased to Rs.787.12 crores in the current year from Rs.646.43 crores in the previous year, resulting in a growth of 21.76%
- ◆ Export revenue has increased to Rs.697.33 crores in the current year from Rs.578.52 crores in the previous year, resulting in a growth of 20.54%.
- ◆ Domestic revenue has increased to Rs.89.78 crores in the current year from Rs.67.90 crores in the previous year, resulting in a growth of 32.22%.

**b) Software Development Expenses**

*Rs. in Crores*

<b>Particulars</b>	<b>Year ended 31 March 2005</b>	<b>Year ended 31 March 2004</b>
Salaries and bonus including overseas staff expenses and outsourced consultants cost	432.88	308.95
Staff welfare	16.06	13.03
Contribution to provident and other funds	10.72	10.62
Foreign tour and travel	50.23	55.64
Consumables and computer maintenance	0.93	1.41
Communication expenses	15.51	15.39
License & Royalty	1.19	0.80
<b>Total</b>	<b>527.52</b>	<b>405.84</b>

The Total Software Development Expenses showed an increase of 29.98% compared to last financial year. This is primarily due to increase in salary cost due to revision in remuneration to software developers/incentives and increase in staff strength.

**Information on subsidiaries included in the consolidated financial statements**

The company has 2 wholly owned subsidiaries in India and 8 wholly owned overseas subsidiaries.

**Wholly owned subsidiaries in India**

**i. Optimus Outsourcing Company Limited**

Optimus Outsourcing Company Ltd, got incorporated in September 2002, to spearhead the BPO initiative of the Group, has been able to establish its presence in the ITES segment, by its focused approach and offering end to end solutions in this segment. During the year, Polaris has invested an additional amount of Rs.12 crores in the equity of the company, thereby taking the total investment in the subsidiary to Rs17 crores For the year ended 31<sup>st</sup> March 05, the subsidiary has registered revenue of Rs 2.94 crores and a net loss of Rs. 0.07 crores.

Arun Jain, R C Bhargava, Govind Singhal, G N Mathur, N Vaidyanathan, T R Sridharan constitute the Board of Directors as at 31 March 2005.

**ii. Polaris Retail Infotech Limited**

Polaris Retail Infotech Limited, incorporated in Nov 1998, to focus on the fast growing retail segment aimed at revolutionizing the large untapped global retail market. The subsidiary offers wide range of retail solutions for stores, enterprises and chains. The present share capital is Rs. 9 crores During the year the subsidiary recorded a revenue of Rs.2.30 crores and a net profit of Rs. 0.02 crores.

Arun Jain, N Vaidyanathan, Govind Singhal, Aruna Kashinath, Ashok Korwar and Mukesh Mathur constitutes the Board of Directors' of the subsidiary as at 31 March 2005.

## **Wholly Owned Overseas Subsidiaries**

### **iii. Polaris Software Lab Pte Ltd., Singapore**

Polaris Software Lab Pte Ltd, incorporated in Feb 1997 in Singapore to tap the huge potential of Singapore and other ASEAN markets. The present share capital is S\$ 385,000. During the year, the subsidiary recorded a turnover of Rs.72.53 crores with a net profit of Rs.7.54 crores.

Arun Jain, Ram Bhagwat, G N Mathur & Raymond Arogyaswamy constitutes the Board of Directors of the subsidiary as at 31 March 2005.

### **iv. Polaris Software Lab Ltd UK**

This subsidiary got incorporated in June 1998 with its headquarters in London to address the UK Market. Current paid up share capital is GBP 889,000. The performance of the subsidiary has shown quantum jump, since its incorporation and the client list includes Citi and other high street banks. During the year the subsidiary recorded revenue of Rs.60.01crores with net profit of Rs.2.71 crores.

Arun Jain, G N Mathur, N Vaidyanathan, Aruna Kashinath, Kartik Kaushik , Koen Van De Brande constitutes the Board of the Subsidiary as at 31 March 2005.

### **v. Polaris Software Lab Japan K.K**

The subsidiary was incorporated in September 2001 with a initial share capital of JPY 10 million. The present share capital is 20 million. During the year the subsidiary recorded revenue of Rs.25.05 crores with net profit of Rs.1.01crores.

Arun Jain, Govind Singhal & Bikash Mathur constitute the Board of Directors' as at 31 March 2005.

### **vi. Polaris Software Lab Pty Ltd., Australia**

The subsidiary was incorporated in Nov 2000 with share capital of A\$ 25,000. During the year the revenue recorded by the subsidiary was Rs.10.88 crores with net profit of Rs.0.60 crores.

Arun Jain & Anil Verma constitute the Board of Directors as at 31 March 2005.

### **vii. Polaris Software Lab Ltd Ireland**

The subsidiary was incorporated in Feb 2001 and the present share capital is Euro 176,186. During the year the revenue of the subsidiary was Rs.2.64 crores with net profit of Rs. 0.58 crores.

Arun Jain & G N Mathur constitute the Board of Directors as at 31 March 2005.

### **viii.Polaris Software Lab S.A, Switzerland**

The subsidiary was incorporated in Aug 2000 and the present share capital is CHF 350,000. During the year the revenue of the subsidiary was Rs.6.30 crores with net profit of Rs. 1.14 crores

Karl Dobler represents the Board as at 31 March 2005.

**ix. Polaris Software Lab GmbH, Germany**

The subsidiary was incorporated in June 2000 and the present share capital is Euro 600,000. During the year the revenue of the subsidiary was Rs.26.38 crores with net profit of Rs.3.00 crores.

Vijayaraghavan Narasimhan represents the Board as at 31 March 2005.

**x. Polaris Software Lab Canada Inc.**

Polaris Software Lab Canada Inc. incorporated in the current year with an investment of Canadian \$ 296,350 to provide nearshore support to the vast US Market. This being the initial year of incorporation the subsidiary is yet to generate revenue during the year

Rahul Petkar represents the Board as at 31 March 2005.

**Buy Back of Shares**

With a view to increase shareholder value through enhancement of Earnings Per Share and return on capital, the company has embarked on a programme of Share Buy Back. The Board of Directors have approved buyback at a price not exceeding Rs.115 per share and upto 9.25 % of the paid up capital and free reserves of company from the market.

The company has adequate cash and cash equivalents of Rs 136 crores which in our opinion, would be adequate for meeting the operational needs. In our opinion the buy back would provide a tax efficient and investor-friendly method of returning surplus cash to the shareholders.

**Internal Control Systems & Adequacy**

The Company has been certified under ISO Standards 9001:2000. The company deploys software development methodologies equivalent to SEI CMMi level 5 norms. Our quality systems are continuously and successfully audited periodically.

The Company follows well laid policies and procedures in all areas of operations with adequate internal controls for preventing and detecting fraud and other irregularities.

The Company has well laid out internal audit system being performed by independent auditors. It is the company's endeavour to move to a situation where surprises in business engagements or accounting related matters are minimized through proper implementation of processes, policies and business rules. In this respect a specific role has been created for Business controls and Macro Risk Management.

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**POLARIS SOFTWARE LAB LIMITED**

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Consolidated Financial Statement for the year ended 31 March 2005

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## **Auditor's report to the Board of Directors of Polaris Software Lab Limited on the consolidated financial statements of Polaris Software Lab Limited and its subsidiaries**

1. We have audited the attached consolidated Balance Sheet of Polaris Software Lab Limited and its subsidiaries as at March 31, 2005, the consolidated Profit and Loss account and the consolidated Cash Flow Statement for the year then ended. These financial statements are the responsibility of Polaris Software Lab Limited'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 generally accepted auditing standards in India. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of subsidiaries, whose financial statements reflect total assets of Rs 1,154.74 lakhs as at March 31, 2005 and total revenues of Rs 11,815.74 lakhs for the year then ended. These financial statements have been audited by other auditors whose reports have been furnished to us by the management, and our opinion, insofar as it relates to the amounts included in respect of the subsidiaries, is based solely on the report of the other auditors.
4. We have also not audited the financial statements of associates. The financial statements of NMS Works Software Limited, AIG Systems Solutions Private Limited and Adrenalin eSystems Limited (formerly known as Empower Works Limited) are yet to be audited and therefore unaudited financial statements for the year ended March 31, 2005 have been furnished to us by the management of Polaris Software Lab Limited. The attached consolidated financial statements include share of Rs 487.19 in the losses of the aforementioned associates for the year then ended.
5. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, and AS 23, Accounting for Investments in Associates in Consolidated Financial Statements issued by the Institute of Chartered Accountants of India and on the basis of the separate financial statements of Polaris Software Lab Limited, and those of its subsidiaries and associates listed in Note 1 of Schedule 17 to the accounts.
6. *Subject to the effect of any adjustments that may arise upon completion of the audit of financial statements of the companies referred to in paragraph 4 above, and on the basis of the information and explanations given to us and on the consideration of the audit reports on individual audited financial statements of Polaris Software Lab Limited and its subsidiaries, we are of the opinion that:*
  - (a) The Consolidated Balance Sheet gives a true and fair view of the consolidated state of affairs of Polaris Software Lab Limited and its subsidiaries as at March 31, 2005;
  - (b) The Consolidated Profit and Loss Account gives a true and fair view of the consolidated results of operations of Polaris Software Lab Limited and its subsidiaries for the year then ended; and
  - (c) The Consolidated Cash Flow Statement gives a true and fair view of the consolidated cash flows of Polaris Software Lab Limited and its subsidiaries for the year then ended.

*for BSR & Co.*

*(formerly Bharat S Raut & Co.)*

*Chartered Accountants*

**Subramanian Suresh**

Partner

Chennai

27 April 2005

Membership No: 83673

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES****Consolidated Balance Sheet as at***(Rs in lacs)*

	Schedule	31 March 2005	31 March 2004
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Share Capital	1	4,900.51	4,884.96
Reserves and Surplus	2	48,209.49	44,155.76
		<b>53,110.00</b>	<b>49,040.72</b>
<b>SECURED LOANS</b>			
DEFERRED TAX LIABILITY	3	209.79	231.02
	11	43.54	426.64
		<b>53,363.33</b>	<b>49,698.38</b>
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>			
Cost	4	32,691.32	24,322.52
Less: Depreciation and amortisation		12,902.15	8,787.81
Net Book Value		19,789.17	15,534.71
Capital Work in Progress including Capital advances		1,837.22	4,578.28
		<b>21,626.39</b>	<b>20,112.99</b>
<b>INVESTMENTS</b>			
	5	<b>6,328.59</b>	<b>2,973.91</b>
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Cash and Bank balances	6	8,035.43	5,775.70
Sundry Debtors	7	14,439.93	17,099.64
Loans and Advances	8	14,317.84	11,470.68
		<b>36,793.20</b>	<b>34,346.02</b>
<b>CURRENT LIABILITIES AND PROVISIONS</b>			
Current Liabilities	9	8,676.85	5,750.31
Provisions	10	2,822.77	2,149.08
		11,499.62	7,899.39
<b>NET CURRENT ASSETS</b>			
		<b>25,293.58</b>	<b>26,446.63</b>
<b>MISCELLANEOUS EXPENDITURE</b>			
(to the extent not written off or adjusted)	12	114.77	164.85
		<b>53,363.33</b>	<b>49,698.38</b>

Significant accounting policies and notes to accounts<sup>17</sup>

The Schedules referred to above and the notes thereon form an integral part of these financial statements.

This is the Balance Sheet referred to in our report of even date.

for **BSR & Co.**

(formerly Bharat S Raut &amp; Co)

Chartered Accountants

**Subramanian Suresh**

Partner

Membership No 83673

**Chennai**

Anubhav Kapoor

**Arun Jain**

Chairman &amp; Managing Director

**Satya Pal**  
Director**Abhay Agarwal**  
Director**Nanoo G Pannani**

Director

**Govind Singhal**

Executive Director

**R C Bhargava**  
Director**Ajit Bhushan**  
Director**Prabal Basu Roy**

Group CFO &amp; Executive Vice President

**Arvind Kumar**

Director

**V Balaraman**  
Director**Anil Khanna**  
Director

Company Secretary

**Ashok Jhunjunwala**  
Director

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES****Consolidated Profit and Loss Account for the Year ended***(Rs in lacs )*

	Schedule	31 March 2005	31 March 2004
<b>INCOME</b>			
Software development services and products			
- Overseas		69,542.91	57,556.17
- Domestic		8,877.62	6,784.55
Income from Business Process Outsourcing (BPO)			
- Overseas		190.51	296.21
- Domestic		101.29	5.66
		<b>78,712.33</b>	<b>64,642.59</b>
<b>EXPENDITURE</b>			
Software development and BPO expenses	14	52,752.20	40,584.24
Selling, Administration and other General expenses	15	15,740.97	11,257.52
		<b>68,493.17</b>	<b>51,841.76</b>
<b>Operating profit before interest, depreciation and amortisation</b>			
Finance charges	16	10,219.16	12,800.83
Depreciation and Amortisation		112.67	141.54
		4,069.97	3,317.69
		<b>4,182.64</b>	<b>3,459.23</b>
<b>Operating profit after interest, depreciation and amortisation</b>			
Other income	13	6,036.52	9,341.60
Less: Provision for diminution in value of investments		1,330.82	(607.40)
Less: Share of Loss of Associate Companies, net		0.25	10.14
		487.19	225.62
		<b>6,879.90</b>	<b>8,498.44</b>
<b>Profit before taxation</b>			
Income taxes - Current tax		1,458.98	1,215.28
- Deferred tax		(383.14)	297.96
		<b>5,804.06</b>	<b>6,985.20</b>
<b>Profit after taxation</b>			
Profit brought forward from previous year		11,805.43	7,425.98
		<b>17,609.49</b>	<b>14,411.18</b>
<b>Amount available for appropriation</b>			
<b>Appropriations</b>			
Proposed Dividend		1,715.18	1,709.74
Tax on Proposed Dividend		240.55	219.01
Additional Tax paid on previous year dividend		4.58	-
Amount transferred to General Reserve		535.00	677.00
Balance carried to Balance Sheet		15,114.18	11,805.43
		<b>17,609.49</b>	<b>14,411.18</b>
<b>Earnings per share</b>			
(equity shares par value Rs.5 each)			
Basic		5.93	7.17
Diluted		5.90	7.09
<b>Number of shares used in computing earnings per share</b>			
Basic		97,833,640	97,460,457
Diluted		98,346,484	98,469,303

Significant accounting policies and notes to accounts

17

The Schedules referred to above and the notes thereon form an integral part of these financial statements.

This is the Profit and Loss account referred to in our report of even date.

for **BSR & Co.****Arun Jain****Govind Singhal****Arvind Kumar**

(formerly Bharat S Raut &amp; Co)

*Chairman & Managing Director**Executive Director**Director*

Chartered Accountants

**Satya Pal****R C Bhargava****V Balaraman****Ashok Jhunjhunwala***Director**Director**Director**Director***Subramanian Suresh***Partner***Abhay Agarwal****Ajit Bhushan****Anil Sachdev****Anil Khanna***Director**Director**Director**Director*

Membership No 83673

**Chennai****Nanoo G Pamnani****Prabal Basu Roy****Anubhav Kapoor**

27 April 2005

*Director**Group CFO & Executive Vice President**Company Secretary*

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**  
**Statement of cash flows for the Years ended**

(Rs in laacs )

Particulars	31 Mar 2005	31 March 2004
<b>Cash flows from operating activities</b>		
Profit before taxation	6,879.90	8,498.44
Interest and dividend income considered separately	(309.89)	(314.24)
Effect of exchange differences on translation of foreign currency cash & cash equivalents	(78.98)	(52.01)
Depreciation	4,069.97	3,317.69
( Profit) / Loss on sale of fixed assets	(6.16)	(13.84)
( Profit) / Loss on sale of Investments	8.62	(22.94)
Provision for diminution in value of investments	0.25	10.14
Share of loss on associate companies	487.19	225.62
Preliminary expenses written off	0.89	1.66
Miscellaneous expenditure written off	49.19	87.28
Net Taxes paid, including taxes on dividend/ Net Tax Refund received	(1,459.55)	(2,088.54)
<i>Changes in current assets and liabilities</i>		
Decrease / (Increase) in sundry debtors	2,659.71	(2,255.14)
Decrease/ (Increase) in loans and advances	(3,375.90)	(4,187.30)
Increase/(Decrease) in current liabilities and provisions	3,032.09	(204.47)
<b>Net cash flows from operating activities</b>	<b>11,957.33</b>	<b>3,002.35</b>
<b>Cash flows from financing activities</b>		
Proceeds from share capital issued on exercise of stock options	15.55	17.70
Stamp duty and expenses incurred on merger	-	(82.75)
Proceeds from share premium on exercise of stock options	217.30	208.75
Dividends paid during the year	(1,706.42)	(1,697.77)
<b>Net cash flows from financing activities</b>	<b>(1,473.57)</b>	<b>(1,554.07)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of fixed assets	96.55	317.63
Purchase of fixed assets and changes in capital work in progress	(5,673.77)	(5,443.27)
Increase/ (Decrease) in secured loans	(21.24)	(32.64)
Investment in associates	(470.70)	(322.56)
(Increase)/ decrease in advances to subsidiaries and associates	843.62	29.03
Net (increase)/ decrease in non-trade investments	(3,380.02)	1,101.38
Interest and dividend received	309.89	313.42
<b>Net cash flows from investing activities</b>	<b>(8,295.67)</b>	<b>(4,037.01)</b>
<b>Effect of exchange differences on translation of foreign currency cash &amp; cash equivalents</b>	<b>71.65</b>	<b>(6.45)</b>
Total increase/(decrease) in cash and equivalents during the year	2,259.73	(2,595.18)
Cash and cash equivalents at the beginning of the year	5,775.70	8,370.88
<b>Cash and cash equivalents at the end of the year</b>	<b>8,035.43</b>	<b>5,775.70</b>

Significant accounting policies and notes to accounts

17

This is the cash flow statement referred to in our report of even date for BSR & Co.

	<b>Arun Jain</b>	<b>Govind Singhal</b>	<b>Arvind Kumar</b>
(formerly Bharat S Raut & Co)	<i>Chairman &amp; Managing Director</i>	<i>Executive Director</i>	<i>Director</i>
Chartered Accountants	<b>Satya Pal</b>	<b>R C Bhargava</b>	<b>V Balaraman</b>
	<i>Director</i>	<i>Director</i>	<i>Director</i>
<b>Subramanian Suresh</b>	<b>Ashok Jhunjunhwal</b>		
<i>Partner</i>	<i>Director</i>		
<i>Membership No 83673</i>	<b>Abhay Agarwal</b>	<b>Ajit Bhushan</b>	<b>Anil Sachdev</b>
	<i>Director</i>	<i>Director</i>	<i>Director</i>
<b>Chennai</b>	<b>Nanoo G Pamnnani</b>	<b>Prabal Basu Roy</b>	
<b>Amulhavanapur</b>			
<i>24/11/2005</i>	<i>Director</i>	<i>Group CFO &amp; Executive Vice President</i>	<i>Company Secretary</i>

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**  
**Schedules to the Consolidated Balance Sheet as at**

(Rs in lacs)

	31 March 2005	31 March 2004
<b>1 SHARE CAPITAL</b>		
<b>Authorised Capital</b>		
120,000,000 equity shares of Rs 5 each.	6,000.00	6,000.00
(2004: 120,000,000 equity shares of Rs 5 each)		
10,000,000 11 % preference shares of Rs 5 each.	500.00	500.00
(2004: 10,000,000 11% preference shares of Rs 5 each)		
	<b>6,500.00</b>	<b>6,500.00</b>
<b>Issued, Subscribed and Paid-up Capital</b>		
98,010,272 Equity shares of Rs.5 each		
(2004: 97,699,182 Equity shares of Rs 5 each fully paid up.)	4,900.51	4,884.96
Of the above :		
(i) 17,062,550 Equity Shares of Rs.5 each(2004 :17,062,550 equity shares of Rs 5 each ) were issued as Bonus shares by capitalisation of Securities Premium account during the year 2001-02		
(ii) 45,850,549 Equity shares of Rs 5 each(2004 : 45,850,549 equity shares of Rs 5 each)were issued pursuant to a scheme of amalgamation of Orbitech Solutions Limited with the Company during the year 2002-03		115
	<b>4,900.51</b>	<b>4,884.96</b>
<b>2 RESERVES AND SURPLUS</b>		
<b>General Reserve</b>		
As per last Balance Sheet	14,619.15	13,533.34
Add : Transferred from Profit and Loss Account	535.00	677.00
Less : Stamp duty and expenses incurred on issue of shares relating to merger	-	467.25
	15,154.15	14,677.59
<b>Foreign currency translation reserve</b>	(7.32)	(58.44)
<b>Securities Premium Account</b>		
As per last Balance Sheet	17,731.18	17,522.44
Add :Premium received on issue of shares to employees	217.30	208.74
	17,948.48	17,731.18
<b>Profit and Loss account balance</b>	15,114.18	11,805.43
	<b>48,209.49</b>	<b>44,155.76</b>
<b>3 SECURED LOANS</b>		
Loan from United Overseas Bank Ltd, Singapore	209.79	231.02
(Secured against building purchased by the Singapore Subsidiary)		
	<b>209.79</b>	<b>231.02</b>

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**  
Schedules to the Consolidated Balance Sheet as at 31 Mar 2005

**4 FIXED ASSETS**

Sl. No.	Assets	Cost		Depreciation and Amortisation		Net Book value			
		1 April 2004	Additions	Deletions	31 March 2005	1 April 2004	For the year on deletions	31 March 2005	31 March 2004
<b>A</b>	<b>TANGIBLE ASSETS</b>								
1	Land (Refer Note 1)	1,031.88	642.7	-	1,096.15	-	-	-	1,031.88
2	Buildings (Refer Note 2)	5,405.90	433.22	-	5,839.12	424.81	222.95	647.76	4,981.09
3	Plant and machinery	865.55	227.55	6.85	1,086.25	268.87	225.01	493.49	596.68
4	Computer equipment and accessories	9,958.02	2,652.03	13.48	12,596.57	5,470.07	2,385.47	7,854.22	4,487.95
5	Electrical fittings	1,205.22	166.01	65.39	1,305.84	403.97	163.28	513.35	801.25
6	Office equipment	1,550.48	268.47	0.61	1,818.34	440.25	166.25	606.41	1,110.23
7	Furniture and fixtures	2,126.25	226.10	17.56	2,334.79	635.31	258.95	893.95	1,490.94
8	Vehicles (Refer note 3)	774.99	114.04	112.94	776.09	375.59	201.35	506.45	399.40
	Less: Capitalisation (Refer Note 4)	-	-	-	-	-	(170.87)	-	-
		<b>22,918.29</b>	<b>4,151.69</b>	<b>216.83</b>	<b>26,853.15</b>	<b>8,018.87</b>	<b>3,452.39</b>	<b>11,515.63</b>	<b>14,899.42</b>
<b>B.</b>	<b>INTANGIBLE ASSETS</b>								
1	Software Products	804.33	4,433.94	-	5,238.27	169.04	617.58	786.62	635.29
2	Intellectual property rights	599.90	-	-	599.90	599.90	-	599.90	-
	<b>Total</b>	<b>24,322.52</b>	<b>8,585.63</b>	<b>216.83</b>	<b>32,691.32</b>	<b>8,787.81</b>	<b>4,069.97</b>	<b>12,902.15</b>	<b>19,789.17</b>
	Previous year	21,843.23	2,989.90	510.61	24,322.52	5,676.94	3,317.69	206.82	15,534.71

Note 1: Land includes 7.89 acres of land amounting to Rs 131.63 (2004: 7.07 acres of land amounting Rs 100.68) acquired from Andhra Pradesh Industrial Infrastructure Corporation pending registration in favour of the Company subject to fulfillment of certain conditions under the Andhra Pradesh Information Technology Incentives Policy

Note 2: Building includes leasehold improvements amounting to Rs 553.21 (2004: Rs 553.21)

Note 3: Vehicles include assets acquired under finance leases amounting to Rs 661.25 (2004: Rs 719.96)

Note 4: Represents depreciation on asset used for development of software products capitalised as part of cost of Software Products amounting to Rs 170.87 (2004 : Rs 233.10)

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**  
**Schedules to the Consolidated Balance Sheet as at**

(Rs in lacs)

	31 March 2005	31 March 2004
<b>5 INVESTMENTS (At Cost)</b>		
<b>LONG TERM INVESTMENT</b>		
<b>TRADE (UNQUOTED)</b>		
<b>Software Sidoun GmbH Germany</b>	527.61	527.61
A Company incorporated in Germany		
Common stock of Euros 1,175,990 fully paid		
(2004: Common stock of Euros 1,175,990 fully paid)	(527.61)	(527.61)
Less: Diminution in value of investments		
	-	-
<b>Eternet Inc.</b>		
A Company incorporated in USA	116.25	116.25
1,250,000 shares of US\$ 0.2 each fully paid		
(2004 : 1,250,000 shares of US\$ 0.2 each fully paid)		
Less: Diminution in value of investments	(116.25)	(116.25)
	-	-
<b>NMS Works Software Limited</b>	50.00	50.00
A Company incorporated in India		
500,000 Equity Shares of Rs.10 each (2004:500,000		
Equity Shares of Rs.10 each fully paid)		
147,228, 12% Optionally Convertible		
Cumulative Preference	350.00	350.00
Shares of Rs. 10 each fully paid (2004 : 83,918		
12% Optionally Convertible Cumulative		
Preference Shares of Rs. 10 each fully paid)		
Less: Share of Loss of Associate Company	(101.58)	(55.38)
(Refer Schedule 17 Note B 8 (c))		
	298.42	344.62
<b>Adrenalin eSystems Limited</b> <b>(Formerly Empower Works Limited )</b>	733.88	589.88
A Company incorporated in India		
12,078,080 Equity shares of Rs.5 each fully paid		
(2004:10,638,080 Equity shares of Rs.5 each fully paid)		
Less: Share of Loss of Associate Company	(684.01)	(225.59)
(Refer Schedule 17 Note B 8 (b))		
	49.87	364.29
<b>AIG Systems Solutions Private Limited</b>	326.70	-
A Company incorporated in India		
462,100 Equity Share of Rs.10 each.		
(2004 : 1 Equity Share of Rs.10 each fully paid)		
Add: Share of Profit of Associate Company	17.44	
	-	
	344.14	-
<b>(A)</b>	<b>692.43</b>	<b>708.91</b>

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**  
**Schedules to the Consolidated Balance Sheet as at**

(Rs in lacs)

	31 March 2005	31 March 2004
<b>5 INVESTMENTS (continued)</b>		
<b>CURRENT INVESTMENTS (NON- TRADE QUOTED)</b>		
<b>Mutual Funds</b>		
HSBC Mutual Fund Nil units (2004: 9,85,606 units) Face value: Rs.10 Per unit	-	100.35
Sundaram Bond Saver Nil units (2004: 374,491 units) Face value: Rs 10 per unit	-	38.91
Birla Bond Plus Institutional Plan - Div Payout 5,399,564 units (2004: Nil units) Birla Bond Plus Fund Long Term - 2,408,593 units ( 2004 : Nil Units ) Face value: Rs 10 per unit	810.55	-
ICICI Prudential 5,068,119 units ( 2004 : Nil units ) ICICI Prudential Long Term Floating Rate -2,519,953 units ( 2004 : Nil Units ) Face value: Rs 10 per unit	759.94	-
Templeton Short Term Income Plan-Monthly Div Plan 29,632 units (2004: 29,632 Units) Face value: Rs 1000 per unit Templeton Long term Income Plan - Monthly Div 4,877,562 units ( 2004 : Nil units ) Face value: Rs 10 per unit	804.79	300.00
Deutsche Short Maturity Fund - Monthly Div Plan 2,952,320 units (2004: 2,952,320 units) Deutsche Weekly Dividend - 4,426,158 ( 2004 : Nil units ) Face value: Rs 10 per unit	753.85	300.00
GMBD GSSIF- Medium Term Inst Plan Nil units (2004: 5,046,286 units) Face value: Rs 10 per unit	-	513.74
GCDB Grindlays Cash Fund 3,876,629 units ( 2004 : Nil Units ) Floating rate fund - 1,003,835 units (2004 : Nil units) Long Term - 2,504,711 units (2004 : Nil units) Face value: Rs 10 per unit	763.87	-
HSBC - Cash Fund Institutional Daily Dividend 3,931,171 units ( 2004 : Nil Units ) HSBC- Floating Rate - Long Term Plan 3,520,852 units ( 2004 : Nil Units ) Face value: Rs 10 per unit	763.41	-
HDFC Floating Income Fund Short Term Plan 4,547,007 units (2004: Nil Units) HDFC Cash Management Fund- Saving plan Nil units(2004:4,782,497 units) Face value: Rs 10 per unit	456.08	508.38
Kotak Liquid Institutional Plan 5,286,615 units (2004: 5,084,109 Units) Face value: Rs 10 per unit	529.99	509.69
Less : Provision for diminution in value of investments	5,642.48 (6.32)	2,271.07 (6.07)
<b>( B )</b>	<b>5,636.16</b>	<b>2,265.00</b>
<b>Total (A + B)</b>	<b>6,328.59</b>	<b>2,973.91</b>
(Aggregate market value of the above investments as at 31 March 2005: Rs 5,636.16 (2004: Rs 2,268.21)		

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**  
**Schedules to the Consolidated Balance Sheet as at**

(Rs in laacs)

	31 March 2005	31 March 2004
<b>6 CASH AND BANK BALANCES</b>		
Cash on hand	8.77	12.05
Balances with scheduled banks		
- in current accounts	3,621.39	2,155.80
- in deposit accounts	945.31	3.28
Balances with non-scheduled banks in current accounts		
- Fleet Bank, New Jersey, USA	298.09	348.54
- Barclays Bank, UK	1,011.35	341.40
- Indian Bank, Singapore	0.45	0.45
- Citi Bank, Singapore	871.12	1,644.03
- ANZ Bank, Australia	366.58	255.34
- Dresdner Bank, Germany	338.26	101.69
- Ulster Bank, Ireland	69.61	63.69
- UBS Bank, Switzerland	-	65.40
- Bank of Tokyo Mitsubishi, Japan	261.77	455.99
- Chase Bank, New Jersey, USA	242.73	328.04
	<b>8,035.43</b>	<b>5,775.70</b>
<b>7 SUNDRY DEBTORS</b>		
Debts outstanding for a period exceeding six months		
Unsecured		
- considered good	1,518.36	1,575.22
- considered doubtful	2,014.51	1,090.57
Other debts - unsecured, considered good	12,921.57	15,524.42
	16,454.44	18,190.21
Less: Provision for doubtful debts	2,014.51	1,090.57
	<b>14,439.93</b>	<b>17,099.64</b>
<b>8 LOANS AND ADVANCES</b>		
(Unsecured considered good)		
Advances recoverable in cash or in kind or for value to be received	2,011.86	1,749.88
Advance income tax and tax deducted at source (Net of provision for tax )	642.09	445.77
Loans to employees	363.90	551.52
Loans to Employees Welfare Trust	926.65	1,095.24
Other advances	163.04	62.31
Interest receivable	0.97	0.83
Revenues in excess of billings	8,627.33	6,045.62
Rent, maintenance and security deposits	1,582.00	1,519.51
	<b>14,317.84</b>	<b>11,470.68</b>
<b>9 CURRENT LIABILITIES</b>		
Sundry creditors		
- for goods	604.81	539.79
- for expenses	7,524.92	4,657.57
Lease Obligations	244.68	425.24
Unclaimed dividends	19.81	16.50
Advances received from customers	35.56	18.09
Billings in excess of revenue	247.07	93.12
	<b>8,676.85</b>	<b>5,750.31</b>

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**  
**Schedules to the Consolidated Balance Sheet as at**

(Rs in lacs)

	31 March 2005	31 March 2004
<b>10 PROVISIONS</b>		
Provision for Gratuity	329.19	220.33
Provision for taxation (net of Advance income tax and tax deducted at source )	537.85	-
Proposed dividend	1,715.18	1,709.74
Provision for tax on proposed dividend	240.55	219.01
	<b>2,822.77</b>	<b>2,149.08</b>
<b>11 DEFERRED TAX LIABILITY</b>		
<u>Deferred Tax Liability</u>		
Fixed assets	697.86	719.37
<u>Deferred Tax Asset</u>		
Sundry debtors	(652.12)	(246.64)
others	(2.20)	(46.09)
Deferred Tax Liability ( net )	<b>43.54</b>	<b>426.64</b>
<b>12 MISCELLANEOUS EXPENDITURE</b> (to the extent not written off or adjusted)		
<b>Preliminary expenses</b>	5.01	6.67
Add: Additions during the year	-	-
Less: Written off during the year	0.89	1.66
<b>Balance Carried</b>	4.12	5.01
<b>Pre-Operative Expenditure</b>	149.11	187.19
Less: Written off during the year	38.46	38.08
<b>Balance Carried</b>	110.65	149.11
<b>Deferred revenue expenses - Opening balance</b>	10.73	59.94
Less: Amortised in the current year	10.73	49.21
<b>Balance Carried</b>	-	10.73
	<b>114.77</b>	<b>164.85</b>

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES****Schedules to the Consolidated Profit and Loss Account for the period ended***(Rs in lacs)*

	31 March 2005	31 March 2004
<b>13 OTHER INCOME</b>		
Interest received on deposits with banks and others	185.36	53.22
Profit on sale of investments	(8.62)	22.94
Dividends received	124.53	125.08
Profit on sale of assets	6.16	13.84
Miscellaneous income ( Refer sch 17 note B 10 )	776.74	113.00
Foreign exchange gains / ( Loss )	246.65	(935.48)
	<b>1,330.82</b>	<b>(607.40)</b>
<b>14 SOFTWARE DEVELOPMENT AND BPO EXPENSES</b>		
Salaries and bonus including overseas staff expenses and outsourced consultants cost	43,288.42	30,894.73
Staff welfare	1,605.70	1,302.91
Contribution to provident and other funds	1,072.43	1,061.99
Foreign tour and travel	5,023.45	5,563.71
Consumables and computer maintenance	92.54	141.37
Communication expenses	1,550.75	1,539.11
License and Royalty	118.91	80.42
	<b>52,752.20</b>	<b>40,584.24</b>
<b>15 SELLING, ADMINISTRATION AND OTHER GENERAL EXPENSES</b>		
Salaries and bonus including overseas staff expenses	5,712.42	4,114.60
Contribution to provident and other funds	241.43	226.04
Professional charges	1,240.34	942.82
Legal expenses	378.13	488.19
Travelling and conveyance	699.30	738.92
Rent	1,903.51	1,414.50
Business promotion	514.56	610.24
Power and fuel	1,035.31	705.68
Printing and stationery	160.48	155.25
Office maintenance	261.80	253.92
Provision for doubtful debts	923.94	(108.10)
Insurance charges	476.09	247.12
Advertisements	194.58	18.28
Bad debts written off	91.94	284.31
Rates and taxes	41.47	46.99
Auditors' remuneration	24.61	31.03
Repairs - Building	61.89	105.15
Repairs - Plant and machinery	215.66	279.34
Repairs - Others	766.48	264.73
Directors' sitting fees	3.35	3.30
Donations	24.52	26.41
Pre-operative and deferred revenue expenses written off	49.19	87.28
Preliminary expenses written off	0.89	1.66
Miscellaneous expenses	719.08	319.86
	<b>15,740.97</b>	<b>11,257.52</b>
<b>16 FINANCE CHARGES</b>		
Interest paid towards lease obligations	62.57	115.05
Bank and other charges	50.10	26.49
	<b>112.67</b>	<b>141.54</b>

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS****Group Overview****1. Description of the Group**

Polaris Software Lab Limited (“Polaris” or “the Company”) is the flagship Company of the Group and is listed on the principal Stock Exchanges of India.

Polaris and its subsidiaries (collectively “the Polaris Group”) are primarily engaged in the business of delivering customized software solutions and products in the domain of contemporary services which include banking and financial services. The list of subsidiaries with percentage holding is given below.

<i>Subsidiaries</i>	<i>Country of incorporation</i>	<i>Proportion of ownership interest</i>
<i>Polaris Software Lab Ltd</i>	<i>United Kingdom</i>	<i>100%</i>
<i>Polaris Software Pty Limited</i>	<i>Australia</i>	<i>100%</i>
<i>Polaris Software Lab SA</i>	<i>Switzerland</i>	<i>100%</i>
<i>Polaris Software Lab GmbH</i>	<i>Germany</i>	<i>100%</i>
<i>Polaris Software Lab Pte Limited</i>	<i>Singapore</i>	<i>100%</i>
<i>Polaris Software Lab Japan KK</i>	<i>Japan</i>	<i>100%</i>
<i>Polaris Software Lab Ireland Limited</i>	<i>Ireland</i>	<i>100%</i>
<i>Polaris Software Lab Canada Inc</i>	<i>Canada</i>	<i>100%</i>
<i>Polaris Retail Infotech Limited</i>	<i>India</i>	<i>100%</i>
<i>Optimus Outsourcing Company Limited*</i>	<i>India</i>	<i>100%</i>

\* Engaged in the Business Process Outsourcing business

The list of associates with percentage holding is given below.

<i>Associates</i>	<i>Country of incorporation</i>	<i>Proportion of ownership interest (%)</i>
<i>Eternet Inc</i>	<i>USA</i>	<i>25%</i>
<i>NMS Works Software Limited</i>	<i>India</i>	<i>45%</i>
<i>Adrenalin eSystems Limited (formerly known as Empower Works Limited)</i>	<i>India</i>	<i>47%</i>
<i>AIG Systems Solutions Private Limited</i>	<i>India</i>	<i>20%</i>

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**

**A. SIGNIFICANT ACCOUNTING POLICIES**

**1 Basis of preparation**

The consolidated financial statements of the Polaris Group are prepared under the historical cost convention on the accrual basis in accordance with Generally Accepted Accounting Principles (GAAP) in India, and materially comply with the mandatory Accounting Standards (“AS”) issued by the Institute of Chartered Accountants of India (ICAI) and the provisions of the Companies Act, 1956 (the Act).

The consolidated financial statements include the financial statements of Polaris Software Lab Limited and all its subsidiaries, which are more than 50%, owned or controlled. The financial statements are prepared in accordance with the principles and procedures for the preparation and presentation of consolidated financial statements as laid down under AS 21- Consolidated Financial Statements prescribed by the ICAI. In respect of investments made in Associate Companies, the principles prescribed under AS 23- Accounting for Investments in Associates in Consolidated Financial Statements issued by the ICAI, effective 1 April 2002 has been adopted in the preparation of these financial statements. All material inter-Company transactions and accounts are eliminated on consolidation.

**2. Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period reported. Actual results could differ from these estimates.

Management periodically assesses using external and internal sources whether there is an indication that an asset may be impaired. An impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the asset and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the asset’s net sales price or present value as determined above. Contingencies are recorded when it is probable that a liability will be incurred, and the amount can be reasonably estimated. Actual results could differ from those estimates.

**3. Revenue recognition**

**Software Development and support Services**

Revenue from software development and support services comprises income from time-and-material and fixed price contracts. Revenue with respect to time-and-material contracts is recognized as related services are performed. Revenue from fixed-price contracts is recognized in accordance with the percentage of completion method. Provision for estimated Losses on incomplete contract is recorded in the

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**

period in which such Losses become probable based on the current contract estimates.

Revenue in excess of billings represent earnings on ongoing fixed price and time and material contracts over amounts invoiced to customers.

Billings in excess of revenue represent amounts received in advance in case of ongoing fixed price contracts wherein amounts have been billed in accordance with the billing cycle and efforts would be incurred subsequent to period end.

**Product licenses and related revenues**

Revenues from product licenses and related services comprise income under multiple element arrangements recognized as follows:

- ◆ License fees and fees for customization/implementation services are recognized under percentage of completion method. Provision for estimated losses, if any, on incomplete contracts is recorded in the period in which such losses become probable based on current contract estimates
- ◆ Product maintenance revenues are recognised over the period of the maintenance contract.

**Business Process Outsourcing**

Revenue is recognized in accordance with the terms of the contract with the customer. Revenue is recognized as related services are performed.

**4. Fixed assets and capital work in progress**

Fixed assets are stated at cost, after reducing accumulated depreciation until the date of the balance sheet. Direct costs are capitalized until the assets are ready for use and include the borrowing costs related to the acquisition or construction of qualifying assets for the period up to the completion of construction or installation of such assets respectively and pre-operative expenses incurred during the construction period. Capital work-in-progress includes advances paid to acquire fixed assets and the cost of assets not ready for intended use before the balance sheet date.

**5. Assets acquired on finance lease**

Assets acquired on finance leases are capitalized and a corresponding liability disclosed as lease obligations under "Current Liabilities". Such assets are capitalized at fair values or present value of lease payments, whichever is lower. Rentals paid by the Company are apportioned between the finance charge and as a reduction of the outstanding liability. Finance charge reflects a constant periodic rate of interest on the remaining balance of liability for each period.

In respect of assets acquired on finance lease prior to 1 April 2001, the corresponding lease rentals are expensed to the Profit and Loss account.

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****6. Depreciation**

Depreciation on fixed assets is provided pro-rata to the period of use, using the straight-line method based on rates specified in Schedule XIV to the Act or on estimated useful lives of assets, whichever is higher. Individual assets costing less than Rs 5,000 are depreciated in full in the year of purchase.

The estimated useful lives applied for depreciation of fixed assets are as follows:

<b>Asset category</b>	<b>Estimated Useful Life (years)</b>
<b><u>Tangible assets</u></b>	
Buildings	29
Leasehold Improvements	10
Plant and machinery	6-7
Computer equipment and Software	3
Servers and computer accessories	5
Furniture and fixtures, office equipment and electrical fittings	10
Vehicles	6
<b><u>Intangible Assets</u></b>	
Software Products (indigenously developed)	5
Intellectual property rights	1

In respect of assets acquired on finance lease after 1 April 2001, the leased assets are depreciated over the period of the lease.

**7. Research and development expenses for software products****Expenditure**

Software product development costs are expensed as incurred until technological feasibility is established. Software development costs incurred subsequent to the achievement of technological feasibility are capitalised and amortised over estimated useful life of the products. This capitalisation is done only if the Company has the intention and ability to complete the product, the product is likely to generate future economic benefits, adequate resources to complete the product are available to the Company and the Company is able to accurately measure such expense.

Such software development costs comprise expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to development of the product.

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****Amortization**

The amortization of software development costs is allocated on a systematic basis over the best estimate of its useful life after the product is ready for use. The factors considered for identifying the basis include obsolescence, product life cycle and actions of competitors. The products are amortized over a period of five years.

The amortization period and the amortization method is reviewed at each period end. If the expected useful life of the product is shorter from previous estimates, the amortization period is changed accordingly.

**8. Foreign currency transactions and translations**

Transactions in foreign currencies are recorded at a rate that approximates the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the rate of exchange as at the balance sheet date. Exchange differences arising on foreign currency transactions are recognised in the profit and loss account except in respect of liabilities incurred for acquiring fixed assets from a country outside India, in which case such differences are adjusted to the cost of the fixed assets.

The financial statements of non-integral foreign operations are translated into Indian Rupees as follows:

- (a) Income and expense items are translated at the average exchange rate for the period.
- (b) Assets and liabilities, both monetary and non-monetary, are translated at the closing rate.
- (c) All resulting exchange differences are accumulated in foreign currency translation reserve, which is reflected under reserves and surplus.

**9. Forward contracts in foreign currencies**

The Company uses foreign exchange forward contracts to hedge its exposure to movements in foreign currency rates. The use of these foreign exchange forward contracts reduces the risk or cost to the Company and the Company does not use the foreign exchange forward contracts for trading or speculation purposes. The premium or discount on all such contracts arising at the inception of each contract is amortised as income or expense over the life of the contract. Any Profit or Loss arising on the cancellation or renewal of forward contracts is recognised as income or as expense for the period.

In relation to the forward contracts entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date, the exchange differences is calculated as the difference between the foreign currency amount of the contract translated at the exchange rate at the reporting date, or the settlement date where the transaction is settled during the reporting period, and

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**

the corresponding foreign currency amount translated at the latter of the date of inception of the forward exchange contract and the last reporting date. Such exchange differences are recognised in the Profit and Loss account in the reporting period in which the exchange rates change.

**10. Preliminary expenses**

Preliminary expenses represents pre-incorporation expenses incurred by the group towards formation of one of the subsidiary companies. These expenses are amortised over a period of five years.

**11. Pre-operative expenses**

Pre-operative expenses represent expenses incurred by one of the subsidiary companies upto the date of commencement of commercial operations. These expenses are being amortised over a period of five years.

**12. Investments**

Investments are classified as long term investments and current investments. Long term investments are stated at cost and any decline, other than temporary, in the value of such investments is charged to the Profit and Loss account. Current investments are stated at the lower of cost and market value.

**13. Retirement benefits***Provident fund*

Employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and the Company make monthly contributions to the Regional Provident Fund equal to a specified percentage of the covered employee's salary. The Company has no further obligations under the plan beyond its monthly contributions.

*Gratuity*

The Company provides for gratuity in accordance with the Payment of Gratuity Act, 1972, a defined benefit retirement plan (the Plan) covering all employees. The plan, subject to the provisions of the above Act, provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment.

The Company estimates its liability as of each balance sheet date based on an actuarial valuation and such liability is not funded except in respect of certain employees taken over on merger, where the Company contributes gratuity to a fund maintained by The Life Insurance Corporation of India.

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)***Superannuation*

The Company contributes specified percentage of the eligible employees' basic salary towards superannuation (the Plan) to a fund managed by Life Insurance Corporation of India. A trust has been created and approved by the Income-tax authorities for this purpose. This plan provides for various options for payment of pension at retirement or termination of employment as per the trust rules. The Company has no further obligations under the plan beyond its annual contribution.

*Leave encashment*

As per the employment policy of the Company, employees are required to avail their annual leave by the end of the respective financial year and leave is not allowed to be encashed.

*Subsidiaries*

Retirement benefits are provided to employees of subsidiaries in accordance with the local laws and regulations prevailing in the Country in which the subsidiary is located.

**14. Income Taxes and Deferred Tax**

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Group. The current tax provision and advance income tax as at balance sheet date have been arrived at after setting off advance tax and current tax provision where the group has 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.

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to timing differences that result between the Profit offered for income taxes and the Profit as per the financial statements. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the period that includes the enactment date.

Deferred tax assets in respect of Losses carried forward and unabsorbed depreciation are recognised only to the extent that there is virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Other deferred tax assets are recognised only if there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised and are reassessed for the

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**

appropriateness of their respective carrying values at each balance sheet date.

The break up of the major components of 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.

**15. Stock based compensation**

In accordance with the Employee Stock Option Scheme and Employee Stock Purchase Scheme Guidelines, 1999 issued by the Securities and Exchange Board of India ("SEBI"), the 'Option Discount' has been amortised on a straight-line basis over the vesting period of the shares to be issued under Stock Option Plans and disclosed as 'employee stock compensation expense' in the Profit and Loss Account.

'Option Discount' means the excess of the market price / fair value of the underlying shares at the date of grant of the options over the exercise price of the options.

**16. Earnings per share**

The basic earnings per share is computed by dividing the net Profit attributable to equity shareholders for the period by the weighted average number of equity shares outstanding during the period. The number of shares used in computing diluted earnings per share comprises the weighted average shares considered for deriving basic earnings per share and also the weighted average number of equity shares which would have been issued on the conversion of all dilutive potential equity shares. Dilutive potential equity shares are deemed converted as at the beginning of the period, 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). In computing dilutive earnings per share, only potential equity shares that are dilutive and that either reduce earnings per share or increase Loss per share are included.

**17. Change in accounting policy**

Accounting Standard 11, 'The effect of changes in foreign exchange rates' was revised with effect from 1 April 2004 and prescribes classification of foreign operations and the applicable translation procedures. The Company has adopted the revised accounting standard effective 1 April 2004 and has classified foreign branch as a non-integral foreign operation. Consequent to the change in the accounting policy, the profits for the year is higher by Rs 55.5 Lacs

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****B. NOTES TO ACCOUNTS:**

- All amounts in the financial statements are presented in Rupees Lacs, except for per share data and as otherwise stated.
- Capital commitments and other commitments**

The estimated amount of contracts remaining to be executed on capital account, and not provided for (net of advances) as at 31 March 2005 is Rs 1,891.66 (2004: Rs 636.45).

As at 31 March 2005, the Group has outstanding guarantees and counter guarantees of Rs. 249.57 (2004: Rs 282.10) issued to various banks, in respect of the guarantees given by the banks in favour of various government authorities.

The future obligation for vehicles taken on lease is given below.

	Asat 31 March 2005	Asat 31 March 2004
Not later than one year	191.06	243.43
Later than one year and not later than 5 years	86.94	265.91
	278.00	509.34
Less: Amount representing future interest	(33.32)	(84.10)
Present Value of minimum lease rentals	<b>244.68</b>	<b>425.24</b>

**3. Capitalisation of Product Costs**

As explained in Schedule 17, Note A (7) of Significant Accounting Policies, the Company capitalises software development costs pertaining to the development of the software product. The costs include directly attributable costs and other costs allocated on a reasonable basis to the product. The Company has during the year established commercial acceptability of the Intellect suite of software products and accordingly capitalised the software product by December 2004.

The details of the costs considered for capitalisation during the year are detailed below.

Particulars	Year ended 31 March 2005	Year ended 31 March 2004
Salaries and wages	1,155.43	1,894.20
License fees	-	12.10
Premises costs	66.92	101.33
Power and fuel	53.79	69.83
Communication	72.89	94.18
Repairs and maintenance	55.93	63.71
Depreciation	170.87	233.10
	<b>1,575.83</b>	<b>2,468.45</b>

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****4. Stock Option Plan**

The Company has three stock option plans that provide for the granting of stock options to employees including directors of the Company (not being promoter directors and not holding more than 10% of the equity shares of the Company). The objectives of these plans include attracting and retaining the best personnel, providing for additional performance incentives and promoting the success of the Company by providing employees the opportunity to acquire equity shares. The option plans are summarized below:

**Associate Stock Option Plan 2000**

On 9 March 2000, the Company's shareholders approved in the Extraordinary General Meeting (EGM) an Associated Stock Option Plan ("the 2000 Plan"). The 2000 Plan provides for issuance of 938,400 equity shares of Rs 5 each to the employees including Directors. Employee Compensation Committee administers the 2000 Plan. Under the Plan, based on the recommendation of Employee Compensation Committee, the options were granted at a discount not exceeding 25% of the market price of shares on the date of grant. The option vests over a period of five years from the grant date.

Subsequently, the shareholders of the Company approved the following modifications to the 2000 Plan :

- ◆ At the EGM held on 7 March 2001, the Plan was modified to permit cancellation/ accept surrender of options; and
- ◆ At the Annual General Meeting held on 6 September 2002, the exercise price of the options to be granted will be the market price of the shares on the date of the grant.

A summary of the status of the 2000 Plan at 31 March 2005 is presented below.

<b>Number of options granted, exercised, cancelled / surrendered and forfeited</b>	<b>Year ended 31 March 2005</b>	<b>Year ended 31 March 2004</b>
Options outstanding at the beginning of the year	1,091,255	1,190,265
Granted during the year	-	113,000
Exercised during the year	(97,200)	(85,700)
Forfeited / surrendered during the year	(245,545)	(126,310)
Outstanding at the end of the year	<b>748,510</b>	<b>1,091,255</b>

**Associate Stock Option Plan 2001**

The Shareholders of the Company in the Extraordinary General Meeting (EGM) held on 7 March 2001 approved an Associate Stock Option Plan (the 2001 Plan). The 2001 Plan provides for issuance of 1,194,000 equity shares of Rs 5 each to the employees including Directors at the closing market price of shares on the date of grant. The option vests over a period of five years from the grant date.

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**

A summary of the status of the 2001 plan at 31 March 2005 is presented below.

<b>Number of options granted, exercised, cancelled / surrendered and forfeited</b>	<b>Year ended 31 March 2005</b>	<b>Year ended 31 March 2004</b>
Options outstanding at the beginning of the year	1,037,122	1,438,440
Granted during the year	-	50,000
Exercised during the year	(224,995)	(268,268)
Forfeited/surrendered during the year	(204,237)	(183,050)
Outstanding at the end of the year	<b>607,890</b>	<b>1,037,122</b>

During the year ended 31 March 2002, the Company announced and allotted bonus shares by capitalising a part of share premium account in the ratio of 1 equity share for every 2 shares held on the record date. The Associate Stock Option Plan (ASOP) schemes mentioned above provide power to the compensation committee for suitable adjustments to the quantum and price of ASOPs in case of corporate actions such as stock split, bonus etc. The holders of options granted prior to issuance of bonus shares by the Company are entitled to receive additional options in the ratio of one additional option for every two options held.

At the Ninth Annual General Meeting held on 6 September 2002, a special resolution was passed, effective 7 March 2001, wherein the total number of options to be granted under the 2000 Plan and 2001 Plan along with options already granted by the Company and outstanding under the schemes shall not at any time exceed 6.25 % (2.75 % under the 2000 Plan and 3.5% under the 2001 Plan) of the total shares issued by the Company on the date (s) of grant of such options.

**Associate Stock Option Plan 2003**

The Shareholders of the Company in the EGM held on the 12 March 2004 approved an Associate Stock Option Plan (the 2003 Plan). The 2003 Plan provides for issuance of 3,895,500 equity shares of Rs 5 each to the employees including Directors at the market price of the shares on the date of grant. The market price under the 2003 Plan scheme prior to the revised SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999 (amended upto July 22, 2004), was the average of the two weeks high and low price of the share preceding the date of grant of option on the stock exchange, where the highest trading volumes are recorded during the aforesaid period. Consequent to the revised SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999 (amended upto July 22, 2004), the market price under the 2003 Plan scheme is the latest available closing price prior to the date of the meeting of the Board of Directors in which options are granted/shares are issued, on the stock exchange on which the shares of the Company are listed and, where there is highest trading volume on the said date. The option vests over a period of five years from the grant date.

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**

A summary of the status of the 2003 plan at 31 March 2005 is presented below.

<b>Number of options granted, exercised, cancelled / surrendered and forfeited</b>	<b>Year ended 31 March 2005</b>	<b>Year ended 31 March 2004</b>
Options outstanding at the beginning of the year	-	-
Granted during the year	2,569,250	-
Exercised during the year	-	-
Forfeited/surrendered during the year	(390,300)	-
Outstanding at the end of the year	<b>2,178,950</b>	-

**5. Segment Reporting**

The Group's operations predominantly relate to providing IT services, delivered to customers operating in various industry segments globally. Accordingly, IT service revenues represented along industry classes comprise the primary basis of segmental information set out in these financial statements. Secondary segmental reporting is performed on the basis of the geographical location of customers.

The accounting policies consistently used in the preparation of the financial statements are also applied to record revenue and expenditure in individual segments.

Business (primary) segments of the Group are:

- a) Banking and financial services; and
- b) Emerging verticals.

Revenue and direct expenses in relation to segments are categorized based on items that are individually identifiable to that segment, while other costs, wherever allocable, is apportioned to the segments on an appropriate basis. Certain expenses are not specifically allocable to individual segments as the underlying services are used interchangeably. The Group believes that it is not practicable to provide segment disclosures relating to such expenses, and accordingly such expenses are separately disclosed as 'unallocated' and directly charged against total income.

Fixed assets used in the Group's business or liabilities contracted have not been identified to any of the reportable segments, as the fixed assets and services are used interchangeably between segments. The Group believes that it is currently not practicable to provide segment disclosures relating to total assets and liabilities since a meaningful segregation of the available data is onerous.

Customer relationships are driven based on the location of the respective client. The geographical segments comprise:

- a) United States of America
- b) Europe
- c) Asia Pacific
- d) India and the Middle East.

## POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

## 17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

## Primary segment information

Particulars	Year ended 31 March 2005	Year ended 31 March 2004
<b><u>Segment revenues</u></b>		
Banking and financial services	68,459.17	54,518.66
Emerging verticals	10,283.16	10,123.93
	<b>78,712.33</b>	<b>64,642.59</b>
<b><u>Segment Profit before Finance charges and Tax</u></b>		
Banking and financial services	21,169.35	16,522.19
Emerging verticals	1,510.04	689.65
	22,679.39	17,211.84
Finance charges	(112.67)	(141.54)
Other unallocable expenditure net of unallocable income	(15,686.82)	(8,571.86)
<b>Profit before taxation</b>	<b>6,879.90</b>	<b>8,498.44</b>
Income Tax and Deferred Tax	(1,075.84)	(1,513.24)
<b>Profit after taxation</b>	<b>5,804.06</b>	<b>6,985.20</b>

## Secondary segment information

Region	Year ended 31 March 2005	Year ended 31 March 2004
<b><u>Segment revenues</u></b>		
United States of America	33,822.45	28,651.41
Europe	16,799.91	15,726.31
Asia Pacific	16,450.88	13,323.37
India and Middle East	11,639.09	6,941.50
	<b>78,712.33</b>	<b>64,642.59</b>

Revenues by geographic area are based on the geographic location of the customer.

## 6. Earnings per Share ("EPS")

Reconciliation of basic and diluted shares used in computing EPS:

Particulars	Year ended 31 March 2005	Year ended 31 March 2004
Weighted average number of equity shares outstanding during the year - Basic	97,833,640	97,460,457
Add: Effect of dilutive issue of stock options to be converted	512,844	1,008,846
Weighted average number of equity shares outstanding during the year – Diluted	<b>98,346,484</b>	<b>98,469,303</b>

In computing the diluted EPS, only potential equity shares that are dilutive and that either reduce earning per equity share or increase Loss per equity share are included.

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****7. Related party transactions**

Following are the related parties with whom transactions have taken place during the year:

<b>Associates</b>	
Eternet Inc. NMS Works Software Limited('NMS')	Orbitech Employees Welfare Trust Adrenalin eSystems Limited (formerly known as Empower Works Limited) (Adrenalin eSystems) AIG Systems Solutions Private Limited, (AIGSS)
<b>Others</b>	
(a)(enterprises that directly, or indirectly through one or more intermediaries, control the Group and enterprise of which the Group is an associate). Citibank and its branches Orbitech Limited Polaris Holdings Private Limited	
(b) (enterprises that have a member of Key Management in common with that of the Group) Ullas Trust	
<b>Key management personnel</b>	
Mr. Arun Jain, Chairman and Managing Director Mr. Govind Singhal, Executive Director	Mr. Ram Bhagwat, Executive Director (Up to 31 December 2004)

Figures in Brackets denote previous year figures

PARTICULARS	ASSOCIATES					OTHERS
	Adrenalin eSystems*	NMS*	AIGSS	Orbitech trust	Others	
<b>Balances due to/from related Parties</b>						
Receivables-trade debts	19.46 (-)	- (-)	- (-)	- (-)	- (-)	7,889.76 (11,388.57)
Receivables-loans and advances	- (7.05)	- (13.75)	- (-)	926.65 (1,095.24)	- (-)	2,056.61 (1,832.59)
Advance towards share capital	150.00 (-)	35.00 (-)	- (-)	- (-)	- (-)	- (-)
Payables	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)
Investments	733.88 (589.88)	400.00 (400.00)	326.70 (-)	- (-)	- (-)	- (-)
<b>Related Party Transaction</b>						
Advances given	- (230.51)	- (-)	- (-)	- (-)	- (-)	- (-)
Payments received against loan	- (-)	- (-)	- (-)	168.59 (-)	- (-)	- (-)
Software development service income	- (-)	- (-)	421.74 (-)	- (-)	- (-)	41,641.31 (35,470.03)

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****7. Related party transactions (Contd.)**

PARTICULARS	ASSOCIATES					OTHERS
	Adrenalin eSystems*	NMS*	AIGSS	Orbitech trust	Others	
<b>Balances due to/from related Parties</b>						
Software development expenses	- (30.22)	- (-)	- (-)	- (-)	- (-)	- (-)
Reimbursement of expenses to the Company	9.46 (-)	- (-)	92.61 (-)	- (-)	- (-)	26.64 (84.17)
Reimbursement of expenses by the Company	- (-)	- (-)	- (-)	- (-)	- (-)	115.28 (102.58)
Lease Payment	- (-)	- (-)	- (-)	- (-)	- (-)	117.80 (117.80)
Investments	144.00 (289.88)	- (43.00)	326.70 (-)	- (-)	- (-)	- (-)
Advance towards share capital	150.00 (-)	35.00 (-)	- (-)	- (-)	- (-)	- (-)
Donations	- (-)	- (-)	- (-)	- (-)	- (-)	19.43 (18.26)
Provision for investments	- (-)	- (-)	- (-)	- (-)	- (4.07)	- (-)
<b>Maximum balances outstanding during the year</b>						
Receivables - trade debts	19.46 (-)	- (-)	68.98 (-)	- (-)	- (-)	9,441.94 (13,993.00)
Receivables - loans and advances	- (1,250.00)	- (170.99)	- (-)	1,095.24 (-)	- (-)	- (-)
Advances towards share capital	150.00 (-)	35.00 (-)	- (-)	- (-)	- (-)	- (-)
Payables	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)

\* Companies in which directors are interested

Details of remuneration and other amount paid/payable to directors Rs.269.08 (2004 - Rs.212.19)

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

**17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)**

The Group has made a provision towards consideration in connection with retirement from office of a director amounting to Rs.50.(2004:Nil)

In the current year, the group issued Nil stock options (2004: 20,000 stock options) under the ASOP 2000 plan, Nil stock options (2004:50,000 Stock Options) Under the ASOP 2001 plan 25,000 stock options (2004: Nil) under the ASOP 2003 plan to certain Directors.

No compensation cost arises as a result of these were issued at prevailing market prices.

Amount received under pre merger contingencies are given in Note B 10 of Schedule 17

**8. Investments in Associates**

- a) The movement during the year comprises of the following:
- ◆ Subscribed additionally for 462,099 equity shares of Rs . 10 each at a premium of Rs.60.70 per share amounting to Rs.326.70 during the year in AIG Systems Solutions Private Limited;
  - ◆ Subscribed additionally for 1,440,000 equity shares of Rs.5 each at a premium of Rs.5 per share amounting to Rs.144 during the year in Adrenalin eSystems Limited (formerly known as Empower Works Limited).
- b) The Company's equity ownership interest in Adrenalin eSystems Limited (formerly known as Empower Works Limited) has reduced from 49% at 31 March 2004 to 46.59% as on 31 March 2005. Adrenalin eSystems Limited is primarily engaged in the business of providing specific solutions relating to Human Relations suite of software solutions and products. The accumulated Losses to the extent of Rs.1173.30 as per the unaudited financial statements as on 31 March 2005 are on account of initial / start-up stage of operations and the Company is expected to generate Profits in the future. Accordingly, management believes that there is no permanent diminution in the value of its investments in Adrenalin eSystems Limited and hence it is stated at cost.
- c) The Company's equity ownership interest in NMS Works Software Limited is 44.96% as on 31 March 2005. NMS Works Software Limited is primarily engaged in the business of designing network management in Telecommunication and Internet Services. The accumulated Losses to the extent of Rs 230.40 as per the unaudited financial statements as on 31 March 2005 are on account of initial / start-up stage of operations and the Company is expected to generate Profits in the future. Accordingly, management believes that there is no permanent diminution in the value of its investments in NMS Works Software Limited and hence it is stated at cost.

**9. Litigation, claims and contingencies**

**Data Inc.**

Arun Verma and Data Inc. (the plaintiffs) have filed a complaint against the Company in a US Court for damages towards breach of contract and fraud, for non-acquisition of Data Inc. On 27 November 2001, the Court granted the Company motion and dismissed all claims of the plaintiff except their breach of contract claim for liquidated damages under the terms of MOU and limited the extent of claim by the plaintiff to US \$ 100,000. Data Inc. has appealed against the trial court order dated 27 November, 2001. During the previous year, the parties entered into an agreement to dismiss all remaining claims subject to re-asserting all their claims that existed before 27 November, 2001 under certain conditions. On 9 September 2003 the court of appeals referred the matter to the appellate mediator for a settlement prior to the court rendering a decision. However the mediation proved to be unsuccessful and the matter was referred back

## POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES

Schedules to the Consolidated Balance Sheet and Consolidated Profit and Loss Account

### 17 SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

the court in December 2003. The court of appeals after obtaining supplemental briefing from the parties dismissed the appeal on 20 April 2004 and remanded the matter to the District Court. During the year under review the District Court appointed a retired Judge as a mediator to resolve the matter amicably. The mediation proceedings are continuing, the Company is vigorously contesting the case and continues to believe that allegations of Data Inc. are without merit and have been proved by various orders of the Court so far.

#### 9. Litigation, claims and contingencies (continued)

##### Suit filed by ex-employees

Two former employees of the Company have instituted a suit in Mumbai for wrongful termination of their services and publication of defamatory material. Since the case is in the preliminary stage, it is not possible for the Company to predict the outcome of the case. The Company believes that the allegations are without merit and is vigorously contesting the case. Pending the outcome of the case, the management is not able to estimate the financial effect of the contingency. However, the management believes that the claim can be successfully resisted by the Company.

##### Bank Artha Graha

Due to a commercial dispute, Bank Artha Graha (BAG), Indonesia has not paid the monies due to the Company under a contract and terminated the contract prematurely in November 2002. This dispute was under arbitration at Singapore's International Arbitration Centre (SIAC).

During the year, the Company entered into a settlement with Bank Artha Graha and agreed to make full restitution to Bank Artha Graha of the sum of US\$ 1,000,000 (Rs 462) received under the Licence Agreement. The above said amount was paid to Bank Artha Graha and the charge to the profit and loss account has been included under Miscellaneous expenses (refer Selling, administration and other general expenses - schedule 15).

##### Income-tax matters

The Parent Company received two orders in the month of March 2005 from the Deputy Commissioner of Income Tax and Additional Commissioner of Income Tax, Chennai for the assessment years 2001-02 and 2002-03 respectively wherein mainly certain expenditure incurred in foreign currency were excluded from the export turnover for determining allowable deduction u/s 10A of the Income Tax Act. Consequently a demand, inclusive of interest, of Rs.1,803.45 was raised on Company. The Company has subsequent to the balance sheet date filed a stay petition against the demand notices received from the Income Tax Department. Considering the facts and nature of disallowance, the Company believes that the final outcome of the disputes will be in its favour and will not have any material impact on the financial statements.

##### Others

The Company is also involved in other lawsuits, and claims which arise in the ordinary course of business. However, there are no such matters pending that the Company expects to be material in relation to its business.

10. Miscellaneous income (under Other income (schedule 13)) includes Rs 750 received during the year from Orbitech Limited, the erstwhile shareholder of Orbitech Solutions Limited (which has been amalgamated with Polaris Software Lab Limited on 1 November 2002) towards the pre merger contingencies and/ or any merger related matters.
11. Previous year figures have been regrouped / reclassified, wherever necessary, to conform to the current year presentation.

Australia

Bahrain

Canada

Dubai

France

Germany

India

Ireland



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## **FREQUENTLY ASKED QUESTIONS**

## General

### Where and in which year was Polaris Software Lab Ltd incorporated?

In Chennai, on 5 January 1993.

### Who is the promoter of Polaris Software?

Arun Jain.

### Where does Polaris have its headquarters?

Polaris House, 244, Anna Salai, Chennai 600006, Tamil Nadu, India.

### What is the paid-up-capital of the Polaris?

The paid-up capital of Polaris is Rs 49.01 crores comprising 98,010,272 equity shares of Rs 5 each (as on 31 March 2005).

### Where are Polaris offices and development centers located?

- ◆ Headquarters and corporate office in Chennai, India
- ◆ 12 offshore development centers in India
- ◆ Subsidiaries in Singapore, Germany, Switzerland, Australia, Ireland, UK, Japan, and Canada
- ◆ Branch offices in Chicago, New Jersey, and Fremont in the USA
- ◆ Branch offices in Mumbai, Hyderabad, Bangalore, and Delhi in India
- ◆ Branch offices in Dubai, Bahrain, and Riyadh in the Middle East, and
- ◆ Branch office in Hong Kong.

### Who are on the Polaris Board of Directors?

*The Board of Directors comprises senior and experienced professionals from diverse backgrounds:*

- ◆ Arun Jain, Chairman & Managing Director and CEO
- ◆ Abhay Agarwal, Practicing Chartered Accountant
- ◆ Ajit Bhushan, Managing Director, Citigroup Venture Capital International
- ◆ Anil Khanna, Managing Director, Citigroup Venture Capital International
- ◆ Nanoo G Pammani, Director-Strategic Technology, Operations & Special Projects, Citi Bank N.A., Asia-Pacific Consumer Group
- ◆ Anil Sachden, Founder and Chief Executive Officer, Grow Talent Company Limited
- ◆ Arvind Kumar, Senior Lawyer, Supreme Court
- ◆ Dr Ashok Jhunjhunwala, Professor & Head of the Department of Electrical Engineering, Indian Institute of Technology, Madras
- ◆ Govind Singhal, Executive Director
- ◆ R.C.Bhargava, Former Chairman and Managing Director, Maruti Udyog Ltd.
- ◆ Satya Pal, Former Secretary (Telecom), Chairman MTNL, and Telecom Expert
- ◆ V. Balaraman, CEO, Adrenalin eSystems Ltd

### **What is the Vision statement of Polaris?**

“To build future leaders through continuous learning, creativity, excellence and mutual respect and reaching new horizons with our creative energies ensuring customer delight and social fusion.”

### **What is the mission of Polaris?**

“To be a reliable and responsive techno-business solutions provider in the areas of Banking, Financial Services, Insurance, and Retail; will provide cost-effective and timely solutions, meeting customers expectations through continuous process improvement and win- win relationships.”

### **What is the history of Polaris?**

- ◆ 1993 - Incorporation
- ◆ 1994 - End to end retail banking solution for Citibank India
- ◆ 1995 - Quality process aligned to SEI-CMM Level 3
- ◆ 1997- First overseas development center for Citibank, LA
- ◆ 1997- Citicorp Finance takes 18% venture capital stake at a valuation of Rs 50 Crores
- ◆ 1997- Wholly owned subsidiary in Singapore
- ◆ 1997- Wholly owned subsidiary in the USA
- ◆ 1998-ISO 9001 Certification by KPMG
- ◆ 1998-UK subsidiary
- ◆ 1998-Quality process aligned to SEI CMMi Level 4
- ◆ 1998-Polaris Retail Infotech formed in Chennai
- ◆ 1998-ISO 9001 certification
- ◆ 1999 - IPO and listing on major Indian stock exchanges
- ◆ 2000-‘Foundation’, a state-of-the-art 130,000 sq ft development center in Chennai
- ◆ 2000-Subsidiaries in Germany, Switzerland, and Australia
- ◆ 2001-Subsidiaries in Japan and Ireland
- ◆ 2001-First company in the world to be assessed and certified CMMi Level 5 (Capability Maturity Model Integrated) by the Software Engineering Institute
- ◆ 2001-Commences operations in Japan
- ◆ 2002-Optimus BPO subsidiary launched
- ◆ 2002-Business continuity center in Singapore

- ◆ 2002–Merger of OrbiTech Solutions Ltd with Polaris Software
- ◆ 2003– ‘Polaris Towers’, a 90,000 sq ft development center in New Delhi
- ◆ 2004–Exclusive 300 associate Center of Excellence facility in Mumbai for Financial Risk Management (FRM)
- ◆ 2004–Launched Polaris Intellect Suite of products for banking solutions
- ◆ 2004–Set up the 111,700 sq ft Intellect Engineering Center spread over eight acres in Chennai
- ◆ 2005 - Launch of Diploma Program in Financial Technology with IFMR

### **What are the significant awards / recognition received by Polaris?**

- ◆ Polaris rated among the top 25 companies with best practices and procedures on corporate governance by the Institute of Company Secretaries of India, New Delhi
- ◆ July 2004, Polaris ranked 9 in Nasscom’s Top 20 exporters list for 2003-04
- ◆ July 2004, Polaris ranked 12 in DQ Top 20
- ◆ March 2004, Gold Award in the print category for Annual Report - Advertising Club of Madras.
- ◆ January 2004, Mother Teresa Corporate Citizen of the Year 2003.
- ◆ December 2003, Rated among Top 25 by Institute of Company Secretaries of India.
- ◆ June 2003, Polaris Software product wins The Banker Technology Award 2003
- ◆ October 2002, Forbes ranks Polaris among Top 200 best small companies in the world
- ◆ April 2001, Fastest Growing Company by Business World
- ◆ December 2000, Forbes ranked Polaris among world’s best small companies
- ◆ October 2000, Polaris ranked among ‘Fab Five’ companies in India by Intelligent Investor

### **What are the quality certifications received by Polaris?**

- ◆ Polaris is the world’s first company to be appraised at CMMi Level 5 (Capability Maturity Model Integrated).
- ◆ Polaris has been certified as ISO 9001:2000 by KPMG Quality Registrar.
- ◆ Polaris has been recommended for BS-7799 certification by STQC, Delhi.

### **What is the employee strength and profile?**

As on 31 March 2005, Polaris had 5910 associates (Polaris employees are called associates) on a full-time basis. The academic profile of our associates is as follows:

#### **Academic profile of our associates**

<i>Qualifications</i>	<i>Associates, %</i>
Diploma / PG Diploma / Graduate	21
B.Tech / BE / M.Sc / MCA	58
MBA	8
M.Tech.	3
Ph.D.	1
Others	9
Total	100

### **Financial**

#### **In which stock exchanges are Polaris shares are listed and traded? And what are the scrip codes for Polaris Software Lab?**

*Polaris shares are traded on:*

- ◆ MSE: Madras Stock Exchange w.e.f. 27 September 1999.
- ◆ BSE: The Stock Exchange Mumbai w.e.f. 29 September 1999.
- ◆ NSE: National Stock Exchange w.e.f. 24 November 1999.

#### **What is the fiscal year of Polaris?**

The fiscal year period of Polaris is between 1 April and 31 March.

#### **Does Polaris issue quarterly reports and balance sheets?**

Provisional financial reports of Polaris are published for the quarters ending 30 June, 30 September, 31 December and 31 March.

#### **When did Polaris have its initial public offer (IPO)?**

The Polaris IPO was between 4 August 1999 and 10 August 1999. The public issue was at Rs 210 (Rs 200 premium and face value of Rs 10)

#### **What was the initial listing price?**

The initial listing price of Polaris equity shares was:

- BSE opening Rs 588 and closing price of Rs 723 (Rs10 share)
- NSE opening Rs 796 and closing price of Rs 797 (Rs10 share)

### Has Polaris made any subsequent issue of shares?

- ◆ **Face Value Split:** Shares having a face value of Rs 10 were split into two shares of Rs 5 each. The company's shares were subdivided from Rs10 to Rs5 with effect from 24 May 2000. In view of the split, the number of shares increased from 17,062,550 to 34,125,100.
- ◆ **Bonus:** The company issued bonus shares in August 2001 in the ratio of 1:2, and further to the issue of bonus shares the share capital of the company increased from Rs17.06 crores to Rs25.59 crores divided into 51,187,650 shares of Rs.5 each.
- ◆ **Merger:** The merger of OrbiTech Solutions with Polaris Software has led to enhancing the capital of the merged entity to Rs 48.69 crores divided into 97,389,089 shares of Rs 5 each

### What has been Polaris' employee (associate) strength vis-à-vis the revenue growth?

Year	Associates	Revenue, Rs crores
1998-99	915	82.39
1999-00	1465	1,65.72
2000-01	2415	282.50
2001-02	2556	293.80
2002-03	4248	431.06
2003-04	4976	646.42
2004-05	5910	787.12

### What has been the Dividend history of Polaris?

Polaris has a consistent dividend payment track record:

	2004 - 05	2003 - 04	2002 - 03	2001 - 02	2000 - 01	1999 - 00
Dividend %	35	35	35	35	30	30

### Merger related

#### What is the effective date of merger of OrbiTech Solutions with Polaris Software?

1 November 2002.

#### What is the merged entity called?

The merged entity continues to be called Polaris Software Lab Ltd. Arun Jain continues to be the Chairman, Managing Director, and CEO of the merged entity.

### **What is the swap ratio of merger?**

Polaris shareholders hold 52.75%, while OrbiTech shareholders hold 47.25% in the merged entity. 42.65 new shares of Rs 5 each of Polaris were exchanged for every 100 shares of Rs 2 each of OrbiTech. Post merger Polaris shareholders hold 51.53 million shares and OrbiTech shareholders hold 45.85 million shares in the merged entity.

### **What is the percentage of voting rights of Polaris promoters and Citigroup?**

Arun Jain, employees, and friends have 38.50% voting rights in the merged entity and Citigroup, through Orbitech Limited, holds 47.25%. However, under the merger agreement, Citigroup has voting rights only to the extent of 29.99% in the merged entity.

### **Electronic Clearing Services related**

#### **Is the Company extending Electronic Clearing Service (ECS) facility to shareholders for payment of dividend?**

Yes, the company is extending ECS facility to all its shareholders.

#### **What are the benefits of ECS?**

The dividend amount will be directly credited to the bank account of the respective shareholder. ECS also provides adequate protection against fraudulent interception and encashment of dividend warrants apart from eliminating loss/damage of dividend warrants in transit and the correspondence with the company on revalidation/issuance of duplicate dividend warrants.

#### **How can a shareholder avail the ECS facility?**

Shareholders holding shares in physical form have to submit a ECS Mandate Form to Karvy Computershare Private Limited, Hyderabad. Those who are holding shares in electronic form should forward the ECS Mandate Form to the Depository Participant with whom they maintain an electronic account. ECS Mandate Form is being sent to the shareholders along with the Notice convening the AGM

### **Transfer of shares, dematerialization**

#### **What is a Depository?**

A depository is an organization where the securities of a shareholder are held in the electronic form at the request of the shareholder, through the medium of a depository participant.

#### **What is de-materialization?**

Dematerialization is a process by which an investor can deposit (i.e. demat) shares of any company listed on NSDL and CDSL, which are registered in the name of the investor and convert the physical certificates into electronic form.

#### **What are the benefits of dematerialization to shareholders?**

The benefits of dematerialization to shareholders are:

- ◆ No longer any risk of misplaced / lost / defaced / damaged certificates, making/receiving bad deliveries from the market, filling up of transfer forms, affixing share transfer stamps, dispatching certificates for registering transfers, etc.

- ◆ Speedy transfer of shares
- ◆ Faster disbursement of corporate benefits like Rights, Bonus etc.
- ◆ No market lot for securities on NSDL/CDSL, as the market lot is one share. So, there is no problem of odd lot shares as faced by most investors.
- ◆ Facility for freezing / locking of your accounts so that the DP will not be able to carry out any transactions in the absence of the investor's authorization.
- ◆ A Depository Participant also provides facilities to pledge / hypothecate dematerialized securities held by the investor.
- ◆ No stamp duty on transfer of securities, the investor may incur expenditure towards service charges of the Depository Participant, if any.

### **Is Polaris shares a Compulsory demat security?**

Yes, this facility has been there for the shares of Polaris, right from the date of listing. However w.e.f from 8 May 2000, SEBI has by a circular has notified that the company's shares are to be traded compulsorily in the dematerialized form. Hence it is advisable for the investors to dematerialize their shareholding in Polaris for ease in trading. More than 99% of equity shares are in demat form.

### **Who is the electronic connectivity provider for Polaris?**

Karvy Computershare Private Limited, 46, Avenue #4, Street No 1, Banjara Hills, Hyderabad 500 034, who is also a Depository Participant having connectivity with NSDL and CDSL, is the electronic connectivity provider for Polaris. Karvy Computershare Private Limited is also the Registrars and share Transfer Agents of your company.

### **Is a transfer deed required for dematerializing certificates?**

No. The certificates have to be accompanied by a demat request form (DRF) which can be obtained from the DP and there is no need for a transfer deed.

### **Do dematerialized shares have distinctive/ certificate numbers?**

No. Dematerialized shares do not have any distinctive or certificate numbers. These shares are fungible. This means that 100 shares of a security are the same as any other 100 shares of that security.

### **Contact information**

#### **Whom to contact for shareholder and investor queries?**

*General shareholder complaints may be forwarded to:*

- ◆ Company Secretary  
Polaris Software Lab Ltd.  
'Polaris House'  
244, Anna Salai  
Chennai 600 006, India  
Tel: +91-44-2582 4154  
Fax: +91-44-2852 3280  
Email: investor@polaris.co.in

Institutional investor queries may be forwarded to:

- ◆ *Investor Relations Department*  
Polaris Software Lab Ltd  
'Foundation'  
34, IT Highway, Navalur  
Chennai 603 103, India.  
Tel: +91-4114-235 001  
Fax: +91-4114-235 166  
Email: investor@polaris.co.in

### **Ticker Information:**

*The scrip codes of Polaris are:*

BSE	:	532254
NSE	:	POLARIS
Reuters	:	POLS.BO (BSE), : POLS.NS (NSE)
Bloomberg	:	POL@IN
ISIN	:	INE763A01023

### **Registrar & Share Transfer Agent's Address:**

Polaris' registrar and share transfer agent is Karvy Computershare Private Limited. All queries pertaining to share transfers, change of address, Non-receipt/ revalidation of dividend warrants, issue of duplicate share certificate, dematerialization/ rematerialization of shares etc. can be addressed to either of the two offices below:

- ◆ Karvy Computershare Private Limited  
Unit: Polaris Software Lab Limited  
"Karvy House" 46, Avenue 4,  
Street No.1, Banjara Hills,  
Hyderabad 500 034, India  
Tel: (040) 23312454/ 23320251/ 23320751-52  
Fax: (040) 23311968/ 23323049  
Email: mailmanager@karvy.com  
Web: www.karvy.com

### **Company's Registered Office**

- ◆ *Polaris Software Lab Ltd.*  
Polaris House  
244, Anna Salai  
Chennai 600 006, India  
Tel: +91-44-2852 4154  
Fax: +91-44-2852 3280  
Email: investor@polaris.co.in