

# *Connect*

Annual Report 2006-07

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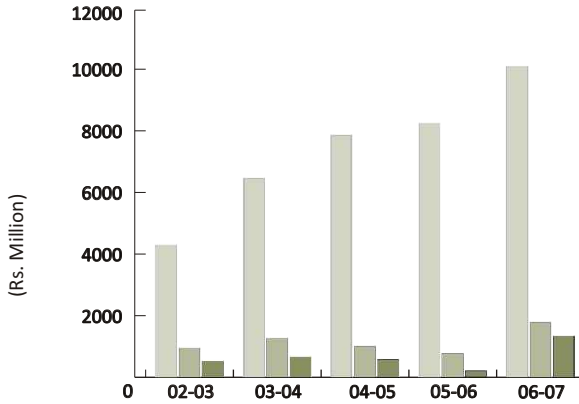
# Contents

Financial Highlights 2006-07 .....	vii
Letter to Shareholders.....	viii
Customer Connect .....	xii
People Connect .....	xvi
Family Connect .....	xix
Society Connect .....	xxi
Management Committee .....	xxiii

# Financial Report

Directors' Report .....	5
Annexure to Directors' Report.....	17
Report on Corporate Governance .....	23
Auditor's Report .....	49
Balance Sheet .....	56
Profit and Loss Account .....	57
Statement of Cash Flows .....	58
Schedules.....	59
Notes to Accounts.....	67
Balance Sheet Abstract .....	94
Report on Subsidiaries .....	95
Management Discussion and Analysis .....	101
Consolidated Financial Statements .....	127
Notice of AGM, Attendance Slip & Proxy Form .....	163

# Financial Highlights



Total Revenue	4310.63	6464.26	7871.23	8250.76	10323.70
Operating Income	971.99	1280.08	1021.92	770.72	1612.75
Profit after Tax	545.30	698.52	580.41	213.06	1010.65

## Polaris Software Group

### Financial Highlights

For the Year	02-03	03-04	04-05	05-06	06-07
					(Rs Million)
Total Revenue	4310.63	6464.26	7871.23	8250.76	10323.70
Operating Income	971.99	1280.08	1021.92	770.72	1612.75
Profit after Tax	545.30	698.52	580.41	213.06	1010.65
<b>At the Year end</b>					
Total Fixed Assets	1829.12	2011.30	2162.64	2376.25	2230.80
Shareholder Equity	4334.90	4904.00	5311.00	5409.70	6015.43
Number of Shares					
Outstanding of Rs. 5 each	97.35	97.70	98.01	98.23	98.58
Earnings Per Share - Basic	7.76	7.17	5.93	2.17	10.28
Dividend (%)	35%	35%	35%	25%	45%

# Letter to Shareholders



**Dear All,**

This is a special time of the year for me as I get a golden opportunity to reach out to Polaris shareholders. In 2000, I wrote to you as the Chairman & CEO of a Rs. 100 Cr young organization. Today, in all humility, I am reaching out to you from a Rs. 1000 Cr young organization!

Encapsulating a 7-year journey in a couple of pages is a challenge. How do I do justice to the mammoth effort and experience, how do I capture the passion and energy of the teams that were behind this, the value delivered to the customers across the globe and the unflinching support of shareholders through the stumbling blocks? Yes, this was indeed an enriching journey.

Yet, this is what I attempt every year through these letters, to share with you, the excitement of the past, present and future.

From my 'Letter to the Shareholders' over the last seven years, I have drawn out a few messages that trace our journey, the Roots of Polaris, the Pedigree and the Future.

**Year 2000-2001**

**What we said** The Polaris team decided on leveraging the resources to serve a few clients well, rather than spreading itself thin across too many clients. At the same time, it was agreed that Polaris would continue to grow by offering newer services to existing clients. The objective of the entire exercise was not just in executing the project but building a relationship. Clients in turn reciprocated by entrusting Polaris with new projects. This is how Polaris grew with Citibank.

We believe in the essence of simplicity. Our journey has been towards global leadership. And we are getting there. The growth is continuous. The methodologies are simple. And we plan to get to our goal by 'Thinking like a Start-Up and Acting like a Giant'

**Theme** The Power of Simplicity, the Essence of Success at Polaris

**Milestone** Forbes ranked Polaris among the 200 Best Small Companies in the world.

**Year 2001-2002**

**What we said** We invested in creating a powerful service differentiator 'Precision'. We are part of an industry that benefits from the inefficiencies of our creation. While dynamic changes in technology do necessitate this to a large extent, we could, as an industry, certainly eliminate the errors of commission. We took it as a challenge to become the 'gold standard' in the international quality arena.

**Theme** The Power of Precision, Delivering Increasing Value to the Customer

**Milestone** First company in the world to achieve SEI CMMi Level 5 (Integrated – Capability Maturity Model, Software Engineering Institute, Carnegie Mellon University, USA)

**Year** 2002-2003

**What we said** We are at the threshold of the next wave of opportunity. We are poised strategically to move up the value chain, by decisively breaking into the high-end of the market, both in products and solutions. We have consciously built up domain knowledge and technical capabilities necessary to engineer such world-class products and solutions

**Theme** The Power of Change

**Milestone** Merger of Polaris with OrbiTech, an unprecedented merger in the Indian IT industry and the acquisition of 56 Intellectual Property Rights (IPRs) in the banking domain, the launch of Brand Intellect, our banking product suite, the birth of Optimus, our BPO subsidiary and Adrenalin, our subsidiary focused on HR products.

**Year** 2003-2004

**What we said** With the good brand name developed by the Indian IT industry on the global world map, it becomes imperative to move from cost-arbitrage model to a customer value-creation business model. Our strategy of 100-5-7 implies that, we will focus in the next 3 years on building not more than 100 relationships, which means we will create more value for our existing customers and win a large share of their business. We believe we are on the threshold of the next growth phase, which will be based on building higher growth margins using the principle of Economics of Expertise.

**Theme** The Economics of Expertise

**Milestone** Intellect wins the prestigious Banker's Award, Polaris becomes a NASSCOM Top 10 company

**Year** 2004-2005

**What we said** Our goal is to be among the Top 10 most respected global organizations, in our area of expertise. Customers would increasingly look for specialists rather than generalists for delivering value. We are creating an environment in Polaris to facilitate continuous learning at all levels and to cultivate the expertise mind-set. What this expertise means for our customers: Expertise permits Polaris to read between the lines, to hear the unspoken needs of the customer. This helps us to 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.

**Theme** Delivering Economics of Expertise

**Milestone** Polaris begins Relationship with 6 out of the Top 10 Investment Banks in the world and High Street Banks in the UK

**Year** 2005-2006

**What we said** Industry Analysts have forecast that in the next 5 years, a significant proportion of the IT spend by Global banks will be around modernization of IT infrastructure. The growing needs of Modernization are already being felt by the large banks that have pioneered technology automation in the 70's and 80's. Polaris is well positioned to serve these banks, using Progressive Modernization, which is a non-disruptive 'Platform-Refresh' for MNC Banks. We also have a phenomenal value proposition for our customers by implementing Secure and Agile solutions with a distinct IP advantage.

Theme	Live Your Dream
Milestone	Polaris rated winner in the category 'Specialty Application Development Leaders', by Global Services, an international integrated media brand owned by CMP-Cyber Media LLC. A global Customer Landscape of 40 large accounts, including 4 out of Top 7 High Street Banks, 7 out of Top 10 Wall Street Banks, 4 out of the 7 large Banks in Australia, 3 out of 4 top Private Sector Banks in India.
Year	<b>2006-2007</b>
Theme	Connecting our pedigree to our future
Milestone	Polaris launches two Super Specialty Centers for providing technology solutions to Investment Banks and to Risk and Treasury business. Adrenalin becomes the most chosen HCM software in India.

The results of our investment into building the largest suite of Intellectual assets are visible in the strong financial performance of the company as well as in the expanding global customer landscape. Intellect-led business grew by 147% over last year. We have also created the right infrastructure necessary for nurturing talent that is globally competitive as well as a culture of innovation and extreme execution.

### Connecting our pedigree to our future

The proof of a company value is the 'pedigree' of its customers. We have developed a customer connect by providing a service mix of consulting, products and outsourcing to global Leaders in banking, financial services and insurance space, who trust us with their mission critical applications. Our business plan for the next year is around 70 customer relationships. This customer base has an aggregated IT budget of over \$ 50 Billion. A sizeable portion of this has been allocated for modernization of the IT infrastructure and specialized solutions for sub verticals within the banking domain. As we have painstakingly built a robust business model in the last 4 years around Non-disruptive Modernization, Super Specialty and Next-Generation banking products, Polaris is well positioned to leverage the big canvas of opportunity.

Our challenge and focus is on building a powerhouse of talent akin to that of cardio specialists and cardio surgeons. We call such people Solution Architects. This talent is not easily available in the market place and our talent development programs nurture this high-end expertise from within the system, around the business levers of technology, domain, process, tools, solution development life cycle and customer market place. We will continue to make the necessary investments into Sales & Marketing to accelerate our growth in the global market place.

### An inspired workplace

Our blue print for building a Holistic Institution is not only through niche or differentiated offerings but also through a differentiated work culture, around multi threaded relationships that remain strong and unblemished despite the demands or ravages of pressure and time.

The connecting threads are around:

1. **Organizational Connect:** We nurture a culture of shared vision, shared dreams and backed by our values - Passion, Humility, Integrity, Respect and Fun.
2. **Family Connect:** We are committed to creating a support system for our families, especially for unit families, staying far away from their 'roots'. The Family Connect programs are managed by the HUM Trust.
3. **Society Connect:** We integrate our employees with a larger community, through the Ullas Trust. So far, we have reached out to over 17000 school children coming from economically challenged sections of our society, encouraging them to 'Dream Big' as well as nurturing a 'Can Do It' spirit.

To summarize, we started our growth journey around Quality and Relationships. We built our transformation strategy around 'Customer Voice' and occupy a niche position today as a Global Integrated Solution Provider for the Financial World. We have a treasure trove of Intellectual Assets in the form of Intellect Suite of banking products.

Our roots are strong and we have a promising and fulfilling journey ahead of us. It is invigorating and inspiring to have supportive shareholders, as we build a high-energy, high-performing and globally respected Institution.

A sincere thank you from the 9000 strong Polaris family.

Warm regards



**Arun Jain**  
Chairman and CEO

*Customer Connect*



A single banyan tree grows a forest of aerial roots as it matures over a long lifetime

# Customer Connect

*"A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption of our work. He is the purpose of it. He is not an outsider to our business. He is part of it. We are not doing him a favor by serving him. He is doing us a favor by giving us the opportunity to do so."*

*- Mahatma Gandhi*

Polaris believes that value creation in an outsourcing relationship grows as customer relationships mature with time. Relationship, expertise, technology, Intellectual Property and Global Reach are the aerial roots that enable us to come closer to our customers worldwide. Polaris is proud to have been part of one of the longest outsourcing relationships in the industry - A 20 year engagement with a leading global Bank.

New solutions, new methods, new business possibilities emerge in a journey together. Polaris is focused on understanding the need of the hour and the company's strategic intent is directed towards delivering future-proof technology that in turn enables banks and financial institutions respond to their dynamic ecosystem.

## Connecting through a Global Relationship Model

Thinking and feeling like the customer and being where the customer is, enables a greater connect in a boundary-less world. Polaris' presence in 16 countries and investment into nearshore centers in Canada, Ireland and Singapore, enables us to remain networked with customers' locations across the world. As banks go global, their need for their technology partners to deliver solutions across multiple locations is today critical to business. 4 of the Top 7 High Street Banks, 3 of the Top 5 Australian Banks, 3 of the Top 5 Middle East Banks, 7 of the Top 10 Global Investment Banks and 2 of Top 5 Global Insurance companies trust us with their mission critical applications.

Working with leading institutions world over throws up the challenges of delivering truly 'global' solutions, that need to live up to each customer's expectations. Polaris' learnings and best-practices in this IT savvy, demanding industry helps us feel the pulse of the market place at any point in time, and enable our customers to stay ahead.

*"As a team, Polaris proved to be the winning difference to this project. We appreciate your team's contribution. I wanted to mention the energy and enthusiasm shown by the team to achieve the goals."*

Rangesh Jagannathan  
Global Transaction Services - CRM Technology, Citibank, NA

### Connecting through Expertise

The expertise of Polaris lies in our ability to utilize domain knowledge, outsourcing experience and intellectual property to deliver superior technology solutions that are aligned to the business outcomes of our customers. Spurred by rapid globalization, labor mobility, advent of Service Oriented Architecture (SOA), new software development and delivery techniques, the drivers for outsourcing are changing year on year. Outsourcing has morphed from pure labor arbitrage to cost arbitrage to expertise to services driven and finally to the business driven models today.

Expertise has its own economics – the economics of investment in intellectual assets. Our prudent combination of well-planned investments and our domain expertise has translated into recognition as experts and high repeat business rates. In the Banking, Financial Services and Insurance domain, expertise is a key characteristic. The economic impact of expertise, therefore, has far-reaching and long lasting consequences.

#### Outcome of expertise: IP Led Outsourcing

Smart Legacy Modernization - Calibrated modernization of existing legacy platforms in a non-disruptive manner by deploying innovative ('SmartBuild') solutions that are SOA compliant and backward compatible. Our two-decade long journey has given Polaris one of its biggest differentiators - the intimate understanding of the Banking, Financial Services and Insurance Business. Our virtue of saying 'business' is that we co-create solutions that enhance our customers' offerings.

### Connecting through Technology

SOA connects. SOA has the power to connect businesses, processes, geographies and technologies. Polaris has been a pioneer in adopting SOA in its true sense; building all our IP around this philosophy. SOA is about re-use. It is about looking at processes from a business perspective, recognizing commonalities between different channels, product lines and customer segments and designing processes in a flexible way so that they can be used repeatedly. Today, these services can be 'plugged' into a technology architecture using widely adopted standards and 'orchestrated' through standard business process management technology, which deliver the promise of agility to business.

Polaris believes that the next era will be all about Business Oriented Architecture – BOA!

1. Business Components based on SOA
2. Business Application Life Cycle Model for Applications
3. Non-disruptive methodologies

"Would like to convey my appreciation to the entire Intellect team for all the hard work that has and is being put in building and supporting the Intellect for us."

DK Mathur, Chief Information Officer,  
GE Consumer Finance, India

## Connecting through use of IP Assets

Intellect, a pure play SOA product and the most comprehensive Banking suite was launched by Polaris in mid-2005 and already has an installed base of about 40+ Banks around the world. High adaptability to business needs, flexibility in implementation and ease of integration allows for easy launch of new products, or to implement SOA wrappers quickly. Building of SOA capabilities at Polaris commenced 3 years ago, with the reengineering of brought out IP into SOA based applications that culminated into the Intellect Suite.



### Intellect comprises 7 platforms:

- Intellect Consumer Finance** Provides seamless technology solutions ranging from Origination and Lending to Collection systems
- Intellect Core** Addresses the critical need for a scalable, flexible, secure and customer-centric core-banking platform. It supports savings, current and overdraft accounts as well as different types of time deposits
- Intellect Cards** A flexible and comprehensive system that addresses all needs across issuance, acquiring, customer loyalty, default management (collections), internet banking, fraud and risk Management
- Intellect Front Office** Offers capability ranging from teller functions to wealth management advisory services, including cross-sell prompts, account origination and everything that a branch banker would need – All on a single screen
- Intellect Treasury** A web-based system that meets treasury requirements in the areas of fixed income, forex, money markets, derivatives and risk management
- Intellect Liquidity** A comprehensive platform that can meet the needs of complex liquidity management scenarios
- Intellect Wealth** The next generation component based Wealth Management offering, catering to the need of Financial Service Providers ranging from independent registered investment advisors or financial advisory teams in brokerage houses to private banks

“CONGRATULATIONS to the team! The Polaris Team in Oman is strong and are doing an excellent job. The branch is delighted with Intellect, describing it as one of the best systems worldwide.”

Michael H Tomalin  
Chief Executive Officer, National Bank of Abu Dhabi

*People Connect*



The Banyan tree nurtures many lives under its shade and also plays home to a wide variety of birds.

# People Connect

*E=MC<sup>3</sup> - Where Energy of the people is equal to their Motivation, Commitment, Confidence and Creativity!*

Polaris' growth and spread over the years has been through our roots of Passion, Humility, Integrity, Respect and Fun. These values serve as the aerial roots that bring our people together towards a common goal. Polaris employees are connected through shared vision, shared dreams and shared values. We believe that such a differentiated work culture connects our teams and creates an inspired workplace.

## Passion

In 1883, a creative engineer named John Roebling and his son Washington were inspired to build a spectacular bridge connecting New York with Long Island. However bridge-building experts throughout the world thought it was just not possible.

The project started well, but when it was only a few months underway a tragic accident on the site took the life of John Roebling and crippled Washington – no longer able to walk, talk or even move. All he could do was move one finger and he decided to make the best use of it. By moving this, he slowly developed a code of communication with his wife. He touched his wife's arm with that finger, indicating to her that he wanted her to call the engineers again. Then he used the same method of tapping her arm to tell engineers what to do. It seemed foolish but the project was under way again. For 13 years Washington tapped out his instructions with his finger on his wife's arm, until the bridge was finally completed. Today, the spectacular Brooklyn Bridge stands in all its glory as a tribute to the triumph of one man's passion to excel.

## Humility

When I was a young man, I wanted to change the world. I found it was difficult to change the world, so I tried to change my nation. When I found I couldn't change the nation, I began to focus on my town. I couldn't change the town and as an older man, I tried to change my family. Now, as an old man, I realize the only thing I can change is myself, and suddenly I realize that if long ago I had changed myself, I could have made an impact on my family. My family and I could have made an impact on our town. Their impact could have changed the nation and I could indeed have changed the world.

## Integrity

A while ago there was a story about Reuben Gonzolas who was in the final match of his 1st professional racquetball tournament. At match point in the 5th and final game, Gonzolas made a super "kill shot" into the front corner to win the tournament. The referee called it good, and one of the linesman confirmed that the shot was a winner.

But after a moment's hesitation, Gonzolas turned and declared that his shot skipped into the wall, hitting the floor first. As a result, the serve went to his opponent, who went on to win the match. Reuben Gonzolas walked off the court everyone was stunned. The next issue of racquetball magazine featured Gonzolas on its cover. The lead editorial questioned about such an occurrence on the racquetball circuit. Who could imagine it in any sport or endeavor?

Here was a player with everything in his favor within sight of victory and yet disqualifies himself. When asked why he did it, Gonzolas replied, "It was the only thing that I could do to maintain my integrity"

### Respect

One night, at 11:30 pm, an older African American woman was standing on the side of an Alabama highway trying to endure a lashing rainstorm. Her car had broken down and she desperately needed a ride. Soaking wet, she decided to flag down the next car. A young white man stopped to help her, generally unheard of in those conflict-filled 1960s. The man took her to safety, helped her get assistance and put her into a taxicab. She seemed to be in a big hurry, but wrote down his address and thanked him.

Seven days went by and a knock came on the man's door. To his surprise, a nice bunch of flowers was delivered to his home. A special note was attached. It read: "Thank you so much for assisting me on the highway the other night. The rain drenched not only my clothes, but also my spirits. Then you came along. Because of your unbiased respect and care, I was able to make it to my dying husband's bedside just before he passed away. God bless you. Sincerely, Mrs. Nat King Cole."

### Fun

The Ants were spending a fine winter's day drying grain collected in the summertime. A Grasshopper, perishing with famine, passed by and earnestly begged for a little food.

The Ants inquired of him, "Why did you not treasure up food during the summer?" "He replied, "I had not leisure enough. I passed the days in singing."

They then said: "So did we! We did sing all the summer while doing our work! Enjoyed doing it as much as dancing with supper in the winter."

*Family Connect*



The Banyan provides a shaded place for bringing people together

# Family Connect

*The family. We were a strange little band of characters trudging through life sharing diseases and toothpaste, coveting one another's desserts, hiding shampoo, borrowing money, locking each other out of our rooms, inflicting pain and kissing to heal it in the same instant, loving, laughing, defending, and trying to figure out the common thread that bound us all together.*

*- Erma Bombeck*

At Polaris, family connect programs are run through the HUM Trust. Our initiatives are built around the philosophy of 'HUM', a Hindi word symbolizing togetherness.

All of us are passionate about family connect and togetherness. One of the big challenges that we are grappling with is the role Corporates can play in supporting family connect and togetherness. This becomes even more significant given that nuclear families are the order of the day and for many of us, work takes us far away from our roots.

This year, a team in Polaris, embarked on a project of a different kind - to build a tool to support family togetherness and connect. The team has put together a family workbook aptly titled 'HUM', which is all about reconnecting, reliving and recording a family's stories, roots and heritage.

This workbook has been envisaged as a family project, for the entire family to walk down memory lane, connect with extended families and friends and record and relive their glorious traditions and heritage.

To know more, please log in to [www.connectathum.com](http://www.connectathum.com)

## *Society Connect*



The Banyan's large root system helps to bind the soil, maintain ground water levels and build a better ecosystem.

# Society Connect

*If you can dream it, you can do it!*

The Polaris social connect programs are managed by the Ullas Trust. Ullas focuses on providing critical support to young and economically challenged children, through their adolescence

So far, Ullas has reached out and touched the lives of 17000 students across Chennai, Delhi and Mumbai.

The Ullas Trust was founded in 1997 with an aim to integrate Polaris associates with the larger social community.

The charter for the trust is

- To encourage a 'Can Do' spirit among the young, economically challenged students during the vulnerable stage of adolescence
- To recognize academic excellence in students from Corporation and Government schools between classes 9th to 12th and enable them to work towards realizing their dreams.

This year, the 'Touch the Soil' program of Ullas Trust took a maiden step to reach out to students in every district of India, starting with the 30 districts in Tamil Nadu. Selection of students from districts was a massive exercise, involving active engagement with Chief Educational Officers and School Heads across all the districts.

Ullas Trust awarded 1921 scholarships to students across 196 schools in Chennai and 112 schools from 29 district headquarters of Tamil Nadu. In Delhi, Scholarships were given to 450 students across 6 schools and in Mumbai, 375 students across 14 schools. 'Ullas Young Achievers Higher Education Scholarships' was awarded this year to 35 students in Chennai.

Ullas Trust has been organizing 'You Can Do It' workshops for the last nine years to connect young minds to achievers from various walks of life. The Trust also provides an opportunity to the Ullas achievers to 'touch and feel' the corporate environment and be mentored by successful software professionals. It is an overwhelming and humbling experience to watch the Ullas students graduate from schooling to higher education and take up jobs in various companies including Polaris. Polaris employees also play the role of mentors to Ullas young achievers, offering career counseling and coaching classes related to personality development, communication and computing.

# Management Committee



**Anil Verma**  
Head, Polaris Australia & New Zealand



**Arun Jain**  
Chairman & CEO



**Aruna Kashinath**  
Head, Marketing & Strategic Partnerships, CEO, Polaris Retail Infotech Limited



**Arup Gupta**  
President & Chief Operating Officer



**Balakrishnan V**  
Chief Information Officer



**Bikash Mathur**  
Head, Polaris EMEA



**Gautam Majumdar**  
Chief Operating Officer, Optimus Global Services



**Jaideep Billa**  
Chief Technology Officer



**Kartik Kaushik**  
Head, Polaris Americas



**Kedarnath Udiyavar**  
Head, Investment Banking Solutions Center



**Mahendra Negi**  
Head, Retail Products Center



**Manish Maakan**  
Head, Retail Banking



**Manoj Saxena**  
Head, Corporate Banking  
Solutions Center



**Murali Balaraman**  
Head, India Sales



**Rama Sivaraman**  
Head, Corporate Quality



**Ramaswami SR**  
Head, Enterprise Innovation Center



**Ravichandran MR**  
Head, Retail Banking Solutions Center



**Somas Jeevan**  
Head, Talent & Change



**R Srikanth**  
Chief Financial Officer



**Supriyo Sircar**  
Head, Polaris ASEAN



**Venkatesh Srinivasan**  
Head, Risk & Treasury



**Vikas Misra**  
Head, Enterprise Solutions Center

# **POLARIS SOFTWARE LAB LIMITED**

**Annual Report for the year ended 31<sup>st</sup> March 2007**

**'Polaris House', 244, Anna Salai, Chennai - 600 006.**

**INDIA**

## Board of Directors



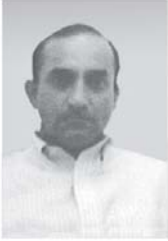
**Arun Jain**  
Chairman & Managing Director



**Abhay Agarwal**  
Practising Chartered Accountant



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



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



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



**Dr. Ashok Jhunjhunwala**  
Professor-Dept. of Electrical  
Engineering, IIT Chennai.



**RCBhargava**  
Former Chairman & Managing  
Director of Maruti Udyog Ltd.



**Raju Venkatraman**  
President & COO of  
Firstsource Solutions Limited



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

## **POLARIS SOFTWARE LAB LTD**

### **BANKERS**

Citibank N.A  
ICICI Bank Ltd  
HDFC Bank Ltd  
Bank of America, NA, New Jersey  
JP Morgan Chase Bank, New Jersey

### **AUDITORS**

M/s. S.R. Batliboi & Associates  
TPL House, Second Floor  
3, Cenotaph Road  
Teynampet  
Chennai 600 018

## **CONTENTS**

Directors' Report	-----	5
Annexure to Directors' Report	-----	17
Report on Corporate Governance	-----	23
Auditors' Report	-----	49
Balance Sheet	-----	56
Profit and Loss Account	-----	57
Statement of Cash Flows	-----	58
Schedules	-----	59
Notes to Accounts	-----	67
Balance Sheet Abstract	-----	94
Report on Subsidiaries	-----	95
Management Discussion and Analysis	-----	101
Consolidated Financial Statements	-----	127
Notice of AGM, Attendance Slip & Proxy Form	-----	163

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**DIRECTORS' REPORT**

## POLARIS SOFTWARE LAB LIMITED

### DIRECTORS' REPORT

To the Members,

Your Directors have great pleasure in presenting the Fourteenth Annual Report together with the Audited Statements of Accounts of your company for the year ended March 31, 2007.

#### 1. Financial Results

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

*Rs. in lakhs*

<b>Year ended March 31</b>	<b>2007</b>	<b>2006</b>
Profit (including other income) before Depreciation, Finance Charges, provision for diminution in value of investments and Tax	13,790	6,955
Less:		
Finance charges	57	55
Provision for diminution in value of investments	18	217
Depreciation & amortisation	4,330	4,644
<b>Profit Before Tax</b>	<b>9,385</b>	<b>2,039</b>
Less: Provision for tax (including Deferred tax & Fringe Benefit tax)	1,426	710
<b>Profit After Tax</b>	<b>7,959</b>	<b>1,329</b>
Add: Surplus brought forward	14,599	14,802
<b>Profit available for appropriation</b>	<b>22,558</b>	<b>16,131</b>
<b>Appropriations</b>		
Dividend	2,218	1,228
Tax on Distributed profits	311	172
Transferred to General Reserve	796	133
<b>Balance Transferred to Balance Sheet</b>	<b>19,233</b>	<b>14,598</b>

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

*Rs. in lakhs*

<b>Year ended March 31</b>	<b>2007</b>	<b>2006</b>
Profit (including other income) before Depreciation, Finance Charges, provision for diminution in value of investments & Tax	16,751	8,540
Less:		
Finance charges	84	79
Provision for diminution in value of investments & Share of loss / (Profit) of Associate Companies	(241)	70
Depreciation & amortisation	4,811	4,945
<b>Profit Before Tax</b>	<b>12,097</b>	<b>3,446</b>
Less : Provision for tax (including Deferred tax & Fringe Benefit tax)	1,991	1,315
<b>Profit After Tax</b>	<b>10,106</b>	<b>2,131</b>
Add : Surplus brought forward	15,712	15,114
<b>Profit available for appropriation</b>	<b>25,818</b>	<b>17,245</b>
<b>Appropriations</b>		
Dividend	2,218	1,228
Tax on Distributed profits	311	172
Transferred to General Reserve	796	133
<b>Balance Transferred to Balance Sheet</b>	<b>22,493</b>	<b>15,712</b>

## 2. Results of operations

The consolidated income of your Company from Software development services and products for the year ended March 31, 2007 stood at Rs.103,237 lakhs, registering a growth of around 25% over the previous year's revenues of Rs.82,508 lakhs. The Consolidated Net Profit for the fiscal year ended March 31, 2007 stood at Rs.10,106 lakhs, representing an increase of around 374% over the previous year's Consolidated Net Profit of Rs.2,131 lakhs. The Reserves & Surplus increased from Rs.49,179 lakhs in 2005-06 to Rs.55,225 lakhs in 2006-07.

Your Company caters to its clients through its worldwide offices and its global business distribution encompasses United State of America (USA), Europe, Asia Pacific, India and Middle East. In 2006-07, USA contributed 36.63%, Europe contributed 30.64% and Asia Pacific, India & Middle East contributed 32.73%.

## 3. Future outlook

In the global BFSI sector, the core banking renewal trend is gathering momentum. Across the globe, banks are beginning to look at renewal seriously. With APAC leading the way, and followed by Latin America, EMEA and North America, banks are taking a re-look at the ability of vintage systems to support business in next decade. In addition to this, managing legacy systems is becoming increasingly expensive due to shortage of skills and knowledge. Redundant functionality and existing rigid systems are also inhibiting banks to respond to time-to-market needs.

While the outsourcing trend analysis by Gartner 2007 shows a healthy trend in both the number of deals and the mix of large/medium size deals, they also predict that the use of multiple vendors is on the rise. They claim that large global players will consider and select smaller or regional providers for focused parts of their mega scope deals to engage with focused specialists, expand the scope of services of services that are globally delivered or introduce a new provider in to the mix.

Polaris being a super specialist in BFSI segment and being the only 100% BFSI focused company from India is well positioned to offer specialized outsourcing services in corporate banking, core banking, consumer finance, investment banking, Risk and Treasury, Cash and Liquidity, etc.

Polaris is well positioned to serve the needs of the BFSI segment. Having BFSI domain expertise of over two decades and several years of SOA based applications experience, is enabling us to provide the right solutions for our financial customers. The recent big wins with our solution offerings in Tier one companies, is resonating the fact that the hybrid model of both products and pure services is meeting and exceeding the expectations of our customers. Polaris investments on partnership with Global leaders like Calypso, Algorithmics and others are a vindication of Polaris commitment to the BFSI segment.

In the Wealth Management area as banks continue to seek growth in their wealth management services, they also will be facing key challenges this year which includes, increasing client demands, inability to aggregate product and other data, poor technology implementation and adoption, competing for and closing new clients, retaining existing clients and addressing increasing compliance and regulatory requirements. This coupled with the growth in HNI populations (There is a 56% growth between 2003-2006 according to a recent article in Investment News) banks will be

increasingly looking for more of an “Integrated Advisory Desktop” (according to Aite an industry analyst) or a Wealth Management Platform that would serve as a panacea for the above challenges.

In the Treasury space, more and more banks globally are facing intense pressure to control costs and comply with changing regulatory requirements. The current technology in most banks is antiquated and ill equipped to meet the growing demands of flexibility, scalability and Straight Through Processing (STP). Furthermore, most of these systems are not modular and do not support the present day needs of all-in-one systems and centralized operations.

With intense competition, expansion into new geographies and growing pressure from corporate clients for sophisticated functionalities, banks are increasingly looking at new-generation systems that can deliver greater business agility, higher operational efficiency and Lower TCO. The need to increase efficiencies, reduce operational delays and adhere to new accounting standards like IAS39 and Basel II, is forcing banks to review their Treasury management solution.

From a Retail Banking perspective, banks have been facing growth challenges due to intense competition. Relationship Managers (RM’s) do not have an educated handle on the product portfolio, neither are they empowered to take credit decisions nor do they have the technology tools that would help them come up with a mix of products that would suit an individual’s personal financial needs.

Banks are now moving to make a branch a profit center empowering Tellers to take credit decisions on their customers and backing them with the technological expertise to mix and match products “on-the-go” to suit customers unique needs instead of shunting them from one product manager to the other or worst to a 800 number. This is a significant transformation happening in the branches.

Banks realize that the stakes are high and so they are trying to create an entrepreneurial organization at the branch level, all the time maintaining a tight leash on costs and are forcing CIO’s to re-engineer their branches through an Integrated Front-Office Solution (IFO).

In the Investment banking space, Low margins, and workflow disconnects, and data redundancies continue to challenge investment banks. Complying with mandated regulations like Basel II and incorporating frameworks like Straight Through Processing (STP) present additional challenges. To be able to work round-the-clock in such demanding environments investment banks have made technology an integral part of their strategic initiatives. In the Derivatives space, products are becoming more and more sophisticated and the demands for exotic products are on the increase.

The Information Technology industry carrying on export business is concerned over the appreciation of Indian rupees against foreign currencies. Your Directors feel that it may impact your Company’s performance which could be one of the significant risks associated with your Company’s business.

#### **4. Dividend**

For the financial year 2006-07, your Directors had declared two interim dividends, the first in January 2007 @ Re.1 per share (20% on par value of Rs.5/- per share) and the second in March 2007 @ Rs.1.25 per share (25% on par value of Rs.5/- per share) and both dividends were paid to the Members of the Company. Thus, the total interim dividend paid for the financial year 2006-07 was Rs.2.25 per share (45% on par value

of Rs.5/- per share), as compared to the final dividend of Rs.1.25 per share (25% on par value of Rs.5/- per share) paid for the previous financial year 2005-06.

Considering the above, your Directors have not recommended any final dividend for the financial year 2006-07.

## 5. Strategic Initiatives during the Year

Your Company crossed historic milestone of Rs 1000 Cr in revenue & Rs 100 Cr. in profit. This was supported by spectacular global recognition, second year a row, as Speciality Application Development Provider by CMP Global Media.

This year your company has focused on three major initiatives

- I. Flaw-less Execution of your IP-led strategy and Smart Legacy Modernization Services to world's top Banks & Financial Institutions.
- II. Specialization in Sub-Verticals
- III. Expanding your footprint in your chosen 55 Accounts
- IV. Winning large product deals in Intellect Platforms that was launched in the previous years

### **"The Capital" – the World's first Super-specialty Technology center for Investment Banking**

Your Company launched "The Capital" in Hyderabad, the world's first super-specialty center focused on technology solutions for Investment Banking. Built on 200,000 sq. ft., eight acre plot at the Manikonda IT Park, this center has a capacity to host 2000 seats. This center has the largest repository of knowledge in Capital Markets & Wealth Management areas. "The Capital" contains eight Centers of Excellence within it, namely, Securities, Money Markets, Derivatives, Foreign Exchange, Margin Lending, Fixed Income, Equities & Custody and serves 7 out of top 10 Global Investment Banks.

### **Launch of Super Specialty Application Center for Risk & Treasury Solutions**

Your company launched a Super Specialty center for Risk & Treasury Solutions at Mumbai. This business solution center will provide sharp focus to technology modernization services in Treasury departments of Banks & Multinational corporates, beside offering specialized products & components for Trading, Operations and Liquidity Management. The center provides pre-fabricated solutions in Risk, Treasury & Liquidity domain for accelerated deployment for sell side and buy side organizations.

### **Launch of Near-Shore Development Centers – Belfast, Northern Ireland**

Your Company launched two near shore development centers – one in Europe & the other in North America. In Europe, your Company has set up Application Certification Center in Belfast, Northern Ireland. This center provides independent quality assurance & software testing to your Company's clients in Europe & Americas. As the operations progress, this will serve as near shore development center and provide round-the-clock technical support for customers in Europe.

### **Intellect Cash & Liquidity Platform chosen by Global Top 10 Bank in Southern Europe**

This year, one of the Global Top 10 Banks, bought your Company's next generation, SOA based Intellect Cash & Liquidity Management Platform. The bank located in Southern Europe is considered as pioneer in deployment of innovative banking

technology. Your Company's solution in Cash Management has found wide acceptability to global banks due to its rich functionality and modern SOA back plane architecture.

#### **Intellect Credit Card Platform chosen by a top Retailer in Latin America**

Intellect Credit Card platform has been selected by one of the leading retailers in Latin American market. The multi-million dollar deal, will provide Credit Card management Solution for managing its private label credit cards portfolio. The projected volume is close to 2 Million cards with capacity to ramp up to 3.3 Million over next 5 years.

#### **Intellect Lending Product ported on HP Integrity Servers**

Your Company's Intellect Lending Product has been ported on HP Integrity Servers and true 64-bit operating system implementation. This will provide customers in all areas of the financial sector with a competitive advantage & ensure that their IT infrastructure is highly scalable & easily available to accommodate changing business demands. This will enable Intellect footprint into large banks in advanced as well as emerging markets for their mission-critical applications.

#### **Re-assessment at CMMi Level (SCAMPI V1.2)**

Your Company was reassessed at Capability Maturity Model, Level 5 (V 1.2). The Company's Business Solution Centers at Chennai, Hyderabad, Mumbai & Gurgaon have all been appraised at the highest level of CMMi using SCAMPI V 1.2 methodology. This gives reassurance to customers about your company's commitment to highest levels of quality.

### **6. Increase in share capital**

Your Company allotted 352,130 number of Equity Shares of Rs.5/- each pursuant to the exercise of employee stock options during the year as detailed hereunder:-

<b>Date of Allotment</b>	<b>Scheme</b>	<b>Option Price</b>	<b>No. of Allottees</b>	<b>No. of Shares</b>	<b>Total</b>
27-Apr-06	ASOP 2000	71.50	17	2,080	10,925
	ASOP 2001	57.00	22	6,645	
	ASOP 2001	71.50	3	2,000	
	ASOP 2001	126.70	1	200	
17-Oct-06	ASOP 2000	71.50	16	2,850	66,785
	ASOP 2000	126.70	1	150	
	ASOP 2001	57.00	113	61,785	
	ASOP 2001	71.50	1	2,000	
22-Jan-07	ASOP 2000	71.50	92	32,790	1,08,690
	ASOP 2000	123.65	3	4,100	
	ASOP 2000	126.70	15	11,870	
	ASOP 2001	57.00	62	23,280	
	ASOP 2001	71.50	17	15,000	

	ASOP 2001	123.65	3	6,000	
	ASOP 2001	126.70	6	3,350	
	ASOP 2003	116.10	1	300	
	ASOP 2003	118.15	2	800	
	ASOP 2003	137.40	4	5,000	
	ASOP 2003	152.95	3	6,200	
28-Mar-07	ASOP 2000	126.70	54	28,565	1,61,805
	ASOP 2000	71.50	24	6,820	
	ASOP 2000	123.65	1	200	
	ASOP 2001	126.70	30	11,010	
	ASOP 2001	71.50	8	6,100	
	ASOP 2001	57.00	42	12,810	
	ASOP 2003	152.95	76	60,500	
	ASOP 2003	116.10	3	1,400	
	ASOP 2003	137.40	36	27,500	
	ASOP 2003	139.85	6	5,000	
	ASOP 2003	134.00	3	900	
	ASOP 2003	118.15	3	1,000	
31-Mar-07	ASOP 2000	71.50	2	150	3,925
	ASOP 2001	57.00	4	1,125	
	ASOP 2003	152.95	5	2,650	
	<b>Total</b>		<b>679</b>	<b>3,52,130</b>	<b>3,52,130</b>

In view of the above, the issued, subscribed and paid-up equity share capital of the Company increased from 98,229,997 equity shares of Rs.5/- each as on March 31, 2006 to 98,582,127 equity shares of Rs.5/- each as on March 31, 2007. All the above newly allotted shares are listed and traded on stock exchanges.

#### 7. Employee Stock Option Scheme

The Company has 4 stock options schemes. During the year, your Company has granted options to the eligible Associates(Employees) and Directors only under the Associate Stock Option Plans 2003 & 2004 as per SEBI Guidelines on (ESOP & ESPS). The Company has not granted any options under ASOP 2000 & ASOP 2001 Plans during the year 2006-07.

##### (i) Details of Options under ASOP 2000 & ASOP 2001 during the year 2006-07

		ASOP 2000	ASOP 2001
	Options outstanding as on 01-04-2006	4,48,585	3,07,280
(a)	Options granted during the year	Nil	Nil
(b)	The pricing formula	N.A.	N.A.
(c)	Options vested	1,49,905	1,64,020
(d)	Options exercised	89,575	1,51,305
(e)	Total number of shares arising as a result of exercise of Options	89,575	1,51,305
(f)	Options lapsed / surrendered	2,60,040	90,340
(g)	Variation of terms of Options	Nil	Nil

(h)	Money realised by exercise of Options in Rs.	88,69,149.50	1,04,03,067
(i)	Total number of Options in force	98,970	65,635
(j)	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 options		8.01

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

**(II) Details of Options under ASOP 2003 & ASOP 2004 during the year 2006-07**

		ASOP 2003	ASOP 2004
	Options outstanding as on 01-04-2006	18,54,850	-
(a)	Options granted during the year	25,00,500	9,94,500
(b)	The pricing formula	At market value	At market value
(c)	Options vested	309,140	0
(d)	Options exercised	1,11,250	-
(e)	Total number of shares arising as a result of exercise of Options	1,11,250	-
(f)	Options lapsed / surrendered	9,57,700	2,14,500
(g)	Variation of terms of Options	Nil	Nil
(h)	Money realized by exercise of Options in Rs.	1,63,02,472.50	-
(i)	Total number of Options in force	32,86,400	7,80,000
(j)	(i) Details of Options granted to Senior Managerial Personnel		
	a) Total number of Options granted	12,65,000	5,37,500
	b) Total number of personnel to whom the above Options were granted	19	9
	(ii) any other employee who receives a grant in any one year of options amounting to 5% or more of options 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 the issue of Shares on exercise of option		8.01



The overseas subsidiaries in addition to providing service to various international clients have greatly enhanced the capability of your Company in generating more business opportunities in various international markets. The Board of Directors of your Company has reviewed the affairs of the subsidiary Companies. Details of the investment made by your Company in its subsidiaries & Associate Companies are shown in Note No.5 of the Abridged Financial Statements and also in Note No. (B) 15 under Significant Accounting Policies and Notes to Accounts provided as an annexure to the complete and full Balance Sheet and Profit & Loss Account. Further for Point No. 4(vi) – 1st para of the Auditors’ Report (Point No. 2 of the Auditors’ Report on Abridged Financial Statements), your Directors agree with the Company & management’s assessment appearing on Note B 15 (c) of Schedule 16 of the complete and full financial statements [Note 5 (c) of the Abridged Financial Statements].

Your Company has been exempted by the Ministry of Company Affairs (MCA) vide its letter No. 47/37/2007-CL-III dated 5<sup>th</sup> March 2007 under Section 212 of the Companies Act, 1956 from attaching the Balance Sheet, Profit & Loss Account, Directors’ Report and the Auditor’s Report of its aforesaid subsidiaries to the Annual Report. Accordingly, the Annual Report of your Company does not contain the financial statements of the above named subsidiaries, but contains the consolidated audited financial statements of your Company and its subsidiaries.

Further as directed by MCA, information in aggregate such as (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, and (j) Proposed Dividend for each subsidiaries has been disclosed in the abstract forming part of Consolidated balance sheet.

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 Head/ Regd. Office and that of the subsidiary companies concerned.

#### **9. Notable accolades received during the year**

- a. The Institute of Company Secretaries of India, New Delhi rated Polaris among the top 25 companies in India with best practices and procedures on Corporate Governance, for the 4<sup>th</sup> consecutive Year.
- b. Polaris has been awarded second time the Leader in the category of “Speciality Application Development” among the Top 100 global Companies by Cyber Media Publications for the Year 2006.
- c. Polaris had won “The Front Office Project of the Year” award in The Banker Technology Awards 2007 for its ‘Intellect – Treasury Project’.

#### **10. The Society Connect**

The Ullas Trust was founded in 1997 with a desire to integrate Polaris associates (employees) with a larger community. The charter for the trust includes:

- Encouraging a ‘Can Do It’ spirit among the young, economically challenged students during the vulnerable stage of adolescence
- Recognising academic excellence in students from Corporation and Government schools between classes 9<sup>th</sup> to 12<sup>th</sup> and enabling them to dream big and work towards realizing their dreams

#### **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 S.R. Batliboi & Associates, Chennai, 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 be re-appointed.

## 13. Directors

During the year 2006-07, Mr. Nanoo G Pamnani has resigned from the Board of your Company. Your Company expresses its sincere appreciation and gratitude to Mr. Nanoo G Pamnani for his valuable contribution and advice rendered by him during the tenure of his association with the Board and the Company.

Mr. R C Bhargava, Mr. Arvind Kumar & Mr. Ajit Bhushan, Directors, retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

## 14. Corporate Governance

Your company perceives Corporate Governance as an endeavor for transparency and a wholehearted approach towards establishing Professional Management, aimed at continuous enhancement of Shareholders' value. Your Company has been complying with the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement. Further, the Board of Directors of your Company constituted a Committee known as Corporate Governance Committee, which recommends the best practices in the Corporate Governance.

A separate report on Corporate Governance along with Auditors' Certificate on compliance with the Corporate Governance norms as stipulated in Clause 49 of the Listing Agreement and a report on the Management Discussions & Analysis, forming part of this report are provided elsewhere in this Annual Report.

## 15. Impending Litigation(s)

Details of impending litigations are shown in Note No.8 of the Abridged Financial Statements and also in Note No. (B) 20 under Significant Accounting Policies and Notes to Accounts provided as an annexure to the complete and full Balance Sheet and Profit & Loss Account.

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

The particulars, as prescribed under clause (e) of sub-section (1) 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 to the Directors' Report forming part of the complete and full Annual Report 2006-07. (In view of the exemption under the Companies Act, the said Annexure has not been enclosed with the Directors' Report forming part of the abridged Annual Report).

## 17. Particulars of Employees

As required under the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended, a statement showing the names and other particulars of employees are set out in the Annexure to the Directors' Report forming part of the complete and full Annual Report 2006-07. (In view of the exemption under the Companies Act, the said Annexure has not been enclosed with the Directors' Report forming part of the abridged Annual Report). The Department of Company Affairs, has vide GSR. 212(E) dated 24.03.2004, amended the Companies (Particulars of employees) Rules, 1975 to the effect that particulars of employees of the 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 be, need not be included in the statement but, such particulars shall be furnished to the Registrar of Companies. Accordingly, the statement referred above does not contain the particulars of employees who are posted and working outside India not being Directors or their relatives. However, on specific request, such particulars shall be made available to any shareholder during the course of the Annual General Meeting.

#### **18. Directors' Responsibility Statement**

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, the Directors of your Company 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 for the contribution made by the Associates at all levels.

**Place : Chennai**  
**Date : April 27, 2007**

**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.

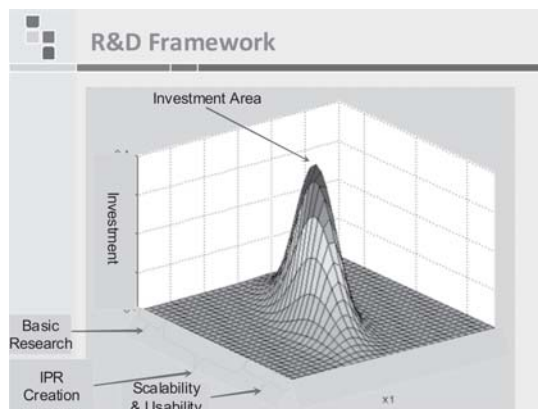
#### 1. Details of Conservation of Energy

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 the constant look out for newer and efficient energy conservation technologies and introduces them appropriately. As the cost of energy consumed by your Company forms a very small portion of the total costs, the impact of changes in energy cost on total costs is insignificant.

#### 2. Research & 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. Over a period of time your Company has evolved a very robust framework for R&D.

Your company has an operating framework for R&D.



Your Company believes that the best use of shareholders' monies is in Applied Research and not Fundamental research. Your Company has a small budget set aside for Fundamental Research. The focus of Applied Research is to build IPR that has a clear revenue generating potential. The framework recognizes that there are 3 distinct phases of R&D. Phase-I is the basic research that establishes that the concept is feasible, Phase II is the build phase in which the IPR is built and during Phase-III the efforts are focused on improving the "Brand-experience" of the IPR.

Your Company has 2 vehicles of research:-

- (1) Fundamental Research is conducted in designated Labs such as SOA labs; and
- (2) Applied Research is conducted by Practice centers such as Intellect Practice.

Polaris is investing in building 7 Banking Platforms under its Research & Development Department. The 7 Platforms being Credit Card, Risk and Treasury Management, Wealth Management, Cash Management, Universal Banking, Consumer Finance & Branch Renewal.

During the year 4 out of the 7 Platforms has been implemented at customer sites. Our research in software and products businesses is an ongoing part of continuous technology change and global expansion of Polaris' focus areas.

As a policy, we are accounting for these in our P&L towards R&D.

Both Fundamental Research as well as Applied Research is done under the supervision and management of the Chief Technology Officer.

#### **a. Specific areas of R&D at your Company**

One of the significant areas of R&D at your company has been the Intellect range of products. During the year under review, your company transitioned to Phase-III i.e. the "Brand-Experience" Phase. As part of Brand-experience enhancements, investments were made in the following areas :-

- (I) Performance enhancement of Intellect
- (II) Integration across product lines
- (III) Availability of Intellect across different hardware vendors

In the next year, the R&D investments will continue to be made in further enhancing the Brand-experience.

Significant R&D effort will also be made in creating deployment and consulting frameworks both of which are elements of brand-experience.

During the year under review, the company also made R&D investments in building IPR for its insurance business and launched a prospect management product.

In the area of Microsoft technologies, your company continued to maintain its pre-eminent position by focusing on Basic-research through its Microsoft Labs.

Your Company also continued to build in its SOA capability by doing basic research in its SOA Labs.

#### **b. Benefits derived**

The purpose of Research and Development is to retain the competitive edge of the organization. By its very nature R&D investments lead the results. The effectiveness of Research and Development therefore must always be analyzed in the context of past investments and the results borne by them. Your company has consistently invested in building core competencies in the Financial services industry. The impact of these investments is that your company today is no longer bracketed as a mid-tier company. It is today recognized as a "Specialty Application Provider" by the leading trade journals such as CMP.

- Your company has received a recognition as Leader in the category of "Specialty Application Development" among the Top 100 global Companies from Cyber Media Publications for Year 2006.
- Your company has been listed by Celent in its Core Banking Vendor Analysis – 06, as one of the global vendors with capability to cater to the unique core systems requirements of international branches, private banks, and other non-US banks. The Intellect Suite scores high on depth of integration as well as breadth of functionality

- Your company has won the prestigious Bankers Technology award for its entry, Intellect Treasury solution for a leading Global bank. The case illustrates customer validation of your company's innovative methodology "SmartBuild". The Intellect Smart Build option offered the client an alternative to the inevitable buy-versus-build decision, effectively delivering the combined benefits of both. This allowed the Client to make the quantum leap from a functionally rich legacy application to a new system which covered some of those features, but could be enhanced progressively towards a complete solution.

Further recognition that your Company's R&D efforts have been making a difference came from the partners. Some of the largest and the best system integrators of the world have expressed keenness to partner with your Company and your Company is working with them actively in the market place.

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

Your Company recognizes that its core competency is the use of Technology to solve Business Problems. In recognition of this it has 3 agencies focused exclusively on managing Technology Absorption, Adaptation and Innovation.

The Chief information Officer focuses on

- (I) Provisioning "Productive Seats" for developers
- (II) Digitized Management control and analysis systems

The Chief Technology Officer focuses on building Technology IPR that creates competitive edge for the organization.

During the year, the Information Technology Department improved on the quality of analytics for business needs through the use of Data Warehousing Techniques. The IT Department also upgraded the finance system from the Peoplesoft 8.4 version to Peoplesoft 8.9 version with functional benefits, and also created a blended architecture of Empower portal and Peoplesoft billing applications, to ensure that the billing workflow covered all role players in your Company including account managers, to ensure more accurate and timely billing.

The Chief Learning Officer focuses on ensuring the capability enhancement of each individual Associate (employee) of your Company and align all learning initiatives with organisational strategy and goals. He administers Nalanda – your Company's knowledge university.

One of the major events of the year in the area of Learning and Knowledge management was the launch of The Banyan, Polaris Wiki in December 2006. Wiki at Polaris is a Knowledge Sharing Portal and online collaboration tool that allows associates to freely create and edit web page and share information.

### **4. Foreign Exchange Earnings and Outgo**

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

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

In the year 2006-07, the revenue derived out of software exports stood at Rs. 81,802.73 lakhs, which is 90.46% of the total revenue from operations generated by the Company.

**b. Foreign Exchange Earned and Used for the year ended March 31,***Rs. in lakhs*

	<b>2007</b>	<b>2006</b>
Foreign exchange earnings	81,802.73	60,303.62
Foreign exchange outgo (including capital goods)	38,793.30	30,287.96

Place: Chennai,  
Date: April 27, 2007

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, 2007**  
**Information pursuant to section 217 (2A) (b) (II) 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	CEO & Managing Director	B.E.,	47	24-Jul-93	24	11,461,889	Director, Nucleus Software Workshop Pvt.Ltd.,
2	Aruna Kashinath	Executive Vice President	M.Sc.,	50	5-Aug-96	29	6,153,096	Deputy Manager, Straw Products Limited
3	Aruna Rao*	Executive Vice President	M.S.(US)	48	1-Nov-02	25	5,926,654	Senior Consultant, Citicorp Overseas Software Ltd,
4	Arup Gupta	President & Chief Operating Officer	ME	53	1-Oct-05	28	12,634,244	President, Tata Consultancy Services, North-Americas.
5	Arvind Mishra*	Executive Vice President	PGD in Personnel Management	42	11-Jan-06	19	7,048,779	Vice President - Human Resources IBM Global Services
6	Balakrishnan V	Chief Information Officer	B.E.,M.Tech.,	58	17-Feb-97	24	2,615,395	Assistant Vice President - HCL Limited.,
7	Gautam Majumdar*	Executive Vice President	B.B.M.,M.B.M.,	56	2-Jan-07	31	1,279,816	Senior Vice President & Head of Sales & Client Relationships, Mphasis BFL Ltd.,
8	Jaideep Billa	Senior Vice President	B.Tech.,MBA	42	6-Aug-03	21	4,881,285	Vice President - Sutherland Technologies
9	Kedarnath Udiyavar	Executive Vice President	M M S (Univ of Mumbai)	48	1-Nov-02	25	5,701,915	Senior Consultant, Citicorp Overseas Software Ltd,
10	Koen Vandenbrande*	President	B.Sc.(Computer Science)	45	6-May-04	25	2,729,062	Director-Product Strategy-Misys Wholesale-Banking-Systems, Wimbledon
11	Maneesh Maakan*	Executive Vice President	B.E.,	40	2-Feb-07	14	1,198,755	C I O & S V P - GE Money India
12	Manoj Kumar Kambath*	Senior Vice President	B.Com.,M.C.A.,	43	5-Apr-95	17	4,251,274	EDP Manager-CHAMAK Holdings Ltd.,
13	Manoj Saxena	Senior Vice President	PGDBM	42	1-Nov-02	18	3,019,495	Customer Support Engineer - HCL
14	Murali Balaraman	Vice President	B.Com.,(Hons),					Head of Product & Marketing for Credit Cards, HDFC Bank Limited.,
15	Natarajan T.M.	Senior Vice President	FCA, GradCWA., MBA	38	2-Feb-04	14	2,766,720	Group Manager, Maxworth Information Technologies
				48	23-Jul-97	25	2,804,005	

**POLARIS SOFTWARE LAB LIMITED**  
**PARTICULARS OF EMPLOYEES FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED MARCH 31, 2007**  
**Information pursuant to section 217 (2A) (b) (ii) 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
16	Neeraja Bulust*	Senior Vice President	B.E., M.S.,	38	8-Jan-07	18	668,894	Senior Delivery Manager, Compuware Corporation.,
17	Prabal Basu Roy*	Group CFO & Executive Vice President	B.Sc., (Hons), MBA, ACA	46	1-Nov-04	22	1,991,519	Director-Strategic Alliances & Business Operations, Lucent Technologies Limited
18	Rama Sivaraman	Senior Vice President	B.E., (Elec.), MBA.,	41	1-Nov-02	17	2,564,252	SEPG Manager, DSQ Software
19	Ravichandran M.R.	Senior Vice President	M.Sc	47	21-Apr-94	26	4,151,176	Regional Divisional Manager - NIIT Ltd
20	Sanjay Gurmani	Senior Vice President	B.E., (Mech.)	43	1-Nov-02	22	2,445,154	Senior Programmer Analyst, M.N.Dastur.,
21	S R Ramaswamy	Senior Vice President	B.E., CFA., DIISc-Ind. Mgt., Dip.in Law	51	4-Oct-02	27	4,586,021	President & COO, Indchem Software Technologies Ltd.,
22	Segar D	Senior Vice President	B.Com., PGDCA, BCA	42	5-Jan-93	21	2,729,131	Assistant Systems Manager, Pragathi Computers Ltd
23	Shekar Rangarajan*	Executive Vice President	B.E., MBA	56	21-Apr-00	33	2,894,367	Director-Quality, Citibank NA-Global Consumer Banking
24	Somasajeewan T K*	Executive Vice President	B.Sc., MSW, PGDPR, MBA, LL.B., OB&PM	54	5-Mar-07	27	354,917	Head - HR, EDS
25	Srikanth R*	Executive Vice President & Chief Financial Officer	B.Com., FCA., AICWA.,	44	6-Jun-06	24	4,899,556	CFO, Future Software Limited.
26	Sunil V	Senior Vice President	M.E., (Elec.), M.B.A.,	49	1-Nov-02	25	3,029,498	Manager - Intergraph.
27	Uma Ratnam Krishnan*	Chief Operating Officer	M.A., MBA	45	1-Oct-03	19	6,613,210	Head-Cards Division, HDFC Bank Ltd
28	Venkatesh Iyengar Srinivasan	Senior Vice President	CA	45	1-Nov-02	22	3,250,480	Vice President, Citibank NA
29	Vikas Misra	Senior Vice President	B.Tech.,	39	8-Apr-96	17	3,854,540	Senior Systems Analyst-Tata Consultancy Services
30	Vinay Garg**	Senior Vice President	MBA, MS, BS	51	26-Feb-97	25	6,972,430	Financial Controller, Polaris Software Lab Inc.

Remuneration includes salary, company's contribution to Provident Fund, Super Annuation Fund and taxable value of perquisites All Appointments are contractual

\* Employed for part of the year.

\*\*None of employees is a relative of any Director of the Company, excepting Sl. No. 30, who is related to a Director of the company

**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, 2007**

The Chairman & Managing Director manages the day-to-day affairs of the Company. The Company has an optimum combination of executive and non-executive directors with Eighty Nine percent of the board of directors comprising of non-executive directors. All pecuniary relationship or transactions of the non-executive directors vis-a-vis 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	1	11
Non-Executive	8	89
Total	9	100

Our Board of Directors met seven times during the year under review on the following dates:

1. 27<sup>th</sup> April 2006
2. 26<sup>th</sup> June 2006
3. 21<sup>st</sup> July 2006
4. 17<sup>th</sup> October 2006
5. 22<sup>nd</sup> January 2007
6. 16<sup>th</sup> March 2007
7. 28<sup>th</sup> March 2007

The maximum gap between two meetings was 96 days.

**Attendance record of Directors attending the Board Meetings and Annual General Meeting during the year 2006-07**

Name	Designation/Category	No. of Board Meetings		Last AGM attendance
		Held	Attended	
Arun Jain	Chairman & Managing Director	7	6	Yes
Abhay Agarwal	Non-Executive Director	7	7	Yes
Arvind Kumar	Non-Executive / Independent Director	7	7	Yes
Dr. Ashok Jhunjunwala	Non-Executive / Independent Director	7	5	No
Ajit Bhushan	Non-Executive Director	7	1	No
Anil Khanna	Non-Executive Director	7	0	No

R C Bhargava	Non-Executive / Independent Director	7	3	Yes
Raju Venkatraman	Non-Executive / Independent Director	7	3	Yes
Satya Pal	Non-Executive / Independent Director	7	7	Yes
Nanoo G Pamnani*	Non-Executive Director	4	1	No

\*Resigned from the Directorship of the Company w.e.f. 1<sup>st</sup> January 2007.

Detailed attendance of each director during the year 2006-07 is given hereunder:-

Sl.No.	Name of the Director	Date of Board Meeting – Attended [YES/NO]						
		27.4.06	26.6.06	21.7.06	17.10.06	22.1.07	16.3.07	28.3.07
1	Arun Jain	Yes	Yes	Yes	Yes	Yes	Yes	No
2	Abhay Agarwal	Yes	Yes	Yes	Yes	Yes	Yes	Yes
3	Arvind Kumar	Yes	Yes	Yes	Yes	Yes	Yes	Yes
4	Ashok Jhunjhunwala	Yes	Yes	Yes	Yes	No	Yes	No
5	Ajit Bhushan	No	No	Yes	No	No	No	No
6	Anil Khanna	No	No	No	No	No	No	No
7	R C Bhargava	No	No	Yes	Yes	No	No	Yes
8	Raju Venkatraman	Yes	Yes	Yes	No	No	No	No
9	Satya Pal	Yes	Yes	Yes	Yes	Yes	Yes	Yes
10	Nanoo G Pamnani*	No	No	No	Yes	NA	NA	NA

\* Resigned from the Directorship of the Company w.e.f. 1<sup>st</sup> January 2007.

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

**Mr. Arun Jain - Chairman & Managing Director & CEO  
[DIN 00580919]**

Mr. Arun Jain, Chairman, Managing Director and CEO of Polaris Software Lab Ltd., is the first generation entrepreneur and promoter of the Company. He holds a degree in Electrical Engineering from the Delhi College of Engineering. Polaris with over 8,500 talented professionals is a leading provider of expert solutions to the Banking, Financial Services & Insurance industry.

A strong believer in the power of the organizational subconsciousness and 'common destiny', Arun is the architect behind 'Lakshya' the annual 'visioning' and goal setting exercise of Polaris. He also founded the Ullas Trust to integrate Polaris employees with a larger community and to encourage the "Can Do It" spirit in the economically challenged students. The Trust has reached over 17,000 students in Tamil Nadu, Mumbai & Delhi. Arun, nominated for the coveted Ernst & Young Entrepreneur of the Year Award in 1999 and 2000, had 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. He had also won the 'ICICI Venture – CII Connect 2006 Entrepreneur Award. Mr. Arun Jain is a Director in 10 other Companies. He is also a member of 2 Committees of a Company.

**Mr. Abhay Agarwal - Practising Chartered Accountant  
[DIN 00042882]**

Mr. Abhay Agarwal is a Practising Chartered Accountant based in 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 asset to the Company.

Mr. Abhay Agarwal joined the Board of Directors of the company in May, 1995. He is a member of Audit Committee, Shareholders' Committee and Corporate Governance Committee of the Company. He is also a Director in Sunshine India Pvt. Ltd., Milky Investment & Trading Company, British Health Products (I) Ltd., Sahiwal Investment & Trading Company, Upvan Farms and Services Pvt. Ltd., Dabon International Pvt. Ltd., Welltime Investments Pvt. Ltd., Param Investments Pvt. Ltd., Expo Investments Pvt. Ltd., Northern Herbals Pvt. Ltd., Intelligent Information Systems Pvt. Ltd., Burman Resorts Pvt. Ltd., Newage Capital Services Pvt. Ltd., Betteroption Estates Pvt. Ltd., Promethean India Advisor Pvt. Ltd, Promethean India Finance Pvt. Ltd and Natures Bounty Wines and Allied Products Pvt. Ltd. He is a relative of Mr. Arun Jain, Chairman & Managing Director of the Company.

**Mr. Ajit Bhushan, Managing Director – Citigroup Venture Capital International  
[DIN 00789324]**

A Graduate from the 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 enabled 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, he was responsible for developing the Cash Management business for Citibank Poland and worked in Citibank India in the Cash Management business. He joined the Board of Polaris in July 2003. He is also a Director of Citicorp Technology Holding Inc and a Member of the Remuneration & Compensation Committee of Polaris. He is also a partner of Citigroup Venture Capital International Co-Investment, L.P. & Citigroup Venture Capital International Carried Interest, L.P.

**Mr. Anil Khanna, Managing Director - Citigroup Venture Capital International  
[DIN 01241325]**

Mr. Anil Khanna is a Managing Director in Citigroup Venture Capital International and is responsible for cross-border investment opportunities and business services. Prior to this role, he held a variety of business management roles at Citigroup and Marsh and McLennan Company. Most recently, he managed Marsh and McLennan's US consumer business. At Citigroup from 1986-2000, he 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. He joined the Board of Polaris in April 2005. He is also a Director of Eurasian Brewery Holding Limited, C-Cayco Co-Invest Limited, C-Cayco Noteholder Limited, Receivable Management Services International, Inc., NEP GP Inc., NEB Holdings GP, Inc., Permolex International GP, Inc., He is also a partner of Citigroup Venture Capital International Co-Investment, L.P. & Citigroup Venture Capital International Carried Interest, L.P.

**Mr. Arvind Kumar, Sr. Lawyer - Supreme Court  
[DIN 00636869]**

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 U.P. Bar Council at Allahabad and practised in the High Court of Judicature at Allahabad from 1966 to 1972. Later in the year 1972, he shifted to the Supreme Court of India in New Delhi and started practising there. He is a Senior Lawyer having 43 years of professional standing at Bar, and has gained enough global experience by participating in civil and corporate cases around the world. Presently practising as a Senior lawyer in the 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 of the Company. Mr. Arvind Kumar is also a Director in Nucsoft Limited, Associated Legal Advisors (P) Limited and Second Innings India (P) Limited.

**Dr. Ashok Jhunjunwala, Professor - Department of Electrical Engineering, Indian Institute of Technology (IIT) Madras, India.  
[DIN 00417944]**

Dr. Ashok Jhunjunwala is a Professor in the Department of Electrical Engineering, Indian Institute of Technology, Chennai, India and was Department Chair till recently. He received his B.Tech degree from IIT, Kanpur, and MS and Ph.D degrees from the University of Maine. From 1979 to 1981, he was with Washington State University as Assistant Professor. Since 1981, he has been teaching at IIT, Madras.

Dr. Jhunjunwala leads the Telecommunications and Computer Networks group (TeNeT) at IIT Madras. This group is closely working with industry in the development of a number of Telecommunications and Computer Network Systems. TeNeT group has incubated a number of technology companies, which work in partnership with TeNeT group to develop world class Telecom and Banking products for Rural Markets.

Dr. Ashok Jhunjunwala has been awarded Padma Shri in the year 2002, Shanti Swarup Bhatnagar Award in the year 1998, Dr. Vikaram Sarabhai Research Award for the year 1997, Millennium Medal at Indian Science Congress in the year 2000, H. K. Firodia for "Excellence in Science & Technology" for the year 2002, Shri Om Prakash Bhasin Foundation Award for Science & Technology for the year 2004, Jawaharlala Nehru Birth Centenary Lecture Award by INSA for the year 2006 and IBM Innovation and Leadership Forum Award by IBM for the year 2006. He is a Fellow of INAE, IAS, INSA and NAS. His research interests are Telecommunications and Wireless Systems & Technologies for Rural Areas. He is also a member of the Remuneration and Compensation Committee, Audit Committee & Shareholders' Committee of Polaris.

Dr. Jhunjhunwala is also a Director in State Bank of India, Tata Tele Maharashtra Limited, Bharat Electronics Limited, 3i Infotech Limited, Sasken Communications Technologies Limited, Tejas Networks Private Limited, Jataayu Software Private Limited, National Research Development Corporation Limited, Institute for Development & Research in Banking Technology, Midas Communication Technologies Private Limited, Vishal Bharath Comnet and National Internet Exchange of India Ltd. Further he is a member of the Audit Committee of Sasken Communications Technologies Limited, Tejas Networks Private Limited & Midas Communication Technologies Private Limited. He is also a member of the Compensation Committee of Sasken Communications Technologies Limited & Tejas Networks Limited. He chairs the Technology Committee and is a member of the Customer Service Committee of State Bank of India.

**Mr. R.C. Bhargava, Former Chairman & Managing Director of Maruti Udyog Ltd.  
[DIN 00007620]**

A postgraduate 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 postgraduate in Development Economics from Williams College, Williamstown (Mass), USA.

From 1968 to 73, he was the Agricultural Production Commissioner and Secretary to the Government of the State of Jammu & Kashmir for the Departments of Agriculture, Horticulture, Animal Husbandry, Forests and Co-operation. He was a Special Assistant to the Union Minister of Energy, Government of India from 1973 to 74, and between 1974 & 78, 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 Director (Commercial).

From 1981 to 97, 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 joined the Board of Polaris in March, 1999. He chairs the Remuneration & Compensation Committee and is a member of the Audit Committee of Polaris.

Mr. Bhargava is also a Director in IL&FS Limited, Grasim Industries Limited, RCB Consulting Private Limited, Contitech India Private Limited, Lord Krishna Bank Ltd., Maruti Udyog Limited, Omax Auto Ltd., Thomson Press Limited, Dabur India Limited, Ultra Tech Cement Company Limited, Global Education Management Systems Private Limited, Optimus Global Services Ltd. and Taj Asia Ltd. Further he chairs the Audit Committees of IL & FS Limited, Thomson Press Ltd., Ultra Tech Cement Company Limited & Optimus Global Services Ltd. He is a member of the Audit Committee of Grasim Industries Ltd., & Dabur India Ltd., and is also a member of the Shareholders Grievance Committees of Maruti Udyog Ltd., and Ultra Tech Cement Company Limited. He is also the Chairman of the Remuneration & Compensation Committee of Optimus Global Services Ltd.

**Mr. Raju Venkatraman, President & COO of Firstsource Solutions Limited  
[DIN 00632071]**

Mr. Raju Venkatraman is the President and Chief Operating Officer of Firstsource Solutions Limited. Raju's career in technology outsourcing began with EDS. In EDS, Mr. Raju spearheaded the applications outsourcing business (now called BPO) in a variety of verticals including Healthcare, Manufacturing and Federal Government. Mr. Raju left a successful career at EDS in 1991 and became a pioneer in outsourcing by launching Vetri Systems, an off-shore outsourcing company. Scaling his original company to nearly 4,000 employees/contractors, he sold it to Lason, incorporated in 1998. He served as the President, Data Management Services at Lason and was responsible for more than 7,500 employees and US\$ 85 million in revenue. In early 2002, he resigned from Lason and launched Sherpa.

Mr. Raju was named Indian Entrepreneur of the Year in 2000, and is a recognized expert and speaker in the field of business process outsourcing. He is a chemical engineering graduate from IIT, Chennai and holds an executive MBA from IIM, Ahmedabad. Mr. Raju joined the Board of Polaris on 30<sup>th</sup> December 2005 and is a Member of the Shareholders' Committee of the Company also. He is also a Director in Rev IT Systems Pvt. Ltd., Vetri Info Data Pvt. Ltd., Vetri Info Data LLC and Sherpa Business Solutions Inc.

**Mr. Satya Pal, Former Secretary (Telecom), Chairman MTNL & Telecom Expert  
[DIN 00287845]**

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, Director General Telecom, Chairman, Telecom Board and Chairman, MTNL. He retired in August 1989. He is a Founder Fellow of The Institute of Electronics and Telecommunication Engineers.

Mr. Satya Pal joined the Board of Polaris in April 1997. He is the Chairman of the Shareholders' Committee & Corporate Governance Committee and is a Member of the Remuneration & Compensation Committee of Polaris. Mr. Satya Pal advises Polaris on Operational and Strategic issues. He is also a Director of Paramount Communications Limited and Member of its Audit Committee and Chairman of its Remuneration Committee.

### **3. Audit Committee**

The Company has a qualified and independent Audit Committee with all Members of the Committee being Non-executive Directors. The Chairman of the Committee is an Independent Director. The Company Secretary acts as the Secretary to the Committee.

The Audit Committee had met 7 times during the year 2006-07 on 27<sup>th</sup> April 2006, 26<sup>th</sup> June 2006, 21<sup>st</sup> July 2006, 18<sup>th</sup> August 2006, 17<sup>th</sup> October 2006, 6<sup>th</sup> January 2007 and 22<sup>nd</sup> January 2007.

**Members of the Audit Committee and the number of Meetings attended by each member during the financial year 2006-2007**

Name	Designation	No. of Meetings	
		Held	Attended
Arvind Kumar	Chairman / Non-Executive Director	7	7
Abhay Agarwal	Non-Executive Director	7	7
Ashok Jhunjhunwala	Non-Executive Director	7	5
R C Bhargava	Non-Executive Director	7	4
Satya Pal*	Non-Executive Director	1	1

\* Mr. Satya Pal was co-opted as a Member of the Audit Committee to attend its Meeting held on 22<sup>nd</sup> January 2007.

**Powers 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 the 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 statements are 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 the 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 Directors' Responsibility Statement and the 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 the 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, the performance of statutory and internal auditors and the adequacy of 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 thereon.
- 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 commencement of audit, 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 the 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 finalises among other things, compensation and benefits of the 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 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 member during the financial year 2006-07**

Name	Designation	No. of Meetings	
		Held	Attended
R C Bhargava	Chairman / Non-Executive Director	6	3
Ajit Bhushan	Non-Executive Director	6	1
Ashok Jhunjhunwala	Non-Executive Director	6	4
Satya Pal	Non-Executive Director	6	6
Arvind Kumar*	Non-Executive Director	1	1

The Committee had met on 27<sup>th</sup> April 2006, 24<sup>th</sup> May 2006\*\*, 26<sup>th</sup> June 2006, 16<sup>th</sup> August 2006, 17<sup>th</sup> October 2006 and 22<sup>nd</sup> January 2007.

\* Mr. Arvind Kumar was co-opted as Member of the Remuneration & Compensation Committee to attend its meeting held on 22<sup>nd</sup> January 2007.

\*\* The Meeting was held through Audio Conference.

**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 the members on the remuneration paid to the Directors from time to time. Remuneration/ Commission payable to Directors is determined by the contributions made by the respective directors for the growth of the Company.

**Gross Remuneration paid/payable to Directors for the Financial Year 2006-07**

Name of the Director	Salary, Perquisites, Bonus & Allowances (Rs.)	Contribution to PF & other funds (Rs.)	Commission* (Rs.)	Sitting Fees (Rs.)	Stock Options
Arun Jain	108,31,289 <sup>@</sup>	6,30,600	0	0	0
Abhay Agarwal	0	0	4,98,092	1,45,000	10,000
Arvind Kumar	0	0	4,63,740	1,25,000	10,000
Ashok Jhunjhunwala	0	0	3,69,275	1,00,000	10,000
Ajit Bhushan	0	0	0	0	0
Anil Khanna	0	0	0	0	0
R C Bhargava	0	0	4,03,626	65,000	10,000
Raju Venkatraman	0	0	1,20,229	25,000	10,000
Satya Pal	0	0	3,95,038	1,30,000	10,000
Nanoo G Pamnani <sup>#</sup>	0	0	0	0	0

\* Paid based on the attendance of Directors in the Board, Committee & other meetings.

<sup>#</sup> Resigned from the Directorship of the Company w.e.f. 1<sup>st</sup> January 2007.

<sup>@</sup> Includes Rs.51.25 lakhs towards Bonus. The Bonus is calculated based on performance criteria as determined by the shareholders at their AGM held on 18.08.2006.

### Stock Options

During the year 2006-07, the Options were granted only under ASOP 2003 & ASOP 2004 as per the definition of Market Price as detailed hereunder:-

Sl. No.	Date of Grant	Option Price (Rs.)	No. of Associates	No. of Options
1	27.04.2006	110.10	12	1,28,500
2	26.06.2006	76.60	248	18,00,000
3	16.08.2006	108.40	15	1,12,000
4	17.10.2006	140.90	31	1,25,500
5	29.01.2007	227.40	61	13,29,000

The Company has obtained the certificate from the Auditors of the Company certifying that the Company's Associate Stock Option Plan(s) is being implemented in accordance with the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 as applicable and in accordance with the resolution of the Members in the General Meeting.

### 5. Shareholders' Committee

The Shareholders' Committee consisting of only Non-executive Directors, focuses on shareholders' grievances and strengthening of investor relation. The Committee specifically look into the redressal of shareholders complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. The purpose of constituting this Committee is to uphold the basic rights of the shareholders including right to transfer and registration of shares, obtaining relevant information about the Company on a timely and regular basis, participating and voting in shareholders' 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, issuance 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 Member during the financial year 2006-07

Name	Designation	No. of Meetings	
		Held	Attended
Satya Pal	Chairman / Non-Executive Director	5	5
Abhay Agarwal	Non-Executive Director	5	5
Ashok Jhunjunwala	Non-Executive Director	5	3
Raju Venkatraman	Non-Executive Director	5	2

During the year, the Committee had met on 27<sup>th</sup> April 2006, 21<sup>st</sup> July 2006, 17<sup>th</sup> October 2006, 22<sup>nd</sup> January 2007 and 28<sup>th</sup> March 2007. Mr. M P Suresh Kumar, Company Secretary is the Compliance Officer.

During the year, total 1,982 Requests/ Complaints had been received/ resolved by the Company as detailed hereunder:-

<b>STATUS OF REQUESTS/ COMPLAINTS DURING THE YEAR 01/04/2006 TO 31/03/2007</b>			
<b>Sl.</b>	<b>Subject</b>	<b>Received</b>	<b>Replied/ Resolved</b>
<b><u>A. REQUESTS</u></b>			
1	CHANGE/CORRECTION OF ADDRESS	68	68
2	RECEIPT OF DIVIDEND WARRANTS/REFUND ORDER FOR REVALIDATION	113	113
3	CHANGE/CORRECTION OF BANK MANDATE/NAME/DAMAGED DIVIDEND WARRANT	71	71
4	REQUEST FOR ISSUE OF DUPLICATE DIVIDEND WARRANT	1	1
5	RECEIPT OF INDEMNITY BOND FOR ISSUE OF DUPLICATE WARRANT	43	43
6	QUERY REGARDING PAYMENT OF DIVIDEND WARRANT	6	6
7	RECEIPT OF DEMAND DRAFT(S) AGAINST DIVIDEND WARRANT FROM COMPANY/BANK	120	120
8	LETTER OF INTIMATION OF BANK MANDATE	75	75
9	REQUEST FOR ECS FACILITY	259	259
10	POSTAL RETURN DOCUMENTS (REMINDER LETTERS FORWARDED)	717	717
11	OPTION OF SHARES IN PHYSICAL/ELECTRONIC MODE	3	3
12	LOSS OF SECURITIES AND REQUEST FOR ISSUE OF DUPLICATE	6	6
13	RECEIPT OF INDEMNITY BOND AND AFFIDAVIT FOR ISSUE OF DUPLICATE SECURITIES	2	2
14	REQUEST FOR CONSOLIDATION/SPLIT OF SECURITIES	37	37
15	DELETION OF BANK MANDATE	2	2
16	QUERY REGARDING UNDELIVERED DOCUMENTS	3	3
17	REQUEST FOR TRANSFERS/ DEMATS/REMAT/TRANSMISSION	210	210
18	CORRECTION OF NAME ON SECURITIES	7	7
19	CHANGE / CORRECTION OF BANK MANDATE	29	29
20	LETTER REGARDING INVESTOR SERVICES	23	23
21	DELETION OF JOINT NAME DUE TO DEATH	2	2
22	OTHERS	81	81
	<b>TOTAL (A)</b>	<b>1878</b>	<b>1878</b>
<b><u>B. COMPLAINTS</u></b>			
1	NON-RECEIPT OF ANNUAL REPORT	3	3
2	NON-RECEIPT OF DIVIDEND WARRANTS	71	71
3	NON-RECEIPT OF SECURITIES	14	14
4	COMPLAINTS RELATING TO TRANSFER OF SHARES	16	16
	<b>TOTAL(B)</b>	<b>104</b>	<b>104</b>
	<b>TOTAL (A) + (B)</b>	<b>1982</b>	<b>1982</b>

No. of complaints not resolved to the satisfaction of shareholders: Nil

No. of pending complaints : Nil

During the year, the Company allotted 352,130 Equity shares of Rs.5/- each to the Associates, pursuant to the exercise of employee stock options, the details of which are provided in the Directors' Report.

In view of the above, the issued, subscribed and paid-up equity share capital increased from Rs. 491,149,985 comprising of 98,229,997 equity shares of Rs.5/- each as on March 31, 2006 to Rs. 492,910,635 comprising of 98,582,127 equity shares of Rs.5/- each as on March 31, 2007. All the newly allotted shares are currently listed and traded on the stock exchanges.

#### Corporate Governance Committee

The Corporate Governance Committee consists of Non - executive Directors only. Functions of the Committee are to identify and recommend the best Corporate Governance practices to the Board and perform such duties as may be assigned to it by the Board from time to time. During the year, the Committee met 4 times. No sitting fee is paid to the members for attending the meetings.

#### Members of the Corporate Governance Committee and the number of Meetings attended by each Member during the financial year 2006-07

Name	Designation	No. of Meetings	
		Held	Attended
Satya Pal	Chairman / Non-Executive Director	4	4
Abhay Agarwal	Non-Executive Director	4	4
Arvind Kumar	Non-Executive Director	4	4
Nanoo G Pamnani *	Non-Executive Director	3	1

\*Resigned from the Directorship of the Company w.e.f. 1<sup>st</sup> January 2007

During the year, the Committee had met on 27<sup>th</sup> April 2006, 21<sup>st</sup> July 2006, 17<sup>th</sup> October 2006 & 22<sup>nd</sup> January 2007.

#### 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 had met 16 times during the Financial Year 2006-07. The Committee is now comprised of the following members:-

Name of the Member	Designation
Arup Gupta	President & Chief Operating Officer
R. Srikanth	Executive Vice President & Chief Financial Officer
M P Suresh Kumar	Vice President - Legal & Company Secretary

6. General Meetings of the Company						
Meeting Date	11th AGM 25th July, 2004 3.30 P.M.	12th AGM 22nd July, 2005 3.30 P.M.	13th AGM 18th August, 2006 3.30 P.M.	EGM 30th December, 2002 2.00 P.M.	EGM 30th December, 2002 4.00 P.M.	EGM 12th March 2004 3.30 P.M.
Venue	Music Academy, Chennai	Music Academy, Chennai	Music Academy, Chennai	Kamaraj Arangam, Chennai	Kamaraj Arangam, Chennai	Music Academy, Chennai
Sl. No.	Resolutions Passed	Type	Resolutions Passed	Type	Resolutions Passed	Type
1	Adoption of Annual Accounts (31/3/04)	O	Adoption of Annual Accounts (31/3/06)	O	Alteration of Capital Clause in the Memorandum of Association	O
2	Declaration of Dividend (35%)	O	Declaration of Dividend (25%)	O	Alteration of Capital Clause in the Articles of Association	S
3	Re-appt. of Bharat S Raut & Co. as Statutory Auditors	O	Re-appt. of M/s.BSR & Co. as Statutory Auditors	O	Appointment of Mr.Govind Singhal as a Whole-time director u/s Sec 269 of the Act	O
4	Appt. of Mr. Abhay Agarwal as a director under Sec 256	O	Appt. of Mr. Arvind Kumar as a director under Sec 256	O		S
5	Appt. of Mr. Ashok Jhunjhunwala as a director under Sec 256	O	Appt. of Mr. Govind Singhal as a director under Sec 256	O		S
6	Appt. of Mr. R C Bhargawa as Director under Sec 256	O	Appt. of M/s. S.R. Batliboi & Associates, as Statutory Auditors	O		S
7	Appt. of Mr. V. Baharaman as Director under sec 256	O	Appt. of Mr. Raju Venkataraman as Director under Sec 257	O		S
8	Approval of Shareholders pursuant to Sec 309(g)(b) of the Companies Act, 1956 for payment of commission to non Whole-time Directors	S	Re-appt. of Mr. Anil Sachdev as Director under sec 257	O		S
9	Approval of Shareholders pursuant to Sec 309(g)(b) of the Companies Act, 1956 for payment of commission to non Whole-time Directors	S	Appt. of Mr. Anil Khanna as Director under sec 257	O		S
10	Amendment in the definition of Market Price in ASOP 2003	S	Re-appointment of Mr. Govind Singhal as "Executive Director" for 2 years	S		S
11	Approval of new Associate Stock Option Plan 2004 (ASOP 2004).	S	Approval of Shareholders pursuant to Sec. 314(1) & 314(1B) for re-appointment of Mr. Vinay Gang, a relative of CMD.	S		S
12	Approval for extension of benefit of ASOP 2004 to employees & Directors of subsidiaries/ holding Companies.	S	Approval of Shareholders pursuant to Sec. 314(1) & 314(1B) for appointment of Ms. Rudhira Gupta, a relative of Director.	S		S
13	Alteration of the Articles of Association	S	Fixation of maximum no. of Stock Options to be granted to Non-Executive Directors under ASOP 2003 & 2004.	S		S

Type O-Ordinary Resolution, S-Special Resolution

Note : No Special Resolution, was passed last year through postal ballot. No Special Resolution is proposed to be conducted through postal ballot.

## 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 shown in Note No.(B)(14) under Significant Policies and Notes to accounts of the complete and full Balance Sheet and Profit & Loss Account.

### 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. 1,25,000/- for alleged violation of filing of returns under Regulations 6 & 8 of SEBI (Substantial Acquisition of Shares & Takeover) Regulations, 1997. The Company vide its letter dated 13<sup>th</sup> December 2004 had replied clarifying its position in the matter. The Company had not received any further communication from SEBI in this matter.

### Compliance with mandatory requirements and adoption of non-mandatory requirements of Clause 49 of the Listing Agreement

Clause 49 of the Listing Agreement mandates to obtain a certificate either from the auditors or practising company secretaries regarding compliance of the conditions of Corporate Governance as stipulated in the Clause and annex the certificate with the Director's Report, which is sent annually to all shareholders. The Company has complied with the mandatory requirements of Clause 49 of the Listing Agreement including CEO/CFO certification. As required under Clause 49, a certificate signed by CEO & CFO of the Company was placed before the Board of Directors and the same has been provided elsewhere in this report. Further, as per the requirements of Clause 49, a certificate obtained from Auditors certifying the compliance with the conditions of Corporate Governance under the said clause has also been provided elsewhere in this report.

Clause 49 also requires disclosures of adoption by the Company of non-mandatory requirements specified in the said clause, the implementation of which is discretionary on the part of the Company. Accordingly, the adoption of non-mandatory requirements is given below:-

#### a. Remuneration & Compensation Committee

The Company has constituted a Remuneration & Compensation Committee consisting of only Non-executive Directors. A detailed note on the Remuneration & Compensation Committee is provided elsewhere in this report.

#### b. Whistle Blower Policy

The Company has established a mechanism for employees to report concerns about unethical behaviors, actual or suspected fraud, violation of Code of Conduct of the Company etc. The mechanism also provides for adequate safeguards against victimization of employees who avail of the mechanism and also provides for direct access by the Whistle Blower to the Audit Committee. It is affirmed that during the Financial Year 2006-07, no employee has been denied access to the Audit Committee.

### Risk Management framework

The Board of Directors on 21<sup>st</sup> January 2005 adopted the risk management framework. The framework provides an integrated approach for managing the risks in various aspects of the business. A write-up on the above is provided in the Management Discussions & Analysis Report.

### 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 etc.

The Company's official website [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. The Company has assigned a separate E-mail ID [shareholder.query@polaris.co.in](mailto:shareholder.query@polaris.co.in) for investor correspondence. All press releases issued by the Company from time to time are informed to the concerned Stock Exchanges in which the shares of the Company are listed and the same are also hosted in the Company's website for the knowledge of the investors.

- **The Management Discussion & Analysis report (MD&A)**

The MD&A 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	17 <sup>th</sup> July 2007 at 03.30 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 Year Calendar (tentative and subject to change) (1.4.2007 to 31.3.2008)</b>	
Financial reporting for the first quarter ending on June 30, 2007	Between 15 <sup>th</sup> and 31 <sup>st</sup> July 2007
Financial reporting for the second quarter ending on September 30, 2007	15 <sup>th</sup> and 31 <sup>st</sup> October 2007
Financial reporting for the third quarter ending on December 31, 2007	Between 15 <sup>th</sup> and 31 <sup>st</sup> January 2008
Financial results for the year ending on March 31, 2008	Between 15 <sup>th</sup> and 30 <sup>th</sup> of April 2008
Annual General Meeting for the year ending on March 31, 2008	July/August 2008

Dates of Book Closure	From 12 <sup>th</sup> July 2007 to 17 <sup>th</sup> July 2007 (both days inclusive )
Dividend Payment	Two Interim Dividends declared by the Board of Directors for the financial year 2006-07 aggregating to 45% (20% in January 2007 and 25% in March 2007) were paid to the Members of the Company. Considering the above, the Board has not recommended any final dividend for the financial year 2006-07.
Listing on Stock Exchanges	Polaris shares are traded in 1.Madras Stock Exchange Ltd. w.e.f. 27 <sup>th</sup> September 1999 2.The Bombay Stock Exchange Limited w.e.f. 29 <sup>th</sup> September 1999 3.National Stock Exchange of India Limited w.e.f. 24 <sup>th</sup> November 1999.
Reuters code	POLS.BO (BSE) POLS.NS (NSE)
Scrip Code (BSE)	532254
Scrip Code(NSE)	POLARIS
ISIN Code	INE763A01023

- The Company's scrips are traded in "**Group A**" category in The Bombay Stock Exchange Ltd. since 26<sup>th</sup> March 2001.
- The Company hereby confirms that the listing fee for the year 2007-08, 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 and Share Transfer Agent

Karvy Computershare Private Limited  
Unit: Polaris Software Lab Limited  
Plot No. 17 to 24  
Vittalrao Nagar, Madhapur  
Hyderabad - 500 081.  
Tel: 040 - 23420815-28  
Fax: 040 - 23420814  
E-mail: [mailmanager@karvy.com](mailto:mailmanager@karvy.com)  
Website: [www.karvy.com](http://www.karvy.com)

**Publication of Quarterly Results**

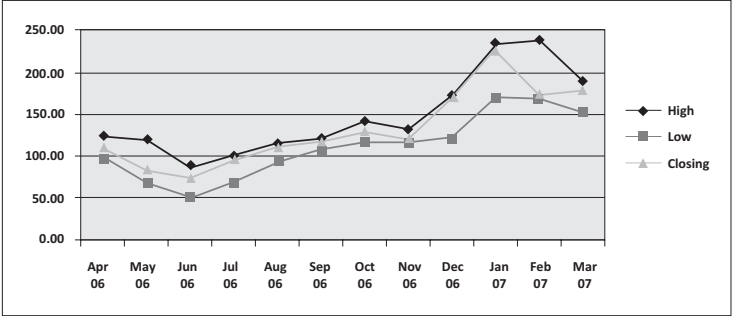
Sl. No.	Particulars	Details	
		Name	Date of Publication
1	English Newspapers in which quarterly results were published	Business Standard	28.04.2006 22.07.2006 18.10.2006 23.01.2007
2	Vernacular Newspapers in which quarterly results were published	Makkal Kural	28.04.2006 22.07.2006 18.10.2006 23.01.2007
3	Website address of the Company on which reports/financial results have been posted	<a href="http://www.polaris.co.in">www.polaris.co.in</a>	
4	Website address of stock exchange(s) on which reports / financial results are posted	Name of the Stock Exchange(s) The Bombay Stock Exchange Limited  The National Stock Exchange of India Limited	Website address(es) <a href="http://www.bseindia.com">www.bseindia.com</a>  <a href="http://www.nseindia.com">www.nseindia.com</a>
5	Whether the Official News releases are displayed by the company	<input checked="" type="checkbox"/> Yes	

**Market Price Data of NSE and BSE: High, Low, Closing prices and number of shares traded during each month in the last financial year**

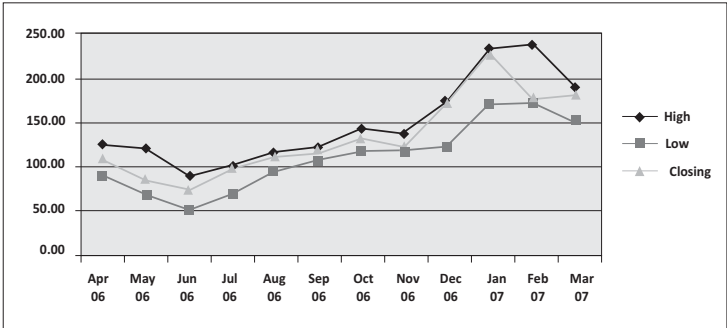
STOCK MARKET DATA FOR THE PERIOD APRIL 2006 TO MARCH 2007 FROM MUMBAI AND NATIONAL STOCK EXCHANGES								
Month	BSE Price High	BSE Price Low	BSE Price Closing	BSE Volume for the month	NSE Price High	NSE Price Low	NSE Price Closing	NSE Volume for the month
Apr 06	125.95	100.30	109.90	3,795,949	125.80	90.25	110.00	10,633,769
May 06	121.85	70.00	85.95	4,604,518	121.80	70.15	86.35	12,964,727
June 06	90.75	51.80	73.95	4,945,160	90.90	51.80	74.05	15,921,124
July 06	101.15	69.70	98.20	29,953,604	101.20	70.10	98.40	91,142,752
Aug 06	116.20	97.00	112.00	12,472,625	116.25	97.00	112.25	45,453,530
Sept 06	122.75	109.00	117.50	3,952,966	122.70	108.80	117.55	16,598,820
Oct 06	143.00	118.10	130.75	7,483,640	143.30	118.00	131.10	28,527,274
Nov 06	133.85	117.00	121.55	3,029,134	136.90	116.25	121.55	13,187,002
Dec 06	173.80	122.25	172.85	17,324,634	173.70	122.15	172.95	62,507,016
Jan 07	234.80	171.30	226.35	17,304,936	234.50	171.05	226.40	69,677,804
Feb 07	237.45	170.00	174.15	5,504,654	237.25	171.10	174.90	21,823,602
Mar 07	190.00	152.00	180.00	5,482,772	190.00	152.00	180.60	21,685,172
			<b>TOTAL</b>	<b>115,854,592</b>		<b>TOTAL</b>		<b>410,122,592</b>

Graphical representation of the movement of closing market prices of the Company's shares quoted in the Mumbai (BSE) and National (NSE) Stock Exchange from April, 2006 to March, 2007

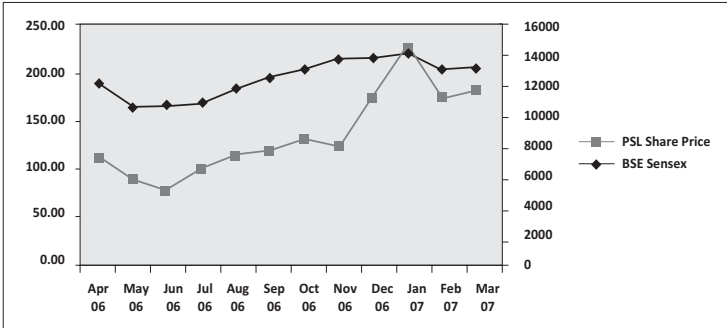
**Monthly High, Low and Closing Prices of Company's Shares in BSE**



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



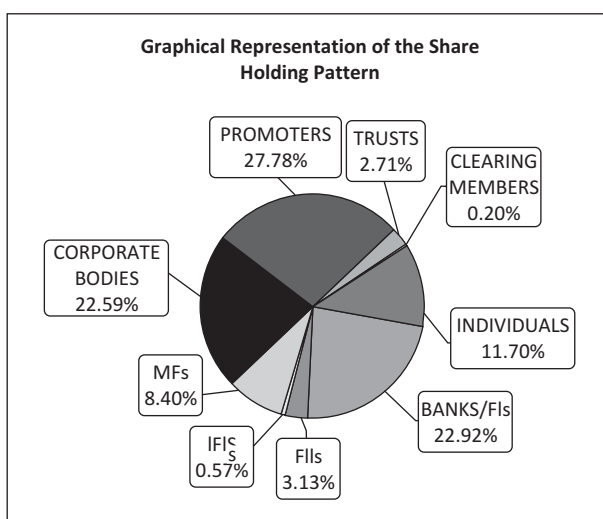
**Polaris Share Price on BSE Vs. BSE Sensex**



Shareholding Pattern of the Company as on 31<sup>st</sup> March 2007

Category	Category of shareholder	Number of share-holders	Total number of shares	Number of shares held in demater-ialized form	Total shareholding as a Percentage of total number of shares	
					As a percentage of (A+B)	As a percentage of (A+B+C)
<b>(A) Shareholding of Promoter and Promoter Group</b>						
<b>1</b>	<b>Indian</b>					
(a)	Individuals/ Hindu Undivided Family	16	8,008,290	7,994,690	8.12	8.12
(b)	Bodies Corporate	1	19,380,938	19,380,938	19.66	19.66
	<b>Sub-Total (A)(1)</b>	<b>17</b>	<b>27,389,228</b>	<b>27,375,628</b>	<b>27.78</b>	<b>27.78</b>
<b>2</b>	<b>Foreign</b>					
	Individuals (NRIs/ Foreign Individuals)	2	2,850	2,850	0.00	-
	<b>Sub-Total (A)(2)</b>	<b>2</b>	<b>2,850</b>	<b>2,850</b>	<b>0.00</b>	<b>-</b>
	<b>Total Shareholding of Promoter and Promoter Group (A)= (A)(1)+(A)(2)</b>	<b>19</b>	<b>27,392,078</b>	<b>27,378,478</b>	<b>27.78</b>	<b>27.78</b>
<b>(B) Public Shareholdings</b>						
<b>1</b>	<b>Institutions</b>					
(a)	Mutual Funds/ UTI	27	8,277,852	8,277,852	8.40	8.40
(b)	Financial Institutions/ Banks	8	22,595,955	22,595,955	22.92	22.92
(c)	Insurance Companies	2	564,636	564,636	0.57	0.57
(d)	Foreign Institutional Investors	20	3,081,810	3,081,660	3.13	3.13
	<b>Sub-Total (B)(1)</b>	<b>57</b>	<b>34,520,253</b>	<b>34,520,103</b>	<b>35.02</b>	<b>35.02</b>
<b>2</b>	<b>Non-institutions</b>					
(a)	Bodies Corporate	1,176	22,270,342	22,260,142	22.59	22.59
(b)	Individuals -					
	i. Individual shareholders holding nominal share capital up to Rs.1 lakh.	45,165	9,796,564	9,258,045	9.94	9.94
	ii. Individual shareholders holding nominal share capital in excess of Rs.1 lakh.	28	1,734,946	1,734,946	1.76	1.76
(c)	Any Other - Clearing Members	125	193,282	193,282	0.20	0.20
	Any Other - OCBs	3	600	550	0.00	0.00

	Any Other - Trusts	11	2,674,062	2,651,762	2.71	2.71
	<b>Sub-Total (B)(2)</b>	<b>46,508</b>	<b>36,669,796</b>	<b>36,098,727</b>	<b>37.20</b>	<b>37.20</b>
	<b>Total Public Shareholding</b>	<b>46,565</b>	<b>71,190,049</b>	<b>70,618,830</b>	<b>72.22</b>	<b>72.22</b>
	<b>(B) = (B)(1)+(B)(2)</b>					
	<b>TOTAL (A)+(B)</b>	<b>46,584</b>	<b>98,582,127</b>	<b>97,997,308</b>	<b>100.00</b>	<b>100.00</b>
(C)	Shares held by Custodians and against which Depository Receipts have been issued	0	0	0	0	0
	<b>GRAND TOTAL (A)+(B)+(C)</b>	<b>46,584</b>	<b>98,582,127</b>	<b>97,997,308</b>	<b>100.00</b>	<b>100.00</b>



**List of persons holding more than 1% of Shares as on 31.03.2007**

Sl. No.	Name of the shareholder	No. of Shares	% of Share Capital
1	Citibank A/C Orbitech Limited	22,576,015	22.90
2	Orbitech Limited	20,179,606	20.47
3	Polaris Holdings Private Limited	19,380,938	19.66
4	Arun Jain	3,522,416	3.57
5	Sundaram BNP Paribas Mutual Fund A/C Sundarambnp Paribas Select Midcap	2,226,000	2.26
6	Yogesh Andlay	2,041,864	2.07
7	Franklin India Smaller Companies Fund	1,435,619	1.46
8	Orbitech Employees Welfare Trust	1,425,171	1.45
9	Konark Trust	1,041,473	1.06

**DISTRIBUTION SCHEDULE OF SHAREHOLDING AS ON 31.03.2007**

S.No.	Category From To	No. of Holders	Cumulative Holders	% of Holders	No. of Shares	Cumulative Shares	% of Shares
<b>Total</b>	Up to 10	4,551	4,551	9.77	30,252	30,252	0.03
	11 – 25	5,429	9,980	11.65	115,211	145,463	0.12
	26 – 50	8,882	18,862	19.07	406,438	551,901	0.41
	51 – 100	10,213	29,075	21.92	956,890	1,508,791	0.97
	101 – 500	14,058	43,133	30.18	3,331,170	4,839,961	3.38
	501 – 1000	1,823	44,956	3.91	1,393,491	6,233,452	1.41
	1001 - 5000	1,304	46,260	2.80	2,692,408	8,925,860	2.73
	5001 - 10000	148	46,408	0.32	1,038,822	9,964,682	1.05
	10001 +	176	46,584	0.38	88,617,445	98,582,127	89.89
	<b>TOTAL</b>	<b>46,584</b>		<b>100</b>	<b>98,582,127</b>		<b>100</b>
<b>PHYSICAL</b>							
	Up to 10	14	14	0.75	26	26	0.00
	11 – 25	5	19	0.27	99	125	0.02
	26 - 50	105	124	5.64	5,215	5,340	0.89
	51 - 100	232	356	12.47	22,900	28,240	3.92
	101 - 500	1,284	1,640	69.00	255,574	283,814	43.70
	501 - 1000	130	1,770	6.99	92,805	376,619	15.87
	1001 - 5000	86	1,856	4.62	161,300	537,919	27.58
	5001 - 10000	4	1,860	0.21	24,600	562,519	4.21
	10001 +	1	1,861	0.05	22,300	584,819	3.81
	<b>TOTAL</b>	<b>1,861</b>		<b>100</b>	<b>584,819</b>		<b>100</b>
<b>DEMAT</b>							
	Up to 10	4,537	4,537	10.14	30,226	30,226	0.03
	11 – 25	5,424	9,961	12.13	115,112	145,338	0.12
	26 - 50	8,777	18,738	19.63	401,223	546,561	0.41
	51 - 100	9,981	28,719	22.32	933,990	1,480,551	0.95
	101 - 500	12,774	41,493	28.56	3,075,596	4,556,147	3.14
	501 - 1000	1,693	43,186	3.79	1,300,686	5,856,833	1.33
	1001 - 5000	1,218	44,404	2.72	2,531,108	8,387,941	2.58
	5001 - 10000	144	44,548	0.32	1,014,222	9,402,163	1.03
	10001 +	175	44,723	0.39	88,595,145	97,997,308	90.41
	<b>TOTAL</b>	<b>44,723</b>		<b>100</b>	<b>97,997,308</b>		<b>100</b>

**Comparative distribution schedule**

Benpos Dates	Physical Shares Nos	Physical Shares %	Demat Shares Nos	Demat Shares %	Total Shares Nos	Total Shares %
31/3/2007	584,819	0.59	97,997,308	99.41	98,582,127	100.00
31/3/2006	448,038	0.46	97,781,959	99.54	98,229,997	100.00
	Holders Nos	Holders %	Holders Nos	Holders %	Holders Nos	Holders %
31/3/2007	1,861	4.00	44,723	96.00	46,584	100.00
31/3/2006	1,670	3.44	46,940	96.56	48,610	100.00

- **Share Transfer System**

The applications for transfers, transmission and transposition are received by the Company at its Registered office in 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 are sent to the respective transferees on priority basis.

- **Dividend Information**

Pursuant to the provisions of Section 205A of the Companies Act, 1956, Dividend for the Financial Year ended 31<sup>st</sup> March 1999, which remained unpaid or unclaimed, has been transferred by the Company to Investor Education Protection Fund ('IEPF') constituted by the Central Government under Section 205C of the Companies Act, 1956.

Members are advised that the dividends for the financial year ended 31<sup>st</sup> March 2000 onwards, which remain unpaid or unclaimed over a period of seven years, have to be transferred by the Company to IEPF. Members who have not claimed the dividend for the above periods are requested to lodge their claim with the Company, as no claim shall lie for the unclaimed dividends from IEPF by the members. The due dates for transfer of unclaimed dividends to IEPF, pertaining to different financial years are given below:

Financial Year ended	Date of declaration of Dividend	Amount Lying Unpaid (Rs.) as on 31.03.07	Last date for claiming unpaid Dividend
31.03.2000	24.05.2000	223,522	29.06.2007
31.03.2001	16.06.2001	260,150	22.07.2008
31.03.2002	06.09.2002	350,649	12.10.2009
31.03.2003	19.09.2003	443,003	25.10.2010
31.03.2004	29.07.2004	484,302	03.09.2011
31.03.2005	22.07.2005	658,086	27.08.2012
31.03.2006	18.08.2006	568,422	23.09.2013

- **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 policy on Insider Trading**

A Policy on Insider Trading has been implemented and continues to be in force since December 1999. This Policy explaining the rules, regulations and processes for trading the shares of the Company shall apply to all employees in whatever capacity they may be, including Directors. This policy forms part and parcel of the service conditions of the employees of the Company.

- **Locations**

Headquarter in Chennai, Polaris has its Corporate Banking Solution Centre in Mumbai, Investment Banking Solution Centre in Hyderabad, Risk & Treasury Solution Centre in Mumbai, Retail Banking Solution Centre in Chennai and Enterprise Solution Centre in Delhi. Polaris has offices in Tokyo, Sydney, Hong

Kong, Singapore, Dubai, Bahrain, Riyadh, London, Belfast, Zurich, Frankfurt, Toronto, New Jersey, Chicago and Fremont. Polaris has wholly owned subsidiaries in Switzerland, Germany, Australia, Singapore, UK, Ireland, Japan, Canada and Chile. Polaris has also two Indian subsidiary companies namely Optimus Global Services 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: [shareholder.query@polaris.co.in](mailto:shareholder.query@polaris.co.in)

**Place : Chennai**

**Date : April 27, 2007**

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

**Arun Jain  
Chairman & Managing Director**

**CEO & CFO CERTIFICATION UNDER CLAUSE 49(V) OF THE LISTING AGREEMENT**

**To : The Board of Directors of Polaris Software Lab Ltd., Chennai**

We, Arun Jain, Chairman & Managing Director and R Srikanth, Executive Vice President & Chief Financial Officer of Polaris Software Lab Ltd., ("company") hereby certify that:-

- (a) We have reviewed financial statements and the cash flow statement of the company for the financial year ended 31st March 2007 and that to the best of our knowledge and belief:
  - (i) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
  - (ii) these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- (b) There are, to the best of our knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or violative of the company's code of conduct.
- (c) We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.
- (d) We have indicated to the auditors and the audit committee
  - (i) significant changes in internal control over financial reporting during the year;
  - (ii) significant changes in accounting policies during the year and the same have been disclosed in the notes to the financial statements; and
  - (iii) instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system over financial reporting.

**Place : Chennai**

**Date : April 27, 2007**

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

**R Srikanth**  
**Executive Vice President &**  
**Chief Financial Officer**

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

To,

The Members of Polaris Software Lab Ltd.

We have examined the compliance of conditions of corporate governance by Polaris Software Lab Limited for the year ended on 31 March 2007, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchange(s).

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 Agreement.

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

*FOR* S.R. BATLIBOI & ASSOCIATES  
Chartered Accountants

per S Balasubrahmanyam  
Partner  
Membership No. 053315

Place: Chennai  
Date: 27<sup>th</sup> April 2007

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To,

The Members of Polaris Software Lab Limited

**Sub: Declaration by the CEO under Clause 49 (I)(D)(ii) of the Listing Agreement**

I, Arun Jain, Chairman & Managing Director of Polaris Software Lab Limited, to the best of my knowledge and belief, declare that all the members of the Board of Directors and Senior Management Personnel have affirmed compliance with the Code of Conduct of the Company for the year ended 31<sup>st</sup> March 2007.

Place: Chennai  
Date: 27<sup>th</sup> April 2007

Arun Jain  
Chairman & Managing Director

**AUDITORS' REPORT**

**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 March 31, 2007 and also the Profit and Loss account and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 (as amended) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
  - i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - ii. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
  - iii. The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
  - iv. In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
  - v. On the basis of the written representations received from the directors, as on March 31, 2007 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
  - vi. Without qualifying our opinion, we draw attention to note B 15(c) of schedule 16 of the financial statements regarding management assessment of the carrying value of its investments as at March 31, 2007 in Adrenalin eSystems Limited. The assessment is dependent on the outcome of various uncertain future events and accordingly no provision for diminution if any in value of investments has been made in the financial statements.  
 In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
    - a) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2007;
    - 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 cash flow statement, of the cash flows for the year ended on that date.

**For S. R. BATLIBOI & ASSOCIATES**  
**Chartered Accountants**

**per S Balasubrahmanyam**  
**Partner**  
 Membership No: 053315  
 Chennai  
 April 27, 2007

**Annexure referred to in paragraph 3 of our report of even date**

Re: [Polaris Software Lab Limited]

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) All fixed assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. As informed, no material discrepancies were noticed on such verification.
- (c) There was no substantial disposal of fixed assets during the year.
- (ii) Due to the nature of business, the Company has no inventories and accordingly the provisions of clause 4(ii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (iii) (a) The Company has granted loan to a company covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs.2334.60 lacs and the year- end balance of loans granted to such company is Rs. Nil.
- (b) In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions for such loan are not prima facie prejudicial to the interest of the Company.
- (c) In respect of loans granted, repayment of the principal amount is as stipulated and payment of interest have been regular.
- (d) There is no overdue amount more than rupees one lakh of loan granted to the company listed in the register maintained under section 301 of the Companies Act, 1956.
- (e) As informed, the Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
- (iv) 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, for the purchase of fixed assets and for the sale of services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas. The activities of the Company do not involve purchase of inventory and the sale of goods.
- (v) (a) According to the information and explanations provided by the management, we are of the opinion that the particulars of contracts or arrangements referred to in section 301 of the Act that need to be entered into the register maintained under section 301 have been so entered.
- (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements exceeding value of Rupees five lakhs have been entered into during the financial year at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- (vi) The Company has not accepted any deposits from the public.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

- (viii) To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the products of the Company.
- (ix) (a) The Company is generally regular in depositing with appropriate authorities 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 applicable to it. As explained to us, the Company did not have any dues on account of Investor Education and Protection Fund and Excise duty.
- (b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, cess and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.
- (c) According to the records of the Company, the dues outstanding of income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty and cess on account of any dispute, are as follows:

Name of the statute	Nature of dues	Amount (Rs. In lacs)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1962	Income Tax	81.12	Financial Year 2000-01 (Assessment Year 2001-02)	Income Tax Tribunal
Income Tax Act, 1962	Income Tax	442.01	Financial Year 2001-02 (Assessment Year 2002-03)	Income Tax Tribunal
Income Tax Act, 1962	Income Tax	486.02	Financial Year 2002-03 (Assessment Year 2003-04)	Commissioner of Income Tax (Appeals)
Income Tax Act, 1962	Income Tax	913.99	Financial Year 2003-04 (Assessment Year 2004-05)	Commissioner of Income Tax (Appeals)

- (x) The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and immediately preceding financial year.
- (xi) The Company has not defaulted in repayment of dues to a bank. The Company has no outstanding dues in respect of a financial institution or debenture holders during the year.
- (xii) According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other

securities.

- (xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.
- (xvi) The Company did not have any term loans outstanding during the year.
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.
- (xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.
- (xix) The Company did not have any outstanding debentures during the year.
- (xx) During the year the Company has not raised any money by way of public issue and accordingly the provisions of clause 4 (xx) of the Companies (Auditor's Report) Order 2003 (as amended) are not applicable to the Company.
- (xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

**For S. R. BATLIBOI & ASSOCIATES**  
**Chartered Accountants**

**per S Balasubrahmanyam**  
**Partner**

Membership No: 053315  
Chennai  
April 27, 2007

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**FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 MARCH 2007**

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**POLARIS SOFTWARE LAB LIMITED****Balance Sheet as at***(Rs in Lacs)*

	Schedule	March 31, 2007	March 31, 2006
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Share Capital	1	4,929.11	4,911.50
Share application money pending allotment		-	6.96
Reserves and Surplus	2	52,056.03	48,214.95
		<b>56,985.14</b>	<b>53,133.41</b>
<b>LOAN FUNDS</b>			
Secured Loans	3	128.70	149.20
<b>DEFERRED TAX LIABILITY (NET)</b>			
	11	47.64	-
		<b>57,161.48</b>	<b>53,282.61</b>
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>			
Cost	4	37,707.18	36,485.55
Less: Accumulated Depreciation and Amortisation		20,547.46	16,695.33
Net Book Value		17,159.72	19,790.22
Capital work in progress including capital advances		2,842.87	2,216.99
		<b>20,002.59</b>	<b>22,007.21</b>
<b>INVESTMENTS</b>			
	5	10,788.44	7,904.05
<b>DEFERRED TAX ASSET (NET)</b>			
	11	-	265.10
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Sundry Debtors	6	18,463.36	13,604.20
Cash and Bank balances	7	5,594.26	5,759.61
Loans and Advances	8	15,874.09	14,086.17
		<b>39,931.71</b>	<b>33,449.98</b>
<b>LESS: CURRENT LIABILITIES AND PROVISIONS</b>			
Current Liabilities	9	9,404.44	8,336.39
Provisions	10	4,156.82	2,007.34
		13,561.26	10,343.73
<b>NET CURRENT ASSETS</b>			
		<b>26,370.45</b>	<b>23,106.25</b>
		<b>57,161.48</b>	<b>53,282.61</b>
Significant accounting policies and notes to accounts	16		

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

As per our report of even date.

For **S.R.BATLIBOI & ASSOCIATES**  
Chartered Accountants

For and on behalf of the Board of Directors of  
Polaris Software Lab Limited

per **S.Balasubrahmanyam**  
*Partner*  
Membership No 053315  
**Chennai**  
**April 27, 2007**

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

**R.C.Bhargava**  
*Director*

**R.Srikanth**  
*Executive Vice President & Chief Financial Officer*

**M.P.Suresh Kumar**  
*Company Secretary*

**POLARIS SOFTWARE LAB LIMITED**

**Profit and Loss Account for the year ended**

(Rs in Lacs Except per share data)

	Schedule	March 31, 2007	March 31, 2006
<b>INCOME</b>			
Software development services and products			
- Overseas		81,802.73	60,303.62
- Domestic		8,627.28	8,090.45
		<b>90,430.01</b>	<b>68,394.07</b>
<b>EXPENDITURE</b>			
Software development expenses	13	62,688.45	47,879.57
Selling, Administrative and other General expenses	14	14,424.88	14,160.11
		<b>77,113.33</b>	<b>62,039.68</b>
<b>Operating profit before interest, depreciation and amortisation</b>		<b>13,316.68</b>	<b>6,354.39</b>
Finance charges	15	56.68	54.92
Depreciation and amortisation	4	4,330.05	4,643.99
		<b>4,386.73</b>	<b>4,698.91</b>
<b>Operating profit after interest, depreciation and amortisation</b>		8,929.95	1,655.48
Other income, net	12	473.15	600.63
Provision for diminution in value of investments (Refer Note B (15)(d) of Schedule 16)		(18.30)	(216.65)
<b>Profit before taxation</b>		<b>9,384.80</b>	<b>2,039.46</b>
Income taxes -Current tax		867.31	646.25
-Deferred tax		312.74	(306.25)
-Fringe Benefit Tax		245.93	369.91
<b>Profit after taxation</b>		<b>7,958.82</b>	<b>1,329.55</b>
Profit brought forward from previous year		14,598.81	14,802.31
<b>Amount available for appropriation</b>		<b>22,557.63</b>	<b>16,131.86</b>
<b>Appropriations</b>			
Dividend		2,217.63	1,227.88
Tax on Dividend		310.87	172.21
Amount transferred to General Reserve		795.88	132.96
Balance carried to Balance Sheet		19,233.25	14,598.81
		<b>22,557.63</b>	<b>16,131.86</b>
<b>Earnings per share</b> (equity shares par value Rs 5 each)			
Basic		8.09	1.36
Diluted		8.01	1.35
<b>Number of shares used in computing earnings per share</b>			
Basic		98,290,764	98,091,912
Diluted		99,337,463	98,288,878
Significant accounting policies and notes to accounts		16	

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

As per our report of even date.

For **S.R.BATLIBOI & ASSOCIATES**  
Chartered Accountants

For and on behalf of the Board of Directors of  
Polaris Software Lab Limited

per **S.Balasubrahmanyam**  
Partner  
Membership No 053315  
Chennai  
April 27, 2007

**Arun Jain**  
Chairman & Managing Director

**R.C.Bhargava**  
Director

**R.Srikanth**  
Executive Vice President & Chief Financial Officer

**M.P.Suresh Kumar**  
Company Secretary

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

	March 31, 2007	March 31, 2006
<b>Cash flows from operating activities</b>		
Profit before taxation	9,384.80	2,039.46
Interest and dividend income	(267.94)	(212.53)
Exchange differences on foreign exchange translation	672.90	26.06
Depreciation / Amortisation	4,330.05	4,643.99
Provision for Doubtful debts	135.01	440.00
(Profit)/ Loss on sale of Investments	(1.03)	(3.26)
(Profit)/ Loss on sale of fixed assets	11.15	(5.08)
Provision for diminution in value of investments	18.30	216.65
Lease finance charges	21.71	39.88
Taxes paid	(1,264.10)	(1,316.15)
<i>Changes in current assets and liabilities</i>		
Decrease / (Increase) in sundry debtors	(5,239.69)	(856.10)
Decrease/ (Increase) in loans and advances	(1,775.92)	770.52
Increase/ (Decrease) in current liabilities and provisions	1,409.62	1,092.10
<b>Net cash flows from operating activities</b>	<b>7,434.86</b>	<b>6,875.54</b>
<b>Cash flows from financing activities</b>		
Proceeds from share capital issued on exercise of stock options	10.65	10.99
Proceeds from securities premium on exercise of stock options	338.14	140.02
Proceeds / (Repayment) of secured loans	(20.50)	(95.48)
Lease finance charges	(21.71)	(39.88)
Dividends paid during the year	(2,198.23)	(1,950.29)
Dividend tax paid during the year	(483.08)	(240.55)
<b>Net cash flows used in financing activities</b>	<b>(2,374.73)</b>	<b>(2,175.19)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of fixed assets	178.19	121.39
Purchase of fixed assets and changes in capital work in progress	(2,528.28)	(6,222.63)
Investment in subsidiaries	(2,334.06)	-
Investment in associate companies	(167.00)	(675.50)
Net decrease in non-trade investments	(400.61)	3,627.12
Interest and dividend received	267.94	212.53
<b>Net cash flows used in investing activities</b>	<b>(4,983.82)</b>	<b>(2,937.09)</b>
<b>Exchange differences on foreign exchange translation of cash and cash equivalents</b>	<b>(241.66)</b>	<b>84.33</b>
Total increase / (decrease) in cash and cash equivalents during the year	<b>(165.35)</b>	<b>1,847.59</b>
Cash and cash equivalents at the beginning of the year	5,759.61	3,912.02
<b>Cash and cash equivalents at the end of the year</b>	<b>5,594.26</b>	<b>5,759.61</b>

As per our report of even date.

For **S.R.BATLIBOI & ASSOCIATES**

Chartered Accountants

per **S.Balasubrahmanyam**

Partner

Membership No 053315

Chennai

April 27, 2007

For and on behalf of the Board of Directors of

Polaris Software Lab Limited

**Arun Jain**

Chairman &amp; Managing Director

**R.C.Bhargava**

Director

**R.Srikanth**

Executive Vice President &amp; Chief Financial Officer

**M.P.Suresh Kumar**

Company Secretary

**POLARIS SOFTWARE LAB LIMITED**

**Schedules to the Balance Sheet as at**

(Rs in Lacs)

	March 31, 2007	March 31, 2006
<b>1.SHARE CAPITAL</b>		
<b>Authorised</b>		
120,000,000 equity shares of Rs 5 each. (March 31, 2006 : 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. (March 31, 2006 : 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</b>		
98,582,127 equity shares of Rs.5 each (March 31, 2006 : 98,229,997 equity shares of Rs.5 each) fully paid up (Refer B(10) of Schedule 16)	4,929.11	4,911.50
	<b>4,929.11</b>	<b>4,911.50</b>
<b>Of the above :</b>		
i ) 17,062,550 equity Shares of Rs 5 each (March 31, 2006 : 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 (March 31, 2006 : 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>2.RESERVES AND SURPLUS</b>		
General Reserve - As per last balance sheet	15,472.75	15,339.79
Add : Transferred from Profit and Loss Account	795.88	132.96
Less : Transition Liability for Employee benefits as per AS 15 (Revised)	(1,755.12)	-
(Refer Note B(16) of Schedule 16)		
	<b>14,513.51</b>	<b>15,472.75</b>
Foreign currency translation reserve - As per last balance sheet	54.89	(55.50)
Add : Adjustment for the year	(172.26)	110.39
	(117.37)	54.89
Securities Premium Account - As per last balance sheet	18,088.50	17,948.48
Add : Premium received on issue of shares under ASOP plans	338.14	140.02
	<b>18,426.64</b>	<b>18,088.50</b>
Profit and Loss Account balance	19,233.25	14,598.81
	<b>52,056.03</b>	<b>48,214.95</b>
<b>3.SECURED LOANS</b>		
Finance Lease Obligation (Secured against cars taken on finance lease by the Company)	128.70	149.20
	<b>128.70</b>	<b>149.20</b>

**POLARIS SOFTWARE LAB LIMITED**  
Schedules to the Balance Sheet as at March 31, 2007

		Cost						Depreciation and Amortisation			Net Book value	
S No	Description	April 1, 2006	Additions	Deletions	Exchange adjustment*	March 31, 2007	April 1, 2006	For the year	Deletions	Exchange adjustment*	March 31, 2007	March 31, 2006
<b>A.</b>	<b>TANGIBLE ASSETS</b>											
1	Land (Refer Note 1)	1,303.18	-	-	(1.35)	1,301.83	1.60	1.60	-	-	1,298.63	1,301.58
2	Buildings (Refer Note 2)	7,381.14	504.52	60.10	(6.67)	7,818.89	844.65	295.46	15.15	(1.69)	6,695.62	6,536.49
3	Plant and machinery (including computer equipment, software and accessories)	15,582.16	1,114.34	79.77	(7.01)	16,609.72	10,784.61	2,433.80	56.11	(5.87)	13,156.43	4,797.55
4	Electrical fittings	1,301.94	24.92	117.62	-	1,209.24	589.54	95.31	88.04	-	596.81	712.40
5	Furniture, Fittings and Office equipment	4,473.90	136.14	101.71	(11.49)	4,496.84	1,750.06	475.72	58.47	(5.43)	2,161.88	2,723.84
6	Vehicles (Refer Note 3)	605.06	122.50	295.07	-	432.49	401.67	91.49	247.16	-	246.00	203.39
	<b>SUB TOTAL (A)</b>	<b>30,647.38</b>	<b>1,902.42</b>	<b>654.27</b>	<b>(26.52)</b>	<b>31,869.01</b>	<b>14,372.13</b>	<b>3,393.38</b>	<b>464.93</b>	<b>(12.99)</b>	<b>17,287.59</b>	<b>14,581.42</b>
<b>B.</b>	<b>INTANGIBLE ASSETS</b>											
1	Software Products	5,238.27	-	-	-	5,238.27	1,723.30	936.67	-	-	2,659.97	3,514.97
2	Intellectual property assets	599.90	-	-	-	599.90	599.90	-	-	-	599.90	-
	<b>SUB TOTAL (B)</b>	<b>5,838.17</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,838.17</b>	<b>2,323.20</b>	<b>936.67</b>	<b>-</b>	<b>-</b>	<b>3,259.87</b>	<b>3,514.97</b>
	<b>TOTAL (A+B)</b>	<b>36,485.55</b>	<b>1,902.42</b>	<b>654.27</b>	<b>(26.52)</b>	<b>37,707.18</b>	<b>16,695.33</b>	<b>4,330.05</b>	<b>464.93</b>	<b>(12.99)</b>	<b>20,547.46</b>	<b>19,790.22</b>
	Previous year ended March 31, 2006	31,116.46	5,842.87	473.78	-	36,433.11	12,408.81	4,643.99	357.47	-	16,695.33	19,790.22

Note 1: Land includes leasehold land. Gross block Rs 207.03; Net Block Rs 205.43 (March 31, 2006 : Gross block Rs 207.03; Net Block Rs 205.43)

Note 2: Building includes leasehold improvements amounting to Rs 553.22 (March 31, 2006 : Rs 553.22)

Note 3: Vehicles include assets acquired under finance leases. Gross Block Rs 352.59- Net block Rs 163.05 (March 31, 2006 : Gross block Rs 491.38; Net block Rs 147.74)

\* Exchange adjustment represents foreign exchange gain / loss on account of translation of US branch.

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

(Rs in Lacs)

March 31, 2007    March 31, 2006

**5. INVESTMENTS**

**LONG TERM INVESTMENT (AT COST)**

**TRADE (UNQUOTED)**

**A) In Subsidiary Companies**

<b>Polaris Software Lab Pte Ltd</b>	94.60	94.60
A wholly owned subsidiary company incorporated in Singapore 385,000 ordinary shares of SGD 1 each fully paid up (March 31, 2006 : 385,000 ordinary shares of SGD 1 each fully paid up)		
<b>Polaris Software Lab Limited</b>	617.50	617.50
A wholly owned subsidiary company incorporated in UK 889,000 equity shares of GBP 1 each fully paid up (March 31, 2006 : 889,000 ordinary shares of GBP 1 each fully paid up)		
<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 up (March 31, 2006 : 9,000,000 equity shares of Rs 10 each fully paid up) (Refer Note B 15 (b) of Schedule 16)		
<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 up (March 31, 2006 : Common stock of 600,000 Euros fully paid up)		
<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 up (March 31, 2006 : 35,000 equity shares of CHF 10 each fully paid up)		
<b>Polaris Software Pty Ltd</b>	8.11	8.11
A wholly owned subsidiary company incorporated in Australia 25,000 ordinary shares of AUD 1 each fully paid up (March 31, 2006 : 25,000 ordinary shares of AUD 1 each fully paid up)		
<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 up (March 31, 2006 : 176,186 ordinary shares of Euro 1 each fully paid up)		
<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 up (March 31, 2006 : 400 ordinary shares of 50,000 yen each fully paid up)		
<b>Optimus Global Services Limited</b>	1,699.99	1,699.99
A wholly owned subsidiary company incorporated in India 85,000,000 equity shares of Rs 2 each fully paid up (March 31, 2006 : 85,000,000 equity shares of Rs 2 each fully paid up) (Refer Note B (15) (b) of Schedule 16)		

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

(Rs in lacs)

	March 31, 2007	March 31, 2006
83,107,000 redeemable optionally convertible cumulative preference shares of Rs 2/- each	1,662.14	-
33,596,000 redeemable optionally convertible cumulative preference shares of Rs 2/- each	671.92	-
<b>Polaris Software Lab Canada Inc</b>	109.38	109.38
A wholly owned subsidiary company incorporated in Canada 296,350 ordinary shares of CAD 1 each fully paid up (March 31, 2006 : 296,350 ordinary shares of CAD 1 each fully paid up) (Refer Note B (15) (b) of Schedule 16)		
<b>(A)</b>	<b>6,306.39</b>	<b>3,972.33</b>
<b>B) In Others</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 up (March 31, 2006 : Common stock of Euros 1,175,990 ) Less: Diminution in value of investments	(527.61)	(527.61)
	-	-
<b>Eternet Inc.</b>	116.25	116.25
A company incorporated in USA fully paid up 1,250,000 shares of USD 0.2 each fully paid (March 31, 2006 : 1,250,000 shares of USD 0.2 each) Less: Diminution in value of investments	(116.25)	(116.25)
	-	-
<b>NMS Works Software Private Limited</b>	300.00	300.00
A company incorporated in India 500,000 equity shares of Rs.10 each (March 31, 2006 : 500,000 Equity shares of Rs.10 each) fully paid up		
Less : Provision for diminution in value of investments (Refer Note B (15) (d) of Schedule 16)	(241.28)	(222.98)
	58.72	77.02
224,524 12 % Optionally Convertible Cumulative Preference shares of Rs 10 each fully paid up (March 31, 2006 : 224,524 12 % Optionally Convertible Cumulative Preference shares of Rs 10 each)	152.50	152.50
<b>Adrenalin eSystems Limited (Formerly Empower Works Limited)</b>	733.88	733.88
A Company incorporated in India 12,078,080 equity shares of Rs 5 each fully paid up (March 31, 2006 : 12,078,080 equity shares of Rs.5 each fully paid)		
12,460,000 7% preference shares of Rs 5 each fully paid (March 31, 2006 : 12,460,000 7% preference shares of Rs 5 each) (Refer Note B (15) (c) of Schedule 16)	623.00	623.00
1,540,000 7% Cumulative Preference shares of Rs 5/- each (March 31, 2006: Nil)	77.00	-

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

(Rs in lacs)

	March 31, 2007	March 31, 2006
<b>5. INVESTMENTS (continued)</b>		
1,000,000 Equity Shares of Rs 10/- each partly Rs 9/- paid up (March 31, 2006: Nil)	90.00	-
<b>AIG Systems Solutions Private Limited</b>	326.70	326.70
A company incorporated in India 462,100 Equity Share of Rs 10 each fully paid up (March 31, 2006 : 462,100 Equity Share of Rs 10 each fully paid up)		
<b>(B)</b>	<b>2,061.80</b>	<b>1,913.10</b>
<b>I - (A)+(B)</b>	<b>8,368.19</b>	<b>5,885.43</b>

**CURRENT INVESTMENTS NON TRADE (QUOTED)-**

Lower of costs and market value

**Mutual Funds**

Birla FMP -Qtly series 2 -Mar 07 Dividend 997,277.432 units (March 31, 2006 : Nil units) Face value: Rs 10 per unit	100.00	-
Birla Sunlife Cash Manager - IP - Daily dividend Nil units (March 31, 2006 : 3,013,250 units) Face value: Rs 10 per unit	-	301.39
Duetche Insta Cash Plus Nil units (March 31, 2006 : 5,013,048 units) Face value: Rs 10 per unit	-	502.28
HDFC Floating Income Fund Short Term Plan Nil units (March 31, 2006 : 148,148 units) Face value: Rs 10 per unit	-	14.95
HDFC Floating Rate Income Fund - Short Term Plan - Dividend Reinvest 166,790.087 units (March 31, 2006 : Nil units) Face value: Rs 10 per unit	16.70	-
Kotak FBP series XV - Dividend Nil Units (March 31, 2006 - 12,000,000 units) Face value: Rs 10 per unit	-	1,200.00
Kotak FMP 3M Series X - Dividend 3,029,234.506 Units (March 31, 2006 : Nil units) Face value: Rs 10 per unit	302.93	-
Templeton Fixed Horizon fund 3 Months plan - Inst-div payout 3,000,000 Units (March 31, 2006 : Nil units) Face value: Rs 10 per unit	400.00	-

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

(Rs in lacs)

	March 31, 2007	March 31, 2006
<b>5. INVESTMENTS (continued)</b>		
Prudential ICICI FMP Series 35 - 3 Months Plan C - Retail - Div. 3,000,000 units (March 31, 2006 - Nil units) Face value: Rs 10 per unit	300.00	-
DWS Money Plus Fund - Inst Plan - Daily Dividend 2,046,948.252 units (March 31, 2006 - Nil units) Face value: Rs 10 per unit	204.86	-
OLPIDD HSBC Liquid Plus -Institutional Plus-Daily Dividend 2,954,713.224 units (March 31, 2006 - Nil units) Face value: Rs 10 per unit	295.49	-
DWS Fixed Term Fund series 28 Dividend option 3,000,000 units (March 31, 2006 - Nil units) Face value: Rs 10 per unit	300.00	-
Sundaram BNP Paribas Fixed Term Plan series XXV (90 Days) div plan 2,000,000 units (March 31, 2006 - Nil units) Face value: Rs 10 per unit	200.00	-
Birla FTP- Quarterly Series 4 - Dividend Payout 3,002,119.647 units (March 31, 2006 - Nil units) Face value: Rs 10 per unit	300.27	-
<b>II</b>	<b>2,420.25</b>	<b>2,018.62</b>
<b>I+II</b>	<b>10,788.44</b>	<b>7,904.05</b>

(Aggregate market value of the quoted investments

March 31, 2007 :Rs.2,425.39 (March 31, 2006 : Rs 2,019.50)

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

(Rs in lacs)

	March 31, 2007	March 31, 2006
<b>6. SUNDRY DEBTORS</b> (Refer B14 of Schedule 16)		
(Unsecured)		
Debts outstanding for a period exceeding six months		
- considered good	1,414.55	1,412.92
- considered doubtful	2,512.38	2,351.20
Other debts		
- considered good	17,048.81	12,191.28
- considered doubtful	-	26.17
	<u>20,975.74</u>	<u>15,981.57</u>
<b>Less:</b> Provision for doubtful debts	2,512.38	2,377.37
	<u><b>18,463.36</b></u>	<u><b>13,604.20</b></u>
<b>7. CASH AND BANK BALANCES</b>		
Cash on hand	1.92	5.01
Balances with scheduled banks		
- in current accounts *	4,709.68	4,616.48
- in deposit accounts	2.33	3.58
Balances with non-scheduled banks in current accounts		
- Bank of America, New Jersey	375.41	561.75
- Chase Bank, New Jersey	231.36	40.73
Balances with non-scheduled banks in deposit accounts		
- Citi Bank, Bahrain	106.55	96.82
- Bank of America, New Jersey	167.01	435.24
	<u><b>5,594.26</b></u>	<u><b>5,759.61</b></u>
*includes balance in unclaimed dividend account	-	25.60
<b>Maximum balances held in non-scheduled banks</b>		
- Bank of America, New Jersey	1,572.00	1,224.10
- Chase Bank, New Jersey	753.83	810.17
	<u><b>15,874.09</b></u>	<u><b>14,086.17</b></u>
<b>8. LOANS AND ADVANCES</b> (Refer B14 of Schedule 16)		
(Unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received	1,382.78	1,055.69
Advances and Loans to subsidiaries	525.28	2,115.09
Advance income tax (Net of provision for tax )	1,289.96	1,139.10
Loans to employees	362.08	283.79
Loans to Employees Welfare Trust	589.59	766.14
Forward cover receivable, net	351.81	325.73
Salary advance	257.90	46.62
Service tax credit receivable	212.98	-
Revenues in excess of billings	9,424.79	6,892.15
Rent, maintenance and security deposits	1,476.92	1,461.86
	<u><b>15,874.09</b></u>	<u><b>14,086.17</b></u>
<b>9. CURRENT LIABILITIES</b>		
Sundry creditors (Refer Note B(21) of Schedule 16)	9,163.48	7,942.06
Unclaimed dividends	39.06	25.25
Advances received from customers	71.68	4.46
Billings in excess of revenues	130.22	364.62
	<u><b>9,404.44</b></u>	<u><b>8,336.39</b></u>
<b>10. PROVISIONS</b>		
Provision for gratuity	673.24	417.73
Provision for leave encashment	2,250.12	189.52
Proposed dividend	1,233.46	1,227.88
Provision for tax on proposed dividend	-	172.21
	<u><b>4,156.82</b></u>	<u><b>2,007.34</b></u>
<b>11. DEFERRED TAX LIABILITY / (ASSET)</b>		
Fixed assets	489.24	571.25
Provision for doubtful debts	(389.11)	(800.22)
Others	(52.49)	(36.13)
	<u><b>47.64</b></u>	<u><b>(265.10)</b></u>

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

	March 31, 2007	March 31, 2006
<b>12. OTHER INCOME</b>		
Interest received on deposits with banks #	72.66	47.47
Interest on others #	52.72	66.50
Profit on sale of investments, net	1.03	3.26
Dividends received	142.56	98.56
Profit / (loss) on Sale of Assets, net	(11.15)	5.08
Miscellaneous income	99.33	92.27
Foreign exchange gains / (loss), net	116.00	287.49
	<b>473.15</b>	<b>600.63</b>
# Tax deducted at source	7.36	5.22
<b>13. SOFTWARE DEVELOPMENT EXPENSES</b>		
Salaries and bonus including overseas staff expenses and outsourced consultants cost*	52,721.50	39,060.78
Staff welfare	2,301.08	1,977.17
Contribution to provident and other funds*	1,040.83	794.48
Gratuity	396.22	151.41
Travel Project	4,411.43	4,352.56
Consumables and computer maintenance	74.82	67.80
Communication expenses	1,464.20	1,388.01
Licence & Royalty	278.37	87.36
	<b>62,688.45</b>	<b>47,879.57</b>
<b>14. SELLING, ADMINISTRATION AND OTHER GENERAL EXPENSES</b>		
Salaries and bonus including overseas staff expenses *	6,073.14	6,445.89
Contribution to provident and other funds*	180.94	384.52
Professional charges	1,285.54	917.78
Legal expenses	21.31	4.49
Local travelling and conveyance	1,300.68	502.13
Rent	1,432.76	1,403.55
Business promotion	480.13	353.15
Power and fuel	1,066.32	1,007.38
Printing and stationery	162.75	157.06
Office maintenance	295.18	273.61
Provision for doubtful debts	135.01	440.00
Insurance	363.87	491.39
Advertisements	93.87	77.74
Bad debts written off	10.86	34.00
Rates and taxes	110.85	56.24
Auditors' remuneration	40.48	35.71
Repairs - Building	98.66	103.50
Repairs - Plant and machinery	770.88	808.49
Repairs - Others	245.09	259.62
Directors' sitting fees	5.90	4.60
Donations	19.51	13.99
Miscellaneous expenses	231.15	385.27
	<b>14,424.88</b>	<b>14,160.11</b>
* Also refer Note B17 of Schedule 16.		
<b>15. FINANCE CHARGES</b>		
Lease finance Charges	21.71	39.88
Bank Charges and others	34.97	15.04
	<b>56.68</b>	<b>54.92</b>

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

**16. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS**

**A. SIGNIFICANT ACCOUNTING POLICIES**

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

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956 ("the Act"). The financial statements have been prepared under the historical cost convention on an accrual basis. Accounting policies have been consistently applied except where a newly issued accounting standard is initially adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use. Management evaluates all recently issued or revised accounting standards on an ongoing basis.

**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. 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**

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

**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 proportionate completion method. The stage of completion of project is determined by the proportion that contract costs incurred for work performed upto the balance sheet date bear to the estimated total contract costs. Provision for estimated losses on incomplete contract is recorded in the year in which such losses become probable based on the current contract estimates.

Revenue in excess of billings represents 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 and time and material contracts wherein amounts have been

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

billed in accordance with the billing cycle and efforts would be incurred subsequent to the year 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 using proportionate completion method. The stage of completion of project is determined by the proportion that contract costs incurred for work performed upto the balance sheet date bear to the estimated total contract costs. Provision for estimated losses, if any, on incomplete contracts are recorded in the year in which such losses become probable based on current contract estimates.
- Product maintenance revenues are recognized over the period of the maintenance contract.

**Other Income**

Interest is recognized using the time-proportion method.

Dividend income is recognized when the Company's right to receive dividend is established.

**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 and impairment losses if any. 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. Leases**

Assets acquired on finance leases are capitalized and a corresponding liability disclosed as lease obligations under "Secured Loans". 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. Lease management fees, legal charges and other initial direct costs are capitalised.

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.

Leases where the lessor effectively retains substantially all the risks and the benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognized as an expense in the Profit and Loss account.

**6. Depreciation and Amortisation**

Depreciation on fixed assets is provided 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

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

at the rate of 100 %. After impairment, depreciation is provided on the revised carrying amount of the assets over its remaining useful life.

The estimated useful lives considered for depreciation / Amortisation 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 or over the lease period if lower than the estimated useful life
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
<b><u>Intangible assets</u></b>	
Software Products (indigenously developed)	5
Intellectual property rights (indigenously developed)	1

In respect of assets acquired on finance lease after April 1, 2001, the leased assets are depreciated over the period of the lease or the estimated useful life of the asset, whichever is lower.

Leasehold land is amortized over the period of 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 the development of the product.

**POLARIS SOFTWARE LAB LIMITED****Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

**16. 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 method are 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.

Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

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:

- (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.

On the disposal of a non-integral foreign operation, the cumulative amount of the exchange differences which have been deferred and which relate to that operation are recognised as income or as expenses in the same period in which the gain or loss on disposal is recognised.

When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification are applied from the date of the change in the classification.

**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

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

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 recognized 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. Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Long-term investments are 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 and other employee 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 eligible employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment. Gratuity liability is accrued and provided for on the basis of an actuarial valuation made at the end of each financial period. Actuarial gains/losses are immediately taken to profit and loss account and are not deferred.

*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.

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

*Leave Benefits*

As per the current employment policy of the Company, employees can carry forward accumulated leave balances as per company leave policy which can be utilized in the subsequent years. In case of overseas branches, the employees are eligible to encash the accumulated leave balances.

Such accumulated compensated absences and encashment of accumulated leave balances are accounted for in the year in which the leave balances are credited to employees on actual basis.

**12. Income and Deferred Taxes**

The current charge for income taxes and fringe benefit tax 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 between the taxable income and accounting income. 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 and deferred tax liabilities across various countries of operation are not set off against each other as the Company does not have legal right to do so.

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 appropriateness of their respective carrying values at each balance sheet date. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realized.

The Company has availed the tax holiday benefits under Section 10A of the Income tax Act, 1961 for some of the units and, accordingly, its business income (to the extent covered by that section) is exempt from tax up to and including the period ending March 31, 2009.

**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, if any, under Stock Option Plans and disclosed as 'employee stock compensation expense' in the Profit and Loss Account. The Company measures compensation cost relating to employee stock options using the intrinsic value method.

'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.

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

**14. Earnings per share**

The basic earnings per share are 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.

**15. Provisions**

A provision is recognised when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

**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 (Accrual basis)**

Particulars	Year ended March 31, 2007	Year ended March 31, 2006
Income from software development services and products	81,802.73	60,303.62

- Expenditure in foreign currency (Accrual basis)**

Particulars	Year ended March 31, 2007	Year ended March 31, 2006
Travel expenses	4,061.07	2,609.18
Professional charges	175.48	66.32
Other expenditure incurred overseas for software development	33,822.64	27,156.13

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

**4. CIF Value of Imports**

Particulars	Year ended March 31, 2007	Year ended March 31, 2006
Capital goods	734.11	456.33

**5. Capital and other commitments**

(i) The estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) as at March 31, 2007 is Rs 1,162.15 (March 31, 2006: Rs 1,163.87).

(ii) As at March 31, 2007, the Company has outstanding guarantees and counter guarantees of Rs 236.00 (March 31, 2006: Rs. 289.93) issued to various banks, in respect of guarantees given by the banks in favour of various government authorities.

(iii) The future obligation for vehicles taken on finance lease is given below.

Particulars	As at March 31, 2007	As at March 31, 2006
Not later than one year	51.89	83.55
Later than one year and not later than 5 years	95.48	81.42
Less: Amount representing future interest	147.37 (18.67)	164.97 (15.77)
<b>Present Value of minimum lease rentals</b>	<b>128.70</b>	<b>149.20</b>

(iv) The Company has taken certain offices and residential premises for the employees under operating leases which expires at various dates in future years. The minimum lease rental payments to be made in respect of these leases are as follows.

Particulars	As at March 31, 2007	As at March 31, 2006
Lease payments for the year	1,432.76	1,403.55
Contingent rent recognised in Profit and Loss Account	-	-
Minimum Lease Payments :		
Not later than one year	1,375.02	1,398.07
Later than one year and not later than five years	2,221.28	2,195.69
Later than five years	-	-
<b>Total</b>	<b>3,596.30</b>	<b>3,593.76</b>

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

**6. 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.

**7. Managerial remuneration**

Particulars	Year ended March 31,2007	Year ended March 31,2006
<b><u>Chairman and Managing Director</u></b>		
Salary and perquisites	108.31	22.93
Contribution to provident and other funds	6.31	1.84
<b><u>Executive and Other Directors</u></b>		
Salaries and perquisites	22.50	58.58
Contribution to provident and other funds	-	2.64
Sitting fees	5.90	4.60
<b>Total</b>	<b>143.02</b>	<b>90.59</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. 60000 stock options have been allotted to directors during the current year.

Salaries and perquisites to other directors include commission of Rs. 22.50 (March 31, 2006 Rs. 15.00) payable to non executive directors.

Computation of Net Profit in accordance with section 349 of the Companies Act, 1956 for calculation of commission payable to directors

Sl. No	Particulars	Year Ended March 31, 2007	Year Ended March 31, 2006
	Profit as per Profit and Loss Account	7,958.82	1,329.55
	Add:		
1	Whole-time directors' remuneration	114.62	70.99
2	Directors' sitting fees	5.90	4.60
3	Commission to non-whole-time directors	22.50	15.00
4	Depreciation and amortization	4,330.05	4,643.99
5	Provision for taxation	1,425.98	709.91
		<b>13,857.87</b>	<b>6,774.04</b>

**POLARIS SOFTWARE LAB LIMITED****Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

	Less:		
1	Depreciation as envisaged under Section 350 of the Companies Act 1956 *	4,330.05	4,643.99
2	Profit / (Loss) of a Capital Nature	(10.13)	8.34
	Net profit on which commission is payable	<b>9,537.95</b>	<b>2,121.71</b>
	Commission to other directors at 1% of the net profits as calculated above	95.37	21.21
	Maximum allowed by the shareholders	45.00	45.00
	<b>Commission approved by the board</b>	<b>22.50</b>	<b>15.00</b>

\* The Company depreciates fixed assets based on estimated useful lives that are lower than those implicit in Schedule XIV of the Companies Act 1956. Accordingly, the rates of depreciation used by the Company are higher than the minimum prescribed by the Schedule XIV.

**8. Auditors' remuneration**

Particulars	Year ended March 31, 2007	Year ended March 31, 2006
Audit fees	34.00	34.00
Taxation matters	0.43	-
Other services	1.96	-
Out of pocket expenses	4.09	1.71
<b>Total</b>	<b>40.48</b>	<b>35.71</b>

**9. Gratuity**

The Company has a defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on departure at 15 days salary (last drawn salary) for each completed year of service. The scheme is partially funded with an insurance company in the form of a qualifying insurance policy.

The following tables summarise the components of net benefit expense recognised in the profit and loss account and the funded status and amounts recognised in the balance sheet for the respective plans.

Reconciliation of opening and closing balances of the present value of defined benefit obligation:

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

Particulars	Year ended March 31, 2007
<b>Obligations at the beginning of the year</b>	446.96
Current service cost	315.89
Interest cost	35.65
Actuarial gain / (loss)	44.68
Benefits paid	(144.49)
<b>Obligations at the year end</b>	<b>698.69</b>

Particulars	Year ended March 31, 2007
<b>Change in plan assets</b>	
Plan assets at year beginning, at fair value	29.23
Expected return on plan assets	-
Actuarial gain / (loss)	-
Contributions	140.71
Benefits paid	(144.49)
<b>Plan assets at year end, at fair value</b>	<b>25.45</b>

Reconciliation of present value of the obligation and the fair value of plan assets	Year ended March 31, 2007
Fair Value of plan assets at the end of the year	25.45
Present value of defined benefit obligations at the end of the year	(698.69)
Asset/(Liability) recognized in the balance sheet	<b>(673.24)</b>
Gratuity cost for the year	
Current service cost	315.89
Interest cost	35.65
Expected return on plan assets	44.68
Actuarial gain / (loss)	-
<b>Net gratuity cost</b>	<b>396.22</b>
<b>Assumptions:</b>	
Discount rate	8%
Estimated return on plan assets	8%

The fund is administered by Life Insurance Corporation of India ("LIC"). The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

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

The prior year comparative for the above are not disclosed since the revised standard is effective from April 1, 2006.

**10. Stock option plans**

The Company has four 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 9th March 2000, the Company's shareholders approved in the Extraordinary General Meeting (EGM) an Associate 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 Remuneration and Compensation Committee administers the 2000 Plan. Under the Plan, based on the recommendation of Employee Remuneration and 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 March 31, 2007 is presented below.

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

Particulars	March 31, 2007		March 31, 2006	
	Number of Shares	Weighted Average Exercise Price(Rs.)	Number of Shares	Weighted Average Exercise Price(Rs.)
Outstanding at the beginning of the year	448,585	150.56	748,510	142.72
Granted during the year	-	-	-	-
Exercised during the year	(89,575)	99.01	(55,600)	85.37
Forfeited during the year	(170,580)	177.35	(112,620)	122.35
Expired during the year	(89,460)	163.87	(133,715)	156.43
Other Adjustments	-	-	2,010	78.64
Outstanding at the end of the year	98,970	139.01	448,585	150.56
Exercisable at the end of the year	92,770	140.03	318,520	145.40

Particulars	March 31, 2007	March 31, 2006
Weighted average remaining contractual life (in years)	1.58	2.98
Weighted average fair value of options granted	-	-

**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 March 31, 2007 is presented below.

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

Particulars	March 31, 2007		March 31, 2006	
	Number of Shares	Weighted Average Exercise Price(Rs.)	Number of Shares	Weighted Average Exercise Price(Rs.)
Outstanding at the beginning of the year	307,280	80.88	607,890	75.56
Granted during the year	-	-	-	-
Exercised during the year	(151,305)	68.76	(163,425)	62.73
Forfeited during the year	(54,205)	86.22	(95,180)	64.26
Expired during the year	(36,135)	81.20	(51,100)	102.61
Other Adjustments	-	-	9,095	60.19
Outstanding at the end of the year	65,635	104.55	307,280	80.88
Exercisable at the end of the year	59,635	102.63	259,185	74.80

Particulars	March 31, 2007	March 31, 2006
Weighted average remaining contractual life (in years)	1.47	1.92
Weighted average fair value of options granted	-	-

During the year ended 31 March 2002, the Company announced and allotted bonus shares by capitalising a part of securities 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 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.

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

**Associate Stock Option Plan 2003**

The Shareholders of the Company in the EGM held on the 12th 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.

A summary of the status of the 2003 plan at March 31, 2007 is presented below.

Particulars	March 31, 2007		March 31, 2006	
	Number of Shares	Weighted Average Exercise Price(Rs.)	Number of Shares	Weighted Average Exercise Price(Rs.)
Outstanding at the beginning of the year	1,854,850	144.44	2,178,950	148.19
Granted during the year	2,500,500	135.01	266,000	120.05
Exercised during the year	(111,250)	146.54	(700)	146.29
Forfeited during the year	(957,700)	122.53	(589,400)	147.29
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,286,400	143.40	1,854,850	144.44
Exercisable at the end of the year	1,053,620	144.72	893,740	146.58

Particulars	March 31, 2007	March 31, 2006
Weighted average remaining contractual life (in years)	5.37	7.12
Weighted average fair value of options granted	64.17	70.60

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

**Associate Stock Option Plan 2004**

The Shareholders of the Company in the AGM held on the 22nd July 2005 approved an Associate Stock Option Plan (the 2004 plan). The 2004 plan provides for issuance of 1,084,745 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 2004 plan 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. No options have been granted as at March 31, 2006.

A summary of the status of the 2004 plan at March 31, 2007 is presented below.

Particulars	March 31, 2007		March 31, 2006	
	Number of Shares	Weighted Average Exercise Price(Rs.)	Number of Shares	Weighted Average Exercise Price(Rs.)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	994,500	147.87	-	-
Exercised during the year	-	-	-	-
Forfeited during the year	(214,500)	146.90	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	780,000	148.13	-	-
Exercisable at the end of the year	156,000	148.13	-	-

Particulars	March 31, 2007	March 31, 2006
Weighted average remaining contractual life (in years)	6.00	-
Weighted average fair value of options granted	77.76	-

**Pro forma Disclosure:**

In accordance with SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, had the compensation cost for associate stock option plans been recognized based on the fair value at the date of grant in accordance with Black scholes model, the pro forma amounts of the Company's net profit and earnings per share would have been as follows:

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

Particulars	Year ended March 31, 2007	Year ended March 31, 2006
Profit after tax		
- as reported	7,958.82	1,329.55
- proforma profit	7,552.16	1,290.46
<b>Earnings Per Share (in Rs.)</b>		
<b>Basic</b>		
- As reported	8.09	1.36
- Pro forma	7.68	1.32
<b>Diluted</b>		
- As reported	8.01	1.35
- Pro forma	7.60	1.31

The fair value of options was estimated at the date of grant using the Black Scholes method with the following assumptions:

Particulars	April to March 2007	April to March 2006
Risk-free interest rate	7.73%	6.76%
Expected life	2.5 to 6.5 Years	2.5 to 6.5 Years
Expected volatility	61.87%	69.08%
Expected dividend yield	0.97%	0.97%

**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 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.

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

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 comprise:

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

**Primary segment information**

Particulars	Year ended March 31, 2007	Year ended March 31, 2006
<b><u>Segment revenues</u></b>		
Banking and financial services	80,384.73	61,453.53
Emerging verticals	10,045.28	6,940.54
	90,430.01	68,394.07
<b><u>Segment Profit before Finance charges, Unallocable Expenses and Tax</u></b>		
Banking and financial services	29,675.00	16,541.82
Emerging verticals	1,821.91	716.82
	31,496.91	17,258.64
Finance charges	(56.68)	(54.92)
Other unallocable expenditure net of unallocable income	(22,055.43)	(15,164.27)
Profit before taxation	9,384.80	2,039.46
Income taxes including deferred tax and fringe benefit tax	1,425.98	(709.91)
Profit after taxation	7,958.82	1,329.55

**Secondary segment information**

Region	Year ended March 31, 2007	Year ended March 31, 2006
<b><u>Segment revenues</u></b>		
United States of America	36,454.06	32,764.18
Europe	30,427.55	18,358.35
Asia Pacific	14,130.08	5,546.14
India and Middle East	9,418.32	11,725.40
	90,430.01	68,394.07

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

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

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

Reconciliation of basic and diluted shares used in computing EPS:

Particulars	Year ended March 31, 2007	Year ended March 31, 2006
Weighted average number of equity shares outstanding during the year-Basic	98,290,764	98,091,912
Add: Effect of dilutive issue of stock options to be converted	1,046,699	196,966
Weighted average number of equity shares outstanding during the year-Diluted	99,337,463	98,288,878

**13. Dividend remitted in foreign currency**

Particulars	Year ended March 31, 2007	Year ended March 31, 2006
Number of non-resident shareholders	505	470
Number of shares on which dividend was remitted	2,483,461	4,849,568
Dividend remittance during the year		
For the year ended 31 March 2005	-	84.87
For the year ended March 31, 2006	31.04	-

Particulars	Year ended March 31, 2007	Year ended March 31, 2006
Number of non-resident shareholders to whom <b>First interim dividend paid</b>	479	-
Number of shares on which First interim Dividend was remitted	4,774,248	-
Dividend remittance during the year	-	-
For the year ended March 31, 2007	47.74	-

Particulars	Year ended March 31, 2007	Year ended March 31, 2006
Number of non-resident shareholders to whom <b>Second interim dividend paid</b>	522	-
Number of shares on which Second interim dividend was remitted	3,423,902	-
Dividend remittance during the year - For the year ended March 31, 2007	42.80	-

**POLARIS SOFTWARE LAB LIMITED****Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

**16. 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 Pty Ltd, Australia ('PSL Australia')
Polaris Software Lab Canada Inc	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 ("PRIL')
Polaris Software Lab SA, Switzerland	Optimus Global Services limited (formerly known as 'Optimus outsourcing company limited)
Polaris Software Lab Limited , Chile	

<b><u>Associates</u></b>	
NMS Works Software Private Limited (NMS)	Orbitech Employees Welfare Trust
AIG Systems Solutions Private Limited (AIGSS)	Adrenalin eSystems Limited (formerly 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 Polaris Holdings Private Limited	Orbitech 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 Govind Singhal, Executive Director (upto September 30, 2005)





**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

**15. Investments in subsidiaries and associates**

- a) The movement during the year ended March 31, 2007 comprises the following:
- Subscribed additionally for 1,000,000 (March 31, 2006: 12,460,000) Equity shares of Rs 10 each per share Rs 9/- partly paid amounting to Rs 90.00 and 1,540,000 Cumulative Preference shares of Rs 5/- each amounting to Rs 77.00 during the year in Adrenalin eSystems Limited (formerly Empower Works Limited);
  - Subscribed additionally 83,107,000 redeemable optionally convertible cumulative preference shares of Rs. 2/- each amounting to Rs 1,662.14 and 33,596,000 redeemable optionally convertible cumulative preference shares of Rs. 2/- each amounting to Rs 671.92 in Optimus Global Services Limited (formerly Optimus Outsourcing Services 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 March 31, 2007 are given below:

<b>Subsidiary</b>	<b>Profit /(loss ) 2006-07</b>	<b>Accumulated loss as at March 31, 2007</b>
Polaris Software Lab Canada Inc	(192.39 )	335.54
Optimus Global Services Limited	(109.68)	1,818.43
Polaris Retail Infotech Limited	70.53	474.77

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 other than temporary 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 Empower Works Limited) is 40.25 % as at March 31, 2007. Adrenalin eSystems Limited ("ASL") is primarily engaged in the business of providing specific solutions relating to Human Relations suite of software solutions and products and has been incurring losses. The Company believes that the accumulated losses to the extent of Rs 2,827.41 as per the unaudited financial statements of ASL as on March 31, 2007 are on account of initial / start-up stage of operations. The full version of the ASL's main product "Adrenalin" was launched in January 2006 and ASL's evaluation of the product's market acceptability is positive. The Company believes that, in pursuing business models based on mass adoption of similar technologies on global scale, the start up costs on brand building, product development costs and franchise acquisitions are significant and the international

**POLARIS SOFTWARE LAB LIMITED****Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

experience also suggests that the product companies have longer gestation period. Further, the promoters of ASL are committed to provide continued support to its operations and ASL is expected to generate profits in the future. Accordingly, there is no permanent diminution in the value of its investments in ASL and hence, it is stated at cost.

- d) The Company's equity ownership interest in NMS Works Software Private Limited ("NMS") is 44.96% as on March 31, 2007. NMS is primarily engaged in the business of designing network management in Telecommunication and Internet Services. NMS has been incurring losses since its inception and based on the unaudited financials statements as at March 31, 2007, NMS had accumulated losses aggregating to Rs 536.63 Accordingly, the Company has determined and recorded a provision of Rs 241.28 for other than temporary diminution in the value of its equity investment in NMS.

16. The Company has adopted Accounting Standard 15 (Revised) – Employee Benefits with effect from April 01, 2006. Pursuant to adoption, the Company has determined the liability for Transitional Provision amounting to Rs. 1,755.12 which has been debited to General Reserve. As a result of this change, Salaries and bonus including overseas staff expenses have increased by Rs. 120 lakhs and correspondingly profit before taxes is lower by the same amount.

17. 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.

Particulars	Year ended March 31, 2007	Year ended March 31, 2006
Salaries and bonus including overseas staff expenses	58,794.64	45,506.67
Contribution to provident and other funds	1,221.77	1,179.00
<b>Total</b>	<b>60,016.41</b>	<b>46,685.67</b>

18. The following investments were purchased and sold during the year

Particular	Face Value	Value	Units
B47 Birla Sun Life Cash Manager - IP - Daily Dividend Reinvested	10.00	709.62	7,094,786.10
Birla FTP - Quarterly Series 4 – Dividend Payout	10.00	300.00	3,000,000.00
Reliance Liquidity Fund - Daily Dividend Reinvested Option	10.00	512.69	5,125,323.85
DWS Insta Cash Plus Fund -Insttutional Plan – Daily Dividend Option	10.00	509.64	5,086,517.14
DWS Money Plus Fund-Regular Plan Weekly Dividend-Dividend Option	10.00	512.92	5,105,576.00
DWS Money Plus Fund - Insttutional Plan – Daily Dividend	10.00	520.00	5,195,739.49
Kotak Liquid Institutional Premium - Daily Dividend	10.00	512.61	4,192,065.40

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

Particular	Face Value	Value	Units
P32ISD ICICI Prudential Institutional Liquid Plan -	10.00	522.27	5,222,731.16
HDFC Floating Rate Income Fund - Short Term Plan - Dividend Reinvest	10.00	0.90	8,206.28
HDFC Cash Management Fund - Savings Plus Plan – Dividend	10.00	500.00	4,987,731.50
OCFPWD HSBC Cash Fund - Institutional Plus - Weekly Dividend	10.00	506.01	5,052,556.20
OLPIID HSBC Liquid Plus - Inst. - Daily Dividend	10.00	220.00	2,197,253.43

**19. Derivative instruments:**

The Company uses foreign currency forward contracts to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The Company does not use forward contracts for speculative purposes.

The following are the outstanding Forward Exchange Contracts entered into by the Company as at March 31, 2007 including forward cover taken for forecasted transactions:

Particulars	Year ended March 31, 2007	Year ended March 31, 2006
Number of contracts	9	22
US \$ Equivalent (Millions)	48.62	44.50
INR Equivalent	21,920	20,333

The year end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below:

Particulars	2007		2006	
	US Dollar equivalent (Million)	Rs.	US Dollar equivalent (Million)	Rs.
Amounts receivable in foreign currency	17.60	7,649.17	-	-
Amounts payable in foreign currency	5.02	2,182.78	1.64	730.18

The above disclosures have been made consequent to the announcement by the Institute of Chartered Accountants of India on December 2, 2005.

**POLARIS SOFTWARE LAB LIMITED****Schedules to the financial statements**

(All amounts are in Rs.in Lacs, unless otherwise stated)

**16. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)****20. Litigation, claims and contingencies****(i) 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 November 29, 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 November 29, 2001. During the earlier year, the parties entered into an agreement to dismiss all remaining claims subject to re-asserting all their claims that existed before November 29, 2001 under certain conditions. On September 9, 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 April 20, 2004 and remanded the matter to the District Court. The District Court appointed a retired Judge as a mediator to resolve the matter which became unsuccessful. The District court thereafter conducted a Settlement Conference which also proved unsuccessful.

The Company subsequently filed a motion to dismiss the remaining claims asserted by the Plaintiffs on October 6, 2005 in the District court of New Jersey. The District Court granted the company's motion by way of a final judgment dismissing any and all claims remaining in the lawsuit. Thereafter, Data Inc on December 12, 2005 has filed an appeal against the final judgment in the court of appeals. The appeal has been heard by the Appellate Court on December 5<sup>th</sup>, 2006 and the Appellate Court, (Bench consisting of Hon'ble Chief Justice and two Judges) after hearing and reserving the judgment directed the parties to go for Court Mediation. The Mediation also took place on 21<sup>st</sup> February, 2007 at Philadelphia, U.S.A. but the said Mediation also did not prove successful. The Company is vigorously contesting the case and continues to believe that allegations of Plaintiffs are without merit and have been proved by various orders of the court so far. Hence, the appeal is still pending for judgment.

**(ii) Other Pending Suits**

Two former employees of the Company have instituted a suit in Mumbai for wrongful termination of their services and publication of defamatory material. The Company has filed a written statement in April 06 contending that the suit is not tenable. 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. The management believes that the Company can successfully resist any claim.

**POLARIS SOFTWARE LAB LIMITED**  
**Schedules to the financial statements**

(All amounts are in Rs. in Lacs, unless otherwise stated)

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

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.

**(iii) Income Tax Matters**

	<b>March 31, 2007</b>	<b>March 31, 2006</b>
Income tax in dispute	1,111.66	790.04

(a) In all the above disputed cases, the tax demand is mainly on account of:

- (i) Reduction of expenditure in foreign currency from export turnover.
- (ii) Reduction of such foreign currency expenditure from export turnover and not from total turnover while computing exemption under section 10(A) of the Income Tax Act, 1961.

The Company is contesting the demand and the management firmly believes that its position would be upheld in the appeal stage.

(b) Current taxes include an amount of Rs Nil (March 31, 2006: Rs 110.29) relating to earlier years on account of assessment made by the overseas tax authorities.

21. As at March 31, 2007, the Company had no outstanding dues to small-scale industrial (SSI) undertakings (March 31, 2006: Rs Nil). The list of SSI undertakings was determined by the Company on the basis of information available with the Company. The Company also had no outstanding dues that require to be furnished under Section 22 of the Micro, Small and Medium Enterprises Development Act, 2006.

22. The financial statements for the year ended March 31, 2006 have been audited by a firm other than S R Batliboi & Associates. Previous year figures have been regrouped/reclassified, wherever necessary, to conform to current year's presentation.

As per our report of even date

For **S.R.BATLIBOI & ASSOCIATES**  
Chartered Accountants

per **S.Balasubrahmanyam**  
*Partner*  
Membership No 053315  
**Chennai**  
**April 27, 2007**

For and on behalf of the Board of Directors of  
Polaris Software Lab Limited

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

**R.C.Bhargava**  
*Director*

**R.Srikanth**  
*Executive Vice President & Chief Financial Officer*

**M.P.Suresh Kumar**  
*Company Secretary*

POLARIS SOFTWARE LAB LIMITED

**Balance Sheet Abstract And Company's General Business Profile****I. Registration Details**

Registration No	18-24142	State Code	18
Balance Sheet Date	31.03.2007		

**II. Capital Raised during the Year**

Public issue	Nil	Rights Issue	Nil
Bonus Issue	Nil	Private Placement	Nil

**III. Position of Mobilisation and deployment of funds (Amount in Rs. Thousands)**

Total Liabilities	5,716,148	Total Assets	5,716,148
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**Source of funds**

Paid up Capital	492,911	Reserves & Surplus	5,205,603
Secured Loans	12,870	Deferred Tax Liability	4,764

**Application of funds**

Net fixed assets	2,000,259	Investments	1,078,844
Net Current Assets	2,637,045	Deferred Tax Assets	-

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

Turnover	9,043,001	Other Income	47,315
Total expenditure	8,151,836	Profit before tax	938,480
Profit after tax	795,882		
Earning per share in Rs	8.09	Dividend Rate	45%

**V. Generic names of three principal products/services of Company (as per monetary terms)**

Item Code No (ITC Code)	Not Applicable
Product description	Computer Software

**Arun Jain**  
Chairman & Managing Director

**R.C.Bhargava**  
Director

**R.Srikanth**  
Executive Vice President & Chief Financial Officer

**M.P.Suresh Kumar**  
Company Secretary

Chennai  
April 27, 2007

**STATEMENT PURSUANT TO MINISTRY OF COMPANY AFFAIRS  
EXEMPTION APPROVAL U/S 212 OF THE COMPANIES ACT, 1956**

- |  |  |
|--|--|
| 1. Name of subsidiary  | <b>Polaris Software Lab Pte Limited, Singapore</b> |
| 2. Financial year ended  | March 31, 2007                                     |
| 3. Holding Company's interest  | 100%   |
| 4. Shares held by the holding company in the Subsidiary's common stock                                 | 385,000 shares @ S\$1/- each                       |
| 5. Details pertaining to the subsidiary for the year ended 31 <sup>st</sup> March 2007 are given below |  |

		SGD	Rs. In Lacs
a)	Capital	385,000	110.34
b)	Reserves	11,503,040	3,296.77
c)	Total Assets	14,904,755	4,271.70
d)	Total Liabilities	3,016,715	864.59
e)	Details of Investment	300,872	86.23
f)	Turnover	30,948,941	8,869.97
g)	Profit Before Taxation	2,809,893	805.32
h)	Provision for Taxation	619,677	177.60
l)	Profit After Taxation	2,190,216	627.72
j)	Proposed Dividend	Nil	Nil

Note: The Rupee Equivalent of Singapore Dollars (SGD) has been arrived at by converting it at the closing rate of 1 SGD = Rs. 28.66 as on 31<sup>st</sup> March 2007.

- |  |   |
|--|---|
| 1. Name of subsidiary  | <b>Polaris Software Lab Limited, UK</b> |
| 2. Financial year ended  | March 31, 2007                          |
| 3. Holding Company's interest  | 100%                                    |
| 4. Shares held by the holding company in the Subsidiary's common stock                                 | 8,89,000 shares @ GBP 1/- each          |
| 5. Details pertaining to the subsidiary for the year ended 31 <sup>st</sup> March 2007 are given below |   |

		GBP	Rs. In Lacs
a)	Capital	889,000	756.62
b)	Reserves	1,613,322	1373.10
c)	Total Assets	7,687,490	6,542.82
d)	Total Liabilities	5,185,168	4,413.10
e)	Details of Investment	5,300	4.51
f)	Turnover	17,232,580	14,666.65
g)	Profit Before Taxation	948,321	807.12
h)	Provision for Taxation	293,177	249.52
l)	Profit After Taxation	655,144	557.59
j)	Proposed Dividend	Nil	Nil

Note: The Rupee Equivalent of Great Britain Pounds (GBP) has been arrived at by converting it at the closing rate of 1 GBP = Rs. 85.11 as on 31<sup>st</sup> March 2007

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

- |  |  |
|--|--|
| 1. Name of subsidiary  | <b>Polaris Retail Infotech Limited</b> |
| 2. Financial year ended  | March 31, 2007                         |
| 3. Holding Company's interest  | 100%                                   |
| 4. Shares held by the holding company in the Subsidiary's common stock                                 | 90,00,000 shares @ Rs. 10/ each        |
| 5. Details pertaining to the subsidiary for the year ended 31 <sup>st</sup> March 2007 are given below |  |

		<b>Rs. In Lacs</b>
a)	Capital	900.00
b)	Reserves	(474.77)
c)	Total Assets	532.32
d)	Total Liabilities	107.09
e)	Details of Investment	Nil
f)	Turnover	462.17
g)	Profit Before Taxation	72.02
h)	Provision for Taxation	1.49
i)	Profit After Taxation	70.53
j)	Proposed Dividend	Nil

- |   |  |
|---|--|
| 1. Name of subsidiary   | <b>Polaris Software Lab S.A,</b><br><b>Switzerland</b> |
| 2. Financial year ended   | March 31, 2007   |
| 3. Holding Company's interest   | 100%   |
| 4. Shares held by the holding company in the Subsidiary's common stock                                  | 35,000 shares @ CHF 10/- each                          |
| 5. Details pertaining to the subsidiary for the year ended 31 <sup>st</sup> March 2007 are given below. |  |

		<b>CHF</b>	<b>Rs. In Lacs</b>
a)	Capital	350,000	124.71
b)	Reserves	1,109,091	395.17
c)	Total Assets	1,672,994	596.09
d)	Total Liabilities	213,903	76.21
e)	Details of Investment	Nil	Nil
f)	Turnover	2,846,159	1,014.19
g)	Profit Before Taxation	516,494	184.03
h)	Provision for Taxation	(4,642)	(1.65)
i)	Profit After Taxation	521,136	185.68
j)	Proposed Dividend	Nil	Nil

Note: The Rupee Equivalent of Swiss Francs (CHF) has been arrived at by converting it at the closing rate of 1 CHF = Rs. 35.63 as on 31<sup>st</sup> March 2007.

**STATEMENT PURSUANT TO MINISTRY OF COMPANY AFFAIRS  
EXEMPTION APPROVAL U/S 212 OF THE COMPANIES ACT, 1956**

- |  |   |
|--|---|
| 1. Name of subsidiary  | <b>Polaris Software Lab GmbH,<br/>Germany</b> |
| 2. Financial year ended  | March 31, 2007                                |
| 3. Holding Company's interest  | 100%  |
| 4. Shares held by the holding company in the Subsidiary's common stock                                 | Euro 600,000                                  |
| 5. Details pertaining to the subsidiary for the year ended 31 <sup>st</sup> March 2007 are given below |   |

		Euro	Rs. In Lacs
a)	Capital	600,000	347.22
b)	Reserves	169,354	98.01
c)	Total Assets	1,433,914	829.81
d)	Total Liabilities	664,560	384.58
e)	Details of Investment	Nil	Nil
f)	Turnover	2,442,504	1,413.48
g)	Profit Before Taxation	140,516	81.32
h)	Provision for Taxation	56,956	32.96
l)	Profit After Taxation	83,560	48.36
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. 57.87 as on 31<sup>st</sup> March 2007.

- |  |  |
|--|--|
| 1. Name of subsidiary  | <b>Polaris Software Pty Ltd, Australia</b> |
| 2. Financial year ended  | March 31, 2007                             |
| 3. Holding Company's interest  | 100%                                       |
| 4. Shares held by the holding company in the Subsidiary's common stock                                 | 25,000 Shares @ A\$ 1/- each               |
| 5. Details pertaining to the subsidiary for the year ended 31 <sup>st</sup> March 2007 are given below |  |

		AUD	Rs. In Lacs
a)	Capital	25,000	8.78
b)	Reserves	808,956	284.02
c)	Total Assets	3,014,451	1,058.37
d)	Total Liabilities	2,180,495	765.57
e)	Details of Investment	Nil	Nil
f)	Turnover	6,803,437	2,388.69
g)	Profit Before Taxation	409,543	143.79
h)	Provision for Taxation	125,529	44.07
l)	Profit After Taxation	284,014	99.72
j)	Proposed Dividend	Nil	Nil

Note: The Rupee Equivalent of Australian Dollars (AUD) has been arrived at by converting it at the closing rate of 1 AUD = Rs. 35.11 as on 31<sup>st</sup> March 2007.

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

- |  |  |
|--|--|
| 1. Name of subsidiary  | <b>Polaris Software Lab Ireland Ltd,<br/>Ireland</b> |
| 2. Financial year ended  | March 31, 2007                                       |
| 3. Holding Company's interest  | 100%   |
| 4. Shares held by the holding company in the Subsidiary's common stock                                 | 176,186 Shares @ Euro 1/- each                       |
| 5. Details pertaining to the subsidiary for the year ended 31 <sup>st</sup> March 2007 are given below |  |

		Euro	Rs. In Lacs
a)	Capital	176,186	101.96
b)	Reserves	304,970	176.49
c)	Total Assets	658,801	381.25
d)	Total Liabilities	177,645	102.80
e)	Details of Investment	Nil	Nil
f)	Turnover	823,260	476.42
g)	Profit Before Taxation	268,779	155.54
h)	Provision for Taxation	33,789	19.55
i)	Profit After Taxation	234,990	135.99
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. 57.87 as on 31<sup>st</sup> March 2007.

- |  |  |
|--|--|
| 1. Name of subsidiary  | <b>Optimus Global Services Limited</b> |
| 2. Financial year ended  | March 31, 2007                         |
| 3. Holding Company's interest  | 100%                                   |
| 4. Shares held by the holding company in the Subsidiary's common stock                                 | 85,015,000 Shares @ Rs.2/each          |
| 5. Details pertaining to the subsidiary for the year ended 31 <sup>st</sup> March 2007 are given below |  |

		Rs. In Lacs
a)	Capital	4,034.36
b)	Reserves	(1,267.98)
c)	Total Assets	3,408.70
d)	Total Liabilities	642.32
e)	Details of Investment	Nil
f)	Turnover	3,164.30
g)	Profit Before Taxation	(158.12)
h)	Provision for Taxation	(12.37)
i)	Profit After Taxation	(145.75)
j)	Proposed Dividend	Nil

Note: Capital includes 1,16,703,000 Redeemable Optionally Convertible Cumulative Preference Shares of Rs. 2 each.

**STATEMENT PURSUANT TO MINISTRY OF COMPANY AFFAIRS  
EXEMPTION APPROVAL U/S 212 OF THE COMPANIES ACT, 1956**

- |  |   |
|--|---|
| 1. Name of subsidiary  | <b>Polaris Software Lab Canada Inc,</b> |
| 2. Financial year ended  | March 31, 2007                          |
| 3. Holding Company's interest  | 100%                                    |
| 4. Shares held by the holding company in the Subsidiary's common stock                                 | 490,810 Shares @ 1/- Each.              |
| 5. Details pertaining to the subsidiary for the year ended 31 <sup>st</sup> March 2007 are given below |   |

		<b>Canadian Dollar</b>	<b>Rs. In Lacs</b>
a)	Capital	490,810	184.94
b)	Reserves	(875,221)	(329.78)
c)	Total Assets	637,808	240.33
d)	Total Liabilities	1,022,219	385.17
e)	Details of Investment	1,218	0.46
f)	Turnover	374,290	141.03
g)	Profit Before Taxation	(483,933)	(182.35)
h)	Provision for Taxation	Nil	Nil
l)	Profit After Taxation	(483,933)	(182.35)
j)	Proposed Dividend	Nil	Nil

Note: The Rupee Equivalent of Canadian Dollar (CAD) has been arrived at by converting it at the closing rate of 1 Canadian Dollar = Rs. 37.68 as on 31<sup>st</sup> March 2007.

- |  |   |
|--|---|
| 1. Name of subsidiary  | <b>Polaris Software Lab Japan KK,<br/>Japan</b> |
| 2. Financial year ended  | March 31, 2007                                  |
| 3. Holding Company's interest  | 100%  |
| 4. Shares held by the holding company in the Subsidiary's common stock                                 | 400 Shares @ JPY 50,000/- each                  |
| 5. Details pertaining to the subsidiary for the year ended 31 <sup>st</sup> March 2007 are given below |   |

		<b>JPY</b>	<b>Rs. In Lacs</b>
a)	Capital	20,000,000	74.00
b)	Reserves	84,241,166	311.69
c)	Total Assets	364,911,465	1350.17
d)	Total Liabilities	260,670,299	964.48
e)	Details of Investment	Nil	Nil
f)	Turnover	739,231,044	2735.15
g)	Profit Before Taxation	47,099,256	174.27
h)	Provision for Taxation	1,1349,800	41.99
l)	Profit After Taxation	35,749,456	132.27
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. 0.37 as on 31<sup>st</sup> March 2007.

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

1. Name of subsidiary **Polaris Software Lab Chile Limitada,**
2. Financial year ended **March 31, 2007**
3. Holding Company's interest
  - (i) Polaris Software Lab Limited, UK 90%
  - (ii) Polaris Software Lab Canada Inc 10%
4. Shares held by the holding company in the Subsidiary's common stock **PESO 5,837,807**
5. Details pertaining to the subsidiary for the year ended 31<sup>st</sup> March 2007 are given below

		<b>CLP</b>	<b>In Lacs</b>
a)	Capital	5,837,807	4.67
b)	Reserves	54,181,625	43.35
c)	Total Assets	953,928,692	763.15
d)	Total Liabilities	893,909,259	715.13
e)	Details of Investment	Nil	Nil
f)	Turnover	1,246,517,405	997.21
g)	Profit Before Taxation	65,299,660	52.23
h)	Provision for Taxation	11,118,035	10.01
l)	Profit After Taxation	54,181,626	43.35
j)	Proposed Dividend	Nil	Nil

Note: The Rupee Equivalent of PESO has been arrived at by converting it at the closing rate of 1 PESO = Rs. 0.08 as on 31<sup>st</sup> March 2007.

## **MANAGEMENT DISCUSSION & ANALYSIS**

**Forming part of the Financial Statements for the year ended 31 March 2007**

## Management Discussion and Analysis

### 1. Overview

Polaris pioneers the SOA based technology outsourcing wave with the combination of its product, Intellect Suite, and traditional outsourcing services for the Banking and Financial sector. Polaris differentiation strategy is to offer a blended model to customers using a combination of Intellectual Property assets and Outsourcing.

The company's strategy is to focus on profitable and high value solutions that result in robust long term and predictable growth, while empowering customers to compete effectively in their business area. The combination of products and outsourcing services allows Polaris to offer specialized services in Smart Legacy Modernization, where existing legacy applications and platforms are managed and modernized in a non-disruptive manner through deployment of innovative, Smart Build solutions that are SOA compliant and backward compatible.

Polaris positioning and service mix is designed to leverage the growing adoption of SOA in the marketplace, the increasing trend in globalization and upward trends in renewal of banking technology. The key offerings for the market are:

- a. Outsourcing: This offering comprises both traditional ODC services consisting of Application Development and Management, Independent Testing, Integration and Enterprise Solutions such as global shared services and helpdesks for packages such as SAP, Oracle Apps, Siebel, Baan, and other ERP/CRM/Data-Warehousing packages. Outsourcing services comprise several horizontal technology practices such as internet technologies, mainframe, workflow and analytics.
- b. Intellect: Intellect led offerings include ready solutions across all the major Banking business lines such as Retail, Corporate and Investment Banking. The platforms consist of the following:

Retail Banking: Universal/Core Banking, Consumer Finance, Credit Card, Branch Renewal/Front Office

Corporate Banking: Cash and Liquidity, Risk and Treasury management

Investment Banking: Wealth management

**Industry Focus:** Polaris primary focus area has been the Banking, Financial and Insurance Sectors, and the company continues its foray into super specialization in the following sub sectors:

- Retail Banking
- Corporate Banking
- Investment Banking and Wealth Management
- Insurance

#### Geographic Focus

Polaris sales and global marketing teams focus on the

- Americas: North America, South America, Canada
- EMEA: Europe, Middle East, Africa
- APAC: Asian countries including Japan, China
- ANZ : Australia and New Zealand
- India

#### Differentiated Player

Powering Outsourcing with Intellect: Polaris Software Labs leads the new generation of offshore IT service providers that offer differentiated services through a powerful

combination of point solutions and traditional outsourcing services, using SOA as the enabling technology. High customer interest in this service model and increased adoption of SOA based solutions in the global marketplace during 2005-2006 has validated Polaris' differentiated positioning in the otherwise mature and commoditized outsourcing industry.

The core strength of Polaris lies in the ability to utilize a combination of domain knowledge, outsourcing experience and products to deliver superior technology solutions that are aligned to the business outcomes of customers. The company's rich client-footprint of global and Fortune 100 banks gives it the capability to deliver outsourcing projects of large scale and duration, while at the same time striving to co create solutions with customers.

**Towards Super Specialization:** In order to create high value for clients, Polaris requires the best blend of domain expertise and technology. Hence the company's focus and investment into development of Super Specialty Centers dedicated to each business domain is in line with the next decade need of the marketplace. Polaris has established Business solution Centers for Corporate Banking in Mumbai, Investment Banking in Hyderabad, Retail Banking in Chennai and Enterprise Solutions in Delhi. In addition to these the engineering center for the Intellect Suite located in Chennai is focused on engineering and development of SOA based products.

Investments into Intellect commenced well ahead of the technology adoption curve for SOA solutions and the year 2006-07 saw the successful validation of the investment in the market place, with 20.6% revenues from Intellect Platforms during the year.

Polaris position as a leading mid cap player in the industry gives it the financial strength to invest into domain super specialization as well as into continuous development of the flagship product.

#### **Business Initiatives and new ventures, 2006-07**

- Launched the first of its kind, Super Specialty Center for investment Banking – Capital at Hyderabad, India
- Launched Super Specialty Center for Risk and Treasury Management
- R&D Investment into Intellect development
- Marketing investment into Intellect promotions
- Performance Engineering Centers at Belfast and Toronto
- Talent development program for Domain Specialists and Solution Architects

#### **Services**

**Polaris offers Consulting, Products and Outsourcing services to companies worldwide.**

##### **Consulting**

Polaris leverages its strength in integration and the powerful SOA based component of Intellect Integrator to offer consulting services across Banking, Financial Services and Insurance (BFSI) verticals in the following areas:

- Multi-channel integration
- Multi-location integration
- Multi-technology integration

##### **Products**

The Intellect Suite comprises seven key platforms across the Banking ecosystem, spanning Retail, Corporate and Investment banking segments

- Intellect Consumer Finance
- Intellect Core/Universal Banking

- Intellect Cards
- Intellect Front Office for Branch Banking
- Intellect Cash and Liquidity
- Intellect Risk and Treasury
- Intellect Invest and Wealth

Intellect is a pure play SOA based suite designed using J2EE technology with over 56 reusable business modules. Developed on contemporary technology (Open API standards) enabling easy integration with legacy systems, the products are web-enabled, multi-currency and multi-lingual in nature

**Outsourcing through ODC model**

- Application Development, Integration and Support: Traditional application services from offshore
- Global Rollouts (100+ Countries) – This is a differentiated and high-end service from Polaris, where accelerated globalization of banking services is possible through a combination of SOA approach and global rollout capability.
- Independent Testing: Polaris offers complete range of testing for BFSI applications, as well as SOA testing where the projects involve implementation of Intellect components.
- Enterprise Applications: Global Shared Services and Helpdesk, CRM/ERP Implementation services covering Siebel, SAP, Baan, JDE
- BPO - Specialized offerings in Mortgage, Credit Card
- Smart Legacy Modernization: This service is essentially legacy to SOA migration, a differentiated service, where Polaris offers legacy modernization services combining outsourcing services and product approach.

**2. Industry Structure and Developments**

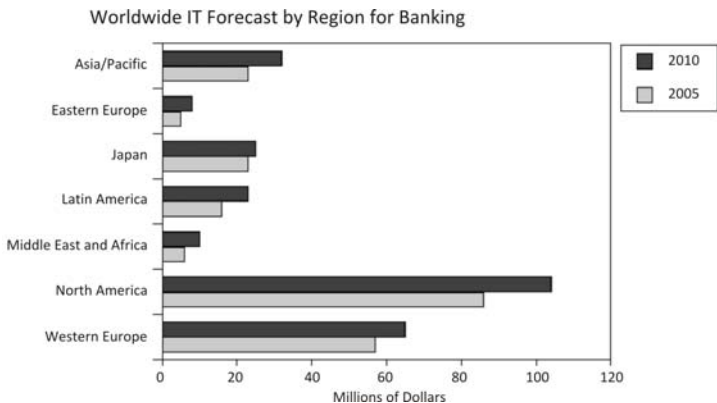
**Outsourcing in BFSI shows trends in modernization of core banking platforms**

Worldwide outsourcing trends in the banking and financial sector show increased trends in Core Banking renewal, more focus on customer experience management solutions and point solutions for risk management and business functionality.

As per Gartner estimates the following is the market size for the Banking segment

- Worldwide Banking spend in 2007 will be USD 233.6 Billion
- Banking accounts for 11 % of overall worldwide ITO market and will account for 11.6 % in 2010.
- 5 year CAGR OF 4.5 %

The following estimate by Gartner shows the market size by geographic distribution.



### **Global outsourcing deals composition includes a mix of large and smaller specialist players**

While the outsourcing trend analysis by Gartner shows a healthy increase in both numbers of deals as well as a good mix of large and medium size deals, they also predict that the use of multiple providers is also on the rise. "Large global players will consider and select smaller or regional providers for focused parts of their mega scope deals to engage with focused specialists, expand the scope of services that are globally delivered or introduce a new provider into the mix".

### **Domain Specialists are most wanted**

As the outsourcing priority moves from cost arbitrage and labor arbitrage to business impact and competitive advantage of IT, business leaders are increasingly influencing technology selection and driving decisions strongly.

## **3. Strengths, Opportunities and Threats**

### **Strengths**

The company's inherent strengths lie in its domain expertise, Intellectual Property in the form of Intellect and rich experience in delivering outsourcing projects to world class standards and processes.

Optimised Operational Performance: Polaris' strength lies in its focus on extreme execution, process and robust delivery engines. The Company is dedicated to achieving world-class delivery services through a resolute focus on continuous enhancements. It has attained high standards of process maturity, which have helped to deliver a strong business performance in 2006.

#### **a. Domain Expertise and Super Specialization**

The Polaris pedigree has been established over the years as a pure play Banking and Financial Services player and the company continues on the road to super-specialization, the key to growth in the coming years. Polaris Business Solution Centers are engaged in engineering solutions and in delivery of projects for customers across multiple sub domains.

#### **Retail Banking Center, Chennai**

This solution center is our 'One-stop solution for Retail Banking' with profitable core propositions for Credit Cards, Mortgage, CRM, Internet Banking, Multi-Channel Integration, Origination and ATM Solutions.

#### **Consumer Finance Center, Chennai**

The Consumer Finance Center offers the Polaris flagship platform for Branch Renewal – Intellect Front Office providing solutions for Core Banking, Lending, Relationship, Payment, Collateral, Statement & Charges, Central Liability System and Reconciliation.

#### **Investment Banking Center, Hyderabad**

The Capital is a one-of-its-kind Super Specialty Center for Investment Banking and Wealth Management.

#### **Liquidity and Cash Management Center, Mumbai**

This center offers expertise in Liquidity pooling and sweeping, Cash Management and other corporate Banking solutions.

#### **Risk & Treasury Management Center, Mumbai**

Polaris offers solutions in areas such as Basel II, Transfer Pricing, Compliance Reporting and Risk Analytics such as ALM, Credit Solutions, Collateral Management and Collection.

## **b. Outsourcing expertise and Process Excellence**

The company has an enviable set of global clients in the industry, and shares long term relationships with a majority of them. A client base of 225, and key accounts of 70 provides the base for delivering true economics of expertise.

### **Enterprise Innovation Center, Chennai**

The Enterprise Innovation Center covers Insurance, Testing, Content Management, .Net & Outsourcing Practices. Polaris Application Certification Enterprise (PACE), is among the leading providers of independent testing services with multi-shore capabilities.

### **Enterprise Solution Center, Delhi**

The Enterprise Solution center offers services around leading ERP products and innovative services such as global shared service support and helpdesk for companies around the world. The solutions include SAP, Oracle Apps, Siebel, BaaN, etc.

## **c. Productization Expertise -Intellect**

Intellect is a modern and flexible enterprise platform that enables boundaryless banking across business units, geographies and technologies. Intellect™, built using modern Service Oriented Architecture (SOA) technology, is a comprehensive platform comprising seven major banking application areas across Retail, Corporate and Investment Banking. It is the first pure play SOA based application suite for BFSI players, designed to enable quick response to business requirements while at the same time easing the process of modernizing legacy platforms.

### **Intellect comprises 7 platforms:**

1. Intellect Consumer Finance provides seamless technology solutions ranging from Origination and Lending to Collection systems.
2. Intellect Core is feature-rich and addresses the critical need for a scalable, flexible, secure and customer-centric core-banking platform. It supports savings, current and overdraft accounts as well as different types of time deposits.
3. Intellect Cards is a flexible and comprehensive system that addresses all needs across issuance, acquiring, customer loyalty, default management (collections), internet banking, fraud and risk Management.
4. Intellect Front Office offers capability ranging from teller functions to wealth management advisory services, including cross-sell prompts, account origination and everything that a branch banker would need.
5. Intellect Treasury is a web-based system that meets treasury requirements in the areas of fixed income, forex, money markets, derivatives and risk management.
6. Intellect Liquidity is a comprehensive platform that can meet the needs of complex liquidity management scenarios.
7. Intellect Wealth is the next generation component based Wealth Management offering, catering to the need of Financial Service Providers ranging from independent registered investment advisors or financial advisory teams in brokerage houses to private banks.

## **Opportunities & Threats**

### **a. Opportunities:**

As an innovative technology outsourcing service provider with a unique mix of products and outsourcing solutions and investment into IPR, Polaris has identified several key business opportunity areas which will drive the Company's organic growth for the foreseeable future. Some of these growth drivers are:

**(i) Geographic expansion**

The Company's strategy for growth includes expanding market reach by increasing focus on new regions globally. This is also primarily driven by the need to 'follow the customer'.

In the Americas, the Company has initiated fresh inroads into the Latin and Canadian territories.

In Europe, it is paying special attention to deepen presence in France, Germany and building new client relationships in Netherlands and Scandinavia.

For Asia Pacific, the China, Japan and Australian markets are being built-up.

The initial response from all these new markets has been encouraging, and each is expected to evolve into significant business opportunities.

**(ii) Service Portfolio Enhancement**

In continuance to its strategy of identifying high value segments of the business, the Company is further enhancing and strengthening its service portfolio through investment and marketing of Intellect Product range and SOA based services in Legacy Modernization for services such as core banking renewal.

Each of the seven platforms of Intellect represents invigorating growth opportunities for the Company in the Retail, Corporate and Investment Banking areas.

**(iii) New Sales**

The Company continues its sales thrust in specific areas of industry verticals where it has built significant competitive strength. These industry verticals are the mainstay business of the Company. These segments include high growth global industries with a track record of heavy investments in information technology such as Retail Banking, Origination, Credit Card, Leasing and Mortgage, Corporate Banking, Wealth Management, Risk Management, Investment Banking, Insurance etc. These large segments continue to present the Company with ample opportunity for increasing its market share and business volumes.

**(iv) Legacy Modernization**

Polaris enjoys a competitive advantage in offering integrated product and outsourcing services due to its prior experience in providing an integrated delivery structure to leading global banks for core renewal services. The Company plans to extend this model to other accounts and vertical areas where the core banking renewal trends are seen to be growing.

**(v) Account Growth**

The Company has realigned its sales enhancing efforts into focus on key accounts. The global delivery model of outsourcing is increasingly becoming accepted as a strategic imperative by more organizations today than ever before. Polaris customer base, including Fortune/Global 500 Banks offer significant scope for expanding its share of their IT budgets and this is indicative of the potential for growth. Most importantly, the Company is leveraging its capability as an integrated solutions provider, with appropriate technology expertise and domain knowledge, to deepen its relationships with its clients. These factors are presenting the Company as the partner of choice to its existing and potential customers, contributing to significant possibilities for Polaris to grow both new and the existing accounts rapidly.

Polaris continues on its strategy of nurturing key accounts and has put in place the process to enable management of these accounts on a global scale. From a key account set of 40 accounts in 2005, Polaris has now a set of 70 marquee names in the key account program, and they include the following:

- 5 out of top 5 Banks in UK
- 5 out of top 10 Banks in North America
- 3 out of top 5 Banks in ANZ
- 5 out of top 10 Banks in India
- Top Banks in Singapore, Spain, France, Netherlands and Germany

The processes and focus on governance models, have brought customer closer, and more visible to technology buyers within multiple geographic and business areas.

**b. Threats:** Polaris does not envisage any significant threats to its business or operations.

#### 4. Segment wise performance

The Company's proportion of revenue across all its business segments/verticals, are shown below. The company is focused on the Banking and Financial services sector which comprise of sub segments Retail, Corporate, Investment Banking and Insurance. Emerging segment include the non BFSI and horizontal offerings in Enterprise solutions and Testing.

	Q1 FY07	Q2 FY07	Q3 FY07	Q4FY07
Banking and Finance, Insurance	89.00%	89.00%	89.00%	88.00%
Emerging Verticals	11.00%	11.00%	11.00%	12.00%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

#### 5. Outlook

In the global BFSI sector, the core banking renewal trend is gathering momentum. Across the globe, banks are beginning to look at renewal seriously. With APAC leading the way, and followed by Latin America, EMEA and North America, banks are taking a re-look at the ability of vintage systems to support business in next decade. In addition to this, managing legacy systems is becoming increasingly expensive due to shortage of skills and knowledge. Redundant functionality and existing rigid systems are also inhibiting banks to respond to time-to-market needs.

While the outsourcing trend analysis by Gartner 2007 shows a healthy trend in both the number of deals and the mix of large/medium size deals, they also predict that the use of multiple vendors is on the rise. They claim that large global players will consider and select smaller or regional providers for focused parts of their mega scope deals to engage with focused specialists, expand the scope of services of services that are globally delivered or introduce a new provider in to the mix. Polaris being a super specialist in BFSI segment and being the only 100% BFSI focused company from India is well positioned to offer specialized outsourcing services in corporate banking, core banking, consumer finance, investment banking, Risk and Treasury, Cash and Liquidity, etc.

Polaris is well positioned to serve the needs of the BFSI segment. Having BFSI domain expertise of over two decades and several years of SOA based applications experience, is enabling us to provide the right solutions for our financial customers. The recent big wins with our solution offerings in Tier one companies, is resonating the fact that the hybrid model of both products and pure services is meeting and exceeding the expectations of our customers. Polaris investments on partnership with Global leaders like Calypso, Algorithmics and others are a vindication of Polaris commitment to the BFSI segment.

In the Wealth Management area as banks continue to seek growth in their wealth management services, they also will be facing key challenges this year which includes, increasing client demands, inability to aggregate product and other data, poor technology implementation and adoption, competing for and closing new clients, retaining existing clients and addressing increasing compliance and regulatory requirements. This coupled with the growth in HNI populations (There is a 56% growth between 2003-2006 according to a recent article in Investment News) banks will be increasingly looking for more of an "Integrated Advisory Desktop" (according to Aite an industry analyst) or a Wealth Management Platform that would serve as a panacea for the above challenges.

In the Treasury space, more and more banks globally are facing intense pressure to control costs and comply with changing regulatory requirements. The current technology in most banks is antiquated and ill equipped to meet the growing demands of flexibility, scalability and Straight Through Processing (STP). Furthermore, most of these systems are not modular and do not support the present day needs of all-in-one systems and centralized operations. With intense competition, expansion into new geographies and growing pressure from corporate clients for sophisticated functionalities, banks are increasingly looking at new-generation systems that can deliver greater business agility, higher operational efficiency and Lower TCO. The need to increase efficiencies, reduce operational delays and adhere to new accounting standards like IAS39 and Basel II, is driving banks to review their Treasury management solution.

From a Retail Banking perspective, banks have been facing growth challenges due to intense competition. Relationship Managers (RM's) do not have an educated handle on the product portfolio, neither are they empowered to take credit decisions nor do they have the technology tools that would help them come up with a mix of products that would suit an individual's personal financial needs. Banks are now moving to make a branch a profit center empowering Tellers to take credit decisions on their customers and backing them with the technological expertise to mix and match products "on-the-go" to suit customers unique needs instead of shunting them from one product manager to the other or worst to a 800 number. This is a significant transformation happening in the branches. Banks realize that the stakes are high and so they are trying to create an entrepreneurial organization at the branch level, all the time maintaining a tight leash on costs and are driving CIO's to re-engineer their branches through an Integrated Front-Office Solution.

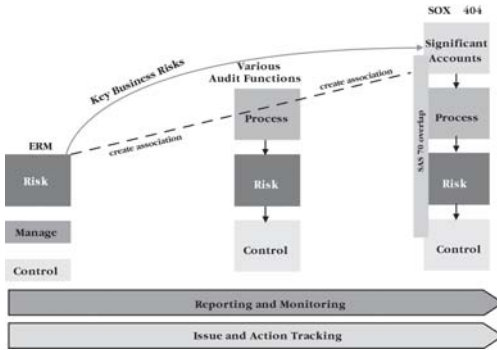
In the Investment banking space, Low margins, and workflow disconnects, and data redundancies continue to challenge investment banks. Complying with mandated regulations like Basel II and incorporating frameworks like Straight Through Processing (STP) present additional challenges. To be able to work round-the-clock in such demanding environments investment banks have made technology an integral part of their strategic initiatives. In the Derivatives space, products are becoming more and more sophisticated and the demands for exotic products are on the increase.

## **6. Internal Control Systems & their adequacy**

The CEO/CFO certification provided in the Report on Corporate Governance discusses the adequacy of our internal control systems and procedures.

## **7. Risk and Concerns**

Polaris adopted the Risk Manual and the proposed Risk framework presented to the Board in May 2005. All Risk mitigation steps are embedded and form part of all the key process followed in the company. Risks are classified into Macro or micro based on the scope of the impact on the organization and classified as corporate and non-corporate based on the level at which it needs to be identified and mitigated. The following figure depicts the Risk model in use.



All risks are handled based on the level best placed to mitigate the risks associated with each of the significant accounts. The perceived risks on each of the significant accounts on account of deficiencies in every process associated with those accounts are documented. The process owners are identified for each of the process and they were required to design a remediation plan to control perceived risks, which would eventually remove all the identified control deficiencies. The detailed exercise of mapping all the financial reporting processes covers 90-95% of the significant accounts. Additionally the process of moving internal audit from a transaction based to a risk based one has also been initiated.

**7.1. Risk Governance**

The governance of risk in the organization is entrusted to a board appointed risk committee. The risk committee consists of the CEO, CFO and Head Quality & Project Risk as its members. This committee has been authorized to

- review and suggest changes to the risk manual as may be necessary from time to time,
- Adopt such processes and procedures to enable compliance and mitigate risk
- Further delegate such powers and authorize persons to implement the same as may be necessary.

This committee, to put in place the corporate risk management framework, aligned all critical risk management functions as illustrated.



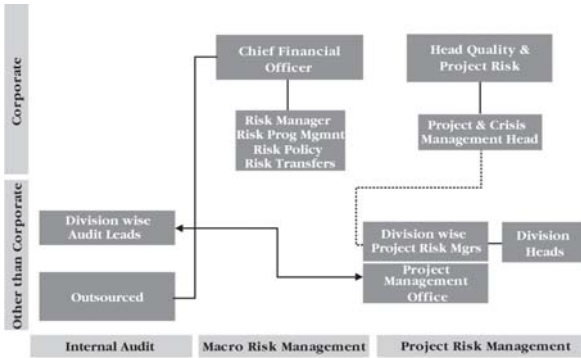
An organizational structure aligned to risks illustrated in the adjacent figure has been implemented. Along with the change in structure major policies and procedures were

also reviewed and implemented to help management at all the levels to be attuned to the risk management framework of the company.

The risks are broadly classified into macro financial and operational. All the macro financial risks are aligned with the Chief Financial Officer while the Operational risks are aligned with the Head, quality and project risks both of who are members of the board appointed risk committee.

**The risk organization is given below**

**Risk Organization**



**7.2. Risk Identification Assessment Monitoring and control**

The members of the Polaris board have authorized the risk committee, developed policies and procedures to identify, monitor, escalate and control major corporate risks. Greater awareness of risks and their implications were communicated throughout the organization by training programs and review meetings. Polaris organization has developed a common color-coding methodology of “Red, Amber and Green” with corresponding context specific threshold limits. Various departmental and inter departmental meetings mandated at regular intervals at appropriate levels help in identifying assessing, monitoring and control of all identified risks.

**Risk Manager**

**The risk manager at the corporate level along with the internal auditors identify through audit any process deviations in existing policies and procedures or any new control deficiencies through periodic testing and evaluation of the existing processes.**

**The risk manager is also responsible for**

- Conducting periodic surveys on the processes control deficiencies and corresponding remediation plans. Identification and maintenance of adequate risk coverage for major macro risks and also maintenance of the insurance dashboards for senior management review.

**Market Risks**

**a. Price Risk**

Competitive forces due to increasing trend of more global companies in banking and financial services market opening their own local outfits in India as well as the presence of a large number of Indian and MNC outsourcing providers operating out of India would constantly exert pressure on prices. Global weakening of the pricing of

technology outsourcing services would be one of the major market related risks. To mitigate this risk, Polaris has opted to differentiate in the market place through IPR led solutions. This strategy reduces the resource and effort requirements for similar solution offerings in the market from plain vanilla resource suppliers.

#### b. Geographic Concentration Risks

Concentration of revenue from any country exposes Polaris to the risks specific to its economic condition, global trade policies, local laws, political environment, and its diplomatic relationship with India etc. Each market has distinct characteristics pertaining to costs of penetration, country risk, maturity of the market for the products on offer, growth potential, price/profitability, therefore rigid limits on geographical concentration are not imposed. However it is monitored at the corporate level to balance any substantial skew in revenues. The following figure illustrates that the geographic revenue breakup has by and large remained stable throughout the last 4 quarters. The trend demonstrates a balanced portfolio across geographies.

	Q1 FY07	Q2 FY07	Q3 FY07	Q4 FY07
Geographic Revenue	23,204.82	25,556.94	27,397.29	27,077.91
Break-up (Rs. Lacs)				
US/North America	39.21%	38.36%	35.03%	34.40%
Europe	27.83%	28.27%	31.59%	32.61%
India	10.05%	11.82%	11.73%	11.96%
Asia Pacific & Japan	22.91%	21.55%	21.65%	21.03%

#### c. Industry Concentration Risk

As per most analyst research reports financial services and manufacturing (including discrete and process) rank first and second in IT services market size in the United States and worldwide. Industry analysts predict that although financial services demonstrate only moderate growth in industrialized economies, strong growth in most smaller-regions tends to place the financial industry ahead of average IT spending growth. Therefore we consciously have pursued a path of focusing on this sector.

#### d. Client Concentration Risks

The following healthy trend in new relationships throughout the year shows a healthy trend in the mix of new and existing businesses at Polaris, and reduced risk due to client concentration.

Client data	Q1 FY07	Q2 FY07	Q3 FY07	Q4 FY07
New major clients added	12	14	18	12
Repeat Business	87.00%	87.50%	86.50%	88.00%
<b>Client concentration</b>				
Top Client	12.59%	12.05%	11.41%	11.10%
Top 5%	37.93%	38.75%	35.19%	34.50%
Top 10%	52.25%	52.45%	48.92%	48.00%
Citigroup Contribution	51.70%	48.78%	43.80%	40.60%
Intellect Revenue ( Rs. Lacs )	3,457.02	4,256.00	5,068.00	5,590.00

#### e. Technology Obsolescence risk

Polaris provides global and contemporary financial solutions by partnering with other industry leading technology partners like IBM, Microsoft, BEA, and Oracle Corporation. It continuously invests in new technologies and new products based on new technologies to maintain currency. These investments are charged to the P&L account

as per the present policy but in case technological feasibility is established for the product so developed are used in future. Software development costs incurred subsequent to the achievement of technological feasibility are capitalized and amortized over estimated useful life of the products. 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 amortization period and the amortization method are reviewed at each period end. If the expected useful life of the product is shorter from previous estimates, the amortization period is changed accordingly. At present in Polaris the products are amortized over a period of five years

#### **f. Security and Business Continuity**

Polaris has implemented a system for the management of information security in line with the standard BS 7799-2:1999. Accordingly, information security controls are implemented based on best practices and clients requirements. All offices located at Chennai, Mumbai, Hyderabad, Gurgaon and New Jersey have been assessed for information security compliance and are certified as BS 7799 compliant. Polaris has well-defined corporate guidelines for Business Continuity Plan. We have established a management system in order to ensure the continuation and rapid recovery from failure or unexpected interruptions, if any, to business critical processes and operations including IT processes and systems. Business continuity planning due to the round the clock availability requirements of the business are accorded very high priority. We have a Business Continuity Committee consisting of members from the senior business management team, which is well supported by all infrastructure groups. Business continuity plans are in place for identified critical projects and tested periodically to meet any disaster and continue operations at an alternate office in the same city or at another city or another country outside India to an alternate facility based on severity of disruption.

#### **g. Inflation of Cost structure**

A major cost in the IT services industry is the wage cost, which has the highest degree of inflationary certainty. Over the years the basic wage structure is expected to increase in response to the rising talent demand and macroeconomic trends. To de-risk, Polaris has worked with governments, educational institutions and charitable organizations to increase the talent pool, provide extensive training to quickly enable employee skills and competencies. The company also continues to put in place cost optimization programs in the organization and also embed cost management in the organization's culture.

#### **h. Political Environment**

Polaris operates in 16 countries around the world and political developments in any of these countries would have an impact on our performance to a greater or lesser extent. Operations in multiple development centers in different countries is in itself a de-risking strategy for delivery related risks borne out of political risks. Reducing our revenue exposure to countries with greater perceived politico-economic risk helps in mitigating market related risks arising out of a country's political climate.

#### **i. Immigration Regulation**

The majority of Polaris employees are Indian nationals. The ability of IT professionals to work in other countries depends on the ability to obtain necessary visas and work permits. Immigration laws in different countries are subject to legislative change, as well as to variations in standards of application and enforcement due to political forces and economic conditions. It is difficult to predict the political and economic events that could affect immigration laws. To limit the risks posed due to visa related regulations of any single country, we focus on diversifying our operations in countries

across the world. The other way to mitigate such risks is by partnering with local companies in project implementations.

### **Financial Reporting Risks**

The clause 49 of the listing agreement, which includes the CEO/ CFO certification, has served to herald a new era in corporate governance enforcement in the country. Under this sub-clause the CEO and the CFO shall certify that –

- They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief
- These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
- These statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- There are, to the best of their knowledge and belief, no transactions entered into by the company during the year that are fraudulent, illegal or violative of the company's code of conduct.
- They accept responsibility for establishing and maintaining internal controls for financial reporting and they have evaluated the effectiveness of the internal control systems of the company and they have disclosed to the auditors and the audit committee, deficiencies in the design or operation of internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.
- They have indicated to the auditors and the audit committee
- Significant changes in internal control over financial reporting during the year;
- Significant changes in accounting policies during the year and the same have been disclosed in the notes to the financial statements; and
- Instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system over financial reporting.

Recognizing the concerns of the act to address, Polaris sought early adoption of several of the act's requirements, well before the prescribed mandatory applicability dates in fiscal 2006. Polaris has formed a risk group within the business leadership team reporting to the audit committee. This project was completed last fiscal year itself as to enable the CEO/CFO certification. Polaris prepares financial statements in conformity with Indian GAAP. This requires estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the financial reporting period. These estimates and assumptions are made based on judgments about carrying values of assets and liabilities. Such judgments carry inherent reporting risks.

### **Exchange rate Risks**

The Company's functional currency (Capital and operating expenses) is Indian Rupee although a major portion of our revenues is transacted in US Dollars. Exchange rate fluctuation introduces substantial amount of risks on our profits. Our positions in the forex markets are therefore entirely to protect our profitability. The company uses forward contracts to hedge its foreign exchange receivables. The level of the hedge is based on the market volatility. The company does not use the foreign exchange forward contracts for trading or speculation purposes.

### **Contractual compliance risk**

Litigations regarding adherence to deliverables and service level agreements, intellectual property rights, patents and copyrights are a challenge in the knowledge-dominated software industry. In addition there are other general corporate legal risks. The management has charted out a review and documentation process for contracts. This was further improved the contract clearance process to include multidimensional contract vetting process. The contract management team includes the legal, commercial and risk teams apart from external consultants. Operational teams have been trained on compliance- related issues so that they ensure adherence to all contractual commitments.

### **Compliance with laws**

Polaris has been duly complying with various local laws and deviations if any has been reported to the Board. Further, Polaris' business operations spread across multiple countries and hence compliance with the laws of the respective countries is one of the paramount issues for the Company. The Company has put in place proper mechanism and ensures due compliance of such laws

### **Intellectual property management**

Polaris prides itself as a niche player in the BFSI segment due to the knowledge it has developed in this segment. This knowledge is embedded in its products, components, procedures etc. Protection of its Intellectual Property Rights, it understands, is of utmost importance for its very existence. Therefore to guard against unauthorized usage of proprietary information, infringement upon or misappropriation of our products it relies on a combination of patent, copyright, trademark, design laws, trade secrets, confidentiality procedures and contractual provisions.

## **8. Financial Performance/Overview**

The financial statements are prepared under the historical cost convention, on 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.

### **Balance Sheet as on 31<sup>st</sup> March 2007**

#### **Sources of Funds**

As at 31 March 2007, the authorized share capital of the company was Rs.65.00 cr. Comprising of :-

1. Equity shares of Rs 60.00 Cr. (120,000,000 equity shares of Rs 5 each)
2. 11% Preference shares of Rs 5.00 Cr. (10,000,000 shares of Rs 5 each)

As at 31 March 2007 the total issued, subscribed & paid-up capital was Rs.49.29 Cr. (98,582,127 equity shares each of Rs 5). During the year, 352,130 equity shares (Rs 0.18 Cr.) were allotted to 367 associates & directors under various Associate Stock Option Plans.

#### **Reserves and surplus**

Reserves & Surplus stood at Rs 552.25 Cr. as at 31 March 2007 an increase of Rs 60.47 Cr. compared to Rs 491.78 Cr. as on 31 March 2006.

Transfer to the General Reserve from Profit & Loss Account for the year was Rs 7.96 Cr. The company has adopted Accounting Standard 15 (Revised) of ICAI with respect to Employee benefits with effect from April 01, 2006. Pursuant to adoption, the company has determined the liability for transitional provision pertain to prior periods amounting to Rs. 17.60 Cr. which has been debited to General reserve.

Premium received on shares issued to employees (under various ASOP schemes) during the year was Rs 3.38 Cr. Foreign Currency Translation Reserve stands at Rs (0.19) Cr.

### Secured Loans

During the year loan obtained from United overseas bank Ltd, Singapore for purchase of Singapore office building had been pre-closed.

Finance lease obligation of Rs. 1.28 Cr represents vehicle loan (for employees) arrangement with financial institutions. This has been reclassified under secured loans in the current year.

### Application of Funds

#### Fixed assets

Capital expenditure incurred during the year was Rs 35.63 Cr and details are given below:

Table 1: Additions to Fixed Assets

Particulars	Amount (Rs. Cr)
Computer Equipments	18.18
Buildings	5.97
Furnitures & Fixtures	3.85
Vehicles	1.23
Others (incl. Capital Advances)	6.40
<b>Total</b>	<b>35.63</b>

Addition is mainly on account of establishment of new development facility at Hyderabad and also fresh investments made in Mumbai facility during the year.

Fixed Assets include properties (Land & Building) owned by the company in Chennai, Hyderabad, Mumbai and Gurgaon, wherein the software development centres are situated. Land & Buildings, and other assets are carried at historic cost, even though, the intrinsic market value of these properties are significantly high, as they are all located in prime places.

#### 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

- Subscribed additionally for 1,000,000 Equity shares of Rs 10 each per share Rs 9/- partly paid amounting to Rs 0.90 Cr. and 1,540,000 Cumulative Preference shares of Rs 5/- each amounting to Rs 0.77 Cr. during the period in Adrenalin eSystems Limited (formerly Empower Works Limited);

The Group's equity ownership interest in Adrenalin eSystems Limited (formerly Empower Works Limited) is 40.25 % as on 31 March 2007. Adrenalin eSystems Limited ("ASL") is primarily engaged in the business of providing specific solutions relating to Human Relations suite of software solutions and products. The Company registered 59% growth in revenue as compared to previous year and expected to make a turn around in the near future. In view of this, the Group believes that the accumulated losses to the extent of Rs. 28.27 Cr. as per the un-audited financial statements of ASL as on 31 March 2007 are on account of initial / start-up stage of operations. The full version of the ASL's main product "Adrenalin" was launched in January 2006 and ASL's evaluation of the product's market acceptability is positive. The Group believes that, in pursuing business models based on mass adoption of similar technologies on global scale, the start up costs on brand building, product development costs and franchise

acquisitions are significant and the international experience also suggests that the product companies have longer gestation period. Further, the promoters of ASL are committed to provide continued support to its operations and ASL is expected to generate profits in the future. Accordingly, there is no permanent diminution in the value of its investments in ASL and hence, it is stated at cost. Accordingly, there is no permanent diminution in the value of its investments in ASL and the share of loss is also restricted to the extent of equity.

- The Company's equity ownership interest in NMS Works Software Private Limited ("NMS") is 44.96% as on March 31, 2007. NMS is primarily engaged in the business of designing network management in Telecommunication and Internet Services. Based on the un-audited financials statements as at March 31, 2007, NMS had accumulated losses aggregating to Rs. 5.37 Cr. The company is in the recovery path and made profit for the quarter ended 31<sup>st</sup> March 2007. Accordingly, the Company has determined and recorded a provision of Rs. 2.41 Cr. for other than temporary diminution in the value of its equity investment in NMS.

### Cash & Cash Equivalents

Cash and bank balances as at 31 March 2007 have decreased to Rs. 93.01 Cr. from Rs. 101.51 Cr. as at 31 March 2007. Details of Cash & Bank balances are given below

**Table 2: Cash & Cash Equivalents**

*Rs. in Crores*

Particulars	31 March 2007	31 March 2006
Cash In Hand	0.03	0.05
Cash in Current Account	51.52	33.64
Foreign Currency Account	31.31	55.81
In Bank Deposits	10.15	12.01
Total	93.01	101.51
Investments in Mutual Funds	24.20	20.18
<b>Grand Total</b>	<b>117.21</b>	<b>121.69</b>

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.

### Loans & Advances

Loans and advances have increased by Rs. 71.90 Cr. and stood at Rs. 218.58 Cr. as at 31 March 2007

Movement in Loans & Advances during the year as compared previous year balance is given below

**Table 3: Loans and Advances**

Particulars	Rs. in Crores
Advances	5.58
Advance tax	2.47
Cenvat credit(Input) receivable	6.15
Revenue in excess of billing	53.85
Security Deposits	2.07
Loans & advances to Associates & EWT	1.51
Forward Cover receivable	0.27
<b>Total</b>	<b>71.90</b>

### Deferred tax assets/liability

The company recorded deferred tax liability (net) & deferred tax asset aggregating Rs 0.51 Cr. and Rs. 0.23 Cr. respectively as of 31 March 2007 (Asset of Rs 2.64 Cr. as at 31 March 2006). Deferred tax assets/ liabilities 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 4.93 Cr. as on 31 March 2007 as compared to Rs 5.86 Cr. as on 31 March 2006 – a reduction of Rs 0.93 Cr.
- Deferred tax assets towards sundry debtors were Rs 3.89 Cr. as on 31 March 2007 as compared to Rs 8.00 Cr. as on 31 March 2006 – an decrease of Rs 4.11 Cr.
- Deferred tax assets towards others were Rs. 0.52 Cr. as on 31 March 2007 as compared to Rs 0.50 Cr. as on 31 March 2006 – an increase of Rs 0.02 Cr.

### Current Liabilities

Total current liabilities have increased by Rs 17.82 Cr., primarily on account of increase in sundry creditors.

### Provisions

Total provisions have increased by Rs 18.94 Cr. compared to the previous year. This is mainly due to provision made for leave encashment as per revised Accounting Standard –15 of ICAI, which has come into force effective 1<sup>st</sup> April 2006.

### Liquidity and Capital

#### Funding

The company continues to maintain its trend of utilizing Internally Generated funds to meet the operational growth, normal capex requirements, Investments in Product portfolio and the funding needs of its Group Companies. Based on the present cash reserves and future operating income, the Company does not foresee any need for funding from any external agencies or institutions.

#### Accounts receivable

Sundry debtors (excluding unbilled debtors) net of provision as at 31<sup>st</sup> March 2007 are Rs. 180.11 Cr. as against Rs 138.14 Cr. in the previous year. These balances are considered good and realizable. The company assesses the need for provisioning for doubtful debts based on collectibility, risk perception, and other general economic factors on every balance sheet date and necessary provisions, if required are made.

The days of sales outstanding were 60 days at the end of the current year, excluding unbilled debtors, down from 61 days in the previous year.

**Table 5: Days of Sales Outstanding**

	2006-07	2005-06
DSO	60	61

A dedicated team focuses on the receivables and consistent improvement is being shown to bring in more control and reduce the Days of Sales Outstanding (DSO).

#### Dividends

The company has a track record of delivering dividends to the shareholders in a consistent way. The table below shows the trend on dividend payouts.

**Table 6: Dividend Payout**

	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02
Dividend %	45	25	35	35	35	35
Dividend Payout%	22	58	30	24	31	15

The Company had declared two interim dividends in Jan 07 and in Mar 07 for 20% and 25% respectively totaling to 45% for the year considering the improved performance of the company.

**Off Balance sheet adjustments and contractual obligations.**

The estimated amount of contracts remaining to be executed on capital account, and not provided for (net of advances) as at 31 March 2007 is Rs 12.75 Cr. ( 31 March 2006: Rs 12.64 Cr).

As at 31 March 2007, the Group has outstanding guarantees and counter guarantees of Rs.2.41 Cr (31 March 2006: Rs 2.95 Cr) issued to various banks, in respect of the guarantees given by the banks in favour of various government authorities.

The company provides to certain category of the associates vehicles on lease. The present value of minimum lease rentals as on 31 Mar 07 was Rs. 1.29 Cr (Previous year 1.49 Cr)

**Profit & Loss Statement for the year ended 31<sup>st</sup> March 2007**

During the year under operations, the Net Profit after Tax generated was Rs. 101.06 Crores as compared to Rs.21.31 crores in the previous year, primarily due to the following factors: -

- Revenue growth of 25% compared to Previous Year
- Optimum utilization of resources

In summary, Revenue for the year reflected a growth of 25%, as against an increase of 15.26% in cost compared to the previous year. The Company has initiated various measures as mentioned below which should get translated into enhanced Revenues in the coming years –

- Revalidated its strategy by a leading management consultancy firm
- Initiated value enhancement solutions offering through the use of hybrid model of services combined with Intellectual property, which will ensure significant differentiation of Polaris from the more generic IT services company in the industry
- Repositioned its offering in the market
- Retrained the sales force in the new method of Selling

The above measures are expected to create enough bandwidth for expansion leading to business transformation. The lead indicators are highly encouraging in terms of entry into Tier I and Tier II banks across geographies. Whilst the cost structure grew in line with the Industry, the revenue growth was lower than anticipated impacting the profitability. During the year, the company has optimized and rationalized the cost structure and is geared up for revenue growth in the immediate future.

**Income from software development services and products**

Total revenue has increased to Rs. 1000.76 Cr. in the current year from Rs.813.28 Cr. in the previous year, resulting in a growth of 23%. Export revenue has increased to Rs. 910.75 Cr. in the current year from Rs. 729.56 Cr. in the previous year, resulting in a growth of 25%. Domestic revenue has increased to Rs. 90.00 Cr. in the current year from Rs. 83.72 Cr. in the previous year, resulting in a growth of 7.5%.

**Income from Business Process Outsourcing**

The income from Business Process Outsourcing is from the 100% owned subsidiary (Optimus). The total revenue has increased to Rs. 31.60 Cr. in the current year from Rs. 11.80 Cr. in the previous year, resulting in a growth of 168%.

### Other income

Other income includes foreign exchange loss of Rs.0.57 Cr. incurred during the year compared to gain of Rs.4.96 Cr. for the previous year. Foreign Exchange loss were due to extreme volatility in Rupee – US Dollars/GBP movements.

As of 31st March 2007, the forex-hedged position was \$48.62 million at an average rate of Rs. 45.08.

### Cost Management

The company has robust policy and process covering all areas of Costs. The automated systems and work flows support the cost review and approval process.

The company has embarked on a productivity efficiency project to improve the utilization as well as the grade mix.

The company has initiated Cost Monitoring and Management Initiative (CMMI) and expected to reap benefits in the years to come.

The primary cost drivers of the company are People related costs (Compensation & Benefits), Sales & Marketing Costs and Corporate Overheads. The company has introduced a business plan linked Expense Control mechanism.

### Software Development Expenses

Software development expenses as a % of revenue decreased by 4.36 % compared to the previous year. The decrease is primarily due to optimum utilization of resources and effective cost management.

**Table 7: Software Development Expenses**

*Rs. in Crores*

Particulars	Year ended 31st March 2007	% Of Revenue	Year ended 31st March 2006	% Of Revenue
Salaries and bonus including overseas staff expenses and outsourced consultants cost	535.84	51.90	462.94	56.11
Staff welfare	26.25	2.54	21.13	2.56
Contribution to provident and other funds	16.09	1.46	10.41	1.26
Travel Project	56.56	5.48	48.21	5.84
Consumables and computer maintenance	0.80	0.08	0.70	0.09
Communication expenses	18.73	1.81	17.81	2.16
License & Royalty	4.02	0.39	0.87	0.11
Total	658.28	63.76	562.08	68.12
<b>Total Revenue</b>	<b>1032.37</b>	<b>100.00</b>	<b>825.07</b>	<b>100.00</b>

### Selling, General and Administration

Overall SGA expenses had a marginal increase of 14.46 %. Selling expense primarily consist of Salaries, Travel, Advertising, and promotion. General Administrative Expense primarily consists of Salaries and related costs for administrative, executive, finance and Human Resource function. The increase in staff cost is mainly due to Headcount increase in geographies to cater to account management. However SGA expenses as a % of revenue decreased by 1.92% compared to the previous year.

**Table 8: Selling, Administration & other General Expenses**

*Rs. in Crores*

Particulars	Year ended 31st March 2007	% of Revenue	Year ended 31st March 2006	% of Revenue
Salaries and bonus including overseas staff expenses	103.32	10.01	86.82	10.52
Contribution to provident and other funds	2.04	0.20	3.85	0.47
Professional & Legal charges	20.22	1.96	13.28	1.61
Local traveling and conveyance	15.27	1.48	8.82	1.07
Rent	21.27	2.06	20.55	2.49
Business promotion	8.13	0.79	4.25	0.51
Power and fuel	12.81	1.24	10.89	1.32
Printing and stationery	1.94	0.19	1.75	0.21
Office maintenance	3.68	0.36	3.18	0.39
Provision for doubtful debts	1.32	0.13	7.79	0.94
Insurance charges	3.82	0.37	5.57	0.67
Advertisements	1.00	0.10	0.89	0.11
Bad debts written off	0.77	0.07	0.34	0.04
Rates and taxes	1.59	0.15	0.91	0.11
Repairs - Building	1.22	0.12	1.07	0.13
Repairs - Plant and machinery	7.90	0.77	8.11	0.98
Repairs - Others	2.64	0.26	2.96	0.35
Directors' sitting fees	0.06	0.01	0.04	0.00
Donations	0.20	0.02	0.15	0.02
Pre-operative and deferred revenue expenses written off*	0.75	0.07	0.39	0.05
Miscellaneous expenses	2.85	0.28	4.31	0.53
<b>Total</b>	<b>212.82</b>	<b>20.61</b>	<b>185.93</b>	<b>22.53</b>
<b>Total Revenue</b>	<b>1032.37</b>	<b>100</b>	<b>825.07</b>	<b>100.00</b>

\* Includes Preliminary expenses write off.

Total costs have decreased by 1.92% in the current year over the previous year.

### Multi Dimensional Cost Analysis

The table below represents the individual cost as a % to total cost.

**Table 9: Cost Matrix**

Particulars	% of total cost	
	2006-07	2005-06
Staff Related Cost	74.3%	73.3%
Travel	7.8%	7.1%
Communication	2.0%	2.2%
Professional/Legal	2.2%	1.7%
Rent	2.3%	2.6%
Power & Fuel	1.4%	1.4%
Repairs & Maintenance	1.3%	1.5%
Depreciation	5.2%	6.2%
Finance Charges	0.1%	0.1%
Other Expenses	3.4%	3.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

### Depreciation & Amortization

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 companies Act on estimated useful life of the assets, whichever is higher. The estimated useful life considered for depreciation of fixed assets are as follows.

**Table 10: Asset Category wise Depreciation Rates & Estimated Useful Life**

Asset Category	Estimated useful life (years)	Rate of depreciation
Buildings	29	3.33%
Leasehold improvements	10	10%
Plant & Machinery	6-7	15%
Computer equipment and software	3	33.33%
Servers and computer accessories	5	20%
Electrical fittings, office equipments and furniture and fixtures	10	10%
Vehicles	6	16.67%

Polaris has always believed in developing its own intellectual property (IP) and over the years has invested significant amount of resources in this development. All costs incurred towards development of these products were being capitalized from the technical viability stage till the product reached commercial viability. Since these products have gained acceptability with our customers, with effect from 1<sup>st</sup> Jan 2005, the capitalization of the expenses was discontinued. On the basis of an estimated useful life (calculated on the basis of Product Life Cycle, Technology obsolescence

and competitor response) of the product of 5 yrs the capitalized expenses on products is being amortized over 60 months.

**Table 11: Product Amortization (of Capitalized SD&A expenses)**

Particulars	Amount in Rs crores
Opening Balance as on 1.4.06	36.45
Amortization during the year	9.89
Closing Balance as on 31.3.07	26.56

#### Income Taxes

Income tax for the year is Rs. 19.91 Crores comprises the following: -

**Table 12:**

Particulars	March 31, 2007	Amt in Rs Crores March 31, 2006
Income tax on Operations	14.44	12.46
Deferred Tax Asset/Liability	2.92	(3.06)
Fringe Benefit Tax:	2.55	3.75

Income tax liability was maintained (except for marginal increase) in spite of increased profit for the year. This was possible primarily due to introduction new Transfer Pricing policy and implementation of tax optimisation measures.

Increase in Deferred tax was primarily due to additions to Fixed assets and reassessment of certain provisions for doubtful debts in line with 10A provisions.

FBT liability has been reduced primarily due to Superannuation contribution is exempted from FBT (upto Rs. 1 lac) effective 1 Apr 2006.

#### Capital Markets :

The Capital Market Information relating to the Company's shares such as stock exchanges in which they are listed/traded, trading volume, stock price movements etc., has been provided in the Report on Corporate Governance (under the heading "General Shareholder Information") which forms part of the Annual Report 2006-07.

#### Subsidiary Companies

##### Indian Subsidiaries

##### Optimus Global Services Limited

Optimus Global Services Limited (formerly known as Optimus Outsourcing Company Ltd ), incorporated in September 2002, the BPO practice of the Polaris group completed three years of operations. During the year the subsidiary recorded a revenue growth of 159% over the previous year.

In the last year, the Company added the country's largest telecom services provider in the Private Sector to its client base. The company also strengthened its relationship with the country's largest private sector Bank. This relationship has grown significantly during the year and continues to grow everyday. Optimus has also started to build significant domain expertise in the US Mortgage originations market.

The domestic BPO services market in India has finally emerged from the shadow of the IT services exports sector. The Indian market is moving towards an era of outsourcing services in the domestic space. IDC India included the domestic BPO market size for the first time in its estimates as this market is maturing and gaining

increasing traction and visibility. The domestic BPO Services market in India has witnessed tremendous growth in 2006. According to TPI, India's Domestic BPO industry is currently estimated at US\$3 Billion (end 2006) and is projected to grow to US\$8 Billion by end 2007. Optimus, with its established track record for high quality services, is well positioned for this emerging opportunity.

**Optimus' key strengths are –**

- Focused on related vertical – BFSI, Telecom and Retail
- Combination of proven technology and Process Expertise
- Domain knowledge
- Flawless and error free execution

As more and more institutions become open to outsourcing vertical processes, Optimus with its distinct service portfolio that offers the combined advantage of robust technology products and process expertise will definitely garner favor among discerning corporations.

The fact that clients value the domain knowledge brought to the table by Optimus, is well demonstrated by the process consulting assignments that the division has undertaken for clients across the globe.

**Polaris Retail Infotech Limited (PRIL)**

Polaris Retail Infotech Limited, incorporated in Nov 1998, to focus on the fast growing retail segment. PRIL is positioned as a reliable and financially strong company offering end-to-end software solution for retailers. Customer list includes well-known retailers in different sub-vertical, from Supermarket to Apparel/Footwear chain, from Home Furnishings to Furniture, and from Agri-Retail to Saree retail chain.

During the year, the Company has achieved a revenue growth of 36% over last year and also made profit for the year as against the loss made in previous year. This could be possible due to the company's successful acquiring of new corporate customers apart from expanding the business with the existing customers. The company is expecting growth opportunities in SAP retail and consulting space by establishing critical mass and also by re-positioning the existing retail products by Domestic distribution model. The company is discussing with large corporates for acquiring big deals and the discussions are in the advanced stage and is expecting good growth from this segment in the ensuing financial years.

**Overseas Subsidiaries**

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

Polaris Software Lab Pte Ltd, incorporated in February 1997 in Singapore to tap the huge potential of Singapore and other ASEAN markets. The present share capital is SGD 385,000. During the year, the subsidiary recorded a turnover of Rs.80.84 crores with a net profit of Rs. 8.24 crores.

**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.147.58 crores with net profit of Rs.7.96 crores.

**Polaris Software Lab Japan K.K**

The subsidiary was incorporated in September 2001 with initial share capital of JPY

10 million. The present share capital is JPY 20 million. During the year, the subsidiary recorded revenue of Rs.26.92 crores with net profit of Rs.1.81 crores.

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

The subsidiary was incorporated in November 2000 with share capital of AUD 25,000. During the year, the revenue recorded by the subsidiary was Rs.22.23 crores with net profit of Rs.1.42 crores.

**Polaris Software Lab Ireland Ltd**

The subsidiary was incorporated in February 2001 and the present share capital is EUR 176,186. During the year, the revenue of the subsidiary was Rs.4.95 Cr. with net profit of Rs. 1.56 Cr.

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

The subsidiary was incorporated in August 2000 and the present share capital is CHF 350,000. During the year, the revenue of the subsidiary was Rs.10. 40 crores with net profit of Rs. 1.89 Cr.

**Polaris Software Lab GmbH, Germany**

The subsidiary was incorporated in June 2000 and the present share capital is EUR 600,000. During the year, the revenue of the subsidiary was Rs.14.02 crores with net profit of Rs.0.82 crores.

**Polaris Software Lab Canada Inc.**

Polaris Software Lab Canada Inc. incorporated in June 2004 to provide near shore support to the vast US Market. Present Share Capital of Polaris Canada is CAD 490,810. For Polaris Canada, being in the investment Phase, has been of targeting BSFI and testing services, is expected to reap its results on efforts in the forthcoming years. During the year, the revenue of the subsidiary was Rs.1.49 crores with net loss of Rs.1.92 crores.

**Polaris Software Lab Chile Limitada**

Polaris Chile has been incorporated in August 2006, to cater the needs of potential Latin American region. Present capital is 5,837,807 Chilean Peso. During the year, the revenue was Rs. 11.22 Cr. with a profit of Rs. 1.34 Cr.

**9. Material Developments in Human Resources/Industrial Relations Front, including number of people employed**

The Talent build program at Polaris has been the fulcrum of the specialization strategy and has groomed several domain and technology experts to build Polaris to what it is today. With the commencement of Technological and domain training, domain certifications, on-boarding programs and culture sensitization programs, Polaris talent pool is in a state of readiness to embark on the growth road ahead.

Associates training of 10 days per year and robust talent attraction and retention schemes, Polaris has built a culture of learning to enable an environment of innovation and leadership for the journey ahead.

Total headcount at Polaris at end FY07 is as below:

	Q1 FY07	Q2 FY07	Q3 FY07	Q4 FY07
Manpower (end of period)	7084	7839	8408	8668
Software professionals	91.55%	91.60%	91.00%	90.25%
Support	8.45%	8.40%	9.00%	9.75%
<b>Attrition Rate(%)</b>	<b>16.43%</b>	<b>16.06%</b>	<b>14.37%</b>	<b>14.52%</b>

### **New members in the top management team**

Polaris has inducted professionals from the industry during the year to lead corporate and business functions in key areas such as BPO, Finance and Human Resources. The following are their profiles.

#### **Gautam Majumdar, Chief Operating Officer, Optimus Global Services Limited**

Gautam Majumdar has worked in investment and corporate banking for over 20 years. Having begun his career with Citibank, where he spent 13 years, he moved to London to initially work with Standard Chartered Merchant Bank and then subsequently with Westdeutsche Landesbank, following it up with several years in project financing consultancy and in industry in the U.K. He relocated to India in 2005 to join Mphasis, where his most recent position (prior to joining Optimus) was Senior Vice President and Head of Sales & Client Relationships for International BPO. Gautam has an MBA from the Asian Institute of Management in the Philippines and extensive experience of doing business internationally as a banker and as a businessman in geographies as diverse as South America and Eastern Europe while being based in London.

#### **Somasjeevan T K, Executive Vice President & Global Head - Talent & Change**

Somasjeevan heads Talent & Change management at Polaris. He holds an MBA in General Management / Finance /Marketing , MSW in HRM, IR, Psychology, PGDPR and LLB. He has attended and conducted many International and National Level training programs. He has the distinction of winning the prestigious ITM Corporate Excellence Award for 2006. Somas has an industry experience of over 25 years having played leadership roles in organizations such as EDS India, McDonalds, IMR, Indal as well as in the Tourism and Hotel industry.

#### **Srikanth R, Executive Vice President & Chief Financial Officer**

With over 24 years of rich experience in the field of Finance & Business Management, Srikanth R heads the Finance, Treasury, Accounting, Investor Relations, Legal, Compliance, Corporate Governance & Secretarial functions for Polaris and its subsidiaries in India and worldwide and is a key member of the Business Corporate Heads. Prior to joining Polaris, Srikanth was with Wipro BPO Solutions, as the Associate Chief Operating Officer. Srikanth's financial skills were honed during his long innings with Future Software (where he was Group Chief Financial Officer) and before that, in the Manufacturing sector. Srikanth is a Fellow Member in the Institute of Chartered Accountants and in the Institute of Cost and Works Accountants of India.

**POLARIS SOFTWARE LAB LIMITED**

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Consolidated Financial Statements for the year ended 31 March 2007

**CONTENTS**

Auditors' Report	-----	129
Balance Sheet	-----	130
Profit & Loss Account	-----	131
Statement of Cash Flows	-----	132
Schedules	-----	133
Notes to Accounts	-----	140

## Auditor's Report

### The Board of Directors of Polaris Software Lab Limited

1. We have audited the attached consolidated balance sheet of **Polaris Software Lab Limited**, its subsidiaries and associates (together referred to as 'the Group' as described in Note 1 of Schedule 17 to the financial statements) as at 31st March 2007, and also the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Group's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. *The financial statements of NMS Works Software Limited, AIG Systems Solutions Private Limited and Adrenalin eSystems Limited are yet to be audited and therefore un audited financial statements for the year ended March 31, 2007 have been furnished to us by the management of the Group. The attached consolidated financial statements include share of Rs 241.56 lacs in the profits (net) of the aforementioned associates for the year then ended.*
4. We did not audit the financial statements of subsidiaries, whose financial statements reflect total assets of Rs.20,367.87 lacs as at 31st March 2007, the total revenue of Rs.35,579.99 lacs and cash flows (net) amounting to Rs.685.30 lacs for the year then ended. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us, and our opinion is based solely on such report of other auditors.
5. We report that the consolidated financial statements have been prepared by the Group's management in accordance with the requirements of Accounting Standards (AS) 21, Consolidated financial statements and Accounting Standards (AS) 23, Accounting for Investments in Associates in Consolidated Financial Statements issued by the Institute of Chartered Accountants of India.
6. Based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components, and to the best of our information and according to the explanations given to us, *subject to our comments in paragraph 3 for the effect of adjustments if any, that may arise, had the financial statements of NMS Works Software Limited, AIG Systems Solutions Private Limited and Adrenalin eSystems Limited been audited, we are of the opinion that the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India.*
  - (a) in the case of the consolidated balance sheet, of the state of affairs of the Group as at 31st March 2007;
  - (b) in the case of the consolidated profit and loss account, of the profit of the Group for the year ended on that date; and
  - (c) in the case of the consolidated cash flow statement, of the cash flows of the Group for the year ended on that date.

**For S. R. BATILIBOI & ASSOCIATES**

**Chartered Accountants**

**per S Balasubrahmanyam**  
**Partner**

Membership No: 053315

Chennai

April 27, 2007

## POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES

**Consolidated Balance Sheet as at**

(Rs in lacs)

	Schedule	March 31, 2007	March 31, 2006
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Share Capital	1	4,929.11	4,911.50
Share application money pending allotment		-	6.96
Reserves and Surplus	2	55,225.22	49,178.52
		<b>60,154.33</b>	<b>54,096.98</b>
<b>LOAN FUNDS</b>			
Secured Loans	3	128.70	336.92
<b>DEFERRED TAX LIABILITY (NET)</b>			
	11A	51.17	-
		<b>60,334.20</b>	<b>54,433.90</b>
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>			
Cost	4	41,311.73	39,009.10
Less: Accumulated Depreciation and Amortisation		21,862.95	17,489.32
Net Book Value		19,448.78	21,519.78
Capital work in progress including capital advances		2,859.23	2,242.78
		<b>22,308.01</b>	<b>23,762.56</b>
<b>INVESTMENTS</b>			
	5	4,119.80	3,309.61
<b>DEFERRED TAX ASSET (NET)</b>			
	11B	22.97	263.83
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Sundry Debtors	6	18,011.48	13,814.43
Cash and Bank balances	7	9,300.83	10,151.48
Loans and Advances	8	21,857.94	14,667.46
		<b>49,170.25</b>	<b>38,633.37</b>
<b>LESS: CURRENT LIABILITIES AND PROVISIONS</b>			
Current Liabilities	9	10,711.25	8,929.43
Provisions	10	4,575.58	2,681.46
		<b>15,286.83</b>	<b>11,610.89</b>
<b>NET CURRENT ASSETS</b>			
		<b>33,883.42</b>	<b>27,022.48</b>
<b>MISCELLANEOUS EXPENDITURE</b>			
(to the extent not written off or adjusted)	12	-	75.42
		<b>60,334.20</b>	<b>54,433.90</b>
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.

As per our report of even date.

For **S.R.BATLIBOI & ASSOCIATES**  
Chartered Accountants

For and on behalf of the Board of Directors of  
Polaris Software Lab Limited

per **S.Balasubrahmanyam**  
Partner  
Membership No 053315  
**Chennai**  
**April 27, 2007**

**Arun Jain**  
Chairman & Managing Director

**R.C.Bhargava**  
Director

**R.Srikanth**  
Executive Vice President & Chief Financial Officer

**M.P.Suresh Kumar**  
Company Secretary

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**

**Consolidated Profit and Loss Account for the Year ended** (Rs in lacs except per share data)

	Schedule	March 31, 2007	March 31, 2006
<b>INCOME</b>			
Software development services and products			
- Overseas		91,075.49	72,956.04
- Domestic		9,000.99	8,371.51
Income from Business Process Outsourcing ( BPO)			
- Overseas		549.98	532.93
- Domestic		2,610.50	647.14
		<b>103,236.96</b>	<b>82,507.62</b>
<b>EXPENDITURE</b>			
Software development and BPO expenses	14	65,827.61	56,207.71
Selling, Administrative and other General expenses	15	21,281.84	18,592.70
		<b>87,109.45</b>	<b>74,800.41</b>
<b>Operating profit before interest, depreciation and amortisation</b>		<b>16,127.51</b>	<b>7,707.21</b>
Finance charges	16	83.93	79.18
Depreciation and Amortisation	4	4,811.40	4,944.66
		<b>4,895.33</b>	<b>5,023.84</b>
<b>Operating profit after interest, depreciation and amortisation</b>		<b>11,232.18</b>	<b>2,683.37</b>
Other income, net	13	623.78	832.69
Provision for diminution in value of investments		-	6.31
<b>Profit before taxation</b>		<b>11,855.96</b>	<b>3,522.37</b>
Income taxes - Current tax		1,443.94	1,245.91
- Deferred tax		292.03	(306.25)
- Fringe Benefit Tax		255.06	375.13
<b>Profit after taxation</b>		<b>9,864.93</b>	<b>2,207.58</b>
Share of Profit/(Loss) of Associate Companies (Refer Note 17 A (1) (d))		241.56	(76.93)
<b>Net Profit for the Year</b>		<b>10,106.49</b>	<b>2,130.65</b>
Profit brought forward from previous year		15,711.78	15,114.18
<b>Amount available for appropriation</b>		<b>25,818.27</b>	<b>17,244.83</b>
<b>Appropriations</b>			
Proposed Dividend		2,217.63	1,227.88
Tax on Proposed Dividend		310.87	172.21
Amount transferred to General Reserve		795.88	132.96
Balance carried to Balance Sheet		22,493.89	15,711.78
		<b>25,818.27</b>	<b>17,244.83</b>
<b>Earnings per share</b> (equity shares par value Rs 5 each)			
Basic		10.28	2.17
Diluted		10.17	2.17
<b>Number of shares used in computing earnings per share</b>			
Basic		98,290,764	98,091,912
Diluted		99,337,463	98,288,878
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. As per our report of even date.

For **S.R.BATLIBOI & ASSOCIATES**  
Chartered Accountants

per **S.Balasubrahmanyam**  
Partner  
Membership No 053315  
**Chennai**  
**April 27, 2007**

For and on behalf of the Board of Directors of  
Polaris Software Lab Limited

**Arun Jain**  
Chairman & Managing Director

**R.C.Bhargava**  
Director

**R.Srikanth**  
Executive Vice President & Chief Financial Officer

**M.P.Suresh Kumar**  
Company Secretary

**POLARIS SOFTWARE LAB LIMITED AND SUBSIDIARIES**  
**Consolidated Statement of cash flow for the years ended**

(Rs in lacs)

	March 31, 2007	March 31, 2006
<b>Cash flows from operating activities</b>		
Profit before taxation, including share of profit on associate companies	12,097.52	3,445.44
Interest and dividend income	(306.20)	(207.95)
Exchange differences on foreign exchange translation	444.49	(2.32)
Depreciation / amortisation	4,811.40	4,944.66
Provision for doubtful debts, net	(88.76)	779.34
Bad debts written off	77.06	34.00
(Profit) / Loss on sale of fixed assets	11.58	(4.82)
(Profit) / Loss on sale of Investments	(1.02)	(3.26)
Provision for diminution in value of investments	-	(6.31)
Lease finance charges	23.54	48.22
Share of (profit) / loss on associate companies	(241.56)	76.93
Miscellaneous expenditure written off	75.42	39.35
Taxes paid	(2,226.96)	(1,789.99)
<i>Changes in current assets and liabilities</i>		
Decrease / (Increase) in sundry debtors	(4,532.39)	(187.83)
Decrease/ (Increase) in loans and advances	(6,943.04)	186.86
Increase/(Decrease) in current liabilities and provisions	2,349.42	635.88
<b>Net cash flows from operating activities</b>	<b>5,550.50</b>	<b>7,988.20</b>
<b>Cash flows from financing activities</b>		
Proceeds from share capital issued on exercise of stock options	10.65	10.99
Proceeds from share premium on exercise of stock options	338.14	140.02
Proceeds / (Repayment) of secured loans	(208.22)	(22.07)
Lease finance charges	(23.54)	(48.22)
Dividends paid during the year	(2,198.23)	(1,950.29)
Dividend tax paid during the year	(483.08)	(240.55)
<b>Net cash flows from financing activities</b>	<b>(2,564.28)</b>	<b>(2,110.12)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of fixed assets	176.87	121.39
Purchase of fixed assets and changes in capital work in progress	(3,563.47)	(7,197.40)
Investment in associate companies	(167.00)	(675.50)
Net increase / (decrease) in non-trade investments	(400.61)	3,627.12
Interest and dividend received	306.20	207.95
<b>Net cash flows from investing activities</b>	<b>(3,648.01)</b>	<b>(3,916.44)</b>
<b>Effect of exchange differences on foreign exchange translation of cash and cash equivalents</b>		
	<b>(188.86)</b>	<b>100.77</b>
Total increase / (decrease) in cash and cash equivalents during the year	<b>(850.65)</b>	<b>2,062.41</b>
Cash and cash equivalents at the beginning of the year	10,151.48	8,089.07
<b>Cash and cash equivalents at the end of the year</b>	<b>9,300.83</b>	<b>10,151.48</b>
<b>(Refer Schedule 7)</b>		

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

For **S.R.BATLIBOI & ASSOCIATES**  
Chartered Accountants

For and on behalf of the Board of Directors of  
Polaris Software Lab Limited

per **S.Balasubrahmanyam**  
Partner  
Membership No 053315  
Chennai  
April 27, 2007

**Arun Jain**  
Chairman & Managing Director

**R.C.Bhargava**  
Director

**R.Srikanth**  
Executive Vice President & Chief Financial Officer

**M.P.Suresh Kumar**  
Company Secretary

**Schedules to the Consolidated Balance Sheet as at**

(Rs in lacs)

	March 31, 2007	March 31, 2006
<b>1. SHARE CAPITAL</b>		
<b>Authorised Capital</b>		
120,000,000 equity shares of Rs 5 each.	6,000.00	6,000.00
(March 31,2006: 120,000,000 equity shares of Rs 5 each)		
10,000,000 11 % preference shares of Rs 5 each.	500.00	500.00
(March 31,2006: 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</b>		
98,582,127 Equity shares of Rs.5 each	4,929.11	4,911.50
(March 31, 2006 : 98,229,997 equity shares of Rs 5 each ) fully paid up (Refer B4 of Schedule 17)		
Of the above :		
(i) 17,062,550 equity Shares of Rs 5 each (March 31, 2006 :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 (March 31, 2006 : 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>4,929.11</b>	<b>4,911.50</b>
<b>2. RESERVES AND SURPLUS</b>		
General Reserve - As per last balance sheet	15,287.11	15,154.15
Add : Transferred from Profit and Loss Account	795.88	132.96
Less : Transition liability for Employee benefits as per AS 15 (Revised)	(1,759.64)	-
(Refer Note B10 to schedule 17)	14,323.35	15,287.11
Foreign currency translation reserve		
-As per last balance sheet	91.13	(7.32)
Add : Adjustment for the year	(109.79)	98.45
	(18.66)	91.13
Securities Premium Account		
- As per last balance sheet	18,088.50	17,948.48
Add: Premium received on issue of shares under ASOP plans	338.14	140.02
	18,426.64	18,088.50
Profit and Loss account balance	22,493.89	15,711.78
	<b>55,225.22</b>	<b>49,178.52</b>
<b>3. SECURED LOANS</b>		
Loan from United Overseas Bank Ltd, Singapore (Secured against building purchased by the Singapore Subsidiary)	-	187.72
Finance Lease Obligation (Secured against cars taken on finance lease by the Company)	128.70	149.20
	<b>128.70</b>	<b>336.92</b>

## Schedules to the Consolidated Balance Sheet as at March 31, 2007

## 4. FIXED ASSETS

		Cost						Depreciation and Amortisation			Net Book value	
Sl No	Description	April 1, 2006	Additions	Deletions	Cost Adjustment*	March 31, 2007	April 1, 2006	For the year	Deletions	Cost Adjustment*	March 31, 2007	March 31, 2006
(Rs in lacs)												
<b>A</b>	<b>TANGIBLE ASSETS</b>											
1	Land (Refer Note 1)	1,303.18	-	-	(1.35)	1,301.83	1.60	1.60	-	-	3.20	1,298.63
2	Buildings (Refer Note 2)	7,800.29	596.93	60.09	1.45	8,338.58	885.21	315.02	15.15	3.91	1,188.99	7,149.59
3	Plant & Machinery including Computer Equipment and Accessories	17,110.08	1,817.94	81.47	20.60	18,867.15	11,575.53	2,785.23	57.29	24.78	14,328.25	4,538.90
4	Electrical fittings	1,306.67	24.92	117.62	-	1,213.97	587.01	95.47	88.04	-	594.44	619.53
5	Furniture, Fixtures and Office equipment	4,775.34	384.70	101.77	(9.05)	5,049.22	1,574.53	533.44	59.93	1.11	2,049.15	3,200.81
6	Vehicles (Refer Note 3)	605.07	122.50	295.07	-	432.50	401.61	91.49	247.16	-	245.94	186.56
		<b>32,900.63</b>	<b>2,946.99</b>	<b>656.02</b>	<b>11.65</b>	<b>35,203.25</b>	<b>15,025.49</b>	<b>3,822.25</b>	<b>467.57</b>	<b>29.80</b>	<b>18,409.97</b>	<b>17,875.14</b>
<b>B.</b>	<b>INTANGIBLE ASSETS</b>											
1	Software Products	5,508.58	-	-	-	5,508.58	1,863.93	989.15	-	-	2,853.08	2,655.50
2	Intellctual property assets	599.90	-	-	-	599.90	599.90	-	-	-	599.90	-
		<b>39,009.11</b>	<b>2,946.99</b>	<b>656.02</b>	<b>11.65</b>	<b>41,311.73</b>	<b>17,489.32</b>	<b>4,811.40</b>	<b>467.57</b>	<b>29.80</b>	<b>21,862.95</b>	<b>19,448.78</b>
	Previous year	32,691.32	6,791.85	474.06	-	39,009.11	12,902.15	4,944.66	357.49	-	17,489.32	21,519.78

Note 1: Land includes leasehold land. Gross block Rs 207.03; Net Block Rs 205.43 (March 31, 2006 : Gross block Rs 207.03 ; Net Block Rs 205.43)

Note 2: Building includes leasehold improvements amounting to Rs 553.22 (March 31, 2006: Rs 553.22)

Note 3: Vehicles include assets acquired under finance leases. Gross Block Rs 352.59- Net block Rs 163.05 (March 31 2006: Gross block Rs 491.38 ; Net block Rs 147.74)

\* Exchange adjustment represents foreign exchange gain/loss on account of translation of US branch and subsidiaries

**Schedules to the Consolidated Balance Sheet as at**

(Rs in lacs)

	March 31, 2007	March 31, 2006
<b>5. INVESTMENTS</b>		
LONG TERM INVESTMENT (AT COST)		
<b>Software Sidoun GmbH Germany</b>	527.61	527.61
A company incorporated in Germany		
Common stock of Euros 1,175,990 fully paid (March 31,2006: Common stock of Euros 1,175,990)		
Less: Diminution in value of investments	(527.61)	(527.61)
	-	-
<b>Eternet Inc.</b>		
A company incorporated in USA	116.25	116.25
1,250,000 shares of US\$ 0.2 each fully paid (March 31,2006 : 1,250,000 shares of US\$ 0.2 each)		
Less: Diminution in value of investments	(116.25)	(116.25)
	-	-
<b>NMS Works Software Private Limited</b>	300.00	300.00
A company incorporated in India		
500,000 Equity Shares of Rs.10 each (March 31, 2006: 500,000 Equity Shares of Rs.10 each) fully paid		
224,524 12% Optionally Convertible Cumulative Preference Shares of Rs. 10 each fully paid (March 31,2006 : 224,524 12 % Optionally Convertible Cumulative Preference shares of Rs 10 each fully paid)	152.50	152.50
Less: Share of Profit/ (Loss) of Associate Company	(241.28)	(222.98)
	211.22	229.52
<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 (March 31,2006 : 12,078,080 Equity shares of Rs.5 each fully paid)	733.88	733.88
10,00,000 Equity Shares of Rs 10/- each partly Rs.9 paid up (March 31, 2006: Nil)	90.00	-
Less: Share of Profit / (Loss) of Associate Company	(755.28)	(733.88)
	68.60	-
12,460,000 7% preference shares of Rs 5 each fully paid (March 31, 2006 : 12,460,000 7% preference shares of Rs.5 each fully paid )	623.00	623.00
1,540,000 7% Cumulative Preference shares of Rs 5/- each (March 31, 2006: Nil) (Refer Note B8 to schedule 17)	77.00	-
<b>AIG Systems Solutions Private Limited</b>	326.70	326.70
A company incorporated in India		
462,100 Equity Share of Rs.10 each fully paid (2005 : 462,100 Equity Share of Rs.10 each fully paid)		
Add : Share of Profit / (Loss) of Associate Company	393.03	111.77
	719.73	438.47
<b>(A)</b>	<b>1,699.55</b>	<b>1,290.99</b>

## Schedules to the Consolidated Balance Sheet as at

(Rs in lacs)

	March 31, 2007	March 31, 2006
<b>5. INVESTMENTS (continued)</b>		
CURRENT INVESTMENTS NON TRADE (QUOTED)		
- Lower of costs and market value		
<b>Mutual Funds</b>		
Birla FMP -Qtly series 2 -Mar 07 Dividend 997,277.432 units (March 31,2006 : Nil units) Face value: Rs 10 per unit	100.00	-
Birla Sunlife Cash Manager - IP - Daily dividend Nil units (March 31, 2006: 3,013,250 units) Face value: Rs 10 per unit	-	301.39
Duette Insta Cash Plus Nil units (March 31,2006: 5,013,048 units) Face value: Rs 10 per unit	-	502.28
HDFC Floating Income Fund Short Term Plan Nil units (March 31, 2006 : 148,148 units) Face value: Rs 10 per unit	-	14.95
HDFC Floating Rate Income Fund - Short Term Plan - Dividend Reinvest 166,790.087 units (March 31, 2006 : Nil units) Face value: Rs 10 per unit	16.70	-
Kotak FMP 3M Series X - Dividend 3,029,234.506 Units (March 31, 2006 : Nil units) Face value: Rs 10 per unit	302.93	-
Prudential ICICI FMP Series 35 - 3 Months Plan C - Retail - Div. 3,000,000 units (March 31,2006 - Nil units) Face value: Rs 10 per unit	300.00	-
Templeton Fixed Horizon fund 3 month plan - Inst-Div payout 3,000,000 Units (March 31, 2006 : Nil units) Face value: Rs 10 per unit	400.00	-
DWS Money Plus Fund - Inst Plan - Daily Dividend 2,046,948.252 units (March 31,2006 - Nil units) Face value: Rs 10 per unit	204.86	-
Kotak FBP series XV - Dividend Nil Units (March 31, 2006 - 12,000,000 units) Face value: Rs 10 per unit	-	1,200.00
OLPIDD HSBC Liquid Plus -Institutional Plus-Daily Dividend 2,954,713.224 units (March 31,2006 - Nil units) Face value: Rs 10 per unit	295.49	-
DWS Fixed Term Fund series 28 Dividend option 3,000,000 units (March 31,2006 - Nil units) Face value: Rs 10 per unit	300.00	-
Sundaram BNP Paribas Fixed Term Plan series XXV (90 Days) div plan 2,000,000 units (March 31,2006 - Nil units) Face value: Rs 10 per unit	200.00	-
Birla FTP- Quarterly Series 4 - Dividend Payout 3,002,119.647 units (March 31,2006 - Nil units) Face value: Rs 10 per unit	300.27	-
<b>( B )</b>	<b>2,420.25</b>	<b>2,018.62</b>
<b>( A + B )</b>	<b>4,119.80</b>	<b>3,309.61</b>

(Aggregate market value of the above investments  
as at March 31, 2007 : Rs 2,425.39 ( 31 March, 2006: Rs 2,019.50)

**Schedules to the Consolidated Balance Sheet as at**

(Rs in lacs)

	<b>March 31, 2007</b>	<b>March 31, 2006</b>
<b>6. SUNDRY DEBTORS</b>		
(Unsecured)		
Debts outstanding for a period exceeding six months.		
- considered good	1,596.75	1,519.36
- considered doubtful	2,700.82	2,716.75
Other debts -		
- considered good	16,414.73	12,295.07
- considered doubtful	-	72.83
	<u>20,712.30</u>	<u>16,604.01</u>
Less: Provision for doubtful debts	2,700.82	2,789.58
	<b><u>18,011.48</u></b>	<b><u>13,814.43</u></b>
<b>7. CASH AND BANK BALANCES</b>		
Cash on hand	2.80	5.36
Balances with scheduled banks		
- in current accounts	5,152.33	5,364.18
- in deposit accounts	741.87	1,200.69
Balances with non-scheduled banks in current accounts		
- Bank of America, New Jersey, USA	375.41	561.75
- Barclays Bank, UK	503.42	617.86
- Indian Bank, Singapore	0.49	0.47
- Citi Bank, Singapore	644.51	499.12
- ANZ Bank, Australia	590.78	382.97
- Dresdner Bank, Germany	130.00	355.77
- Ulster Bank, Ireland	221.35	204.47
- Bank of Tokyo Mitsubishi, Japan	31.87	91.54
- Citi Bank, Japan	246.51	294.51
- Chase Bank, New Jersey, USA	231.36	40.73
- ICICI Bank, Canada	29.95	-
- Chile Peso	124.62	-
Balances with non-scheduled banks in deposit accounts		
- Bank of America, New Jersey, USA	167.01	435.24
- Citi Bank , Bahrain	106.55	96.82
	<u>9,300.83</u>	<u>10,151.48</u>
<b>8. LOANS AND ADVANCES</b>		
(Unsecured considered good)		
Advances recoverable in cash or in kind or for value to be received	1,945.62	1,387.50
Advance income tax (net provision for tax)	1,427.14	1,179.70
Loans to employees	369.19	285.08
Loans to Employees Welfare Trust	589.59	766.14
Forward cover receivable	351.81	325.73
Salary Advance	327.36	83.95
Cenvat credit (input) Receivable	615.14	-
Revenues in excess of billings	14,348.46	8,963.07
Rent, maintenance and security deposits	1,883.63	1,676.29
	<b><u>21,857.94</u></b>	<b><u>14,667.46</u></b>

## Schedules to the Consolidated Balance Sheet as at

(Rs in lacs)

	March 31, 2007	March 31, 2006
<b>9. CURRENT LIABILITIES</b>		
Sundry creditors	10,386.12	8,399.31
Unclaimed dividends	39.06	25.25
Advances received from customers	8.61	18.28
Billings in excess of revenue	277.46	486.59
	<b>10,711.25</b>	<b>8,929.43</b>
<b>10. PROVISIONS</b>		
Provision for Gratuity	684.37	425.90
Provision for Leave Encashment	2,272.31	189.52
Provision for taxation (net of Advance income tax and tax deducted at source )	385.44	665.96
Proposed dividend	1,233.46	1,227.87
Provision for tax on proposed dividend	-	172.21
	<b>4,575.58</b>	<b>2,681.46</b>
<b>11A.DEFERRED TAX LIABILITY</b>		
<u>Deferred Tax Liability</u>		
Differences in depreciation and other differences in block of fixed assets as per tax books and financial books	492.77	-
<u>Deferred Tax Asset</u>		
Provision for doubtful debts	(389.11)	-
others	(52.49)	-
	<b>51.17</b>	<b>-</b>
<b>11B.DEFERRED TAX ASSET</b>		
<u>Deferred Tax Liability</u>		
Differences in depreciation and other differences in block of fixed assets as per tax books and financial books	22.97	(586.43)
<u>Deferred Tax Asset</u>		
Provision for doubtful debts	-	800.22
others	-	50.04
	<b>22.97</b>	<b>263.83</b>
<b>12. MISCELLANEOUS EXPENDITURE</b>		
(to the extent not written off or adjusted)		
<b>Preliminary expenses</b>	2.45	4.12
Less: Written off during the year	2.45	1.67
<b>Balance Carried Forward</b>	-	2.45
<b>Pre-Operative Expenditure</b>	72.97	110.65
Less: Written off during the year	72.97	37.68
<b>Balance Carried Forward</b>	-	72.97
	<b>-</b>	<b>75.42</b>

**Schedules to the Consolidated Profit and Loss Account for the year ended** (Rs in lacs)

	March 31, 2007	March 31, 2006
<b>13. OTHER INCOME</b>		
Interest received	163.64	109.39
Profit on sale of investments, net	1.02	3.26
Dividends	142.56	98.56
Profit on sale of assets	(11.58)	4.82
Miscellaneous income	384.84	120.71
Foreign exchange gains / (Loss), net	(56.70)	495.95
	<b>623.78</b>	<b>832.69</b>
<b>14. SOFTWARE DEVELOPMENT AND BPO EXPENSES</b>		
Salaries and bonus including overseas staff expenses and outsourced consultants cost*	53,583.70	46,294.11
Staff welfare	2,624.55	2,113.08
Contribution to provident and other funds*	1,209.68	885.84
Gratuity	399.16	154.96
Travel Project	5,655.80	4,821.45
Consumables and computer maintenance	80.22	70.29
Communication expenses	1,872.87	1,780.62
Licence & Royalty	401.63	87.36
	<b>65,827.61</b>	<b>56,207.71</b>
<b>15. SELLING, ADMINISTRATION AND OTHER GENERAL EXPENSES</b>		
Salaries and bonus including overseas staff expenses *	10,332.43	8,682.32
Contribution to provident and other funds*	204.18	384.53
Professional charges	1,960.07	1,288.96
Legal expenses	21.79	4.66
Travelling and conveyance	1,527.21	880.27
Rent	2,126.90	2,055.45
Business promotion	813.15	424.81
Power and fuel	1,280.53	1,088.96
Printing and stationery	194.24	175.25
Office maintenance	368.01	318.19
Provision for doubtful debts	132.26	779.34
Insurance charges	381.97	556.65
Advertisements	99.91	88.80
Bad debts written off	77.06	34.00
Rates and taxes	158.62	90.70
Auditors' remuneration	40.48	35.71
Repairs - Building	122.43	106.45
Repairs - Plant and machinery	790.28	811.80
Repairs - Others	264.37	296.34
Directors' sitting fees	5.90	3.70
Donations	19.83	15.13
Pre-operative and deferred revenue expenses written off	75.42	39.35
Miscellaneous expenses	284.80	431.33
	<b>21,281.84</b>	<b>18,592.70</b>
* Also refer Note B 11 of Schedule 17		
<b>16. FINANCE CHARGES</b>		
Lease Finance charges	23.54	48.22
Bank and other charges	60.39	30.96
	<b>83.93</b>	<b>79.18</b>

## Schedules to the Consolidated Financial Statements

(All amounts in Rupees lacs, unless otherwise stated)

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

#### 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 IT services and IT-enabled services 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.

Subsidiaries	Country of incorporation	Proportion of ownership interest
Polaris Software Lab Ltd	United Kingdom	100%
Polaris Software Pty Limited	Australia	100%
Polaris Software Lab SA	Switzerland	100%
Polaris Software Lab GmbH	Germany	100%
Polaris Software Lab Pte Limited	Singapore	100%
Polaris Software Lab Japan KK	Japan	100%
Polaris Software Lab Ireland Limited	Ireland	100%
Polaris Software Lab Canada Inc	Canada	100%
Polaris Retail Infotech Limited	India	100%
Polaris Software Lab Limitada*	Chile	
Optimus Global Services Limited (Formerly Optimus Outsourcing Company Limited)	India	100%

\* a subsidiary of Polaris UK

The list of associates with percentage holding of Polaris is given below.

Associates	% of share held	Original cost of investment	Goodwill / (capital reserve)	Accumulated profit / (loss) for year ended March 31, 2007	Carrying amount of investments as on March 31, 2007
		Rs.	Rs.	Rs.	Rs.
NMS Works Software Private Limited	44.96%	300.00	-	(241.28)	58.72
Adrenalin eSystems Limited (formerly known as Empower Works Limited)	40.25%	755.28	68.60	(755.28)	68.60
AIG Systems Solutions Private Limited	20.00%	326.70	-	393.03	719.73

## Schedules to the Consolidated Financial Statements

(All amounts in Rupees lacs, unless otherwise stated)

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

#### A. SIGNIFICANT ACCOUNTING POLICIES

##### 1. Basis of preparation

(a) 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). Accounting policies have been consistently applied except where a newly issued accounting standard is initially adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use. Management evaluates all recently issued or revised accounting standards on an ongoing basis.

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. The financial statements of the Company and its subsidiaries are consolidated on a line by line basis by adding together like items of assets, liabilities, income and expenses. In respect of investments made in Associate Companies, the equity method prescribed under AS 23- Accounting for Investments in Associates in Consolidated Financial Statements issued by the ICAI, has been adopted in the preparation of these financial statements. The consolidated financial statements are prepared by applying uniform accounting policies in use at the Group. All material inter-Company transactions and balances are eliminated on consolidation.

(b) In case of foreign subsidiaries, revenue items are consolidated at the average rate prevailing during the year. All the assets and liabilities are converted at the rates prevailing at the end of the year. Exchange gains / (losses) arising on conversion are recognized under Foreign Currency Translation Reserve. There has been no excess/short of the cost to the parent company of its investment in a subsidiary hence no goodwill/capital reserve has been recognized separately.

(c) Goodwill arising on acquisition of an associate by the Group has been included in the carrying amount of investments in the associates and has been disclosed separately.

(d) Consolidated Financial Statements include share of Rs. 241.56 in the profit (net) of NMS Works Software Limited, AIG Systems Solutions Private Limited and Adrenalin eSystems Limited (associates). The Financial statements of these companies are yet to be audited. In the opinion of the management, the impact that may arise upon completion of the audit of the financial statements of the above companies if any will not be material.

##### 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

## Schedules to the Consolidated Financial Statements

(All amounts in Rupees lacs, unless otherwise stated)

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

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. 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

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

#### 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 recognised in accordance with the proportionate completion method. The stage of completion of project is determined by the proportion that contract costs incurred for work performed upto the balance sheet date bear to the estimated total contract costs. Provision for estimated losses on incomplete contract is recorded in the year 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 and time and material contracts wherein amounts have been billed in accordance with the billing cycle and efforts would be incurred subsequent to the year 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 using proportionate completion method. The stage of completion of project is determined by the proportion that contract costs incurred for work performed up to the balance sheet date bear to the estimated total contract costs. Provision for estimated losses, if any, on incomplete contracts are recorded in the year in which such losses become probable based on current contract estimates.
- Product maintenance revenues are recognized over the period of the maintenance contract.

## **Schedules to the Consolidated Financial Statements**

(All amounts in Rupees lacs, unless otherwise stated)

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

#### **Business Process Outsourcing**

Revenue from call center services comprises income from time and material contracts. Revenue is recognized in accordance with the terms of the contract with the customer, as related services are performed.

#### **Other Income**

Interest is recognized using the time-proportion method.

Dividend income is recognized when the company's right to receive dividend is established.

#### **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 and impairment loss if any. 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. 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 "Secured Loans". Such assets are capitalized at fair values or present value of lease payments, whichever is lower. Rentals paid by the Group 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. Lease management fees, legal charges and other initial direct costs are capitalised.

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.

Leases where the lessor effectively retains substantially all the risks and the benefits of ownership of the leased term are classified as operating lease. Operating lease payments are recognized as an expense in the Profit and Loss account.

#### **6. Depreciation and amortisation**

Depreciation on fixed assets is provided 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 at the rate of 100 %. After impairment, depreciation is provided on the revised carrying amount of the assets over its remaining useful life.

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

## Schedules to the Consolidated Financial Statements

(All amounts in Rupees lacs, unless otherwise stated)

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

<u>Asset category</u>	<u>Estimated Useful Life (years)</u>
<b><u>Tangible assets</u></b>	
Buildings	29-55
Leasehold Improvements	10 or over the lease period if lower than the estimated useful life
Plant and machinery	6-7
Computer equipment and Software	3-10
Servers and computer accessories	5-10
Furniture and fixtures, office equipment and electrical fittings	5-10
Vehicles	6
<b><u>Intangible Assets</u></b>	
Software Products (indigenously developed)	5
Intellectual property rights (indigenously developed)	1

In respect of assets acquired on finance lease after 1 April 2001, the leased assets are depreciated over the period of the lease or the estimated useful life of the asset, whichever is lower. Leasehold land is amortized over the period of lease.

In some subsidiaries and associates, depreciation is calculated on written down value basis. The depreciation charge in respect of these entities is not significant in the context of the consolidated financial statements.

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

## **Schedules to the Consolidated Financial Statements**

(All amounts in Rupees lacs, unless otherwise stated)

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

#### **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.

Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

Exchange differences arising on foreign currency transactions are recognized 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:

- (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.

On the disposal of a non-integral foreign operation, the cumulative amount of the exchange differences which have been deferred and which relate to that operation are recognized as income or as expenses in the same period in which the gain or loss on disposal is recognized.

When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification are applied from the date of the change in the classification.

#### **9. Forward contracts in foreign currencies**

The Group 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 Group and the Group 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 recognized 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.

## **Schedules to the Consolidated Financial Statements**

(All amounts in Rupees lacs, unless otherwise stated)

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

#### **10. Investments**

Investments are classified as long term investments and current investments. Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Long-term investments are 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 and other employee 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 eligible employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment. Gratuity liability is accrued and provided for on the basis of an actuarial valuation made at the end of each financial period. Actuarial gains/losses are immediately taken to profit and loss account and are not deferred.

##### *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 Benefits*

As per the current employment policy of the Company, employees can carry forward accumulated leave balances as per company's leave policy which can be utilized in the subsequent years. In case of overseas branches, the employees are eligible to encash the accumulated leave balances.

Such accumulated compensated absences and encashment of accumulated leave balances are accounted for in the year in which the leave balances are credited to employees on actual basis.

##### *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.

## **Schedules to the Consolidated Financial Statements**

(All amounts in Rupees lacs, unless otherwise stated)

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

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

The current charge for income taxes and fringe benefit tax 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 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 between the taxable income and accounting income. 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 and deferred tax liabilities across various countries of operation are not set off against each other as the Group does not have legal right to do so.

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 appropriateness of their respective carrying values at each balance sheet date. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realized.

The Company has availed the tax holiday benefits under Section 10A of the Income tax Act, 1961 for some of the units and, accordingly, its business income (to the extent covered by that section) is exempt from tax up to and including period ending March 31, 2009.

#### **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', if any, in the profit and loss Account. The Company measures compensation cost relating to employee stock options using the intrinsic value method.

'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 are computed by dividing the net profit attributable to equity shareholders for the period by the weighted average number of equity shares outstanding during the year. 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.

**Schedules to the Consolidated Financial Statements**

(All amounts in Rupees lacs, unless otherwise stated)

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

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 reduces earnings per share or increase loss per share are included.

**15. Provisions**

A provision is recognised when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

## Schedules to the Consolidated Financial Statements

(All amounts in Rupees lacs, unless otherwise stated)

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

#### B. NOTES TO ACCOUNTS:

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

#### 2. Capital and other commitments

- (i) The estimated amount of contracts remaining to be executed on capital account, and not provided for (net of advances) as at 31 March 2007 is Rs 1275.24 ( 31 March 2006: Rs 1,264.12).
- (ii) As at 31 March 2007, the Group has outstanding guarantees and counter guarantees of Rs.241.30 (31 March 2006: Rs 295.23) issued to various banks, in respect of the guarantees given by the banks in favour of various government authorities.
- (iii) The future obligation for vehicles taken on lease is given below.

Particulars	As at 31 March 2007	As at 31 March 2006
Not later than one year	51.89	83.55
Later than one year and not later than 5 years	95.48	81.42
	147.37	164.97
Less: Amount representing future interest	(18.67)	(15.77)
Present Value of minimum lease rentals	<b>128.70</b>	<b>149.20</b>

- (iv) The Group has taken certain offices and residential premises for the employees under operating leases, which expires at various dates in future years. The minimum lease rental payments to be made in respect of these leases are as follows.

Particulars	As at 31 March 2007	As at 31 March 2006
Lease payments for the year	2,126.90	2,055.45
Contingent rent recognised in Profit and Loss Account	-	-
Minimum Lease Payments :		
Not later than one year	2,383.50	1,758.67
Later than one year and not later than five years	4,699.06	4,122.02
Later than five years	572.45	516.86
<b>Total</b>	<b>7,655.01</b>	<b>6,397.55</b>

#### 3. Gratuity

The Company has a defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on departure at 15 days salary (last drawn salary) for each completed year of service. The scheme is partially funded with an insurance company in the form of a qualifying insurance policy.

## Schedules to the Consolidated Financial Statements

(All amounts in Rupees lacs, unless otherwise stated)

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

The following tables summaries the components of net benefit expense recognised in the profit and loss account and the funded status and amounts recognised in the balance sheet for the respective plans.

Reconciliation of opening and closing balances of the present value of defined benefit obligation:

Particulars	Year ended March 31, 2007
<b>Obligations at the beginning of the period</b>	455.15
Current service cost	324.07
Interest cost	36.16
Actuarial gain / (loss)	38.93
Benefits paid	(144.74)
<b>Obligations at the period end</b>	<b>709.57</b>
<b>Change in plan assets</b>	
Plan assets at period beginning, at fair value	29.23
Expected return on plan assets	—
Actuarial gain / (loss)	—
Contributions	140.71
Benefits paid	(144.74)
<b>Plan assets at year end, at fair value</b>	<b>25.20</b>
<b>Reconciliation of present value of the obligation and the fair value of plan assets</b>	
Fair Value of plan assets at the end of the period	25.20
Present value of defined benefit obligations at the end of the period	709.57
Asset/(Liability) recognized in the balance sheet	<b>(684.37)</b>
<b>Gratuity cost for the year</b>	
Current service cost	324.07
Interest cost	36.16
Expected return on plan assets	-
Actuarial gain / (loss)	38.93
<b>Net gratuity cost</b>	<b>399.16</b>
<b>Assumptions:</b>	
Discount rate	8%
Estimated return on plan assets	8%

The fund is administered by Life Insurance Corporation of India ("LIC"). The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

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

## Schedules to the Consolidated Financial Statements

(All amounts in Rupees lacs, unless otherwise stated)

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

The prior year comparative for the above are not disclosed since the revised standard is effective from April 1, 2006.

#### 4. Stock Option Plans

The Company has four 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 Remuneration and Compensation Committee administers the 2000 Plan. Under the Plan, based on the recommendation of Employee Remuneration and 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 2007 is presented below.

Particulars	March 31, 2007		March 31, 2006	
	Number of Shares	Weighted Average Exercise Price (Rs.)	Number of Shares	Weighted Average Exercise Price(Rs.)
Outstanding at the beginning of the year	448,585	150.56	748,510	142.72
Granted during the year	-	-	-	-
Exercised during the year	(89,575)	99.01	(55,600)	85.37
Forfeited during the year	(170,580)	177.35	(112,620)	122.35
Expired during the year	(89,460)	163.87	(133,715)	156.43
Other Adjustments	-	-	2,010	78.64
Outstanding at the end of the year	98,970	139.01	448,585	150.56
Exercisable at the end of the year	92,770	140.03	318,520	145.40

**Schedules to the Consolidated Financial Statements**

(All amounts in Rupees lacs, unless otherwise stated)

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

Particulars	March 31, 2007	March 31, 2006
Weighted average remaining contractual life (in years)	1.58	2.98
Weighted average fair value of options granted		

**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 2007 is presented below.

Particulars	March 31, 2007		March 31, 2006	
	Number of Shares	Weighted Average Exercise Price (Rs.)	Number of Shares	Weighted Average Exercise Price (Rs.)
Outstanding at the beginning of the year	307,280	80.88	607,890	75.56
Granted during the year	-	-	-	-
Exercised during the year	(151,305)	68.76	(163,425)	62.73
Forfeited during the year	(54,205)	86.22	(95,180)	64.26
Expired during the year	(36,135)	81.20	(51,100)	102.61
Other Adjustments	-	-	9,095	60.19
Outstanding at the end of the year	65,635	104.55	307,280	80.88
Exercisable at the end of the year	59,635	102.63	259,185	74.80

Particulars	March 31, 2007	March 31, 2006
Weighted average remaining contractual life (in years)	1.47	1.92
Weighted average fair value of options granted		

During the year ended 31 March 2002, the Company announced and allotted bonus shares by capitalising a part of securities 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 additional options in the ratio of one additional option for every two options held.

## Schedules to the Consolidated Financial Statements

(All amounts in Rupees lacs, unless otherwise stated)

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

At the Ninth Annual General Meeting held on September 6, 2002, a special resolution was passed, effective March 7, 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 March 12, 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.

A summary of the status of the 2003 plan at March 31, 2007 is presented below.

Particulars	March 31, 2007		March 31, 2006	
	Number of Shares	Weighted Average Exercise Price (Rs.)	Number of Shares	Weighted Average Exercise Price (Rs.)
Outstanding at the beginning of the year	1,854,850	144.44	2,178,950	148.19
Granted during the year	2,500,500	135.01	266,000	120.05
Exercised during the year	(111,250)	146.54	(700)	146.29
Forfeited during the year	(957,700)	122.53	(589,400)	147.29
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,286,400	143.40	1,854,850	144.44
Exercisable at the end of the year	1,053,620	144.72	893,740	146.58

Particulars	March 31, 2007	March 31, 2006
Weighted average remaining contractual life (in years)	5.37	7.12
Weighted average fair value of options granted	64.17	70.60

## Schedules to the Consolidated Financial Statements

(All amounts in Rupees lacs, unless otherwise stated)

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

#### Associate Stock Option Plan 2004

The Shareholders of the Company in the AGM held on the July 22, 2005 approved an Associate Stock Option Plan (the 2004 plan). The 2004 plan provides for issuance of 1,084,745 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 2004 plan 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. No options have been granted as at March 31, 2006.

A summary of the status of the 2004 plan at March 31, 2007 is presented below.

Particulars	March 31, 2007		March 31, 2006	
	Number of Shares	Weighted Average Exercise Price (Rs.)	Number of Shares	Weighted Average Exercise Price (Rs.)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	994,500	147.87	-	-
Exercised during the year	-	-	-	-
Forfeited during the year	(214,500)	146.90	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	780,000	148.13	-	-
Exercisable at the end of the year	156,000	148.13	-	-

Particulars	March 31, 2007	March 31, 2006
Weighted average remaining contractual life (in years)	6.00	-
Weighted average fair value of options granted	77.76	-

#### Pro forma Disclosure:

In accordance with SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, had the compensation cost for associate stock option plans been recognized based on the fair value at the date of grant in accordance with Black scholes model, the pro forma amounts of the Group's net profit and earnings per share would have been as follows:

## Schedules to the Consolidated Financial Statements

(All amounts in Rupees lacs, unless otherwise stated)

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

Particulars	April to March 07	April to March 06
Profit after tax		
- as reported	10,106.49	2,130.65
- proforma profit	9,699.83	2,091.57
<b>Earnings Per Share (in Rs.)</b>		
<b>Basic</b>		
- As reported	10.28	2.17
- Pro forma	9.87	2.13
<b>Diluted</b>		
- As reported	10.17	2.17
- Pro forma	9.76	2.13

The fair value of options was estimated at the date of grant using the Black scholes model with the following assumptions:

Particulars	April to March 07	April to March 06
Risk-free interest rate	7.73%	6.76%
Expected life	2.5 to 6.5 Years	2.5 to 6.5 Years
Expected volatility	61.87%	69.08%
Expected dividend yield	0.97%	0.97%

### 5. Segment Reporting

The Group's operations predominantly relate to providing IT services and IT-enabled 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

**Schedules to the Consolidated Financial Statements**

(All amounts in Rupees lacs, unless otherwise stated)

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

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 Middle East.

**Primary segment information**

Particulars	Year ended March 31, 2007	Year ended March 31, 2006
<u>Segment revenues</u>		
Banking and financial services	91,986.97	72,952.00
Emerging verticals	11,249.99	9,555.62
	1,03,236.96	82,507.62
<u>Segment Profit before Finance charges, Unallocable Expenses and Tax</u>		
Banking and financial services	36,655.21	21,065.65
Emerging verticals	2,061.35	1,143.76
	38,716.56	22,209.41
Finance charges	(83.93)	(79.18)
Other Unallocable expenditure net of Unallocable income	(26,535.11)	(18,684.79)
Profit before taxation	12,097.52	3,445.44
Income taxes including deferred tax and fringe benefit tax	(1991.03)	(1,314.79)
<i>Profit after taxation</i>	10,106.49	2,130.65

**Secondary segment information**

Region	Year ended March 31, 2007	Year ended March 31, 2006
<u>Segment revenues</u>		
United States of America	37,815.75	32,787.34
Europe	31,636.53	23,007.29
Asia Pacific	17,265.38	13,916.21
India and Middle East	16,519.30	12,796.78
	103,236.96	82,507.62

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

## Schedules to the Consolidated Financial Statements

(All amounts in Rupees lacs, unless otherwise stated)

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

#### 6. Earnings per Share ("EPS")

Reconciliation of basic and diluted shares used in computing EPS:

Particulars	Year ended March 31, 2007	Year ended March 31, 2006
Weighted average number of equity shares outstanding during the period-Basic	98,290,764	98,091,912
Add: Effect of dilutive issue of stock options to be converted	1,046,699	196,966
Weighted average number of equity shares outstanding during the period-Diluted	99,337,463	98,288,878

#### 7. Related party transactions

List of related parties where control exists:

<b>Associates</b>	
NMS Works Software Private Limited ('NMS')	Orbitech Employees Welfare Trust
AIG Systems Solutions Private Limited ('AIGSS')	Adrenalin eSystems Limited (formerly known as Empower Works Limited) ('Adrenalin eSystems')
<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, (upto September 30, 2005)	

PARTICULARS	ASSOCIATES				OTHERS	Key managerial person	Relatives of key managerial person
	Adrenalin eSystems	NMS	AIGSS	Orbitech trust			
<b>Balances due to / from related parties</b>							
Receivables - trade debts	- (-)	- (-)	136.99 (290.90)	- (-)	8,166.33 (14,541.24)		
Receivables - loans and advances	45.38 (107.72)	- (-)	- (-)	589.59 (766.14)	- (-)		
Investments	1,523.88 (1,356.88)	452.50 (452.50)	326.70 (326.70)	- (-)	- (-)		
Provision for investments	- (-)	241.28 (222.98)	- (-)	- (-)	- (-)		

## Schedules to the Consolidated Financial Statements

(All amounts in Rupees lacs, unless otherwise stated)

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

#### 7. Related party transactions (Continued)

Figures in brackets denote previous year figures

PARTICULARS	ASSOCIATES				OTHERS	Key managerial person	Relatives of key managerial person
	Adrenalin eSystems	NMS	AIGSS	Orbitech trust			
<b>Related party transactions</b>							
Payments received against loan	- (-)	- (-)	- (-)	176.55 (160.51)	- (-)		
Software development service income	- (-)	- (-)	652.88 (1,391.62)	- (-)	47,446.32 (47,937.71)		
Reimbursement of expenses to the Company	19.99 (88.26)	- (-)	0.76 (3.72)	- (-)	- (75.07)		
Reimbursement of expenses by the Company	- (-)	- (-)	- (-)	- (-)	100.39 (107.12)		
Lease Payments	- (-)	- (-)	- (-)	- (-)	139.40 (117.80)		
Investments	239.35 (623.00)	- (52.50)	- (-)	- (-)	- (-)		
Provision for diminution in value of investments	- (-)	18.30 (222.98)	- (-)	- (-)	- (-)		
Remuneration paid to Managing Director						114.62 (24.77)	
Dividend paid						97.00 (67.39)	36.99 (21.64)

#### 8. Investments in Associates

The movement during the year comprises of the following:

Subscribed additionally for 1,000,000 (March 31, 2006: 12,460,000) Equity shares of Rs 10 each per share Rs 9/- partly paid amounting to Rs 90.00 and 1,540,000 Cumulative Preference shares of Rs 5/- each amounting to Rs 77.00 during the period in Adrenalin eSystems Limited (formerly Empower Works Limited);

The Group's equity ownership interest in Adrenalin eSystems Limited (formerly Empower Works Limited) is 40.25 % as on 31 March 2007. Adrenalin eSystems Limited ("ASL") is primarily engaged in the business of providing specific solutions relating to Human Relations suite of software solutions and products and has been incurring losses. The Group believes that the accumulated losses to the extent of Rs. 2827.41 as per the audited financial statements of ASL as on 31 March 2007 are on account of initial / start-up stage of operations. The full version of the ASL's main product "Adrenalin" was launched in January 2006 and ASL's evaluation of the product's market acceptability is positive. The Group believes

## **Schedules to the Consolidated Financial Statements**

(All amounts in Rupees lacs, unless otherwise stated)

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

that, in pursuing business models based on mass adoption of similar technologies on global scale, the start up costs on brand building, product development costs and franchise acquisitions are significant and the international experience also suggests that the product companies have longer gestation period. Further, the promoters of ASL are committed to provide continued support to its operations and ASL is expected to generate profits in the future. Accordingly, there is no permanent diminution in the value of its investments in ASL and the share of loss is also restricted to the extent of equity.

#### **9. Litigation, claims and contingencies**

##### **(i) 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 29 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 29 November 2001. During the earlier year, the parties entered into an agreement to dismiss all remaining claims subject to re-asserting all their claims that existed before 29 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 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. The District Court appointed a retired Judge as a mediator to resolve the matter which became unsuccessful. The District court thereafter conducted a Settlement Conference which also proved unsuccessful.

The Company subsequently filed a motion to dismiss the remaining claims asserted by the Plaintiffs on 6 October 2005 in the District court of New Jersey. The District Court granted the company's motion by way of a final judgment dismissing any and all claims remaining in the lawsuit. Thereafter, Data Inc on 12 December 2005 has filed an appeal against the final judgment in the court of appeals. The appeal has been heard by the Appellate Court on 5<sup>th</sup> December, 2006 and the Appellate Court, (Bench consisting of Hon'ble Chief Justice and two Judges) after hearing and reserving the judgment directed the parties to go for Court Mediation. The Mediation also took place on 21<sup>st</sup> February, 2007 at Philadelphia, U.S.A. but the said Mediation also did not prove successful. The Company is vigorously contesting the case and continues to believe that allegations of Plaintiffs are without merit and have been proved by various orders of the court so far. Hence, the appeal is still pending for judgment.

##### **(ii) Other Pending Suits**

Two former employees of the Company have instituted a suit in Mumbai for wrongful termination of their services and publication of defamatory material. The Company has filed a written statement in April 06 contending that the suit is not tenable. 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

## Schedules to the Consolidated Financial Statements

(All amounts in Rupees lacs, unless otherwise stated)

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

allegations are without merit and is vigorously contesting the case. The management believes that the Company can successfully resist any claim.

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.

#### (iii) Income Tax Matters

	Year ended March 31, 2007	Year ended March 31, 2006
Income tax in dispute	1,111.66	790.04

In all the above disputed cases, the tax demand is mainly on account of:

- (i) reduction of expenditure in foreign currency from export turnover,
- (ii) reduction of such foreign currency expenditure from export turnover and not from total turnover while computing allowance under section 10(A) of the Income Tax Act, 1961.

The Company is contesting the demand and the management firmly believes that its position will be upheld in the appeal stage.

- (b) Current taxes include an amount of Rs Nil (March 31, 2006 :Rs 110.29) relating to earlier years paid arising on account of assessment made by the overseas tax authorities.

10. The Group has adopted Accounting Standard 15 (Revised) – Employee Benefits with effect from April 01, 2006. Pursuant to adoption, the Group has determined the liability for Transitional Provision amounting to Rs. 1,759.64/- which has been debited to General Reserve. As a result of this change, Salaries and bonus including overseas staff expenses have increased by Rs 137.65/- and correspondingly profit before taxes is lower by the same amount.

11. 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.

Particulars	Year ended March 31, 2007	Year ended March 31, 2006
Salaries and bonus including overseas staff expenses	63,916.13	54,976.43
Contribution to provident and other funds	1,413.86	1,270.37
<b>Total</b>	<b>65,329.99</b>	<b>56,246.80</b>

#### 12. Derivative instruments:

The Group uses foreign currency forward contracts to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The Group does not use forward contracts for speculative purposes.

The following are the outstanding Forward Exchange Contracts entered into by

**Schedules to the Consolidated Financial Statements**

(All amounts in Rupees lacs, unless otherwise stated)

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

the Group.

<b>Particulars</b>	<b>Year ended March 31, 2007</b>	<b>Year ended March 31, 2006</b>
Number of contracts	9	22
US \$ Equivalent (Millions)	48.62	44.50
INR Equivalent	21,920	20,333

The year end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below:

<b>Particulars</b>	<b>2007</b>		<b>2006</b>	
	US Dollar equivalent (Million)	INR	US Dollar equivalent (Million)	INR
Amounts receivable in foreign currency	17.60	7,649.17	-	-

The above disclosures have been made consequent to the announcement by the Institute of Chartered Accountants of India on December 2, 2005.

- 13.** The consolidated financial statements for the year ended March 31, 2006 have been audited by a firm other than S R BATLIBOI & ASSOCIATES. Previous year figures have been regrouped/reclassified, wherever necessary, to conform to current year's presentation.

As per our report of even date For and on behalf of the Board of Directors of  
Polaris Software Lab Limited

**For S.R.BATLIBOI & ASSOCIATES**  
**Chartered Accountants**

**Per S. Balasubrahmanyam**  
**Partner**  
Membership No 053315  
Chennai  
April 27, 2007

**Arun Jain**  
Chairman & Managing Director

**R.C. Bhargava**  
Director

**R Srikanth**  
Executive Vice President & Chief Financial Officer

**M.P.Suresh kumar**  
Company Secretary  
April 27, 2007

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**POLARIS SOFTWARE LAB LIMITED**

Regd. Office: Polaris House, 244, Anna Salai, Chennai - 600 006  
Phone: 044 - 2852 4154, Fax: 044 - 2852 3280, Website: [www.polaris.co.in](http://www.polaris.co.in)

**NOTICE**

**NOTICE IS HEREBY GIVEN THAT THE FOURTEENTH ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD ON TUESDAY THE 17<sup>TH</sup> JULY 2007 AT 03.30 P.M., AT MUSIC ACADEMY, MINI HALL, OLD NO.306, NEW NO.168, T.T.K. ROAD, CHENNAI – 600 014 TO TRANSACT THE FOLLOWING BUSINESS:**

**ORDINARY BUSINESS**

1. To receive, consider and adopt the Audited Balance Sheet as at March 31, 2007 and the Profit & Loss Account for the year ended on that date together with the Reports of the Directors and the Auditors thereon.
2. To confirm two interim dividends of Re.1/- and Rs.1.25 per equity share declared for the financial year ended 31<sup>st</sup> March 2007.
3. To appoint a Director in the place of Mr. R.C. Bhargava who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in the place of Mr. Arvind Kumar who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in the place of Mr. Ajit Bhushan who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company and to authorize the Board of Directors to fix their remuneration. M/s. S.R. Batliboi & Associates, Chartered Accountants, the retiring auditors, are eligible for re-appointment.

**Place: Chennai**  
**Date: April 27, 2007**

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

**M P Suresh Kumar**  
**Vice President – Legal & Company Secretary**

**NOTES:**

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and such proxy need not be a member of the Company. Voting is by a show of hands unless a poll is demanded by a member or members present in person, or by proxy, holding at least one-tenth of the total shares entitled to vote on the resolution or by those holding paid-up capital of at least Rs.50,000. A proxy shall not vote except on a poll. Proxies in order to be effective must be received by the Company at its Registered Office not less than 48 hours before the meeting.
2. Member/Proxy holder must bring the attendance slip to the meeting and hand it over at the entrance duly signed.

3. The Register of Members and Share Transfer Books of the Company will be closed from 12<sup>th</sup> July 2007 to 17<sup>th</sup> July 2007 (both days inclusive).
4. Two interim dividends aggregating Rs.2.25 per equity share of the Company (45% on par value of Rs.5/- per share) were declared by the Board of Directors for the financial year 2006-07, the first in January 2007 @ Re.1 per share and the second in March 2007 @ Rs.1.25 per share, and both dividends were paid to the Members of the Company.
5. The Register of Directors' Shareholding, maintained under Section 307 of the Companies Act, 1956 will be available for inspection by the members at the AGM.
6. The Register of Contracts, maintained under Section 301 of the Companies Act, 1956 will be available for inspection by the members at the Registered Office of the Company.
7. A certificate from the Auditors of the Company certifying that the Company's Associate Stock Option Plan(s) are being implemented in accordance with the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 as applicable and in accordance with the resolution of the Members in the General Meeting, is available for inspection by the Members at the Annual General Meeting.
8. Members are requested to quote their Registered Folio Number or Demat Account Number & Depository Participant (D.P.) Id. Number on all correspondence with the Company. The transfer deeds, communication for change of address, bank details, ECS details, mandates (if any), should be lodged with M/s Karvy Computershare Private Limited, Hyderabad. Members whose shareholding is in the electronic mode are requested to intimate the same to their respective Depository Participants.
9. Members who are holding physical shares in more than one folio are requested to intimate to the Company/Registrar & Share Transfer Agents the details of all their folio numbers for consolidation into a single folio.
10. The information pursuant to Clause 49 of the Listing Agreement with respect to the details of the Directors seeking re-appointment at the forthcoming Annual General Meeting is annexed.
11. Shareholders holding the requisite number of shares / voting power and who wish to demand a poll on any of the items mentioned in the notice, are requested to inform the Company at least 48 hours in advance, of their intention to do so, to enable the Company to make appropriate arrangements for the conduct of poll and avoid inconvenience to the members at the time of the meeting.
12. Dividend for the Financial Year ended 31<sup>st</sup> March 2000, which remains unpaid or unclaimed, is due for transfer to the Investor Education Protection Fund of the Central Government ('IEPF'), pursuant to the provisions of Section 205A of the Companies Act, 1956. Members who have not encashed their dividend warrants for the F.Y. ended 31<sup>st</sup> March 2000 or any subsequent financial year(s), are requested to correspond with Mr. M P Suresh Kumar, Vice President - Legal & Company Secretary, at the Company's Registered Office. Members are advised that in terms of the provisions of Section 205C of the Companies Act, 1956, once unclaimed dividend is transferred to IEPF, no claim shall lie in respect thereof.

**ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-APPOINTMENT AT THE ENSUING ANNUAL GENERAL MEETING**

Name : **Mr. R C Bhargava**  
 Father's name : Mr. M P Bhargava  
 Address : 220, Sector 15A, Noida 201 301  
 Date of birth : 30-07-1934  
 Nationality : Indian  
 Occupation : Retired  
 Date of Appt. : 30-03-1999

A postgraduate 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 postgraduate in Development Economics from Williams College, Williamstown (Mass), USA.

From 1968 to 73, he was the Agricultural Production Commissioner and Secretary to the Government of the State of Jammu & Kashmir for the Departments of Agriculture, Horticulture, Animal Husbandry, Forests and Co-operation. He was a Special Assistant to the Union Minister of Energy, Government of India from 1973 to 74, and between 1974 & 78, 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 Director (Commercial).

From 1981 to 97, 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 joined the Board of Polaris in March, 1999. He chairs the 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, RCB Consulting Private Limited, Contitech India Private Limited, Lord Krishna Bank Ltd., Maruti Udyog Limited, Omax Auto Ltd., Thomson Press Limited, Dabur India Limited, Ultra Tech Cement Company Limited, Global Education Management Systems Private Limited, Optimus Global Services Ltd. and Taj Asia Ltd. Further he chairs the Audit Committees of IL&FS Limited, Thomson Press Ltd., Ultra Tech Cement Company Limited & Optimus Global Services Ltd. He is a member of the Audit Committee of Grasim Industries Ltd. & Dabur India Ltd., and is also a member of the Shareholders Grievance Committees of Maruti Udyog Ltd. and Ultra Tech Cement Company Limited. He is also the Chairman of the Remuneration & Compensation Committee of Optimus Global Services Ltd. As on 31<sup>st</sup> March 2007, Mr. R C Bhargava holds 16,600 equity shares of the Company.

**Name** : **Mr. Arvind Kumar**  
**Father's name** : Mr. S. N . Mathur  
**Address** : 117, Supreme Co-operative Housing Society,  
 Mayur Vihar, Phase – I, Delhi – 110 092  
**Date of birth** : 02-06-1942  
**Nationality** : Indian  
**Occupation** : Sr. Lawyer, Supreme Court  
**Date of Appt.** : 12-05-1995

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 practised in the High Court of Judicature at Allahabad from 1966 to 1972. Later in the year 1972, he shifted to the Supreme Court of India in New Delhi and started practising there. He is a Senior Lawyer having 43 years of professional standing at Bar, and has gained enough global experience by participating in civil and corporate cases around the world. Presently practising as a Senior Lawyer in the 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 of the Company. 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 2007, Mr. Arvind Kumar holds 56,312 equity shares of the Company.

<b>Name</b>	:	<b>Mr. Ajit Bhushan</b>
Father's name	:	Mr. Ravi Bhushan
Address	:	19, Roedean Crescent London, SW155JX, UNITED KINGDOM
Date of birth	:	11-04-1963
Nationality	:	British
Occupation	:	Service
Date of Appt.	:	28-07-2003

A Graduate from the 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 enabled 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, he was responsible for developing the Cash Management business for Citibank Poland and worked in Citibank India in the Cash Management business. He joined the Board of Polaris in July 2003. He is also a Director of Citicorp Technology Holding Inc and a Member of the Remuneration & Compensation Committee of Polaris. He is also a partner of Citigroup Venture Capital International Co-Investment, L.P. & Citigroup Venture Capital International Carried Interest, L.P. As on 31<sup>st</sup> March 2007, he does not hold any shares of the Company.

**In addition to the above, detailed attendance record of each Director seeking re-appointment has been given in the Report on Corporate Governance.**

**Place: Chennai**  
**Date: April 27, 2007**

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

**M P Suresh Kumar**  
**Vice President – Legal & Company Secretary**

**POLARIS SOFTWARE LAB LIMITED**

Regd. Office: Polaris House, 244, Anna Salai, Chennai - 600 006  
14<sup>th</sup> Annual General Meeting to be held on Tuesday the 17<sup>th</sup> July 2007 at 3.30 P.M.  
at The Music Academy, Mini Hall, Old No. 306, New No. 168, T.T.K. Road, Chennai-600 014

**ATTENDANCE SLIP**

Registered Folio No : .....(or)  
Demat Account No. ....D.P.Id.No.....  
Name of Shareholder(s) .....

I/We certify that I am/We are Member/s/Proxy of the Member/s of the Company holding ..... Shares.

.....  
*Signature of Member/s/Proxy*

- ◆ A member or his duly appointed Proxy willing to attend the meeting must fill-up this Admission Slip and hand it over at the entrance.
- ◆ Name of the Proxy in Block letters .....  
(in case a Proxy attends the meeting)
- ◆ Those who hold shares in demat form to quote their Demat Account No. and Depository Participant (D.P.) Id. No.



**POLARIS SOFTWARE LAB LIMITED**

Regd. Office: Polaris House, 244, Anna Salai, Chennai - 600 006  
14<sup>th</sup> Annual General Meeting to be held on Tuesday the 17<sup>th</sup> July 2007 at 3.30 P.M.  
at The Music Academy, Mini Hall, Old No. 306, New No. 168, T.T.K. Road, Chennai-600 014

**PROXY FORM**

I/We ..... of ..... being a Member/  
Members of Polaris Software Lab Limited hereby appoint ..... of  
..... or failing him / her ..... of  
..... as my/our Proxy to attend and vote for me/us on my/our  
behalf at the Fourteenth Annual General Meeting of the Company to be held on 17<sup>th</sup> July  
2007 at 3.30 P.M., at The Music Academy, Mini Hall, Old No. 306, New No. 168, T.T.K. Road,  
Chennai-600 014 and at any adjournment thereof.

In witness whereof  
I/We have signed on this ..... day of ..... 2007.

Registered Folio No. : .....(or)  
Demat Account No. ....D.P.Id.No.....



- ◆ The Proxy form should be signed by the member across the stamp.
- ◆ A member intending to appoint a Proxy should complete the Proxy Form and deposit it at the Company's Registered Office, at least 48 hours before the meeting.
- ◆ Those who hold shares in Demat form should quote their Demat Account No. and Depository Participant (D.P.) Id. No.

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