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SUBEX Systems

Continuous

Perfect

Present

# Subex Systems Limited
# Annual Report 2003-04

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# BOARD OF DIRECTORS

| | |
|---|---|
| Subash Menon | *Chairman and Managing Director* |
| Alex J. Puthenchira | *Executive Director* |
| Sudeesh Yezhuvath | *Wholetime Director* |
| V. Balaji Bhat | *Director* |
| K. Bala Chandran | *Director* |
| Vinod R. Sethi | *Director* |
| S. N. Rajesh | *Director* |
| P.P. Prabhu | *Director* |

## Company Secretary & Legal Counsel

Rajkumar C.

## Bankers

State Bank of India
ICICI Banking Corporation Limited
Corporation Bank
First Union Bank, Piscataway, New Jersey
Royal Bank of Canada, Ottawa
Hellinic Bank, Cyprus
Bank of China

## Auditors

M/s. Deloitte Haskins & Sells
Chartered Accountants

## Internal Auditors

M/s. P. Chandrasekar
Chartered Accountants

## Registrars & Transfer Agents

Canbank Computer Services Ltd.,
R & T Centre, Hotel Broadway Complex,
No. 19, K.G. Road, Bangalore - 560 009.
Tel : 2872461, 2872462
Fax : 2872804
E-mail : ccslrnt@vsnl.com
ccslrnt@bgl.vsnl.net.in

## Registered Office

721, 7th Main Mahalaxmi Layout,
Bangalore - 560 086
Tel : +91-80-349 7581
Fax : +91-80-349 1490
E-mail : subex@subexgroup.com

# BOARD OF DIRECTORS

Subash Menon

Alex J. Puthenchira

Sudeesh Yezhuvath

V. Balaji Bhat

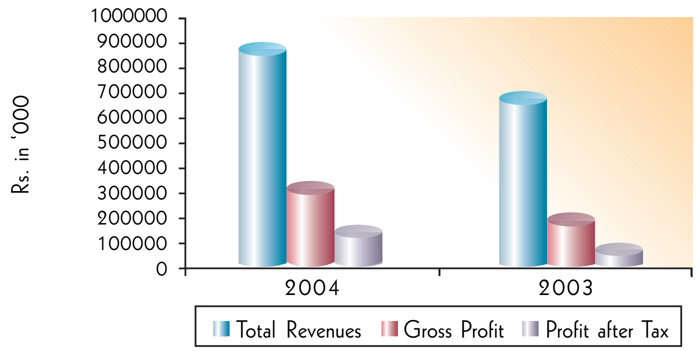
K. Bala Chandran

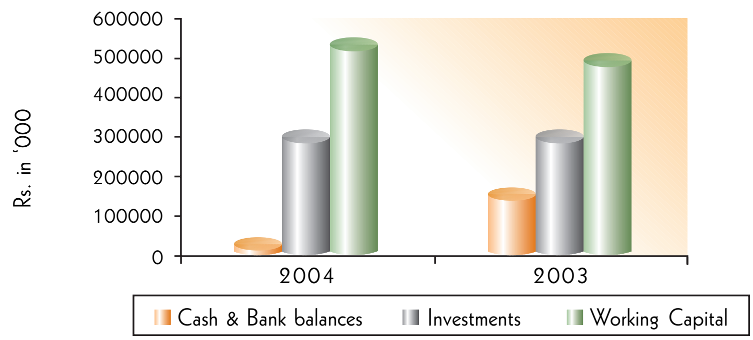
Vinod R. Sethi

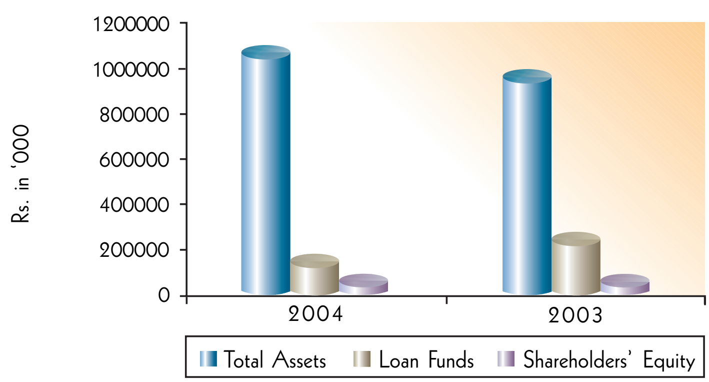
S. N. Rajesh

P. P. Prabhu

# FINANCIAL HIGHLIGHTS




Year ended March 31

| Particulars (Rs. '000) | 2004 | 2003 |
|---|---|---|
| Total Revenues | 891,936 | 706,414 |
| Gross profit | 348,112 | 226,506 |
| Profit after tax | 177,501 | 96,120 |
| Basic earnings per share (Rs.) | 20.68 | 13.12 |
| Cash and bank balances | 33,607 | 162,355 |
| Investments | 326,902 | 328,686 |
| Working capital | 550,667 | 505,640 |
| Total assets | 1,085,759 | 997,674 |
| Loan funds | 167,835 | 283,320 |
| Shareholders' equity | 73,538 | 73,438 |

Subex has the world's 2nd largest installed base for telecom Fraud Management System (Ranger™), within a span of four years, since its launch in 2000.

## Client speak

"We found considerable advantage in opting for a future-proof suite like RevMax™, as against stand-alone solutions for each function. Moreover, local market experience was also a key factor that led us to choose Subex, since they have done successful implementations in this region, in the past"

*Mr. Tarik Al-Haidary*
*CEO*
*SabaFon*

Subash Menon
Chairman & Managing Director

Dear Shareholder,

One more year has gone by since I last addressed you. One more year of hectic activity, one more year of extensive consolidation in the telecom industry and one more year of climb towards leadership for your company. First, a few words on the telecom industry - an industry that has been hogging the limelight for several wrong reasons. The industry that had soaring growth in the heady years from 1998 to 2001, slid into a deep depression since then. Capital expenditure, as a proportion of industry revenue, had ballooned to 30% - a level that was found to be quite unsustainable. The last three years witnessed a steady fall of this key measure and it now stands at around 15%. The industry, it is believed, has finally settled down and can look forward to reasonable levels of growth in the future. While the industry is no more euphoric, cautious optimism abounds. The weaker players have been weeded out and the stronger ones are emerging with renewed strength. It is against this background that we will now analyse the performance of your company during FY04.

We have recorded a revenue of Rs.892 million and a Profit After Tax (PAT) of Rs.178 million. These figures translate to a growth of 26% and 85% respectively. Profitability, has once again grown at a scorching pace to reach 20%. The primary reason for this growth in profitability is the higher proportion of revenue from products, which stood at 45%. In absolute terms, products recorded a growth of 56% beating the global industry average of 28%.

### *Towards Leadership*

Our stated objective is to be the leader in the business of providing software solutions for revenue maximization in the telecom space. In keeping with that, our strategies and activities are well aligned towards the achievement of this objective. While this objective might look quite daunting, I am glad to report that we have had significant progress in this direction. Let us take a look at the statistics.

Ranger™, our fraud management system, today has 68 installations spread over 19 countries in 4 continents. INcharge™, our revenue assurance solution, that was launched only about 14 months ago, today boasts 7 installations. In an industry that has been riddled with failing vendors, our achievements are commendable. While retaining our second position with regard to the number of installations globally for fraud management systems, we have successfully entered the revenue assurance market. Thus, we now have two promising products - one of which is expected to attain the largest installed base globally during FY05 and the other one gathering momentum in its' march towards a similar position within the next 2 to 3 years. It is heartening to note that INcharge™ has already been acclaimed as a powerful solution, by globally acknowledged consultants who specialise in the field of telecom revenue assurance.

Achieving leadership in an industry and more importantly, sustaining it, calls for several key components - a well defined product set with continuous innovation, an ever increasing list of satisfied and happy customers, financial strength and a commitment to the business. Supporting these should a vision, strategy and an ability to execute. Having chosen revenue maximization as its' area of operation, your company has been in the process of architecting its' business offering in this space. This has resulted in the launch of an integrated platform for revenue maximization. This platform, RevMax™, endeavours to approach revenue maximization in telcos in an "enterprise-wide" manner. The objective is to implement the platform in a seamless manner across the various functional departments of a carrier and to achieve maximization of revenues - through fraud management, revenue assurance, margin management, cost management etc. - in all the operations of the carrier. While this provides an opportunity for your company to be a long term partner to its' customers, it also renders our product offering future proof. The integrated platform consists of separate modules for each aspect of revenue maximization thereby enabling a modularized approach to implementation while ensuring seamless transfer of data and output across the entire platform. This integrated platform will be the launch pad for the future growth and leadership in our chosen space.

Our business generates substantial annuity through additional license revenues, annual maintenance support revenues etc. Given this situation, it is critical to acquire as many customers in as short a span of time as possible. Entry into a carrier through the deployment of one of the modules in our integrated platform paves the way for additional business by penetrating further into the same customers. This is the corner stone of our strategy. We currently have over 35 customers spread across 19 countries and we are in the process of acquiring more customers - both organically and inorganically. Needless to say, those vendors who have the largest number of customers with a possibility to offer multiple solutions to all these customers will emerge as leaders in the years to come. Your company had identified this key aspect and has been strategising and executing over the past few years. The soundness of our strategy coupled with an excellent execution has taken us further in the road to leadership.

We have been constantly leveraging the strong relationships with our customers, in several ways. The first is to gain from the referenceability of these customers in the close and well networked world of telecom service providers. We have been showcasing the gains that have been garnered by these customers, through the deployment and use of our products. Further, we have been using these customers as sounding boards for our innovative product ideas and roadmap. They also provide us with valuable suggestions and insights into their strategies, requirements and future plans.

On the whole, we are confident of emerging as the leader in the revenue maximization space - across several products - within the next 2 to 3 years. Although there is some way to go for the fulfillment of that objective, we have certainly come a long way from where we started.

## *China - The New Frontier*

The land of the dragon is generally viewed with trepidation. Many consider it a constant threat and many others take it is a land of opportunities. We, at Subex, believe that the Chinese market has huge potential, but should be tapped with adequate care. The telecom industry in China has been growing by leaps and bounds and today has the largest number of mobile connections among all the countries in the world. This is expected to grow further in the years to come.

After a long evaluation and exploration lasting one and a half years, we set up a sales and support office in Beijing in October 2003. Further, we have teamed up with two partners with long years of experience in the Chinese market. We have also taken adequate measures to protect our intellectual property by adopting well thoughtout policies with regard to selection and appointment of partners, implementation and localization methodologies and through the use of leading legal experts in drawing up contracts and agreements. These steps, coupled with the employment of local Chinese personnel, we feel, should help us to tap this market successfully.

China is replete with local vendors for a variety of software solutions. However, the level of sophistication witnessed in the solutions that are being developed and deployed by these local vendors leaves much to be desired. This phenomenon is slowly creating a market opportunity for global vendors and our entry into this market has been timed to take advantage of this phenomenon and the growing awareness among Chinese telcos concerning revenue maximization possibilities. Given the long sales cycles required for our products, we do not expect significant revenues from this market in FY05. The real returns will commence in FY06 and we expect them to be substantial.

## *Software Services - Onsite Consulting*

Building on the gains of FY03, this business grew well in FY04. It recorded a revenue of Rs.482 million resulting in a growth of 8.28%. In keeping with our strategy, this business strengthened its' relationship with the largest customer, AT&T, by penetrating deeper into that organization. We expect this stronger and deeper relationship to yield good results in the future.

## *Business Outlook*

The downturn in the telecom industry has resulted in certain fundamental shifts in the way business is done and in the priorities of the carriers. Enhancing revenues and profits and a strong focus on Average Revenue Per user (ARPU) and even more significantly, on Average Margin Per User (AMPU) has come to stay. I would like to refer to two studies - one each by Deloitte and RHK, Inc. - to elaborate on the market size and what the future portents for this market.

The Deloitte Study : This study, entitled Deloitte Global Telecom Operator Survey, was conducted in the second half of 2003. The study was conducted among CXO level executives of 108 leading carriers of the world. The executives were given 16 areas for improvement and asked to grade them on the basis of significance. Revenue assurance was accorded the highest grade (60% of the executives gave it the highest grade) making it the most significant area for improvement for the carriers. This vote establishes our belief that revenue maximization (of which revenue assurance is a part) is a burning issue in the carrier world today and is attracting considerable investment leading to substantial growth. The RHK study further cements this belief by providing quantitative measures.

The RHK Study : RHK estimates that the world wide market for Operations Support Systems (OSS), of which revenue maximization forms a part, will grow at a CAGR of 7% from 2003 to 2007. It further identifies revenue maximization as one of the six fastest growing areas with a CAGR of 28% leading to a market size of US$. 800 million in 2007, up from US$. 300 million in 2003.

Out of the above, which includes hardware, software, professional services and consulting, Subex estimates the market for software solutions to be about US$. 120 million in 2003, giving us a market share of about 5% in a fragmented market. Consolidation being an established trend in our industry, we expect a few major players to emerge in the coming years and aim to be a leader in this space with significant revenues and a market share of about 10% to 15% for software solutions. The fast growing market and an increasing market share will result in higher revenues and profits in the years ahead. The increasing share of products in the overall business mix will ensure higher profitability.

People have always been the main strength behind all the achievements of Subex. And so, I herewith record my acknowledgement of the support received from all the Subexians in making FY04 a successful year and thank them wholeheartedly for the same. I also thank all the share holders of this company on behalf of the Board of Directors and on my personal behalf. Finally, our sincere thanks to all the customers and partners without whom, nothing could have been achieved. All of us at the company are confident of being able to report another stellar year at the end of the next twelve months.

**Subash Menon**

All the GSM operators in the private sector in India are Subex's clients.

## *Client speak*

"After a thorough evaluation of several products in this space, we chose Ranger from Subex as it offered the widest range of functionalities coupled with a large base of satisfied customers. We are confident of fighting fraud effectively by deployng Ranger™ throughout our network"

*Mr. Vivek Sett*
*CFO*
*Tata Teleservices*

# MANAGING HUMAN RESOURCES IN A SOFTWARE PRODUCT COMPANY

Sudeesh Yezhuvath
Wholetime Director and
Chief Operating Officer

Indian software companies are on a roll. NASSCOM predicts continued high growth for the industry and business prospects look very bright. More and more businesses based in the Western world are relying on Indian software professionals to deliver the goods. Increasing numbers of MNCs are setting up software development facilities in India. Needless to say, recruitment and job opportunities in the sector, has stepped up.

Amidst all this feeling of joy and happiness, are we missing some of the obvious points? Do we ask ourselves as to why we do not have an Oracle and Microsoft, out of India? In reality, which area are we growing in? If we look closely at the growth of our GDP, we will see that we are growing more in the services sector than in manufacturing. Indeed, manufacturing is growing at less than 4%, while the overall GDP is at more than 8%. Similar is the scene in the software field - our growth is happening because of "outsourcing" of services. Software services and ITeS are growing, but we are not coming with the real winners - software products - at a pace that would actually reflect India's talent in software development. Unlike products, services do not create intellectual property in the company. In the products business, the company owns the intellectual rights to the product and the gains and valuations are much higher than what one sees with services companies. A comparison of the P/E ratios of services companies and products companies is self-explanatory.

The good news is that India is slowly waking up to this fact. More importantly, software engineers are getting enlightened on this subject. They are realizing the difference between a "knowledge worker" and a "value creator". The key differences in being a software engineer in a software services company and software product company are...

- In a software services company, the core work is mostly done at the client's location and managed closely by managers of the client; in a products company everything is done in-house.

- In software services, the responsibility is mostly to churn out code; working within the larger frameworks provided by the client. Products, on the other hand, demand a holistic view and "out-of-the-box" thinking.

- In software services, decisions on technologies to be employed etc. are driven by the client and the responsibility of the services organization is only to provide engineers who have skills in the technology. In product companies, such decisions are made in-house and hence engineers should be able to comprehend and understand technology at a much deeper level. These decisions are very critical to the success of the product and hence have to be incisive and far-sighted. In short, engineers in product companies need to have broader understanding of the business implication of the technologies employed.

Earlier, software engineers did not have enough exposure to software products business and hence did not understand these important, differentiating points. Today, products business is catching up in India and there are a few companies that are committed to growing as software product companies. There is an understanding within the software developer community that working on software products is to actually work on something that is much higher in the value chain than software services.

Hitherto, a software development job was viewed as a passport to the USA but that is now changing. The Indian software developer is realizing that software products offer a better career course due to various factors such as...

- Products provide an opportunity to be a specialist and develop a deeper knowledge of technology. Services tend to make generalists out of developers without any significant depth.

- Pride in creating one's own product and witnessing the deployment and growth of the product - the feeling that one is a "value creator" and not just a "knowledge worker".

- Pride in realizing that they are aiding the growth of this country with Intellectual Property and not just service skills.

The Human Resources division in a software products company needs to be aware of these important points and get this message across to its employees at various levels. A good amount of education is required as these may not be obvious at the first glance. Core programs have to be conducted to pass these messages and build the pride and morale. Products business is not a steady state business - it is one of ups and downs. Employees need to be aware of these elements.

Software development is not the only important function within a software product company; it is, indeed, one of the most important. But excellence in Product Management, Marketing etc. are also crucial to the success of the company. The problem of not having enough history in software products business brings a lot of issues here with respect to the availability of skilled manpower. Software services clients do not outsource such activity to India and hence availability of such talent is rare. This necessitates that the HR division should be skilled in attracting available talent and also developing talent through adequate training measures.

The HR division in a software product company, in essence, has to pay close attention to the following:

- Training and developing software development talent to suit product development
- Sensitizing software engineers to the needs of software products development.
- Recruiting and training of talent in functions such as Product Management, Marketing etc.

## SUBEXIAN

Subexian is a leader and a thorough professional who perseveres to execute a well defined business strategy, in a committed manner, to achieve superior quality in providing excellent overall support to all our customers.

Subex is rated as one of the Top eight Software Product companies in India, by NASSCOM.

## *Client speak*

"With its globally proven track record we are confident that RevMax™ suite of products will enable our networks to minimize fraud related leakage and maximize revenue. We found good value in the suite, which is a combination of an FMS (Ranger™) and a Revenue Assurance Solution (INcharge™). We believe this would enable us to address a lot more than mere fraud management"

*Mr. Jamal Ramadan*
*Executive Director*
*Investcom Global Limited.*

Dakshinamurthy K.
Chief Technology Officer

## Introduction

Over the last five years, Subex has evolved a set of cohesive practices to deliver quality software, on time, to markets. To be successful in the software product space Subex needs to deliver software in an environment of rapidly changing requirements. SDP is an amalgam of practices, new and old. Most of the practices that are followed by the development teams are based on Extreme Programming (XP). These practices are strengthened using a set of add-on practices that are required to produce collaterals and ease interfaces among different stakeholders of the product being developed. This article discusses some of the salient features of SDP.

### *SDP and XP*

Even though SDP is based on XP and reflects the core values of XP, viz. simplicity, communication, feedback and courage, SDP is not XP. Some shortcomings of XP for implementing at Subex are:

1. XP is designed and very successful for small teams. Even though XP has been tried on larger teams in recent times, the results are still awaited.

2. XP emphasizes a customer (end-user) to be available on-site. In a product development environment this is not always possible.

3. XP has planning in two practices - a longer release plan (around 3 months) and a short iteration plan (around 15 days). With customization and (some) enhancements to be released early, it is not always possible to follow a 3-month release cycle.

The core development team follows all the practices of XP. The add-on practices help in creating an environment for the development teams to make use of all practices of XP.

### *Coverage is the key*

Verification and validation of the software products ensure quality deliverables from a software team. There are four variables that can be controlled in software development. These are, Cost, Time, Quality and Scope. However, the variable Quality is special in nature. Reducing the quality does not help ensure delivery. In most cases, the reduction in quality effects delivery schedules, cost (of development as well as further maintenance) adversely. For typical software, quality is represented by the test coverage that can be achieved.

The key to successful development is to ensure that the test coverage is good and encompasses all the features of the software and the associated artifacts being developed. XP ensures these by enforcing two practices - Test first design and acceptance tests.

Test first design is a development strategy where-in the developer starts with a test before writing/modifying the code. This strategy ensures that all code under development is covered at least by one test case. Another major benefit is that the developer thinks in terms of using the code being developed and the developed interfaces are cleaner. This results in more reuse of code. However, this strategy can't be followed without automating the test cases themselves. Software libraries are available (JUnit for Java, CPPUnit for C++ etc.) that can be used to automate the test cases.

Where the TFD strategy covers the testing by the development team, the acceptance test strategy does the same for the end-user side of the product. In a classical development model, the test team is separate from the development team and performs the testing at the end of development. Since, the testing activity takes place last in the development life cycle any squeeze in schedules reduces the time available for testing and in most cases results in releasing substandard software.

XP (and so SDP) reverses the cycle. The testing team is part of the development team and provides the acceptance test conditions to the development team before start of the development of a feature. The test conditions provided act as objective requirements for the development team. A feature is considered complete only when all the test conditions and test cases are passed. At the end of iteration, all the tests are executed to ensure that there are no regression bugs, as well as to ensure that the new features work the way they were envisaged.

### *Change Control Board*

***Change is the only constant.***

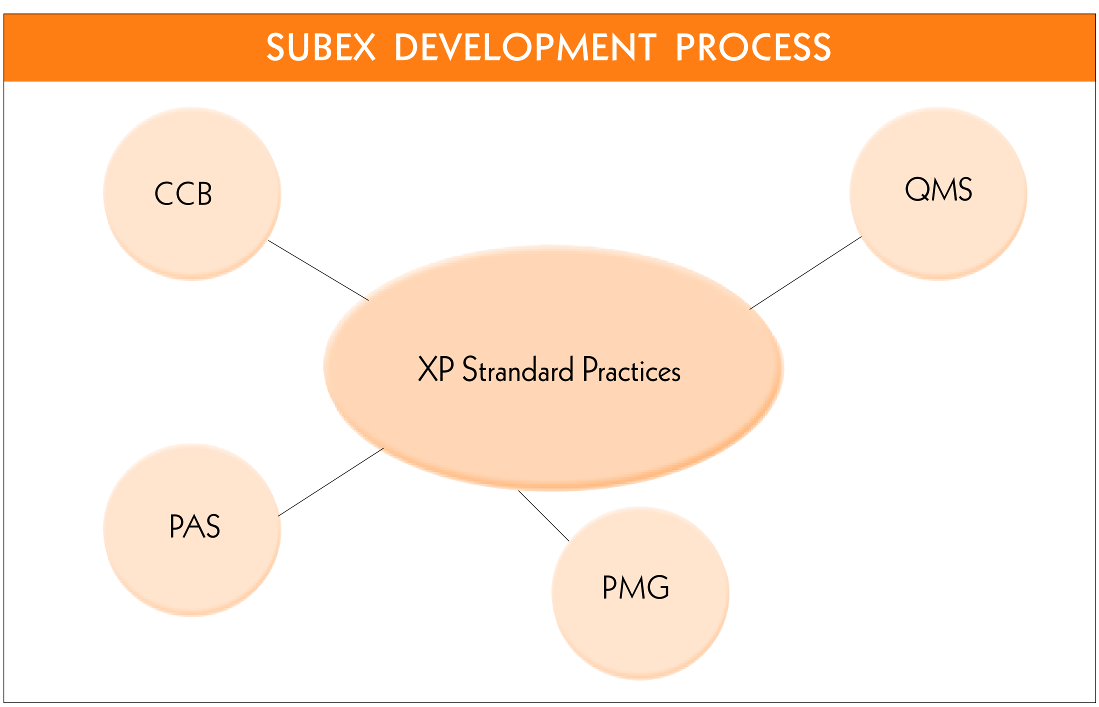
A major problem faced by the software product companies is to ensure that any additions or modifications to an existing product follows the below criteria:

1. Does not break existing functionality
2. Fits into the product philosophy
3. Does not add unnecessary complexity

The Change Control Board (CCB) consists of representatives from product management, implementation and support and development teams. The CCB resolves the issues for any change request for a product. An accepted request is moved into the roadmap of the product. In case of a customization request, the CCB decides whether the request can be serviced and on accepting a request whether the modification should be taken up as part of the core product or keep it separate as a customization.

### *Product Management Group*

The Product Management Group (PMG) is responsible in defining the roadmap and directions for a product at Subex. PMG consists of domain experts from telecom fields. The group provides the details of product functionality in the form of Marketing Requirement Documents. The requirement documents are prepared for new products as well as future versions of products. PMG also coordinates the CCB process at Subex, to ensure smooth implementation of features in various products.




Various practices of SDP strengthen the core practices followed by the development teams.

### *Quality Management System*

*What you do not measure, you can't improve.*

Subex is a ISO 9001/2000 certified organization. SDP merges the agility of Extreme Programming and the reliability of standard defined processes. The mix of these two at appropriate levels provid the organization with a process that can meet the increasing demands of the market place.

Internal audits at Subex consists of checks and measures for process adherence. Internal audits cover the artifacts created for the product development as well as more technical issues covering test first design, automated testing and pair programming. The major contribution of the Internal Audit is to find the drawbacks of the process and to suggest improvement areas.

### *Process Automation System (PAS)*

*Those who forget history are condemned to repeat it.*

All the processes at Subex make use of our homegrown automation system software. The PAS consists of various modules that support the development like release planning, iteration planning, defect tracking, CCB etc. The salient feature of PAS is the ability to search through the database for finding relevant information about a product feature. The system is continuously updated to keep up with the changes in the process whenever they happen.

### *Conclusion*

Subex development process is a comprehensive set of practices that provides us with the agility to move fast in a demanding product development environment. The people who follow the process, are the ones who makes it a success. The process is evolved over a period of time taking into consideration the feedback from various teams that used it. One can be sure that there will be changes in the process over a period time, albeit to a small extent.

Deploying of SDP allowed us to reduce the integration problems faced by the development teams. Knowledge transfer has increased due to the pair programming discipline used by development teams. Daily standup meetings is one of the best practices followed by the development teams to ensure that all the people - the development team, test team, project management are on the same page on what is happening in the development team.

Subex has more than 68 installations spread across 17 countries and 4 continents.

## *Client speak*

"We are looking forward to deploying a state of the art Fraud Management System that will help us with meeting our Company objectives. We are particularly impressed with the Subex's ability to satisfy the Fraud management needs for 2G, 2.5G and 3G networks"

*Mr. Vishant Vora*
*Chief Technology Officer &*
*Vice President Network & Systems*
*MobiFon*

# FUTURE TENSE! - FRAUD IN NEXT GENERATION TELECOMS ENVIRONMENT

Vinod Kumar
Senior Product Manager

Operators worldwide are moving towards offering unified services in the next generation telecommunications environment. While doing so, they face the daunting challenge of delivering these services efficiently, reliably and cost-effectively, in the face of increasing complexity of business models and network architectures. The key challenges include managing the migration from circuit switched to packet switched data network with the consequent explosion in traffic volume, event records and data sources. Records will not just reflect simple voice call parameters such as duration or destination anymore. Operators will have to start charging for transaction and content, besides monitoring additional service parameters such as QoS and bandwidth. The nature of services offered on next generation networks would be highly diverse and would include high-margin services such as banking, m-commerce and videoconferencing among others.

The advent of new services brings increased exposure of network operators to complex types of fraud, whose impact depends on the operator's business model. Fraud risks would be higher for operators with a financial stake in the service offering, as compared to those who only act as a carrier of the service. New fraud types would include denial of service attacks, unauthorized intrusion into private networks, manipulating QoS to illegally obtain high-value services, content piracy and viruses.

It would be difficult to identify these fraud types with conventional tools and mechanisms. Operators would need to evolve their fraud management policies, processes and tools to proactively tackle new challenges. Some of the demands placed on fraud management in the next generation environment include:

- Fraud management systems must have the capability to effectively process vast amounts of data from diverse sources, extract relevant fraud management related information from them and present it to the fraud analyst in an easy-to-understand manner.
- Operators must have an integrated view of individual customer behavior by profiling on diverse parameters such as network and service usage, location, demography and financial behavior.
- Fraud management systems would have to evolve to hybrid models that combine rules and thresholds based techniques with artificial intelligence capabilities such as neural networks and self-learning statistical algorithms. Artificial intelligence will be used for real-time, adaptive profiling to automatically identify hidden fraudulent activity, including previously unknown fraud types.
- As technical fraud threats become complex, fraud management would need to move closer to network functions. By processing and intelligently profiling information from diverse network devices such as routers, network security systems, billing systems, content and application servers, fraud management systems can alert the operator about dangerous security leaks in the network.

- The fraud analyst should be able to identify hidden patterns of fraud that are masked and isolated from the main sources of fraud.

- Losses from roaming fraud could be greater in the next generation environment as the customer is allowed access to content or financial transactions while roaming. Operators would need to investigate the use of intelligent measures to counteract the fraudster's exploitation of the delay in communication between the roaming and the home network.

## MISSION STATEMENT

Ensure creation of value by providing a differentiating edge to the activities of our customers, investors, vendors and Subexians through technnovative solutions while fulfilling our social obligations and maintaining high professional and ethical standards.

## VISION STATEMENT

To be the leader in our areas of business through:

Total Customer Satisfaction,

Commitment to Excellence and

Determination to Succeed.

## QUALITY STATEMENT

Subexians are commited to achieve total customer satisfaction by delivering high quality products that meet the needs and expetations of our customers.

We commit ourselves to adhere to quality management system requirements and to continually improve the same.

# Financial Statements

for the year ended March 31, 2004

## Directors Report to the Members of Subex Systems Limited

Your Directors have pleasure in presenting the Tenth Annual Report together with the Audited Accounts of the Company for the year ended 31st March 31, 2004.

### FINANCIAL RESULTS:

| | 2003-04 (Rs.in lacs) | 2002-03 (Rs.in lacs) |
|---|---|---|
| Total Revenue | 8919.36 | 7064.14 |
| Profit before Interest, Depreciation & Amortisation | 2460.23 | 1621.90 |
| Interest, Depreciation & Amoritisation | 569.78 | 604.40 |
| Profit before tax | 1890.45 | 1017.50 |
| Provision for taxes | 115.44 | 56.30 |
| Profit after tax | 1775.01 | 961.20 |
| Prior year taxes | - | 3.15 |
| Profit for the year | 1775.01 | 961.20 |
| **APPROPRIATIONS :** | | |
| Dividend proposed | | |
| a) on equity shares | 147.08 | 73.44 |
| b) on preference shares | 226.53 | 0.51 |
| Provision for tax on Dividends | 47.87 | 9.48 |
| Transfer to General Reserve | 135.00 | 20.00 |
| Surplus carried to Balance Sheet | 2595.48 | 1376.95 |

### OVERVIEW :

Your company has once again recorded a healthy growth in both revenues and profits, despite the slowdown in the telecom industry and a tougher, more competitive, business environment. Total revenues from operations for the year ended March 31,2004 increased by 26.26% to Rs. 891.94 million, over the previous reporting period. The Company has posted a net profit of Rs. 177.50 million during the year as against Rs.96.12 million during the corresponding previous year.

Owing to the focus on software products, the business mix is tilting in favour of software products as against software consulting. Over the past 3 years, software products have increased their contribution in the overall revenue from a low figure of 7% in FY01 to 45% in FY04.

A key measure of the success of a product company is the Average Revenue Per Contract (ARPC). This is a function of the size of the networks where the products are being installed, number of products in the suite that are being installed and the license revenue per subscriber or transaction record. This key parameter has been growing at a fast rate at Subex increasing from about US$. 200,000 in FY02 to US$. 700,000 in FY04. As the cost of sales and that of implementation on a per contract basis does not rise in proportion to the ARPC, a direct impact of the growth in ARPC is a sign of improving profit and profitability.

### DIVIDEND :

Your Directors are pleased to recommend a dividend of 20% for the year ended March 31, 2004 (previous year 10%) on Equity Share Capital of the Company. In terms of the agreement with the Preference Shareholders, the Company has also made a provision for dividend @ 12.25% on the Preference Share capital of the Company for the year ended March 31, 2004.

### BUSINESS :

Subex operates in a niche market providing Revenue Maximization solutions to communications service providers worldwide. These solutions improve the revenues and profits of the communications service providers through identification and elimination of leakages in their revenue chain. Subex conceptualizes and develops software products at its facilities in Bangalore and is focused on the telecom business segment. Subex has sales and support offices in Canada, Cyprus, China and United States. Subex's vision is to be a global leader in its' chosen area of operation - namely revenue maximization for communications service providers. Subex aims to be the leader in revenue maximization solutions for communications service providers globally and has taken several strategic initiatives to fulfill its' ambition. The company is focused on the products side of the business and is committed to grow in this segment faster in the coming years.

The market that Subex operates in, i.e. providing of revenue maximization solutions to communications services providers, is growing by leaps and bounds. Several studies and market surveys have established the significance and potential of this market segment. Prominent among those studies is the OSS Market Forecast from by RHK, Inc. According to that study, the worldwide OSS market will grow at a CAGR of 7% from 2003 to 2007 in effect growing from, US$. 31.1 billion to US$. 40.5 billion. The commercial off the shelf (COTS) portion of this growth is expected to be 11% CAGR as more telcos are expected to opt for COTS as against internal development. In an era of focus on core competence, telcos have realised that relying on COTS provides a better growth path into the future combined with sustainability and dependability.

While the growth in the OSS market in general is of interest to Subex, what is of greater importance is the projected growth in its' area of operation, namely revenue maximization. According to the forecast, this segment is expected to grow at a CAGR of 28% from 2003 to 2007.

Ever since the launch of Ranger™ in February 2000, Subex has been signing on new customers at a frenetic pace, as evidenced by the growth in the number of networks where Ranger™ and INcharge™ have been installed. Starting with a zero base in early 2000, Ranger™ has now been installed in 68 networks spread across 19 countries in 4 continents. INcharge™ has been installed in 7 networks. An even more significant aspect is the stature of customers who have reposed their faith on Subex. Global Crossing and Sprint in the US; Vodafone (Romania), OTE (Romania) and CYTA (Cyprus) in Europe; France Telecom (Senegal, Mali) and Econet (Nigeria) in Africa; Saudi Telecom Company, Sabafon (Yemen) and Investcom (Syria, Yemen) in the Middle East; Airtel, Hutch, Idea, BPL and Tata Teleservices in India and TAC (Thailand), MTN (Sri Lanka) and JTB (Brunei) in the rest of Asia are some of the major customers. The Company has been gradually moving from small networks to very large ones. The largest has about 15 million subscribers processing over 100 million records per day.

## SHARE CAPITAL :

As on 31st March 2004, the Authorized Share capital stood at Rs. 307,800,000 comprising Rs. 111,800,000 of Equity Share Capital and Rs.196,000,000 of Preference Share Capital. The Paid up Share Capital as on March 31, 2004 stood at Rs. 258,464,110 comprising 7,353,811 equity shares of Rs.10 each for Rs. 73,538,110 and 1,887,000 Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) of Rs.98 each for Rs.184,926,000

During the year, the Company allotted 9,986 Equity shares of Rs. 10/- each to various employees on the exercise of Stock options granted to them under the Employee Stock Options Plan - II.Pursuant to the terms of the subscription agreements executed with the company M/s. Intel Capital Corporation and M/s. Unit Trust of India A/c IT VUS have opted for conversion of 612,245 and 478,500 ROCCPS respectively and accordingly on 7th April 2004, the Allotment Committee of the Board of Directors have allotted 612,245 Equity Shares to UTI A/c IT VUS and 478,500 Equity Shares to M/s. Intel Capital Corporation.

## SUBSIDIARIES - SUBEX TECHNOLOGIES, INC :

For the year ended March 31,2004, Subex Technologies, Inc., earned an income of US$ 9,345,874 and a net profit of US$ 93,186. The subsidiary provides manpower for the contracts of the company with its customers in USA on a transfer pricing mechanism and as such the profits on the contract are reflected in the company's accounts. The consolidated accounts are separately appended to this report. The management has obtained an independent valuation of the subsidiary, according to which, there has been no impairment in the carrying cost of the investment.

## EMPLOYEES STOCK OPTION PLANS :

Your Company has instituted two Employee Stock Option Schemes (ESOP) to enhance employee commitment, reward performance and reduced attrition. The details of the scheme are.

## EMPLOYEES STOCK OPTION PLANS (ESOP - I) :

Instituted during 1999, ESOP - I is operated through Subex Foundation and was vested with 120,000 Equity Shares originally. Subsequent to the issue of Bonus Shares, the number of shares available under the scheme has increased to 240,000 Equity Shares of which 152,780 shares have been allotted to 30 employees. The original shares allotted under the scheme are subject to a minimum lock-in of three years and Bonus Shares, subject to minimum lock-in of one year. The shares under the scheme are allotted at a price, which is not less than 50% of the market value of the shares as on the date of grant.

## EMPLOYEES STOCK OPTION PLANS (ESOP- II) :

Under this scheme, 500,000 options have been allocated for grant to the employees. Each option is convertible into one equity share of Rs.10/- each, fully paid. This scheme has been formulated in accordance with the SEBI guidelines on ESOP & ESPS dated 19th June 1999. As per the scheme, the compensatory committee grants the option to these employees deemed eligible by the Advisory Board constituted for the purpose. The options are granted at a price, which is not less than 85% of the average market price of the underlying shares, based on the quotation on the Bombay Stock Exchange for 15 days prior to the date of grant. The options granted vest over a period of 1 to 4 years and can be exercised over a period of 4 years from the date of vesting. As on March 31, 2004, 180 employees were granted options aggregating to 301,440 options.

Additional information as per SEBI guidelines ;

| | ESOP I | ESOP II |
|---|---|---|
| 1. Number of shares / options allotted / granted during the year | Nil | 130,650 |
| 2. Grant price - percentage of discount to the market price of the shares on the date allotted / granted | N.A. | 85% of average market price for 15 days prior to the date of grant. |
| 3. Shares / options issued to during the year<br>A. Directors:<br>1. Mr. P. P. Prabhu<br>B. Key Executives :<br>1. Ms. Anuradha - 9000<br>2. Mr. Sekharan Yezhuvath - 5250<br>3. Mr. Rajkumar. C - 1300 | <br>N.A<br><br>N.A | <br>7,500<br><br>15,550 |
| 4. No. of employees to whom more than 5% of the shares / options issued during the year | N.A. | Nil |
| 5. No. of employees who were issued shares exceeding 1% of the issued capital of the Company. | None | None |
| 6. Diluted earning per share | Rs.18.63 | Rs.18.63 |

## CORPORATE GOVERNANCE :

Subex is committed to building long-term shareholder value with full emphasis on Corporate Governance. In achieving this objective, the Company has always endeavored to operate as a responsible and law abiding corporate citizen. Your Company strives to implement the best Corporate Governance Model at par with the best companies. In line with the recommendations of the Securities and Exchange Board of India (SEBI) on Corporate Governance, your Company has various committees in place. Your Company has 8 (Eight) Directors including the Chairman and Managing Director. None of the Directors on the Board is a member on more than 10 Committees and Chairman of more than 5 Committees, across all the companies in which he is a Director. The Directors have made the necessary disclosures regarding Committee positions. During the year the Company has not been subjected to any penalties or strictures imposed by any statutory authorities in the administration of the Companies Act, 1956. A separate report on Corporate Governance and management Discussion & Analysis are annexed as a part of the Annual Report.

The Company's shares have been listed on The Stock Exchange, Mumbai, National Stock Exchange, Bangalore Stock Exchange and Hyderabad Stock Exchange. Accordingly provisions of Listing Agreement become applicable to the Company. Your Company has been complying with the listing agreement with the Stock Exchanges.

## AUDIT COMMITTEE

During the year the Audit Committee was reconstituted by including Mr. S. N. Rajesh as a member. Mr. Subash Menon has resigned from the Audit Committee and the committee presently comprises Mr. Balaji Bhat, Mr. K. Bala Chandran, Mr. Vinod R Sethi and Mr. S. N. Rajesh , all of whom are non-executive Directors, with Mr. Balaji Bhat as its Chairman. The role, terms of reference, the authority and power of the Audit Committee are in conformity with the requirements of the Companies Act,1956.

## DIRECTORS :

During the year the appointment of Mr. S. N. Rajesh and Mr. P. P. Prabhu who were inducted into the Board as additional Directors, has been ratified in the Annual General Meeting held on September 9, 2003. Mr. Alex P J and Mr. Balaji Bhat Directors retire by rotation, and are eligible for reappointment. Your Directors recommend reappointment of above Directors.

## FIXED DEPOSITS :

The Company has not accepted any fixed deposits from the public during the year.

## 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, the names and other particulars of employees are set out in the annexure included in this report.

**4.0 Information under Section 217 (1)(e) of the Companies Act, 1956 read with Companies (Disclosures of Particulars in the Report of Board of Directors) Rules, 1988**

**4.1 Particulars of Conservation Energy**

The Company is not a major consumer of power. However adequate measures have been taken to conserve the energy consumption.

**4.2 Technology Absorption, adoption and innovation.**

The Company has not imported any technology. However, the telecommunications domain, in which your Company operates, is subject to high level of obsolescence and rapid technological changes. You Company has developed inherent skills to keep pace with these changes. Software products being a significant line of business, the Company incurs expenses on product Research and Development on a continuous basis. These expenses are charged to revenue under the respective heads and are not segregated and accounted separately.

**4.3 Foreign Exchange Earning and Outgo.**

Your Company has over the years shifted its focus from software services to software products. This has resulted in substantial foreign exchange earnings as compared to previous years. During the year 2003-04 total foreign exchange inflow and outflow is as follows:

i) Foreign Exchange earnings Rs. 640.47 million (previous year Rs. 340.11 million)
ii) Foreign Exchange outgo Rs. 644.80 million (previous year Rs. 266.21 million)

## AUDITORS :

The term of office of M/s. Deloitte Haskins & Sells, Chartered Accountants, as Auditors of the company expires at the conclusion of the Annual General Meeting and they are eligible for re-appointment.

## SOCIAL RESPONSIBILITIES - SUBEX CHARITABLE TRUST :

The trust was set up with a corpus of Rs. 5.00 lacs to provide for welfare activities for underprivileged and the needy in the society. The trust is managed by Trustees elected from amongst the Subexians. The following are the trust activities during the year;

a. Rs. 1.58 lacs towards medical expenses.
b. Rs. 1.10 lacs towards school fees of needy children.
c. Rs. 0.44 lacs donation to Prerana Resource Centre for purchase of household items , electricity and water charges.

## DIRECTORS' RESPONSIBILITY STATEMENT :

In accordance with the provision of Section 217(2AA) of the Companies Act 1956, the Board of Directors affirms;

a) That in the preparation of the accounts for the year ending March 31, 2004, the applicable accounting standards have been followed and there are no material departures there from.

b) That the accounting policies have been selected and applied 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 as at March 31, 2004 and of the profit of the Company for the year ended on that date.

c) That proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provision of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

d) That the accounts for the year ended March 31, 2004 have been prepared on a going concern basis.

## ACKNOWLEDGEMENT :

Your Directors wish to express their gratitude and thanks to the Customers, Suppliers, Investors and Bankers for their continued support to the Company's growth. Your Directors place on record the appreciation of the contribution made by Subexians at all levels, enabling the Company to achieve an excellent growth. Your Company also thanks the Government of India, Department of Telecom, Central Excise and Customs Department, Software Technology Parks of India, Bangalore, Ministry of Commerce, Foreign Investment Promotion Board, Reserve Bank of India, State Government and other Governmental Agencies for their support during the year and look forward for their continued support.

For and On Behalf of the Board

Place : Bangalore
Date : April 30, 2004

**Subash Menon**
Chairman & Managing Director

## ANNEXURE TO THE DIRECTORS' REPORT :

Information as per Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended March 31, 2003.

| Name | Designation | Quali-fication | Age | Experience (No.of Years) | Date of Commen-cement of Employment | Remuneration received Rs. | Previous Employment |
|---|---|---|---|---|---|---|---|
| **Subash Menon** | Chairman & Managing Director | B.E | 39 | 16 | December 1994 | 3,508,328.00 | Sales Engineer Eltel Industries |
| **Alex J Puthenchira** | Executive Director | B.E | 39 | 16 | December 1994 | 3,336,228.00 | Area Sales Manager Inductotherm (India) Limited |
| **Sudeesh Yezhuvath** | Whole Time Director | B.Tech | 35 | 14 | December 1994 | 3,334,879.00 | Sales Engineer Transmatic Systems Limited |
| **P. Vinodkumar** | Director - Sales | B.Tech | 34 | 12 | October 1997 | 5,920,486.00 | Marketing Executive Crompton Greaves Ltd |
| **Paul Valois*** | Application specialist | Business Administration degree; IT Diploma | 42 | 6 | June 2001 | 1,478,566.00 | Application specialist, Magardi, Inc. |
| **Lorne Oickle** | Manager - Software Support | Diploma in Electronics Engineering Technology | 30 | 2 | October 2001 | 2,822,789.00 | Manager - Support Nortel |
| **Benjamin Cai Di*** | Director - Sales | Majoring in Electricity Application Technology | 32 | 10 | October 2003 | 1,600,890.00 | Paragon Networks International, China |

* Employed for part of the year.

# Report on Corporate Governance

## I. COMPANY'S PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

Subex Systems Limited is committed to Good Corporate Governance. Consistent with this commitment, Subex seeks to achieve a high level of responsibility and accountability in the internal systems and policies. Subex respects the inalienable rights of the shareholders to information on the performance of the Company. The Company's Corporate Governance policies ensures, among others, the accountability of the Board of Directors and the importance of its decisions to all its participants viz., Customers, employees, investors, regulatory bodies etc. Subex's Code of Corporate Governance has been drafted in compliance with the code of "Corporate Governance" as promulgated by the Securities and Exchange Board of India (SEBI) on 25th January 2000.

## II. BOARD OF DIRECTORS

The Board of Directors of Subex is comprised of 8 Directors. Details of Composition of Board of Directors and their attendance and other particulars are given below:

### A. Composition and category of Directors as on March 31 2004

| Category | No. of directors | % |
|---|---|---|
| Promoter Directors | 2 | 25% |
| Non Executive Independent Directors | 5 | 62% |
| Other Executive Directors | 1 | 13% |
| Total | 8 | 100% |

### B. Attendance of Directors at the Board meetings and the last AGM and details about Directorships and membership in committees as on March 31 2004.

| Director | No. of Board Meetings held | No. of Board Meetings Attended | Last AGM attendance | No. of Directorships in other companies** | No. of Committees in which the Director is Chairman+ | No. of Committees in which the Director is a member+ |
|---|---|---|---|---|---|---|
| Mr. Subash Menon | 4 | 4 | Yes | - | - | - |
| Mr. Alex J. Puthenchira | 4 | 4 | Yes | - | - | 1 |
| Mr. K. Bala Chandran | 4 | 4 | Yes | 1 | 1 | 5 |
| Mr. V. Balaji Bhat | 4 | 4 | Yes | 2 | 2 | 5 |
| Mr. Vinod R. Sethi | 4 | 3 | Yes | 6 | - | 2 |
| Mr. Sudeesh Yezhuvath | 4 | 2 | Yes | - | - | - |
| Mr. S N Rajesh | 4 | 4 | Yes | 1 | 1 | 1 |
| Mr. P. P. Prabhu* | 4 | 3 | Yes | 2 | - | - |

*Inducted at the Board of Directors meeting held on July 23 2003

**Excluding Private Limited Companies & Overseas companies

+Including committee memberships in Subex Systems Ltd

### C Number and dates of Board Meetings

**4 (Four) Board meetings were held during the year. The dates on which meetings were held are as follows**

June 09 2003    July 23 2003    October 22 2003    January 22 2004

### D. Brief details of Directors seeking re-appointment:

1. Mr. Alex Puthenchira is the Executive Director of the Company. He graduated in Electrical Engineering from the Regional Engineering College at Durgapur in 1986. After his graduation, he joined M/s. Inductotherm India Ltd as a Service Engineer and later became its Area Sales Manager. During 1992-93 he joined Mr. Subash Menon to promote Subex Systems.
2. Mr. V. Balaji Bhat is a Chartered Accountant and practicing Management Consultant. He is also associated with various medium and large Corporates in India as advisor and Director. Mr. Bhat is presently Director of IndusAge Advisors Private Limited, a management consultancy firm located at Bangalore.

## III. AUDIT COMMITTEE

### A. Terms of Reference

The Audit Committee has, interalia, the following mandate:

- Oversight of Company's financial reporting process and disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible
- Recommendation of appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services
- Review of annual financial statements before submission to the Board

- Review of adequacy of internal control systems
- Review of adequacy of internal audit function, including the reporting structure coverage and frequency of internal audit
- Review of Company's financial and risk management policies

The current charter of the Audit Committee is in line with international best practices and the regulatory changes formulated by SEBI and the listing agreements with the Stock Exchanges on which Subex is listed.

**B. Composition of Audit Committee.**

Composition

| | |
|---|---|
| Mr. Balaji Bhat | Chairman (Non-Executive Director) |
| Mr. K. Bala Chandran | Non-Executive Director |
| Mr. Vinod R Sethi | Non-Executive Director |
| Mr. S. N Rajesh | Non-Executive Director |

The Company Secretary is the secretary of the Audit Committee.

**C. Meetings and attendance during the year.**

During the financial year 2003-04, the Audit Committee meetings were held four times, i.e., on June 09 2003, July 23 2003, October 22 2003 & January 22 2004 and the Audited financial results for the year ended March 31 2003 and quarterly unaudited accounts for the period ended June 30 2003, September 30 2003 and December 31 2003 were adopted at these meetings respectively.

Attendance of committee members at the Audit Committee meetings held during the year:

| Member | No. of Audit Committee Meetings held | No. of Audit Committee Meetings Attended |
|---|---|---|
| Mr. V. Balaji Bhat | 4 | 4 |
| Mr. K. Bala Chandran | 4 | 4 |
| Mr. Vinod R. Sethi | 4 | 3 |
| Mr. S.N Rajesh | 4 | 4 |
| Mr. Subash Menon | 4 | 2 |

Mr. S.N Rajesh was appointed as a Member of Audit Committee at the Board Meeting held on June 09 2003 and Mr. Subash Menon has resigned from the Audit Committee on July 23 2003.

## IV. REMUNERATION COMMITTEE

**Composition of the Committee**

Mr. S. N. Rajesh- Chairman
Mr. Vinod R Sethi
Mr. K. Bala Chandran

The committee had one meeting during the year on June 9 2003.

Details of Remuneration to Directors.

| Name | Designation | Salary (Rs.) | Commission (Rs.) | Total |
|---|---|---|---|---|
| Mr. Subash Menon | Chairman & Managing Director | 3,008,328.00 | 500,000.00 | 3,508,328.00 |
| Mr. Alex P.J | Executive Director | 2,836,228.00 | 500,000.00 | 3,336,228.00 |
| Mr. Sudeesh Yezhuvath | Wholetime Director | 2,834,879.00 | 500,000.00 | 3,334,879.00 |
| Mr. K. Bala Chandran | Non - Executive Director | - | 100,000.00 | 100,000.00 |
| Mr. V. Balaji Bhat | Non - Executive Director | - | 100,000.00 | 100,000.00 |
| Mr. Vinod R. Sethi | Non - Executive Director | - | 100,000.00 | 100,000.00 |
| Mr. S. N. Rajesh | Nominee Director | - | - | - |
| Mr. P. P. Prabhu | Non - Executive Director | - | 100,000.00 | 100,000.00 |
| **Total** | | **8,679,435.00** | **1,900,000.00** | **10,579,435.00** |

Note: The above figures are excluding the sitting fees

## V. SHARE TRANSFER COMMITTEE

The Company holds Share Transfer Committee Meetings two / three times a month as may be required, for approving the transfers/transmissions of equity shares. The Company has appointed M/s. Canbank Computer Services Limited, a SEBI recognised transfer agent, as its Share Transfer Agent with effect from November 6, 2001. The Share Transfer Committee has met 23 (Twenty three) times during the financial year 2003-04 on these days:

| | | | | | |
|---|---|---|---|---|---|
| 15-04-2003 | 30-04-2003 | 15-05-2003 | 31-05-2003 | 15-06-2003 | 01-07-2003 |
| 15-07-2003 | 31-07-2003 | 16-08-2003 | 31-08-2003 | 3-09-2003 | 13-09-2003 |
| 30-09-2003 | 15-10-2003 | 31-10-2003 | 16-11-2003 | 21-11-2003 | 15-12-2003 |
| 31-12-2003 | 16-01-2004 | 19-02-2004 | 3-03-2004 | 15-03-2004 | - |

The Company ensures that the share transfers are effected within one month of their lodgement.

## VI. INVESTOR GRIEVANCE COMMITTEE

### A. Composition of the Committee

The members of the Company's investor grievance committee are:

Mr. K. Bala Chandran, Chairman

Mr. Alex J. Puthenchira

This Committee looks into redressal of shareholder and investor complaints.

### B. Meetings during the year

The committee has met 4 (Four) times during the current financial year on these dates:

June 09, 2003 July 23, 2003 October 22, 2003 January 22, 2004

Details of Investor's Grievances are provided in the "Shareholders Information" section of this report.

## VII. ESOP COMMITTEE (COMPENSATION COMMITTEE)

The Company has instituted Employees Stock Options Scheme in line with the SEBI Guidelines. In order to grant options under the scheme to eligible employees, Compensation Committee has been formed.

### A. Composition of the Committee

The committee comprises of following members:

Mr. V. Balaji Bhat, Chairman

Mr. K. Bala Chandran

Mr. Subash Menon

### B. Meetings during the year.

The committee has met 7 (Seven) times during the current financial year on these dates:

April 01, 2003 July 01, 2003 August 01, 2003 September 10, 2003
October 10, 2003 October 22, 2003 January 02, 2004

Mr. V. Balaji Bhat has chaired the Meetings on all these days.

## VIII. GENERAL BODY MEETINGS

### A. Location and time of the last three AGMs.

| Year | Date of AGM | Venue | Time |
|---|---|---|---|
| 2000-2001 | June 13, 2001 | Le Meridian - Bangalore | 3.00 p.m. |
| 2001-2002 | November 15, 2002 | Le Meridian - Bangalore | 3.00 p.m. |
| 2002-2003 | September 09, 2003 | Le Meridian - Bangalore | 3.00 p.m. |

### B. Postal Ballot

No special resolutions were put through the postal ballot last year.

## IX. DISCLOSURES

A. There are no materially significant related party transactions of the company of material nature, with the promoters, the Directors or the management, their subsidiaries or relatives etc that may have potential conflict with the interests of the company at large.

B. The Company has not been subjected to any penalties, strictures by Stock Exchange(s)/SEBI or any statutory authorities on any matter related to capital markets, during the last three years. The Company has been complying with the listing conditions.

## X. MEANS OF COMMUNICATION

### A. Quarterly results

The quarterly audited results are generally published in all editions of Business Standard and Udayavani. The entire quarterly financial statements as well as the annual financial statements are posted on the Company's website, http://www.subexgroup.com. Subex also regularly provides information to the Stock Exchanges as per the requirements of the Listing Agreements and updates the website periodically to include information on new developments and business opportunities.

B. Management discussion and analysis section is part of the annual report.

## XI. General shareholder information is provided in the "Shareholders information section" of the Annual Report.

## XII. Auditors Certificate in respect of Compliance of conditions of Corporate Governance as per Clause 49 of the Listing agreement with Stock Exchanges is enclosed in this Annual Report.

For Subex Systems Limited

Place : Bangalore
Date : April 30, 2004

**Subash Menon**
Chairman & Managing Director

## Auditors' Certificate

**To the Members of Subex Systems Limited**

1. We have examined the compliance of conditions of corporate governance by **Subex Systems Limited**, for the year ended March 31, 2004, as stipulated in Clause 49 of the Listing Agreement of the said Company with the Stock Exchanges.

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

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

4. As required by the Guidance Note issued by the Institute of Chartered Accountants of India, we have to state that based on the report given by the Registrars of the Company to the Investors' Grievances Committee, as on March 31, 2004, there were no investor grievance matters against the Company remaining unattended/pending for more than 30 days.

5. 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 Deloitte Haskins & Sells**
Chartered Accountants

**V. Srikumar**
Partner
M.No.84494

Place : Bangalore
Date : April 30, 2004

# Additional Information to Shareholders

The management of Subex is committed to improving the levels of transparency and disclosure. Pursuant to this philosophy, an attempt has been made to disclose hereunder, information about Subex, its Business, Operations, Outlook and Risks.

1. **Company**

1.1. Subex Systems Limited (Subex) was incorporated in 1994 as a Private Limited Company under the Companies Act, 1956 at Bangalore Karnataka. Subex was converted into a Public Limited Company in 1996. Subex made an Initial Public Offer during July 1999 and the equity shares are listed on Bangalore, Hyderabad, Mumbai and National Stock Exchanges.

1.2. Subex's applications for registration of the trademark "SUBEX" and "Ranger" with the authorities in India have been accepted and are under process. Applications for trademark registrations for "Ranger", "INcharge" and "RevMax" in the US have also been accepted by the authorities and are in various stages of completion.

1.3. Subex operates in a niche market providing Revenue Maximization solutions to communications service providers worldwide. These solutions improve the revenues and profits of the communications service providers through identification and elimination of leakages in their revenue chain. Subex conceptualizes and develops software products at its facilities in Bangalore and is focused on the telecom business segment. Subex has sales and support offices in Canada, Cyprus, China and United States. Subex's vision is to be a global leader in its' chosen area of operation - namely revenue maximization for communications service providers.

2. **Business and Market**

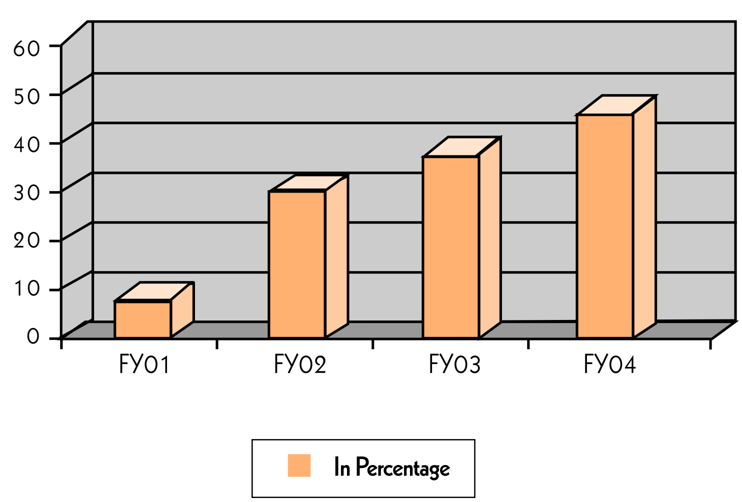
2.1. **Business Segments**

Subex operates in two major business segments.

2.1.1.1. **Telecom Software Products** - Subex's defined space of operation for products is Revenue Maximization for communications service providers. The objective is to develop and market products that belong to this category. Towards this end, Subex has developed and is marketing Ranger™, a fraud management system and INcharge™, a revenue assurance system. Further, Subex is in the process of developing more products for the same market segment. These products form a suite in the revenue maximization space called RevMax™. The customers for these products are voice, data, internet and such other communications service providers.

2.1.1.2. **Telecom Software Consulting** - Subex serves telcos and vendors (in the telecom space) for their software development requirements in the Operations Support Systems (OSS) space. The focus is on application development for billing, customer care, inventory management, performance monitoring etc. AT&T continues to be the largest customer for this business unit.

**Business Mix** - Subex aims to be the leader in revenue maximization solutions for communications service providers globally and has taken several strategic initiatives to fulfill its' ambition. Over the years, the business mix has tilted in favour of software products as against software consulting. Over the past 3 years, software products have increased their contribution in the overall revenue from 7% in FY01 to 45% in FY04. The company is focused on the products side of the business and is committed to grow this segment faster in the coming years. Owing to this, the contribution of products to the overall revenue is expected to move up to 55% in FY05 and increase further in the years ahead.




**Share of Product Revenue in Total Revenue**

## 2.2. Strategy and Value Proposition

2.2.1. Promotion of a master brand "RevMax™" which forms the integrated platform for all the products. RevMax™ is squarely positioned in the revenue maximization space. RevMax™ consists of Ranger™ fraud management system and INcharge™ revenue assurance system.

2.2.2. Conceptualizing, designing and developing products for telecom applications in the revenue maximization segment with a special emphasis on fraud management, revenue assurance, cost management etc. for both circuit switched and packet switched networks.

2.2.3. Creating value through ownership of intellectual property with respect to software products.

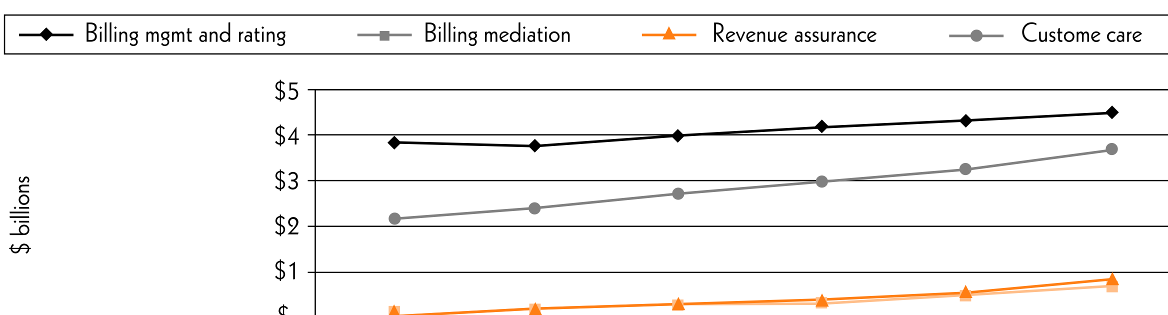
2.2.4. Achieving inorganic growth through the acquisition of businesses that are strategic and complementary to the existing lines of activities.

2.2.5. Superior support to all customers and potential customers by leveraging the domain expertise of Subex and through the inculcation of a support philosophy throughout the organization.

2.2.6. Ensuring an attractive value proposition to the communications service providers. The RevMax™ integrated platform from Subex enables our customers to obtain a holistic view of the revenue maximization aspects on an enterprise wide basis. This innovative approach from Subex has been welcomed by the carriers as they can now, for the first time, leverage the data across their network while achieving full interoperability and data integrity.

2.3 **Market Opportunity** - The market that Subex operates in, i.e. provision of revenue maximization solutions to communications services providers is growing by leaps and bounds. Several studies and market surveys have established the significance and potential of this market segment. Prominent among those studies is the OSS Market Forecast from by RHK, Inc. According to that study, the worldwide OSS market will grow at a CAGR of 7% from 2003 to 2007 in effect growing from, US$. 31.1 billion to US$. 40.5 billion. The commercial off the shelf (COTS) portion of this growth is expected to be 11% CAGR as more telcos are expected to opt for COTS as against internal development. In an era of focus on core competence, telcos have realised that relying on COTS provides a better growth path into the future combined with sustainability and dependability.

While the growth in the OSS market in general is of interest to Subex, what is of greater importance is the projected growth in its' area of operation, namely revenue maximization (referred to as Revenue Assurance in the table given below).

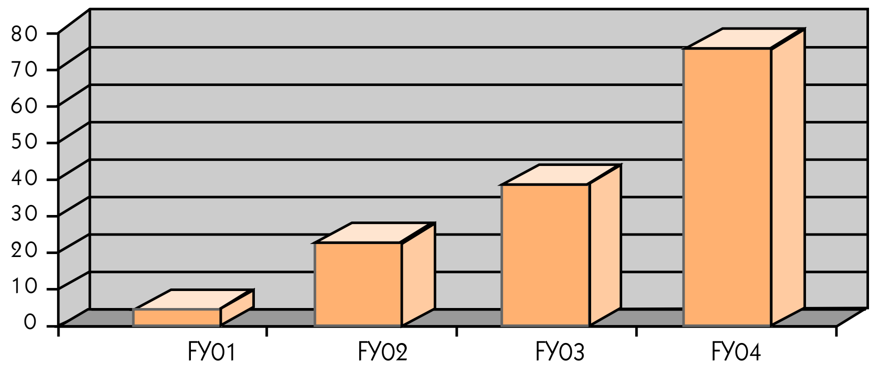



| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| Billing mgmt and rating | $3.8 | $3.7 | $4.0 | $4.2 | $4.4 | $4.6 |
| Billing mediation | $0.2 | $0.3 | $0.3 | $0.4 | $0.5 | $0.7 |
| Revenue assurance | $0.2 | $0.3 | $0.4 | $0.5 | $0.6 | $0.8 |
| Custome care | $2.2 | $2.4 | $2.7 | $3.0 | $3.3 | $3.7 |

Source : RHK, Inc.

As can be seen from the above table and graph, the revenue maximization or revenue assurance market size is expected to grow from US$. 300 million to US$. 800 million over the 4 year period from 2003 to 2007 resulting in a CAGR of 28%. Given the current penetration of its' products in the global marketplace and the proposed launch of more products to address this space more effectively and extensively, Subex is confident of garnering a significant portion of this market in the coming years.

2.4 **Market Penetration** - Subex has been constantly expanding its' customer base while growing deeper into each relationship. An increasing number of installations have been achieved during FY04. This is expected to result in an increased annuity base in the years to come. Key statistics about customer acquisition and the growth of the same are given below graphically.

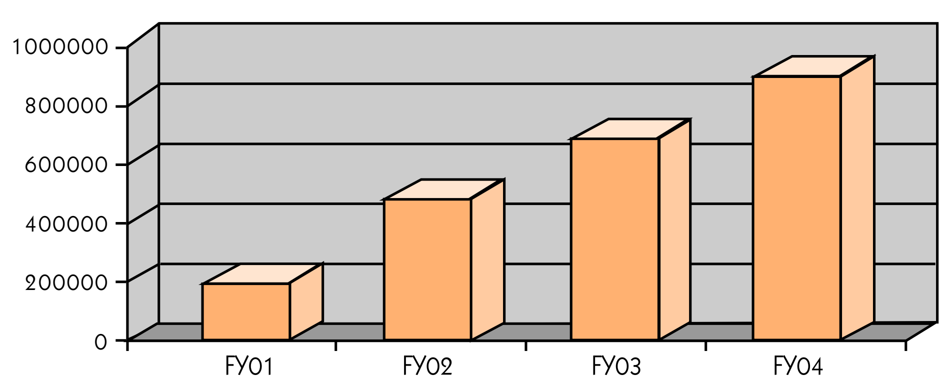



**Total Number of Networks with RevMax™ (Ranger™ and INcharge™) Installations**

2.5 **Customer Base** - Ever since the launch of Ranger ™ in February 2000, Subex has been signing on new customers at a frenetic pace, as evidenced by the growth in the number of networks where Ranger ™ and INcharge ™ have been installed. Starting with a zero base in early 2000, Ranger ™ has now been installed in 68 networks spread across 19 countries in 4 continents. INcharge ™ has been installed in 7 networks. An even more significant aspect is the stature of customers who have reposed their faith on Subex. Global Crossing and Sprint in the US; Vodafone (Romania), OTE (Romania) and CYTA (Cyprus) in Europe; France Telecom (Senegal, Mali) and Econet (Nigeria) in Africa; Saudi Telecom Company, Sabafon (Yemen) and Investcom (Syria, Yemen) in the Middle East; Airtel, Hutch, Idea, BPL and Tata Teleservices in India and TAC (Thailand), MTN (Sri Lanka) and JTB (Brunei) in the rest of Asia are some of the major customers. The company has been gradually moving from small networks to very large ones. The largest has about 15 million subscribers processing over 100 million records per day. Going forward, the objective is to book contracts from even larger tier-1 carriers.

2.6 **Revenue Model** - The revenue model of a company decides the growth potential and stability of the organization. Subex's revenue model is quite robust and is capable of imparting substantial gains in the future. This revenue model has been designed to scale up with and benefit from the growth of the communications service providers while ensuring affordability of the solutions even during initial roll out of networks by these customers. To that end, Subex licenses its' software solutions on a per subscriber or per transaction basis resulting in continuous growth in license revenues depending on the growth of the networks where the solutions are installed. Another sustainable revenue stream is the support revenue calculated as a function of the license revenue. These two streams of revenue - license and support - are expected to lend stability to the overall revenue of the company.

2.7 **Average Revenue Per Contract** - A key measure of the success of a product company is the Average Revenue Per Contract (ARPC). This is a function of the size of the networks where the products are being installed, number of products in the suite that are being installed and the license revenue per subscriber or transaction record. This key parameter has been growing at a fast rate at Subex increasing from about US$. 200,000 in FY02 to US$. 700,000 in FY04. The graph tracking this growth is given below. As the cost of sales and that of implementation on a per contract basis does not rise in proportion to the ARPC, a direct impact of the growth in ARPC is a sign of improving profit and profitability.




**Average Revenue Per Contract in US$.**

2.8 **Marketing :**

2.8.1 **Brand Building** - Subex has been building its' brand systematically over the past few years as this is a critical ingredient for success in the software products business. Today, its' brands, Subex, RevMax™, Ranger™ and INcharge™ are very well positioned among the communications service providers. Ranger™ has achieved excellent brand recall and has been installed in over 68 networks by March 2004. Further, Ranger™ is acknowledged as one of the top five fraud management systems globally. INcharge™ has been gaining traction over the past 12 months and is now installed in 7 networks.Subex participates in a variety of tradeshows around the world and Subexians present papers at several of these. Subex's focus is on industry and sector specific tradeshows. Apart from attracting potential customers, the tradeshows function as an excellent platform to create stature and credibility for the company.

2.8.2 **Partnerships** - Subex has an active partnership program in place. This was one of the major initiatives of FY04. Current sales and technology partners include Tekelec, Oracle, IBM, Microsoft, Intel and Sun Microsystems.

2.8.3 **Direct Marketing** - Subex regularly produces white papers and technology documents that are distributed worldwide to industry professionals. This effort helps position Subex as an organization in the forefront of technology. Further, it leads to a consulting relationship with customers who look up towards Subex for guidance and recommendations on benchmarking, good practices etc.

2.8.4 **Memberships** - In order to stay on the leading edge of technology, Subex actively participates in the deliberations of industry bodies. Such association also provides an opportunity for Subex to play a key role in formulating specifications and guidelines for the industry. Subex is a member of the GSM Association, CFCA and NASSCOM.

2.9 **Quality :**

Subex is dedicated to maintain the highest levels of quality standards throughout its operations. Towards this, Subex has been accredited ISO 9001: 2000 certification.

2.10 **Employees :**

Subex had 177 employees and 100 consultants as at March 31, 2004 located at its offices at India, Canada, China, USA and Cyprus. Subex provides excellent opportunities for professionals to be involved in leading edge technologies with a view to solve complex technical problems. This has resulted in an ability to attract and retain highly qualified professionals. Subex has Employee Stock Option Plans to reward performance. On the whole, Subex has been able to achieve a high level of retention. Subex empowers its personnel extensively and provides continuous training and upgradation of skills. During the financial year 2003, Subex introduced performance bonus for all its employees who have completed their one-year stint in Subex.

2.11**Properties :**

Subex operates from about 27,000 Sq. Ft. of leased premises at various locations in India and US. Subex has identified a new location in Bangalore and the construction of the building under lease is in progress. The company expects to move its operations to this newly built facility during the current fiscal year.

3. **Outlook - Issues & Risks**

3.1 **Market**

3.1.1 The telecom industry is gradually coming out of the downturn. However, uncertainties continue and capex is low. This anti-investment climate could persist for some more time.

3.1.2 Subex is fully dependant on the telecom industry. So, any vagaries in the telecom business environment will considerably impact the fortunes of the company.

3.1.3 The continuing drag in the industry has resulted in extended sales cycles. This could result in non-achievement of business targets in certain quarters or fiscal years.

3.1.4 The extremely competitive nature of the industry has led to an abnormally high debtor position which has been detrimental to cash flow. This trend could continue for a few more quarters before it improves materially.

3.1.5 Certain markets in which Subex sells its products are subject to foreign exchange repatriation and economic risks, which may result in either delayed recovery or even non-realisation of revenue. Subex conducts adequate due diligence while venturing into such markets.

3.1.6 On the consulting front, Subex has a high client concentration in AT&T. However, this risk has been mitigated by expanding the base to many disparate business units of AT&T and through continuous expansion of the client base outside this entity.

3.2 **Technology**

3.2.1 Given the high rate of obsolescence and rapid technological changes in the domain that Subex operates in, it is essential to be pro-active to stay ahead of the technological curve. Subex has set up processes and methodologies to address this threat and turn it into a strategic advantage by being in the forefront of technological evolution. Regular skill upgradation programs and training sessions that include attending global conferences, employing specialized consultants etc. are undertaken.

3.2.2 The severe downturn that has resulted in considerable financial difficulties for the carriers has spurred an unprecedented interest in tools and technologies to squeeze out as much profits as possible from the existing investments in the network and other infrastructure. This keen interest is the catalyst behind the growth witnessed by the revenue maximization space. We expect this trend to continue in the years ahead.

3.2.3 Retention of software personnel is another major risk being faced by Subex. Towards this, it provides an empowered atmosphere with extensive mentoring, career counseling and constant learning opportunities in cutting edge and challenging technologies.

3.3 **Statutory Obligations**

3.3.1 Subex has registered with Software Technology Parks of India for software development activities and has availed Customs Duties, Sales Tax and Central Excise exemptions. The non-fulfillment of export obligations may result in penalties as stipulated by the Government and this may have an impact on future profitability.

3.3.2 Subex has completed an acquisition in the US after obtaining necessary approvals. Since this involved substantial foreign exchange outlay, there are export obligations and repatriation conditions imposed by the authorities in India. The non-fulfillment of these stipulations may have an impact on the future profitability and growth.

3.4 **Environmental Matter**

Software development, being a pollution-free industry, is not subject to any environmental regulations.

3.5 **Legal Proceedings**

There are no material legal proceedings pending against Subex .

3.6 **Foreign Exchange**

Subex has substantial exposure to foreign exchange related risks on account of revenues and expenses relating to export of software. The Indian Rupee has been volatile against the US dollar during the year. Subex intends to improve Foreign Exchange risk management in the ensuing years.

3.7 **Taxation**

3.7.1 Significant tax benefits have been given to the software companies in India. These benefits are presently available to Subex. Any changes in taxation policies may adversely affect its' post tax profits.

3.7.2 India, having been among the signatories to the World Trade Organization, there exists a commitment to reducing the import tariff levels, thereby exposing the Indian entrepreneurs to global competition.

3.8 **Litigation**

There is an increasing trend in litigation regarding intellectual property rights, patents and copyrights in the software industry. There also exists other corporate legal risks. Subex has no material litigation pending against it in any court in India or abroad.

3.9 **Contractual Obligation**

3.9.1 In terms of the contract entered into by Subex with its customers in the ordinary course of business, it is obliged to perform and act according to the contractual terms and regulations. Failure to fulfill the contractual obligations arising out of such contracts may expose Subex to financial and other risks.

3.9.2 The management has taken sufficient measures to cover all of its contractual risks and does not foresee any major liability due to its non-fulfillment of any contractual terms and conditions.

4 **In addition to the afore-mentioned issues and risks, the management believes that the following risks may also impact the operations of Subex adversely :**

4.1 **Risk relating to Acquisition**: A key element of Subex's growth strategy is acquisition of business with activities that are complementary to those offered by it. Acquisition and merger of an enterprise has associated risks in the form of personnel, clients and regulatory issues. The success of the acquisition will depend upon the ability to retain the employees and the clients and further leverage the business of the existing clients of the acquiree Company. Timely handling of regulatory issues is also a key factor to the success of an acquisition. The management believes that it has the capability and expertise to manage this risk.

4.2 **Risk relating to Management of Growth**: Subex has been experiencing significant growth. Coupled with acquisitions, this growth is expected to place a significant demand on the management and resources. Subex has developed and improved upon the operational, financial and internal controls & reporting systems to mitigate this risk.

4.3 **Variability of Quarterly Operating Results**: The quarterly operating results of Subex have varied in the past due to reasons like seasonal pattern of hardware and software capital spending by customers, information technology outsourcing trends, timing, size & stage of projects, hiring of additional staff, changes in billing and employee utilisations and timing and integration of acquired businesses. Hence, the past operating results and period to period comparisons may not indicate future performance. The management is attempting to mitigate this risk through expansion of client base geographically.

## 5 Key Financials and Ratio Analysis

Rs in lacs except the key indicators

| Financial Highlights / Year ending 31st March | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|
| Total income | 8919.36 | 7064.14 | 5925.09 | 5,578.84 | 3,158.58 | 1,183.32 |
| Export sales | 8285.26 | 6760.09 | 5737.92 | 4,795.94 | 1,341.97 | 156.21 |
| Operating Profits (EBDIT) | 2460.23 | 1621.90 | 956.67 | 1,269.01 | 654.52 | 173.22 |
| Depreciation & Amortisation | 426.76 | 379.77 | 356.76 | 208.00 | 37.70 | 11.80 |
| Profit before tax | 1890.45 | 1017.5 | 479.15 | 1,039.44 | 562.58 | 115.77 |
| Profit after tax | 1775.01 | 961.20 | 418.43 | 1,027.72 | 502.58 | 102.51 |
| Equity Dividend % | 20% | 10% | 10% | 20.00% | 40.00% | 30.00% |
| Share Capital | 735.38 | 734.38 | 712.57 | 712.57 | 356.24 | 106.41 |
| Reserves & Surplus | 5409.40 | 4032.57 | 4580.12 | 4,218.17 | 3,690.52 | 214.53 |
| Net Worth | 7993.91 | 6288.47 | 3671.06 | 4,883.93 | 3,998.05 | 320.79 |
| Gross fixed Assets | 2096.05 | 1615.56 | 1638.05 | 1,098.24 | 507.43 | 242.79 |
| Net Fixed Assets | 896.56 | 778.40 | 1095.28 | 855.03 | 450.11 | 209.20 |
| Total Assets | 10857.59 | 9976.74 | 8961.64 | 6,720.57 | 6,355.11 | 1,005.16 |
| **Key Indicators** | | | | | | |
| Earning per Share | 24.14 | 13.09 | 5.87 | 14.42 | 14.11 | 9.63 |
| Cash Earning per Share | 29.94 | 18.26 | 10.88 | 17.34 | 15.17 | 10.74 |
| Book value per Share | 108.70 | 85.63 | 51.52 | 68.54 | 112.23 | 30.15 |
| Debt (including Working capital) Equity Ratio | 0.21 | 0.32 | 0.46 | 0.01 | 0.01 | 0.53 |
| EBDIT / Sales - % | 27.98% | 22.96% | 16.15% | 22.75% | 20.72% | 14.63% |
| Net Profit Margin - % | 20% | 13.61% | 7.06% | 18.42% | 15.91% | 8.66% |
| Return on year end Net Worth % | 22.20% | 15.29% | 11.40% | 21.04% | 12.57% | 31.96% |
| Return on year end Capital Employed % | 25.94% | 19.59% | 17.90% | 25.62% | 16.22% | 31.81% |

# Auditors' Report

**To the Members of Subex Systems Limited**

1. We have audited the attached Balance Sheet of Subex Systems Limited, as at March 31, 2004, and also the Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date annexed thereto. These financial statements are the responsibility of the management of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with generally accepted auditing standards in India. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Government of India, in terms of Section 227 (4A) of the Companies Act 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order, to the extent applicable to this Company.

4. Further to our comments in the Annexure referred to above, we report that:

   (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.

   (b) In our opinion proper books of account as required by law have been kept by the Company, so far as appears from our examination of the books and proper returns adequate for the purpose of our audit have been received from the US branch not visited by us.

   (c) The report on the accounts of the US Branch audited by the Branch Auditors' has been forwarded to us and has been dealt with by us in preparing this report.

   (d) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are prepared in accordance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956.

   (e) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account and the audited branch returns.

   (f) On the basis of written representations received from the Directors of the Company, as at March 31, 2004 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on March 31, 2004 from being appointed as a Director in terms of Clause (g) of sub-section (1) of Section 274 of the Companies Act 1956.

5 In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the notes and accounting policies give the information required by the Companies Act 1956, in the manner so required, 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, 2004;

   (b) in the case of the Profit and Loss Account of the profit for the year ended on that date; and

   (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

**For Deloitte Haskins & Sells**
Chartered Accountants

Place : Bangalore
Date : April 30, 2004

**V. Srikumar**
Partner
M.No.84494

## Annexure to the Auditors' Report

**(Referred to in paragraph 3 of our Report of even date)**

1. The provisions of clauses (vi), (viii), (ix)(b), (x), (xii), (xiii), (xiv), (xv), (xviii), (xix), (xx), as contained in para 4 and 5 of the Companies (Auditors' Report) Order, 2003, are not applicable to the Company for the current year.

2. In respect of its fixed assets:

   (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

   (b) Some of the fixed assets were physically verified during the year by the management in accordance with a programme of verification, which in our opinion provides for physical verification of all the fixed assets at reasonable intervals. According to the information and explanations given to us no material discrepancies were noticed on such verification.

3. In respect of its inventories:

   (a) As explained to us, inventories were physically verified during the year by the management at reasonable intervals.

   (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management were reasonable and adequate in relation to the size of the Company and the nature of its business.

   (c) In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventories and no material discrepancies were noticed on physical verification.

4. In respect of loans, secured or unsecured, granted or taken by the Company to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956, according to the information and explanations given to us:

   (a) The Company has not granted any loans, secured or unsecured during the year. The Company has taken loans aggregating to Rs. 11,300,000 from a party. As at the year end, the outstanding balance of such loan was Rs. 1,748,508.

   (b) In our opinion, the rate of interest and other terms and conditions of such loans are, prima facie, not prejudicial to the interest of the Company.

   (c) The payment of principal amounts and interest have during the year been regular/as per stipulations.

5. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods.

6. In respect of transactions entered in the register maintained in pursuance of section 301 of the Companies Act, 1956.

   (a) To the best of our knowledge and belief and according to the information and explanations given to us, transactions that needed to be entered into the register have been so entered.

   (b) According to the information and explanations given to us, the transactions in excess of Rs. 5 lakhs in respect of any party, have been made at prices which are, prima facie, reasonable having regard to the prevailing market prices at the relevant time.

7. In our opinion, the internal audit functions carried out during the year by a firm of Chartered Accountants appointed by the management were commensurate with the size of the Company and the nature of its business.

8. According to the information and explanations given to us the Company has been generally regular in depositing undisputed statutory dues, including Provident Fund, Investor Education and Protection Fund, Employees State Insurance, Income-tax, Sales-tax, Wealth Tax, Custom Duty, Excise Duty, cess and any other statutory dues with the appropriate authorities during the year and no such amounts were outstanding for a period more than 6 months from the date they became payable as at March 31st, 2004.

9. Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the Company has not defaulted in the (re)payment of dues to financial institutions and banks.

10. To the best of our knowledge and according to the information and explanations given to us, term loans availed by the Company were, prima facie, applied by the Company during the year for the purposes for which the loans were obtained.

11. According to the cash flow statement prepared by the management and other records examined by us and the information and explanations given to us, on an overall basis, funds raised on short term basis during the year have, prima facie, not been used for long term investment and vice versa.

12. To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

**For Deloitte Haskins & Sells**
Chartered Accountants

Place :Bangalore
Date : April 30, 2004

**V. Srikumar**
Partner
M.No.84494

# Balance Sheet

As at March 31, 2004

| | SCH | As at March 31,2004 Rs. | Rs. | As at March 31, 2003 Rs. | Rs. |
|---|---|---|---|---|---|
| **SOURCES OF FUNDS :** | | | | | |
| **SHAREHOLDERS FUNDS :** | | | | | |
| Share Capital | A | 258,464,110 | | 227,322,260 | |
| Share application money | | 243,535 | | | |
| Reserves and Surplus | B | 540,940,295 | 799,647,940 | 403,256,612 | 630,578,872 |
| **LOAN FUNDS :** | | | | | |
| Secured Loans | C | 147,203,061 | | 156,020,508 | |
| Unsecured Loans | D | 1,748,508 | | 43,078,500 | |
| Deferred payment consideration towards acquisition of a subsidiary and Intellectual Property Rights (Refer Note II.3) | | 18,883,619 | 167,835,188 | 84,220,955 | 283,319,963 |
| **DEFERRED TAX LIABILITY (Net):** | | | 1,570,000 | | – |
| **TOTAL** | | | 969,053,128 | | 913,898,835 |
| **APPLICATION OF FUNDS :** | | | | | |
| **FIXED ASSETS :** | E | | | | |
| Gross Block | | 209,167,886 | | 161,556,188 | |
| Less : Depreciation | | 119,948,661 | | 83,716,023 | |
| Net Block | | 89,219,225 | | 77,840,165 | |
| Capital work in progress | | 437,108 | | – | |
| | | | 89,656,333 | | 77,840,165 |
| **INVESTMENTS :** | F | | 326,902,626 | | 328,686,613 |
| **DEFERRED TAX ASSET (Net):** | | | – | | 2,050,000 |
| **CURRENT ASSETS, LOANS & ADVANCES :** | | | | | |
| Inventories | G | 138,025 | | 198,023 | |
| Sundry Debtors | H | 596,066,529 | | 399,679,803 | |
| Cash & Bank balances | I | 33,607,318 | | 162,355,299 | |
| Loans & Advances | J | 39,130,962 | | 25,132,316 | |
| | | 668,942,834 | | 587,365,441 | |
| Less: Current liabilities & Provisions | K | 116,705,607 | | 83,775,050 | |
| **Net Current Assets** | | | 552,237,227 | | 503,590,391 |
| **MISCELLANEOUS EXPENDITURE :** | | | | | |
| (To the extent not written off or adjusted) | L | | 256,942 | | 1,731,666 |
| **TOTAL** | | | **969,053,128** | | **913,898,835** |
| **NOTES ON ACCOUNTS :** | R | | | | |

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

In terms of our report of even date

**For Deloitte Haskins & Sells**
Chartered Accountants

**V. Srikumar**
Partner
Membership No. : 84494

Place : Bangalore
Date : April 30, 2004

**Subash Menon**
Chairman & Managing Director

**V. Balaji Bhat**
Director

**Rajkumar C.**
Company Secretary & Legal Counsel

**Alex J. Puthenchira**
Executive Director

# Profit and Loss Account

For the period ended March 31, 2004

| | SCH | 2003-2004 Rs. | Rs. | 2002-2003 Rs. | Rs. |
|---|---|---|---|---|---|
| **INCOME :** | | | | | |
| Sales & Services | | | 879,250,709 | | 700,102,094 |
| Other Income | M | | 12,685,486 | | 6,312,205 |
| **TOTAL** | | | 891,936,195 | | 706,414,299 |
| **EXPENDITURE :** | | | | | |
| Materials Consumed | N | | 15,637,526 | | 2,645,712 |
| Personnel Costs | O | | 528,186,583 | | 477,261,726 |
| Other Operating, Selling and Administrative Expenses | P | | 102,089,347 | | 64,316,473 |
| Financial Costs | Q | | 14,301,750 | | 22,463,136 |
| Miscellaneous Expenses amortised | | | 1,474,724 | | 1,474,724 |
| Depreciation | E | | 41,201,100 | | 36,502,496 |
| **TOTAL** | | | 702,891,030 | | 604,664,267 |
| **Profit Before Taxation** | | | 189,045,165 | | 101,750,032 |
| Provision for taxation | | | | | |
| – Current (Net of excess provision relating to earlier years of Rs.3,125,857 (PY: Nil) | | 7,924,143 | | 6,130,009 | |
| – Deferred | | 3,620,000 | 11,544,143 | (500,000) | 5,630,009 |
| **Profit After Taxation** | | | 177,501,022 | | 96,120,023 |
| Add: Balance brought forward from Previous year | | | 137,694,645 | | 51,917,638 |
| **Profit Available for Appropriation** | | | 315,195,667 | | 148,037,661 |
| **APPROPRIATION :** | | | | | |
| Transfer to General Reserve | | | 13,500,000 | | 2,000,000 |
| Proposed dividend | | | | | |
| – Equity Shares | | 14,707,622 | | 7,343,825 | |
| – Preference Shares for 2003-04 | | 22,652,990 | 37,360,612 | 51,646 | 7,395,471 |
| Tax on distributed profits | | | 4,786,829 | | 947,545 |
| **Surplus carried to Balance Sheet** | | | 259,548,226 | | 137,694,645 |
| | | | 315,195,667 | | 148,037,661 |
| Earnings per Share - Basic | | | 20.68 | | 13.12 |
| Earnings per Share - Diluted | | | 18.63 | | 12.77 |
| **NOTES ON ACCOUNTS :** | R | | | | |

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

In terms of our report of even date

**For Deloitte Haskins & Sells**
Chartered Accountants

**V. Srikumar**
Partner
Membership No. : 84494

Place : Bangalore
Date : April 30, 2004

**Subash Menon**
Chairman & Managing Director

**V. Balaji Bhat**
Director

**Rajkumar C.**
Company Secretary & Legal Counsel

**Alex J. Puthenchira**
Executive Director

# Cash Flow Statement

For the period / year ended March 31, 2004

| | | 2003 - 2004 Rs. | 2002 - 2003 Rs. |
|---|---|---|---|
| **Cash flow from Operating Activities** | | | |
| Net Profit before Tax and before Extraordinary items | | 189,045,165 | 101,750,032 |
| **Adjustments for :** | | | |
| a) Depreciation and amortization | | 42,675,824 | 37,977,220 |
| b) Interest / Dividend Income | | (1,676,014) | (301,220) |
| c) Interest on borrowings | | 14,301,750 | 22,463,136 |
| d) Assets written off / Loss on sale | | 1,273,594 | 1,100,347 |
| e) Profit on sale of assets | | (204,833) | (510,328) |
| f) Employee compensation expenses | | 1,580,438 | (203,172) |
| g) Provision for doubtful debts | | – | 3,472,789 |
| h) Direct Taxes paid | | (12,026,396) | (1,803,585) |
| **Operating Profit before Working Capital Changes** | | 234,969,528 | 163,945,219 |
| **Adjustments for :** | | | |
| a) Trade and other receivables | | (196,386,727) | (166,148,237) |
| b) Loans and Advances | | (8,103,993) | 3,967,567 |
| c) Inventories | | 59,998 | 2,632,109 |
| d) Trade and other payables | | 10,045,553 | 20,814,601 |
| **Cash generated from operations** | A | 40,584,357 | 25,211,259 |
| **Cash Flow from Investing Activities** | | | |
| a) Purchase of Fixed Assets | | (55,391,426) | (8,964,721) |
| b) Sale / disposal of Fixed Assets | | 1,305,397 | 3,559,804 |
| c) Sale / Purchase of Investments | | 1,000 | 250 |
| d) Payment towards Acquisition of Subsidiary/ IPR | | (65,337,336) | (53,135,674) |
| e) Exchange fluctuation on investment carrying value | | 1,782,987 | 1,497,424 |
| **Net Cash from Investing Activities** | B | (117,639,378) | (57,042,917) |
| **Cash Flow from Financing Activities** | | | |
| a) Proceeds from issue of Share Capital | | 32,135,049 | 172,692,938 |
| b) Proceeds/Repayments from Borrowings (Net) | | (50,147,439) | 31,822,964 |
| c) Dividends paid | | (21,054,836) | (6,995,479) |
| d) Interest paid on Borrowings | | (14,301,750) | (22,463,136) |
| e) Interest received | | 1,676,014 | 301,220 |
| **Net Cash from Financing Activities** | C | (51,692,962) | 175,358,507 |
| Net increase in Cash or Cash equivalents [A + B + C] | | (128,747,982) | 143,526,849 |
| Cash or Cash equivalents at the start of the year | | 162,355,300 | 18,828,451 |
| **Cash or Cash equivalents at the close of the year** | | 33,607,318 | 162,355,300 |

Note: Cash & Cash Equivalents include balances with Scheduled Banks on Dividend Account and GIC Deposit Account of Rs.1,235,550 (PY Rs.1,126,948) which are not avialable for use by the Company.

In terms of our report of even date

**For Deloitte Haskins & Sells**
Chartered Accountants

**V. Srikumar**
Partner
Membership No. : 84494

Place : Bangalore
Date : April 30, 2004

**Subash Menon**
Chairman & Managing Director

**V. Balaji Bhat**
Director

**Rajkumar C.**
Company Secretary & Legal Counsel

**Alex J. Puthenchira**
Executive Director

# Schedules to Balance Sheet

As at March 31, 2004

| | As at March 31,2004 | | As at March 31, 2003 | |
|---|---|---|---|---|
| | Rs. | Rs. | Rs. | Rs. |
| **SCHEDULE - A :** | | | | |
| **SHARE CAPITAL :** | | | | |
| **AUTHORISED :** | | | | |
| 11,180,000 Equity Shares of Rs. 10/- each | | 111,800,000 | | 111,800,000 |
| 2,000,000 Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) of Rs.98/- each | | 196,000,000 | | 196,000,000 |
| **TOTAL** | | 307,800,000 | | 307,800,000 |
| **ISSUED, SUBSCRIBED AND PAID UP:** | | | | |
| **A) EQUITY :** | | | | |
| 7,353,811(PY 7,343,825) Equity Shares of Rs. 10/- each | | 73,538,110 | | 73,438,250 |
| **Of the above:** | | | | |
| a) 115,000 shares of Rs.10/- each were allotted for consideration other than for cash; | | | | |
| b) 4,626,940 shares of Rs.10/- each are allotted as Bonus shares by capitalisation of General Reserve ; | | | | |
| c) 12,840 shares of Rs.10/- each are allotted in part settlement of cost of acquisition of subsidiary | | | | |
| **B) PREFERENCE:** | | | | |
| 1,887,000 (PY 1,570,245) Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) of Rs.98/- each | | 184,926,000 | | 153,884,010 |
| **TOTAL** | | 258,464,110 | | 227,322,260 |
| **SCHEDULE - B :** | | | | |
| **RESERVES AND SURPLUS :** | | | | |
| Capital Reserve | | 13,006,920 | | 13,006,920 |
| General Reserve - Opening Balance | 84,802,608 | | 82,802,608 | |
| Add : Additions during the year | 13,500,000 | | 2,000,000 | |
| | 98,302,608 | | 84,802,608 | |
| Add: Adjustment for Deferred Tax Asset as at 1.04.2001 | – | 98,302,608 | – | 84,802,608 |
| Securities Premium Account - Opening Balance | 165,577,841 | | 307,907,000 | |
| Less : Miscellaneous expenses adjusted as per High Court Order (Refer Note II.4 to Schedule R) | | | 158,956,637 | |
| | 165,577,841 | | 148,950,363 | |
| Add : Additions during the year (Net of Share issue exps) | 749,664 | 166,327,505 | 16,627,478 | 165,577,841 |
| Employees Stock Options Outstanding | 6,936,691 | | 2,959,834 | |
| Deferred Employees Compensation Expenses | 3,181,655 | 3,755,036 | 785,236 | 2,174,598 |
| Profit & Loss Account | | 259,548,226 | | 137,694,645 |
| **TOTAL** | | 540,940,295 | | 403,256,612 |
| **SCHEDULE - C :** | | | | |
| **SECURED LOANS :** | | | | |
| State Bank of India - MTL | | 15,725,000 | | 1,003,400 |
| (Amount repayable within one year: Rs.10,020,000) (Previous Year: Rs.1,003,400) | | | | |
| State Bank of India - Cash Credit | | 51,018,213 | | 9,977,358 |
| State Bank of India - FCNR (B) Loan | | 68,010,000 | | 134,893,300 |
| [Amount repayable within one year: Rs.68,010,000] (Previous Year: Rs.134,893,300) | | | | |
| (Secured by first charge on all fixed assets of the company, both present and future, book debts, stock, personal guarantee of two directors and equitable mortgage of industrial land) | | | | |
| Hire Purchase | | 12,449,848 | | 10,146,450 |
| (Secured by Hypothecation of Motor cars and Server) [Amount repayable within one year: Rs.4,223,366] (Previous Year:Rs.4,807,401) | | | | |
| **TOTAL** | | 147,203,061 | | 156,020,508 |
| **SCHEDULE - D :** | | | | |
| **UNSECURED LOANS :** | | | | |
| Inter Corporate Deposits | | 1,748,508 | | 43,078,500 |
| | | 1,748,508 | | 43,078,500 |

## SCHEDULE - E :

## FIXED ASSETS

| Sl. No. | Particulars | GROSS BLOCK As at April 1, 2003 | GROSS BLOCK Additions during the Year | GROSS BLOCK Deletions during the Year | GROSS BLOCK As at March 31, 2004 | DEPRECIATION Upto April 1, 2003 | DEPRECIATION For the Year | DEPRECIATION On deletion | DEPRECIATION Upto March 31, 2004 | NET BLOCK As at March 31, 2004 | NET BLOCK As at March 31, 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Freehold Land | 5,819,103 | – | – | 5,819,103 | – | | – | – | 5,819,103 | 5,819,103 |
| 2 | Plant & Machinery | 1,533,199 | 74,010 | – | 1,607,209 | 1,011,759 | 327,481 | – | 1,339,240 | 267,969 | 521,440 |
| 3 | Furniture & Fixtures | 15,594,868 | 1,162,026 | 3,098,726 | 13,658,168 | 10,411,721 | 2,455,895 | 2,780,852 | 10,086,764 | 3,571,404 | 5,183,147 |
| 4 | Computers | 117,175,347 | 42,397,322 | 162,528 | 159,410,141 | 62,716,124 | 33,853,013 | 153,406 | 96,415,731 | 62,994,410 | 54,459,223 |
| 5 | Office Equipments | 5,168,479 | 1,067,454 | 23,704 | 6,212,229 | 2,932,089 | 1,060,820 | 9,224 | 3,983,685 | 2,228,544 | 2,236,390 |
| 6 | Electrical Installations | 2,029,933 | – | – | 2,029,933 | 1,440,550 | 271,577 | – | 1,712,127 | 317,806 | 589,383 |
| 7 | Motor Car | 13,952,193 | 10,253,506 | 3,808,439 | 20,397,260 | 5,095,199 | 3,186,980 | 1,896,650 | 6,385,529 | 14,011,731 | 8,856,994 |
| 8 | Other Fixed Assets | 283,066 | – | 249,223 | 33,843 | 108,581 | 45,334 | 128,330 | 25,585 | 8,258 | 174,485 |
| | | **161,556,188** | **54,954,318** | **7,342,620** | **209,167,886** | **83,716,023** | **41,201,100** | **4,968,462** | **119,948,661** | **89,219,225** | **77,840,165** |
| | **PREVIOUS YEAR** | **163,773,961** | **8,964,721** | **(11,182,494)** | **161,556,188** | **54,277,502** | **36,502,496** | **(7,063,975)** | **83,716,023** | **77,840,165** | **109,496,459** |

Gross Block as at March 31, 2004 includes Computers and Motor Cars costing Rs. 22,685,357 in respect of which Hire purchase Contracts are in force as at year end (PY Rs.16,830,714)

# Schedules to Balance Sheet

As at March 31, 2004

| | As at March 31,2004 | | As at March 31, 2003 | |
|---|---|---|---|---|
| | Rs. | Rs. | Rs. | Rs. |
| **SCHEDULE - F :** | | | | |
| **INVESTMENTS :** | | | | |
| (Unquoted at Cost) | | | | |
| Long Term - Non Trade | | 1,000 | | 2,000 |
| In Government Securities - I.V.P | | | | |
| Long Term - Trade | | 326,901,626 | | 328,684,613 |
| Subex Technologies, Inc (Wholly Owned Subsidiary, incorporated in U.S.A, common stock 3000 shares, fully paid up, of no par value) [Refer note II.3 of Schedule R] | | | | |
| **TOTAL** | | 326,902,626 | | 328,686,613 |
| **SCHEDULE - G :** | | | | |
| **INVENTORIES : (At Cost)** | | | | |
| Traded Goods | | 138,025 | | 198,023 |
| **Total** | | 138,025 | | 198,023 |
| **SCHEDULE - H :** | | | | |
| **SUNDRY DEBTORS :** | | | | |
| (Unsecured) | | | | |
| Outstanding for more than six months | | | | |
| Considered Good | 206,663,550 | | 160,196,356 | |
| Considered Doubtful | 22,975,896 | | 24,045,589 | |
| | 229,639,446 | | 184,241,945 | |
| Less: Provision for Doubtful Debts | 22,975,896 | 206,663,550 | 24,045,589 | 160,196,356 |
| Others | | 389,402,979 | | 239,483,447 |
| **Total (considered good)** | | 596,066,529 | | 399,679,803 |
| **SCHEDULE - I :** | | | | |
| **CASH & BANK BALANCES :** | | | | |
| Cash on hand | | 285,624 | | 66,867 |
| Cheques on Hand | | 1,721,759 | | – |
| **Balance with Scheduled Banks** | | | | |
| - in Current Account in Indian Rupees | | 3,322,211 | | 156,029,056 |
| - in Deposit Account in Indian Rupees | | 564,346 | | 1,672,856 |
| - in EEFC Account in Foreign Currency | | 1,429,756 | | 2,310,681 |
| **Balance with Non Scheduled Banks** | | | | |
| - Deposit with Royal Bank of Canada (Maximum outstanding during the year Rs.846,602) | | 846,602 | | 806,000 |
| - in Current Account with Royal Bank of Canada, Canada (Maximum outstanding during the year Rs. 38,701,553) | | 544,038 | | 917,637 |
| - in CAP Account with First Union Bank, New Jersey (Maximum outstanding during the year Rs. 37,955,501) | | 23,449,091 | | 182,830 |
| - in Hellinic Bank - CYP Account - Cyprus (Maximum outstanding during the year Rs. 521,631) | | 145,968 | | 143,119 |
| - in Hellinic Bank - USD Account - Cyprus (Maximum outstanding during the year Rs. 1,597,598) | | 73,173 | | 226,253 |
| - in Bank of China - RMB Account - China (Maximum outstanding during the year Rs.1,249,791) | | 697,413 | | – |
| - in Bank of China - USD Account - China (Maximum outstanding during the year Rs.922,175) | | 527,337 | | – |
| **TOTAL** | | 33,607,318 | | 162,355,299 |

## Schedules to Balance Sheet

As at March 31, 2004

| | As at March 31,2004 Rs. | Rs. | As at March 31, 2003 Rs. | Rs. |
|---|---|---|---|---|
| **SCHEDULE - J :** | | | | |
| **LOANS & ADVANCES :** | | | | |
| (Unsecured, considered good, subject to confirmation) | | | | |
| Loans and advances recoverable in cash or in kind or for value to be received | | 11,783,732 | | 4,161,298 |
| Advance Income Tax including TDS | | 10,690,398 | | 4,795,745 |
| Other Deposits | | 16,656,832 | | 16,175,273 |
| **TOTAL** | | 39,130,962 | | 25,132,316 |
| **SCHEDULE - K :** | | | | |
| **CURRENT LIABILITIES & PROVISIONS :** | | | | |
| **SUNDRY CREDITORS :** | | | | |
| Sundry Creditors | 29,192,611 | | 47,069,953 | |
| (other than Small Scale Industrial Undertaking) | | | | |
| Duties & Taxes | 5,819,039 | | 2,288,273 | |
| Subex Technologies, Inc. (Net) (Wholly owned Subsidiary) | | 41,292,240 | | 16,900,111 |
| Unclaimed Dividends (Refer Note II.13.3 of Schedule R) | 324,581 | 76,628,471 | 293,958 | 66,552,295 |
| **PROVISIONS :** | | | | |
| Taxation | 10,672,138 | | 8,879,739 | |
| Dividends | 26,065,372 | | 7,395,471 | |
| Tax on proposed dividends | 3,339,626 | 40,077,136 | 947,545 | 17,222,755 |
| **TOTAL** | | 116,705,607 | | 83,775,050 |
| **SCHEDULE - L :** | | | | |
| **MISCELLANEOUS EXPENDITURE :** | | | | |
| (To the extent not written off or adjusted) | | | | |
| Share Issue Expenses | | 256,942 | | 1,731,666 |
| **TOTAL** | | 256,942 | | 1,731,666 |

## Schedules to Profit and Loss Account

For the year ended March 31, 2004

| | 2003 - 2004 Rs. | 2003 - 2004 Rs. | 2002 - 2003 Rs. | 2002 - 2003 Rs. |
|---|---|---|---|---|
| **SCHEDULE - M :** | | | | |
| **OTHER INCOME :** | | | | |
| Interest Received (Gross - TDS Rs.1,94,853, Previous Year Rs. 33,096) | | 1,676,014 | | 301,220 |
| Other income received | | 3,723,051 | | 2,066,817 |
| Creditors no longer required written back | | 3,536,021 | | 2,216,783 |
| Rent Received | | 3,750,400 | | 1,727,385 |
| **TOTAL** | | 12,685,486 | | 6,312,205 |
| **SCHEDULE - N :** | | | | |
| **MATERIALS, FINISHED GOODS CONSUMED :** | | | | |
| **Consumption of materials and bought out components** | | | | |
| Purchase of Systems & Solutions | | 15,577,528 | | 13,603 |
| **(Increase)/Decrease in finished goods** | | | | |
| Opening Stock - Finished Goods | 198,023 | | 2,830,132 | |
| Closing Stock - Finished Goods | 138,025 | 59,998 | 198,023 | 2,632,109 |
| **TOTAL** | | 15,637,526 | | 2,645,712 |
| **SCHEDULE - O :** | | | | |
| **PERSONNEL COSTS :** | | | | |
| Salaries, Wages & Allowances | | 88,362,324 | | 66,249,949 |
| Contribution to Provident Fund and Other Funds | | 3,489,108 | | 2,099,497 |
| Other staff related costs | | 10,285,049 | | 9,068,586 |
| Sub Contract Charges | | 426,050,102 | | 399,843,694 |
| **TOTAL** | | 528,186,583 | | 477,261,726 |

## Schedules to Profit and Loss Account

For the year ended March 31, 2004

| | 2003 - 2004 Rs. | 2003 - 2004 Rs. | 2002 - 2003 Rs. | 2002 - 2003 Rs. |
|---|---|---|---|---|
| **SCHEDULE - P :** | | | | |
| **OTHER OPERATING, SELLING AND ADMINISTRATIVE EXPENSES :** | | | | |
| Software Purchases | | 192,806 | | 458,821 |
| Rent | | 8,132,166 | | 6,779,365 |
| Power, Fuel and Water Charges | | 2,189,506 | | 1,640,396 |
| Repairs & Maintenance Others | | 1,547,680 | | 2,559,207 |
| Insurance | | 826,234 | | 525,964 |
| Communication Costs | | 4,731,130 | | 3,978,370 |
| Printing & Stationery | | 818,111 | | 805,033 |
| Travelling & Conveyance | | 27,651,454 | | 19,846,188 |
| Directors sitting fees | | 30,500 | | 9,000 |
| Rates & Taxes Including Filing Fees | | 503,346 | | 321,790 |
| Advertisement & Business Promotion | | 13,597,004 | | 7,192,773 |
| Consultancy Charges | | 7,162,826 | | 2,034,212 |
| Bad Debts Written Off | | – | | 515,613 |
| Warranty Expenses | | 1,416,767 | | 795,731 |
| Provision for Doubtful Debts | | – | | 3,472,789 |
| Loss on sale of Asset & Assets Written Off | | 1,273,594 | | 1,069,043 |
| Exchange Fluctuation Account | | 25,649,186 | | 8,244,168 |
| Miscellaneous Expenses | | 6,367,037 | | 4,068,009 |
| **TOTAL** | | 102,089,347 | | 64,316,472 |
| **SCHEDULE - Q :** | | | | |
| **FINANCIAL COSTS :** | | | | |
| Interest on Fixed Loans | | 1,715,117 | | 4,163,810 |
| Other Interest & Bank Charges | | 12,586,633 | | 18,299,326 |
| TOTAL | | 14,301,750 | | 22,463,136 |

## SCHEDULE - R

## I. SIGNIFICANT ACCOUNTING POLICIES

### 1.1. Basis for preparation of financial statements

The financial statements have been prepared under the historical cost convention in accordance with the applicable Accounting Principles in India, the Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956, as adopted consistently by the Company. Revenues are recognised and expenses accounted on their accrual, including provisions / adjustments for committed obligations and amounts determined as payable or receivable during the year.

### 1.2. Use of Estimates

The preparation of the financial statements in conformity with India GAAP requires that management makes estimates and assumption that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as at the date of the financial statements and the reported amount of revenue and expenses during the reported period. Actual results could differ from those estimates.

### 1.3. Revenue recognition

Sales are recognised on the dispatch of goods to customers and are recorded net of discounts, rebates for price adjustment, rejections, shortages in transit, taxes and duties but include wherever applicable, export incentives.

Revenue from software development is recognised on the basis of chargeable time or achievement of prescribed milestones as relevant to each contract.

Contracts for sale of software licences include fees for transfer of software licences (which normally coincides with delivery), installation and commissioning. Activities relating to installation and commissioning involve minimal time and cost and are not subject to uncertainties. Revenues from composite contracts wherein fees for software licenses and implementation/commissioning fees are not identifiable separately are recognized on transfer of the software licenses and a provision is made for the estimated costs relating to the installation and commissioning. In the case of contracts, where the fees for software licenses and implementation costs are identified separately, revenues from software licenses are recognized on transfer of software licenses and revenues from implementation are recognized on completion of implementation and commissioning.

Interest on investments and deposits are booked on a time proportion basis taking into account the amounts invested and the rate of interest.

Agency commission is accrued on shipment of consignment by principal.

Maintenance and service income is recognised on accrual basis.

### 1.4. Fixed Assets

Fixed assets are stated at cost of acquisition inclusive of freight, duties, taxes and interest on borrowed money allocated to and utilised for fixed assets up to the date of capitalisation and other direct expenditure incurred on ongoing projects. Assets acquired on hire purchase are capitalised at gross value and interest thereon is charged to revenue.

### 1.5. Depreciation

Fixed assets are depreciated using the straight-line method over the useful lives of assets. Depreciation is charged on pro-rata basis for assets purchased/sold during the year.

The rates of depreciation adopted on the assets of the Company is as under ;

| Particulars | Depreciation Rates |
|---|---|
| Plant & Machinery | 20.00 % |
| Computers | 25.00 % |
| Vehicles | 20.00 % |
| Furniture & Fixtures | 20.00 % |

Individual assets costing less than Rs. 5,000 are depreciated in full, in the year of purchase.

### 1.6. Inventories

Inventories are valued at lower of cost or net realizable value, after providing for cost of obsolescence and other anticipated losses, wherever considered necessary. Cost includes the aggregate of all expenditure incurred in bringing the inventories to the present condition and situation.

### 1.7. Employee Stock Option

For the shares granted /allocated under Employee Stock Option Plan - I (ESOP-I), the Securities Exchange Board of India (SEBI) guidelines are not followed, since the scheme was formulated prior to the promulgation of the guidelines.

Employee Stock Option under Employees Stock Option - II are accounted in accordance with the guidelines stipulated by SEBI.

The difference between the market price of the shares underlying the options granted on the date of grant of option and the option price is expensed as "Employees Compensation" over the period of vesting.

### I.8. Retirement benefits to employees

The Company's liability towards retirement benefits in the form of provident fund is fully provided and charged to expenditure. The Company has entered into an agreement with LIC of India for managing the gratuity liability through a fund, the premium for which are funded by the Company and charged to expenditure on accrual basis. Leave encashment benefits is accounted for an estimated liability as at the date of the balance sheet.

### I.9. Research and Development

Expenses incurred on research and developments are charged to revenue in the same year. Fixed assets purchases for research and development purposes are capitalized and depreciated as per the Company's policy.

### I.10. Foreign currency transactions and translation

Transactions denominated in foreign currencies are recorded at the exchange rates prevailing on the date of the transaction. Monetary items denominated in foreign currencies at year end are translated at the exchange rate prevailing on the date of the Balance Sheet. Non monetary items denominated in foreign currencies are carried at cost. Exchange differences on settlement or restatement are adjusted in the profit & loss account. For transactions entered prior to 1-4-2003 exchange differences on settlement or restatement are adjusted to related asset account/Profit and Loss account

Assets and liabilities of the foreign branches are translated into Indian rupees at the rate of exchange prevailing as at the Balance Sheet date. Revenue and expenses are translated into Indian rupees at yearly average exchange rates prevailing during the year.

### I.11. Investments

Long term Investments are stated at cost. Diminution in the value of investments other than temporary in nature is provided for.

### I.12. Income Taxes

Income Tax comprises the current tax provision under the tax payable method and the net change in the deferred tax asset or liability in the year. Deferred Tax Assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying values of the assets and liabilities and their respective tax bases. Deferred tax assets are recognized subject to management's judgment that realization is virtually certain. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be received or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income statement in the period of enactment of the change.

### I.13. Cash Flow Statement

Cash flow statement has been prepared in accordance with the indirect method prescribed in Accounting Standard 3, issued by the Institute of Chartered Accountants of India.

### I.14. Securities Issue Expenses

Expenses incurred during the Initial Public Offer, follow-on offer and issue of Bonus Shares are amortised over 5 years. Other issue expenses are charged to the securities premium account.

## II. NOTES TO ACCOUNTS

### II.1. Deferred Income Taxes

a) Provision for income taxes has been made in terms of Accounting Standard 22 "Accounting for Taxes on Income". Deferred tax assets are subject to a valuation allowance that reduces the amount recognized to that which is more likely than not to be realized.

| Movement in Deferred Tax Asset (Liability) | 2003-04 | 2002-03 |
|---|---|---|
| Net Deferred tax Assets at April 1, 2003(2002) | 2,050,000 | 1,550,000 |
| Add: Tax benefits/(charge) for the current year | (3,620,000) | 500,000 |
| **Net Deferred Tax Assets/Liabilitity at March 31, 2004** | (1,570,000) | 2,050,000 |

b) The net Deferred Tax Asset as at March 31, 2004 comprises the tax impact arising from the timing differences on account of:

| | As at March 31, 2004 | As at March 31, 2003 |
|---|---|---|
| Depreciation | (4,373,610) | (3,124,053) |
| Business loss | – | 8,702,151 |
| | (4,373,610) | 5,578,098 |
| **Net Deferred asset/(liability) relating to above** | (1,570,000) | 2,050,000 |

## II.2. Contingent liabilities

Disputed taxes on appeal net of advance tax paid is - Nil (Previous Year Rs. Nil)

## II.3. Acquisition of Wholly owned subsidiary - IVth Generation, Inc.

During 1999-2000, the Company acquired the whole of the outstanding shares of the IVth Generation, Inc. New Jersey, USA, from its three owners. To reflect the true and correct state of affairs, the acquisition was accounted at the full value of Rs.335,795,161 including advisory, syndication fees and other costs although a part of the amount payable is contingent upon the future performance of the acquiree Company. During 2000-2001, the cost of acquisition was reduced in accordance with the final purchase consideration as per the Definitive Purchase Agreement and accordingly the cost was stated at Rs.326,217,997. The amount of investment at March 31, 2004 stands at Rs.326,901,626 after adjusting for the exchange fluctuation on the deferred consideration as at the year end.

The management has received an independent valuation of the subsidiary, which indicates that there is no impairment on the value of the investment.

As agreed to between the Company and the seller, on account of non-receipt of certain receivables in the Subsidiary, the balance of Deferred payment of Rs.18,883,619 towards acquisition of the subsidiary is no longer considered payable. The Company's application to set-off these balances with the receivables in the subsidiaries books is pending approval of the Reserve Bank of India. Pending such approval, no adjustments have been made in the accounts.

## II.4. Acquisition of Intellectual Property Rights [IPR]

During 2001-2002, the Company acquired the intellectual property comprising software codes and licenses of OUTsmart, a Wireline Fraud Management System and INcharge, an intercarrier billing verification system from Pricewaterhouse Coopers, Inc. (being the receivers of the property, assets and undertaking of Magardi, Inc. on behalf of the Toronto-Dominion Bank, who are the secured lenders of Magardi, Inc.). The total cost of acquisition amounting to Rs.158,956,637 includes the purchase consideration, advisory, syndication fees and other costs. INcharge was only at a conceptual stage during the acquisition and hence it is not possible to attribute any part of the cost of acquisition to this product.

Consequent to the approval of the shareholders' of the Company for write-off of the above cost of acquisition of the intangible asset against the balance in the Securities Premium account, an application for confirming the write-off was preferred to the Honourable High Court of Karnataka under the provisions of Section 78 and 100 of the Companies Act, 1956. The Honourable High Court of Karnataka approved the said write-off vide their confirmation order dated January 28, 2003 and the same was registered with the Registrar of Companies, Karnataka in October 2003. The Company has, accordingly, set-off the cost of the IPR against the Securities Premium account in accordance with the principles laid down in AS - 1, wherein it is stated that the accounting treatment and presentation in financial statements of transactions and events should be governed by their substance and not merely by the legal form.

## II.5. Operating leases

The Company has various operating leases for office facilities and residential premises for employees which include leases that are renewable on a yearly basis, cancelable at its option and other long term leases. Rental expenses for operating leases included in the Income statement for the year is Rs. 8,132,166.

As of March 31, 2004 future minimum lease payments for non-cancellable operating leases for the next five fiscal years are:

| For the year ending | March 31,2004 Amount in Rs. | March 31,2003 Amount in Rs. |
|---|---:|---:|
| Within one year from the date of the Balance Sheet | 2,491,449 | 7,120,166 |
| Due in a period between one year and five years | 503,513 | 2,067,306 |
| Due after five years | – | – |

## II.6. Hire Purchase Transactions

The Company has entered into various hire purchase transactions for the acquisition of vehicles and computer systems. As of March 31, 2004, future minimum lease payments on these transactions are:

Amount in Rs.

| For the year ending | Minimum Lease Payments | | Interest | | Present Value | |
|---|---:|---:|---:|---:|---:|---:|
| | 2003-04 | 2002-03 | 2003-04 | 2002-03 | 2003-04 | 2002-03 |
| Within one year from the date of the Balance Sheet | 4,676,248 | 3,614,736 | 807,717 | 796,930 | 3,868,531 | 2,817,806 |
| Due in a period between one year and five years | 9,118,358 | 6,061,244 | 994,349 | 778,342 | 8,124,009 | 5,282,902 |
| Due after five years | Nil | Nil | Nil | Nil | Nil | Nil |

## II.7. Employee Stock Option Plan (ESOP)

### ESOP – I

The Company had issued 120,000 Equity Shares at Rs.10/- each to Subex Foundation, an Employee Welfare Trust, constituted to operate an Employees Stock Option Plan. Consequent to the issue of Bonus Shares, the total shares available with the trust had increased to 240,000. As per the Scheme in force, the trust allocates shares to those employees deemed eligible by the Advisory Board constituted for the purpose. The shares are allocated at a price, which is not less than 50% of the fair market price. The original Shares granted are subject to a minimum lock-in period of three years and the Bonus shares are subject to a minimum lock-in of 1 year, where after the shares granted can be sold / en-cashed. As at March 31, 2004, 152,780 shares have been granted under the scheme to 30 employees. The balance of 87,220 shares, are available with the trust for future grants. Since the Scheme was formulated prior to the promulgation of SEBI guidelines on ESOP dated June 19, 1999, the Company has been advised that the said guidelines are not applicable to the present scheme.

### ESOP – II

During 1999-2000, the Company established a new Stock Option Scheme under which 500,000 options have been allocated for grant to the employees. Each option comprises of one underlying equity share of Rs.10/- each. This scheme has been formulated in accordance with the SEBI guidelines on ESOP & ESPS dated June 19, 1999. As per the scheme, the compensatory committee grants the options to the employees deemed eligible by the Advisory Board constituted for the purpose. The options are granted at a price, which is not less than 85% of the average market price of the underlying shares based on the quotation on the Bombay Stock Exchange for 15 days prior to the date of grant. The shares granted vest over a period of 1 to 4 years can be exercised over a maximum period of 3 years from the date of vesting.

Under this scheme 301,440 option have been granted to 180 employees as at March 31, 2004. Out of the above option 69,473 options have been vested. The difference between the market price of the share underlying the options granted on the date of grant of option and the exercise price of the option are expensed over the vesting period as per the SEBI guidelines. The net impact of the movement in option grants during the period ended resulted in a debit of Rs.1,580,438 (previous year: credit of Rs.168,088) to the Profit & Loss account for the year.

Employees Stock Options details as on the balance sheet date are ;

**ESOP – I**

| | As at March 31, 2004 | As at March 31, 2003 |
|---|---|---|
| Options outstanding at the | | |
| Beginning of the year | 51,397 | 152,720 |
| Granted | – | – |
| Forfeited/Cancelled | 1,965 | 4,630 |
| Exercised | 22,830 | 96,693 |
| **Balance at end of the year** | 26,602 | **51,397** |

**ESOP - II**

| | As at March 31, 2004 | As at March 31, 2003 |
|---|---|---|
| Options outstanding at the | | |
| Beginning of the year | 196,375 | 207,900 |
| Granted | 130,650 | 79,550 |
| Forfeited/Cancelled | 15,599 | 87,700 |
| Exercised | 9,986 | 3,375 |
| **Balance at end of the year** | 301,440 | **196,375** |

## II.8. Related Party Information

### A) Related Parties

Wholly Owned Subsidiaries controlled by the Company:

Subex Technologies, Inc., USA

Companies under same management

Subex Cellcomm Limited

Subex Holdings Private Limited

Key Management Personnel

Subash Menon, Chairman & Managing Director

Alex Puthenchira, Executive Director

Sudeesh Yezhuvath, Whole Time Director

B) Details of the transactions with the related parties other than employees who are related to the Directors of the Company is as under:

(Amounts in Rs.)

| Nature of Transaction | Subsidiary | | Companies under same management | | Key Management Personnel | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2003-04 | 2002-03 | 2003-04 | 2002-03 | 2003-04 | 2002-03 | 2003-04 | 2002-03 |
| a) Purchase of services | 426,050,102 | 399,843,694 | – | – | – | – | 426,050,102 | 399,843,694 |
| b) Inter Corporate Deposits received | – | – | 21,300,000 | 16,523,500 | – | – | 21,300,000 | 16,523,500 |
| c) Interest paid on Inter Corporate Deposit | – | – | 531,106 | 4,905,222 | – | – | 531,106 | 4,905,222 |
| d) Repayment of Inter Corporate Deposit / Loan | – | – | 57,675,000 | 8,920,000 | | 2,920,000 | 57,675,000 | 11,840,000 |
| e) Salary & Perquisites | – | – | – | – | 10,179,435 | 4,602,870 | 10,179,435 | 4,602,870 |
| f) Amount due from as at March 31, 2004 | 71,071,709 | 100,852,378 | – | – | – | – | 71,071,709 | 100,852,378 |
| g) Amount due to as at March 31, 2004 | 112,363,949 | 117,752,489 | 1,748,508 | 43,078,500 | 1,806,869 | – | 115,919,326 | 160,830,989 |

## II.9. Earnings per Share:

| | | 2003-04 | 2002-03 |
|---|---|---|---|
| Profits after Tax : | A | 177,501,022 | 96,120,023 |
| Less: Dividend on Preference Shares & distribution tax | | (25,555,404) | (58,263) |
| Net Profit Available to Equity Shareholders | B | 149,955,617 | 96,061,760 |
| Weighted Average Number of Shares - Basic | C | 7,346,581 | 7,325,235 |
| Weighted Average Number of Shares - Diluted | D | 9,529,828 | 7,525,779 |
| Earnings per Share - Basic | B / C | 20.68 | 13.12 |
| Earnings per Share - Diluted | A / D | 18.63 | 12.77 |

## II.10. Managerial Remuneration to Managing Director and Whole-time Directors:

| | March 31, 2004 Rs. | March 31, 2003 Rs. |
|---|---|---|
| Salary | 7,462,324 | 4,168,890 |
| Perquisites | 12,17,111 | 433,980 |
| Commission (as computed below) | 1,500,000 | – |
| **Total** | 10,179,435 | 4,602,870 |

### b. Directors' Remuneration

**Computation of Net profit in accordance with Section 349 of the Companies Act, 1956**

| | 2003-04 | | 2002-03 | |
|---|---|---|---|---|
| Profit as per the Profit & Loss Account | | 189,045,165 | | 101,750,032 |
| Add: | | | | |
| Directors' Fees | 30,500 | | 9,000 | |
| Remuneration to Directors (including commission) | 10,579,435 | 10,609,935 | 4,602,870 | 4,611,870 |
| Less: Surplus on sale of Fixed Assets | | (204,833) | | (510,328) |
| Profits for Computation of Directors Commission | | 199,450,267 | | 105,851,574 |
| Maximum Remuneration to Wholetime Directors under provision of the Companies Act, 1956 @ 10% | | 19,945,027 | | 10,585,157 |
| Remuneration including commission paid / payable | | 10,179,435 | | 4,602,870 |
| Maximum Commission to Non-Wholetime Directors under provsion of the Companies Act, 1956 @ 1% | | 1,994,503 | | 1,058,516 |
| Commission paid / payable | | 400,000 | | – |

## II.11. Auditors' Remuneration

Miscellaneous Expenditure includes Remunerations to Auditors:

| | Year ended March 31, 2004 | March 31, 2003 |
|---|---|---|
| Audit fees (inclusive of service tax) | 756,000 | 483,000 |
| For tax matters and other consultancy | 54,000 | 185,250 |
| Reimbursement of expenses | 14,451 | 19,873 |
| Total | 824,451 | 688,123 |

## II.11. Segmental Reporting

The company's operation comprises of software development, services and sale of Telecom Products. Primary segmental reporting comprises of products and services segment. Secondary segment is reported based on geographical location of customers. The accounting principles consistently used in the preparation of the financial statements are also consistently applied to record income and expenditure in individual segments. These are as set out in the note on significant accounting policies.

In primary segment, revenue and direct expenses, which relate to particular segment and which are identifiable, are reported, while certain expenses such as depreciation and interest, which form a significant component of total expenses, are not specifically allocable to specific segments as the underlying services are used interchangeably. The company believes that it is not practical to provide segment disclosures relating to those costs and expenses, and accordingly these expenses are separately disclosed as "unallocated" and directly charged against total income.

### Information about Primary Business Segment

(Amount in Rs.)

| Particulars | Products | | Services | | Consolidated | |
|---|---|---|---|---|---|---|
| | As at | | As at | | As at | |
| | 2003-04 | 2002-03 | 2003-04 | 2002-03 | 2003-04 | 2002-03 |
| Revenues | 396,753,259 | 254,517,837 | 482,497,450 | 445,584,257 | 879,250,709 | 700,102,094 |
| **Segment results before interest & taxes** | 168,899,498 | 130,296,431 | 27,345,601 | 21,084,882 | 196,245,099 | 151,381,313 |
| Less: Unallocable Income,net of unallocable expense | | | | | 7,101,816 | (27,168,145) |
| Interest expense | | | | | 14,301,750 | 22,463,136 |
| **Profit before tax** | | | | | **189,045,165** | **101,750,032** |
| Provision for taxation: | | | | | | |
| Current (Net of excess provision relating to earlier years of Rs.3,125,857) | | | | | 7,924,143 | 6,130,009 |
| Deferred | | | | | 3,620,000 | (500,000) |
| Profit after tax | | | | | **177,501,022** | **96,120,023** |
| Profit for the year | | | | | **177,501,022** | **96,120,023** |

### *Particulars of Segment Assets & Liabilities*

| | Products | | Services | | Unallocable | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | 2003-04 | 2002-03 | 2003-04 | 2002-03 | 2003-04 | 2002-03 | 2003-04 | 2002-03 |
| Segment Assets | 421,052,294 | 272,541,563 | 175,186,913 | 127,336,266 | 151,669,562 | 260,532,032 | 747,908,769 | 660,409,861 |
| Segment Liabilities | | | | | 76,628,471 | 66,552,295 | 76,628,471 | 66,552,295 |
| **Unallocable Assets exclude** | | | | | | | | |
| Investments | | | | | | | 326,902,626 | 328,686,613 |
| Advance income taxes | | | | | | | 10,690,398 | 4,795,745 |
| Miscellaneous Expenditure | | | | | | | 256,942 | 1,731,666 |
| Deferred tax asset- | | | | | | | – | 2,050,000 |
| | | | | | | | 337,849,666 | 337,264,024 |
| **Unallocable Liabilities exclude** | | | | | | | | |
| Loans - secured | | | | | | | 147,203,061 | 156,020,508 |
| Loans - unsecured | | | | | | | 1,748,508 | 43,078,500 |
| Deferred consideration | | | | | | | 18,883,619 | 84,220,955 |
| Provisions | | | | | | | 40,077,136 | 17,222,755 |
| Defer Tax Liability | | | | | | | 1,570,000 | – |
| | | | | | | | 209,482,324 | 300,542,718 |

Fixed assets used in the company's business or liabilities contracted have not been identified to any of the primary reportable segments, as the fixed assets and services are used interchangeably between segments. Significantly all the fixed assets of the Company are located in India. 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.

**Information about Secondary Business Segment**

Revenue attributable to location of customers is:

| Revenue | India | North America | European Countries | Middle East | African Countries | Rest of the World |
|---|---|---|---|---|---|---|
| | **2003-04** | **2003-04** | **2003-04** | **2003-04** | **2003-04** | **2003-04** |
| Software Products | 50,456,446 | 85,765,752 | 35,354,116 | 125,473,460 | 52,438,711 | 47,074,063 |
| Sofware Services | 77,250 | 482,420,200 | – | – | – | – |
| Others | 190,711 | – | – | – | – | – |
| | **50,724,407** | **568,185,952** | **35,354,116** | **125,473,460** | **52,438,711** | **47,074,063** |

| Revenue | India | North America | European Countries | Middle East | African Countries | Rest of the World |
|---|---|---|---|---|---|---|
| | **2002-03** | **2002-03** | **2002-03** | **2002-03** | **2002-03** | **2002-03** |
| Software Products | 19,743,713 | 20,799,905 | 34,864,320 | – | 54,740,691 | 121,600,963 |
| Sofware Services | 1,580,500 | 444,003,757 | – | – | – | – |
| Others | 2,768,245 | – | – | – | – | – |
| | **24,092,458** | **464,803,662** | **34,864,320** | – | **54,740,691** | **121,600,963** |

**Segment assets based on their location**

Amount in Rs.

| | **2003-04** | **2002-2003** |
|---|---|---|
| Africa | 7,193,274 | 63,653,121 |
| North America | 282,494,244 | 157,725,475 |
| Europe | 38,316,733 | 67,164,638 |
| India | 106,437,806 | 103,603,115 |
| Middle East | 123,554,250 | – |
| Rest of the world | 62,690,472 | 85,571,642 |
| | **620,686,779** | **477,717,991** |

**II.12. Quantitative Details**

None of the traded items are in excess of 10% of revenues and it is not practicable to give quantitative information in the absence of common expressible units.

**II.13. Others**

1. Fund and Non-fund based credit facilities availed from State Bank of India are secured by the first charge on all the fixed and current assets of the Company. These loans are also secured by equitable mortgage of land belonging to the Company. The loans are further secured by the personal guarantee of promotor Directors of the Company and property belonging to Subex Holdings Pvt. Ltd.
2. Estimated amount of contracts, remaining to be executed on capital account and not provided for (net of advances paid) Rs.Nil (Previous year Rs. 78,800).
3. Amount of Rs.324,581 represents the unclaimed dividend for the period from 1999-2003. No part thereof has remained unpaid or unclaimed for a period of seven years from the date they become due for payment requiring a transfer to the 'Investor Education and Protection Fund'.
4. Personnel Cost for the year include expenditure on research and development of Rs. 5,328,021 (PY Rs.3,839,004)
5. The shareholders of the Company had approved the allotment of 1,887,000,12.25% Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) at a face value of Rs. 98 per share and tenor of 36 months in the Extra ordinary General Meeting in March , 2003. Out of this, 1,570,245 ROCCPS were allotted to Intel and UTI on March 31, 2003 and the balance 316,755 ROCCPS have been allotted to Toronto Dominion Bank on 7th April 2003 after receipt of subscription amount from them.

   As per terms of issue each ROCCPS is convertible at the option of the shareholder into an equity share at a premium of Rs.88 each. Such option is to be exercised before expiry of 18 months from the date of allotment.

   Subsequently, post balance sheet date in April 2004, 1,090,745 ROCCPS have been converted into 1,090,745 equity shares at a premium of Rs.88/- per share, pursuant to the option exercised by Intel (478,500 equity shares) and UTI (612,245 equity shares).

6. Amount of Rs.31,041,990 received towards allotment of 316,755 ROCCPS of Rs.98/- per share to Toronto Dominion Bank during the year have been applied towards repayment of liability for acquisition charges of the Magardi, Inc IPR. No amount remains unutilized out of these proceeds as at March 31,2004.
7. Previous year's figures have been regrouped to conform to the classifications for the year.

**II.14. Other Information pursuant to Schedule VI of the Companies Act, 1956.**

Amount in Rs.

| | Year ended March 31,2004 | Year ended March 31,2003 |
|---|---|---|
| **CIF value of imports** | 7,684,173 | 143,587,180 |
| **Expenditure in foreign currency** | | |
| Traveling expenses | 4,903,951 | 4,057,548 |
| Import of goods | 3,605,804 | 305,831 |
| Interest Expense | 536,586 | – |
| Capital Expenditure | 42,672,965 | 1,573,389 |
| Payment to Magardi, Inc., (towards part payment of Intellectual Property Rights (IPR)). | 28,406,098 | 16,473,448 |
| Investment in subsidiary on payment basis | 34,160,045 | 21,992,987 |
| Product Marketing Expense and Other expenditure incurred overseas for software Development | 522,881,078 | 221,809,253 |
| **Earnings in foreign exchange** | | |
| Income from software development services and Products on receipt basis | 640,473,883 | 340,110,609 |
| Commission | – | – |
| **Remittance in Foreign Currency on account of dividend** | | |
| Amount remitted during the year in foreign currency on account of dividends for the year ended March 31, 2004 | 7,641,681 | – |
| Non-resident shareholders to whom remittance was made for the year ended March 31, 2004 | 2 | – |
| Shares held by non-resident shareholders on which dividend was due for the year ended March 31, 2004 | 1,274,755 | – |
| **Loans and advances include advances due by** | | |
| *Directors:* | – | |
| Unsecured | – | – |
| Maximum outstanding during the year | – | 2,920,000 |

**Signature to the Schedules A – R**

**Subash Menon**
Chairman & Managing Director

**Alex J. Puthenchira**
Executive Director

**V. Balaji Bhat**
Director

**Rajkumar C.**
Company Secretary & Legal Counsel

Place : Bangalore
Date : April 30, 2004

## Balance Sheet Abstract and Company's General Business Profile

**COMPANY : SUBEX SYSTEMS LIMITED** **YEAR - 2003-2004**

### I. Registration Details

| | | | |
|---|---|---|---|
| Registration No. | 16663 | State Code | 08 |
| Balance Sheet Date | 31-03-2004 | | |

### II. Capital raised during the year (Rupees in thousands)

| | | | |
|---|---|---|---|
| Public Issue | – | Rights Issues | – |
| Bonus Issue | – | Private Placements - Equity | |
| | | - Preference | 131042 |
| Preferential offer of shares under Employee Stock Option Plan scheme* - Equity | | | 100 |

### III. Position of the mobilisation and Development of Funds (Rupees in thousands)

| | | | |
|---|---|---|---|
| Total Liabilities | 969053 | Total Assets | 969053 |

**Sources of Funds**

| | | | |
|---|---|---|---|
| Paid up Capital | 258464 | Share application money | 244 |
| Secured Loans | 147203 | Reserves & Surplus | 540940 |
| | | Unsecured Loans | 20632 |
| | | Deferred Tax Liability | 1570 |

**Application of Funds**

| | | | |
|---|---|---|---|
| Net Fixed Assets | 89656 | Investments | 326903 |
| Net Current Assets | 552237 | Deferred Tax Assets | – |
| Miscellaneous Expenditure | 257 | Accumulated Losses | – |

### IV. Performance of Company (Rupees in thousands)

| | | | |
|---|---|---|---|
| Turnover | 891936 | Total Expenditure | 702891 |
| Profit before tax | 189045 | Profit after tax | 177501 |
| Earning per share from ordinary activities (Basic) (in Rs.) | 20.68 | Earning per share from ordinary activities (diluted) (in Rs.) | 18.63 |
| Dividend Rate % | 20 | | |

### V. Generic name of Three principal products / Services of the company (As per monetary terms)

| | | | |
|---|---|---|---|
| Item code no. (ITC code no.) | 85/24 | Product Description | COMPUTER SOFTWARE |

* Issue of shares arising on the exercise of option granted to employees under the Company's - 2000 Plan (ESOP II)

**Subash Menon**
Chairman & Managing Director

**Alex J.Puthenchira**
Executive Director

**V. Balaji Bhat**
Director

Place : Bangalore
Date: : April 30, 2004

**Rajkumar C.**
Company Secretary & Legal Counsel

# Management Discussion and Analysis of Financial Condition and Results of Operations

## OVERVIEW

The financial statements have been prepared in compliance with the requirements of the Companies Act, 1956, and the Generally Accepted Accounting Principles (GAAP) in India. The management of Subex accepts responsibility for the integrity and objectivity of these financial statements, as well as for various estimates and judgements used therein. In addition to the historical information contained herein, the following discussion includes forward looking statements which involve risks and uncertainties, including, but not limited to, risks inherent in the Company's growth strategy, dependence on certain clients, dependence on availability of qualified technical personnel and other factors discussed in this report.

**1. Commentary on the financial statements**

1.1. **Share Capital**

1.1.1. The Company has both Equity Share Capital and Preference Share Capital.

1.1.2. Of the Equity Paid-up Capital, the Company has issued the following shares towards consideration other than cash.

- 1,15,000 shares of Rs.10/- each, towards the balances in the current account of partners, Mr. Subash Menon and Mr. Alex J. Puthenchira, on the takeover of Subex Systems, a partnership firm, by the Company during 1993-94.
- 46,26,940 Shares of Rs.10/- each to all eligible shareholders as on March 31,1999 in the ratio of 1:1 by capitalizing the General Reserves.
- 12,840 shares of Rs.10/- each to the erstwhile owners of M/s. Subex Technologies, Inc, towards part consideration of the cost of acquisition of that Company at Rs.1,023/- per share during 1999-2000.

1.1.3. During 2003-04 the Company issued 9,986 shares of Rs. 10/- each to various Employees on exercise of Stock Options granted under the Employee Stock Option Plan ( ESOP - II).

1.1.4. On March 31, 2003, 958,000 Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) of Rs. 98 each for cash at par were allotted to M/s. Intel Capital Corporation and 612,245 ROCCPS were allotted to M/s. UTI A/c IT VUS respectively.

1.1.5. On 4th April 2003, 316,755 Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) of Rs. 98 each for cash at par were allotted to Toronto Dominion Bank..

1.1.6. As on March 31, 2004 the details of ROCCPS outstanding are as follows:

| | Investor | No. of shares |
|---|---|---|
| 1. | Intel Capital Corporation | 958,000 |
| 2. | Unit Trust of India A/c ITVUS | 612,245 |
| 3. | Toronto Dominion Bank | 316,755 |
| | **Total** | **1,887,000** |

1.1.7. The principal terms of ROCCPS are as under:

a. Tenor

The ROCCPS will have a maximum tenor of three years from the date of allotment.

b. Conversion

The ROCCPS may be converted in full or in part by the investor(s) at their sole option at any time prior to the expiry of 18 months from the date of allotment of the ROCCPS.

c. Redemption

1. The ROCCPS will be redeemed in three equal installments at the end of 12th , 24th and 36th month from the date of allotment of the ROCCPS.

2. Further, if the first annual installment is not redeemed at the end of the 12th month at the option of the investor, then such first installment of the ROCCPS of that investor will be redeemed at the end of the 18th month from the date of allotment of the ROCCPS.

d. Dividend

The ROCCPS will bear a dividend rate of 12.25% PA on the amount outstanding which shall be payable semi-annually on 31st March and 30th September. Dividend would be cumulative if not paid on the specified due dates and would be paid prior to payment of any dividend in respect of equity shares. The first dividend will be payable on September 30, 2003 and will be for the period commencing from the date of allotment of ROCCPS. Payment of dividend will be subject to the provisions of the Companies Act,1956.

1.1.8. Pursuant to the terms of the subscription agreements executed with the company M/s. Intel Capital Corporation and M/s. Unit Trust of India A/c IT VUS have opted for conversion of 612,245 and 478,500 ROCCPS respectively and accordingly on April 7, 2004, the Allotment Committee of the Board of Directors have allotted 612,245 Equity Shares to UTI A/c IT VUS and 478500 as Equity Shares to M/s. Intel Capital Corporation.

1.1.9. There are no calls in arrears.

1.2. **Reserves and Surplus**

1.2.1. Capital Reserve of Rs.130.07 lacs was created by credit of the notional premium on 12,840 equity shares of Rs.10/- each valued at a price of Rs.1,013/- per share and issued to the owners of IVth Generation Inc, USA as part consideration for the transfer of their shareholding to Subex.

1.2.2. Share Premium Account represents the premium collected on:

* 9,71,000 Equity Shares issued at a premium of Rs.65/- per share through an Initial Public Offer in 1999-2000.
* 3,30,800 equity shares issued at a premium of Rs.740/- per share to Mutual Funds and Bodies Corporate on a preferential basis during 1999-2000.
* 213,770 Equity Shares at a premium of Rs. 90/- per share to Toronto Dominion Bank on Preferential basis during the year.
* 1,000 Equity Shares at a premium of Rs. 88/- per share issued to Intel Capital Corporation on Preferential basis during the year.
* 13,361 Equity Shares allotted to the employees under ESOP II Scheme as per the provisions of the Scheme.

1.2.3. A sum of Rs. 158,956,637, being the cost of Intellectual Property Rights acquired From Magardi, Inc, in 2001-02, has been written off against the Share Premium Account, in terms of the approval of the Shareholders in an Extraordinary General Meeting and the subsequent confirmation of the Honourable High Court of Karnataka under section 78 and 100 of the Companies Act, 1956.

1.2.4. The Company has transferred Rs. 135 lacs (Previous years Rs.20 lacs) to General Reserves during the year.

1.2.5. In accordance with the guidelines issued by the Institute of Chartered Accounts of India on Accounting for Deferred Taxs, a net charge of Rs 36.20 lacs has been absorbed in the P&L A/c on account of recognition of deferred tax liability as at year end, amounting to Rs 15.70 lacs and the write-off of deferred tax asset amounting to Rs 20.50 lacs.

1.2.6. In accordance with the guidelines issued by SEBI under the ESOS & ESPS Scheme 1999, the Company has created a Reserve towards the excess of market price of the underlying equity shares as on the date of the grant of the option over the exercise price of the option, to be adjusted over the period of vesting. The amount adjusted and credited to reserves as at March 31, 2004 is Rs.37.55 lacs (Previous year Rs.21.75 lacs).

1.3. **Secured Loans**

1.3.1. The Company has been sanctioned a Medium Term Loan (MTL) of Rs 400 lacs out of which Rs 157.25 lacs is outstanding at year end and fund and Non-fund based working capital facilities aggregating to Rs.1,335.00 lacs from State Bank of India. The facilities are utilized by the Company on need basis.

1.3.2. The interest rates and bank charges are subject to the credit policy of the Government and the Bank. These facilities are secured by the first charge on all fixed assets of the company, both present and future, book debts, stock and equitable mortgage of industrial land of the Company

1.3.3. Installment of Medium Term Loan (MTL) due within one year is Rs. 100.20 lacs (Previous year - Rs. 100.20 lacs)

1.3.4. The facilities are further secured by the personal guarantee of two of the Directors.

1.4. **Unsecured Loans**

1.4.1. During the year Company has repaid 413.30 lacs unsecured short term loan taken from the companies under same management in earlier years- Rs. 380.79 lacs from M/s. Subex Holdings Private Limited and Rs. 50.00 lacs from M/s. Subex Cellcomm Private Limited. The interest paid during the year is Rs. 5.31 lacs (Previous year - 49.07 lacs). The Company has an unsecured loan of Rs.17.48, lakhs due to Subex Holdings Private Limited as at 31st March 2004 and the said loan is repayable on demand.

1.5. **Deferred Payment Consideration**

1.5.1. Deferred payment consideration comprises future liability of the Company to the erstwhile owners of Subex Technologies Inc, formerly IVth Generation, Inc, USA in terms of the agreement entered into for the acquisition of the Company. In view of non-receipt of certain receivables pre-existing in the erstwhile company's books at the time of acquisition, the company has agreed with the sellers for a corresponding reduction in the acquisition price. Accordingly, the balance payment of Rs 188.84 lacs is no longer considered payable. The company's application to The Reserve Bank of India for approval to its proposal to give effect to such an arrangement, is pending sanction as at year- end and therefore accounting adjustments for the same have not been made in 2003-04.

1.6. **Fixed Assets**

1.6.1. During the year, the Company added Rs.549.54 lacs to its gross block. The Company disposed off certain assets no longer required. The Company has assets worth Rs. 226.85 lacs (Previous year Rs. 168.31lacs) under hire purchase agreements and - Nil (Previous year - Nil) under lease finance.

1.6.2. The capital expenditure for 2004-05 is estimated at Rs. 400 lacs. The Company estimates that it would have adequate internal accruals and liquid funds to fund the capital expenditure. Company may also take recourse to borrowings to meet its capital acquisition program in case of need.

1.7. **Investments**

1.7.1. The Company holds certain investments in Government Securities like Indira Vikas Patra, which are deposited, as per stipulations for registration, with various Government Departments.

1.7.2. During 1999, the Company had acquired the whole of the outstanding common stocks numbering 3,000 of no par value of IVth Generation, Inc, New Jersey, USA. Consequent to the acquisition, IVth Generation, Inc, a wholly owned subsidiary of the Company, has been renamed as "Subex Technologies, Inc.". The investments are carried at cost, including advisory fees, brokerage and syndication fees for facilitating the investment.

1.7.3. The Company has received an independent valuation report of Subex Technologies, Inc., based on which there is no impairment in the value of the Investment.

1.8. **Inventories**

1.8.1. The Company's stock of inventory consists certain spares and accessories maintained for providing support to the clients of the erstwhile Telecom System Integration activities. All these are valued in accordance with the Accounting Policy consistently adopted by the Company. A periodic review of the slow-moving stock is conducted and appropriate provisions are made for anticipated losses, if any.

1.8.2. The Company does not value the unbilled / value of software products and services as at the year end.

1.9. **Sundry Debtors**

1.9.1. The major customers of the Company are the telecom and cellular operators overseas and in India. The receivables are spread over a large customer base. There is no significant concentration of credit risk on a single customer.

1.9.2. All the debtors are generally considered good and realizable and necessary provision has been made for debts considered to be bad and doubtful. The level of sundry debtors is normal and is in tune with business trends.

1.9.3. Sundry Debtors as a percentage of total revenue is 68% as against 57% in the previous year.

1.9.4. The age profile is as given below :

Rs. in lacs

| Period in days | March 31, 2004 | | March 31, 2003 | |
|---|---|---|---|---|
| | Value | % | Value | % |
| Less than 90 days | 2405.33 | 40.35 | 2025.44 | 50.68 |
| 90 - 180 days | 1488.70 | 24.98 | 369.40 | 9.24 |
| More than 180 days | 2066.64 | 34.67 | 1601.96 | 40.08 |
| Total | 5960.67 | 100.00 | 3996.80 | 100.00 |

1.9.5. The management believes that the overall composition and condition of Sundry Debtors is satisfactory.

Based on the current financial condition of certain customers, the company has retained the level of provision for doubtful debts at 229.76 lacs. The Company has not made any fresh provisions for doubtful debts during the year. (PY 34.72 lacs)

1.9.6. Dues from Companies under the same management

* Subex Technologies, Inc. towards dues from certain customers serviced by Subex Systems - Rs. Nil (Previous year - Rs. Nil lacs).

* Maximum due during the year Rs. Nil (Previous year - Rs. Nil lacs)

1.9.7. Bad debts pertaining to Telecom System Integration activity written off during the year Rs. Nil (PY Rs.5.16 lacs))

1.10. **Cash and Bank Balances**

The bank balances in India includes both rupee accounts and foreign currency accounts. Fixed deposits of Rs. 5.51 lacs (Previous year - Rs. 16.73 lacs) are given as security towards the issue of bank guarantee and Letters of Credit.

1.10.2. Cash and Bank balances constitute 3.46% of the total assets as against 17.77% in the previous year.

1.11. **Loans and Advances**

1.11.1. Advances recoverable in cash, kind or value to be received, are primarily towards prepayments for value to be received. Advance income tax, net of provision for taxation represents payments made towards tax liability pending assessment and refunds due.

1.11.2. Dues from Companies under the same management. N.A

1.11.3. Deposits represent electricity deposit, telephone deposits and advances of like nature. The Company has taken on lease several buildings for operations and facilities in various cities and also for housing its staff upon payment of Rs. 28. lacs (Previous year Rs. 23.19 Lacs) as rental and maintenance deposits.

1.12. **Current Liabilities**

1.12.1. Sundry creditors for capital goods represent amount payable to vendors for supply of capital assets and to financiers for supply of capital assets on Hire purchase basis.

1.12.2. Sundry creditors for goods represent amount payable to vendors for supply of goods.

1.12.3. Sundry creditors - others include creditors for operational expenses, accrued salaries and benefits and advances received from clients for delivery of future sales.

1.13. **Provisions**

1.13.1. Provisions for taxation represent dividend and wealth tax liability. The provision would be set off upon payment of tax. The proposed dividend represents the final dividend recommended to the shareholders by the Board, which would be paid after the Annual General Meeting.

1.14. **Preliminary Expenses**

1.14.1. Expenses incurred in connection with the Public Offer, follow on offer and Bonus issue of shares by the Company are being written off over a period of 5 years.

2. **Financial Instruments**

2.1. **Letters of Credit**

2.1.1. The Company has no Letters of credit outstanding as at year-end. No such liability was outstanding in respect of the previous year as well.

2.2. **Guarantees**

2.2.1. The Company has outstanding guarantees for various purposes amounting to Rs. 22.00 lacs and Rs. 19.41 lacs for the year ended 2004 and 2003 respectively. These guarantees are in the nature of performance guarantees and bid bonds and are subject to the risk of performance by the Company.

3. **Profit & Loss Account**

3.1. Income

3.1.1. The Company derives its income from providing Software Development Services, Sale of Software Products and from integration and installation of Test and Measurement Solutions and Cellular Coverage Solutions. The segment wise break up of income is given below;

Rs. in lacs

| Particulars | 2003-2004 | | 2002-2003 | |
|---|---|---|---|---|
| | Value | % | Value | % |
| Software Services | 4824.97 | 54.10 | 4455.84 | 63.08 |
| Software Products | 3967.53 | 44.48 | 2545.18 | 36.03 |
| Others | 126.86 | 1.42 | 63.12 | 0.89 |
| **Total** | 8919.36 | 100.00 | **7064.14** | **100.00** |

3.1.2. Geographically, the Company earns income from export of Software Services to USA and Software Products to all countries. The Software Products revenue grew by 56 %.

3.2. **Non Operating Income**

3.2.1. Non-operating income consists of income derived by the Company from , interest on deposit with Bank, insurance claims received towards damages of assets, VAT refund, rental from sub-lease of premises and write-back of provisions no longer required.

3.3. **Expenditure**

3.3.1. The staff cost increased to Rs. 5281.87 lacs from Rs. 4772.62 lacs during the previous year on account of new recruitment, increments and increase in onsite consultancy services in US.

3.3.2. The Company incurred administration and other expenses at 11.44% of its total Income during the year as compared to 9.10% during the previous year. The increase is mainly on account of loss on account of exchange fluctuation during the current year at 2.87%% of the total income as against 1.17% in the previous year.

3.4. **Operating Profits**

3.4.1. During the year, the Company earned an Operating Profit (Profit before Interest, Depreciation and Tax) of Rs. 2460.21 lacs being - 27.58 % of total income as against Rs. 1621.90 lacs at 22.96% during the previous year. The Operating Profit has increased on account of higher product sales.

3.5. **Interest & Bank Charges**

3.5.1. The Company incurred an expenditure of Rs. 143.02 lacs as against Rs. 224.63 lacs during the previous year. The reduction is on account of Foreign currency borrowings at considerably lower rates of interest and repayment of outstanding unsecured loans to a large extent.

3.6. **Depreciation**

3.6.1. The provision for depreciation for the year increased to Rs. 412.01 lacs as compared to Rs. 365.02 lacs on account of addition of fixed assets during the year.

3.7. **Provision for Tax**

3.7.1. The Company has provided for its tax liability in India and overseas after considering the exemptions for income from software services and products under the various applicable tax enactments.

3.8. **Net Profit**

3.8.1. The net profit of the Company amounted to Rs. 1775.01 lacs as against Rs. 961.20 lacs during the previous year. The Company earned a net profit margin of 19.90 % to total income as against 13.61 % during the previous year. The net profit margin increased by 6.29 % due to increase in product sales.

3.9. **Earnings Per Share**

3.9.1. Earnings per share computed on the basis of number of common stock outstanding, as on the Balance Sheet date was Rs. 20.68 as against Rs. 13.12 per share for the Previous year. The Earnings per share diluted, for the year was Rs. 18.63 as against Rs.12.77 for the previous year. Shares available (not allocated) with Subex Foundation under ESOP 1999 have been fully considered in the calculation of basic EPS.

3.10. **Foreign Exchange Difference**

3.10.1. An amount of Rs. 256.49 lacs has been considered as expense during the current year compared to Rs. 82.44 lacs during the previous year, on account of foreign exchange differences arising due to timing differences between accrual of income / expense and receipt / payment of the same.

3.11. **Depreciation on Software and Assets costing less than Rs. 5,000 each**

3.11.1. During the year, the Company charged depreciation at one hundred percent in respect of assets costing less than Rs. 5,000 each, amounting to Rs. 97 lacs. (Previous year - Rs. 0.34 lacs). Cost of Software charged off to revenue during the year amounted to Rs.1.93 lacs (Previous year - Rs. 4.59 lacs).

# Financial Review - Subex Technologies, Inc.

## Statement pursuant to Section 212 of the Companies Act, 1956, relating to Subsidiary Company

| | | |
|---|---|---|
| 1. | Name of the Subsidiary | : Subex Technologies, Inc. |
| 2. | Finanical Year ended | : March 31, 2004 |
| 3. | Holding Company's interest | : 100% in common stock |
| 4. | Shares held by the holding Company in the Subsidiary | : 3,000 nos. of common stock fully paid, no par value. |
| 5. | The net aggregate of profits or losses for the current financial year of the subsidiary so far as it concerns the members of the holding company dealt with or provided for in the accounts of the holding company | |
| | a. Dealt with or provided for in the accounts of the holding company | : Nil |
| | b. Not dealt with or provided for in the accounts of the holding company | : US $ 93,186 |
| 6. | The net aggregate of profits or losses for previous financial years of the subsidiary so far as it concerns the members of the holding company | |
| | a. Dealt with or provided for in the accounts of the holding company | : Nil |
| | b. Not dealt with or provided for in the accounts of the holding company | : Profit US $ 93,186 |

Place : Bangalore
Date : April 22, 2004

**Alex J.Puthenchira**
Director

**Subash Menon**
Director

## Directors' Report

For the period ended March 31, 2004

**The Directors of Subex Technologies, Inc., present the results of operations for the financial year 2003-04.**

**Financial Results:**

| | 2004 (in US $) | 2003 (in US $) |
|---|---|---|
| Total Revenue | 9,348,668 | 8,330,993 |
| Gross Margin | 497,461 | 483,889 |
| Income before Taxes | 92,926 | 128,277 |
| Net Income | 93,186 | 125,208 |

During the financial year 2003-04 your Company's revenue has gone up from US$ 8,331,483 to US$ 9,348,677, a growth of 12.21%.

Your Directors are confident of maintaining the growth level in the coming years.

**For Subex Technologies, Inc.,**

**Subash Menon**
Director.

Date: April 22, 2004

## Report of Certified Public Accountants

We have audited the accompanying balance sheets of Subex Technologies, Inc. as of March 31, 2004 and 2003, and the related statements of income, accumulated deficit, and cash flows for the years then ended. 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Subex Technologies, Inc. as of March 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

April 22, 2004
Ridgewood, New Jersey

Flackman, Goodman & Potter, P.A.
Certified Public Accountants

## BALANCE SHEET
March 31, 2004 and 2003

### ASSETS

| | 2004 (Audited) | 2003 (Audited) |
|---|---|---|
| CURRENT ASSETS | $ | $ |
| Cash | | |
| Accounts receivable | 2,976,545 | 3,070,120 |
| Employee advances | 8,400 | 5,750 |
| Other current assets | 80,625 | 80,586 |
| TOTAL CURRENT ASSETS | 3,065,570 | 3,156,456 |
| EQUIPMENT | | |
| Equipment | 128,020 | 99,213 |
| Furniture and fixtures | 2,554 | 2,554 |
| Accumulated depreciation | (101,878) | (88,803) |
| TOTAL EQUIPMENT | 28,696 | 12,964 |
| OTHER ASSETS | | |
| Goodwill | 5,129,176 | 5,129,176 |
| Security deposit | 3,038 | 3,038 |
| TOTAL OTHER ASSETS | 5,132,214 | 5,132,214 |
| TOTAL ASSETS | $8,226,480 | $8,301,634 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $603,008 | $ 334,501 |
| Accrued expenses and payroll | 413,270 | 327,014 |
| Corporate income tax payable | 2,000 | 16,491 |
| Due to related entity | 1,620,422 | 2,129,034 |
| TOTAL CURRENT LIABILITIES | 2,638,700 | 2,807,040 |
| SHAREHOLDERS' EQUITY | | |
| Capital stock, no par value, 10,000 shares authorized, 3,000 shares issued and outstanding | 2,000 | 2,000 |
| Additional paid in capital | 5,614,004 | 5,614,004 |
| Accumulated deficit | (28,224) | (121,410) |
| TOTAL SHAREHOLDER'S EQUITY | 5,587,780 | 5,494,594 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $8,226,480 | $8,301,634 |

The accompanying notes are an integral part of the financial statements.

## STATEMENTS OF INCOME AND ACCUMULATED DEFICIT
For the Years Ended March 31, 2004 and 2003

| | 2004 (Audited) | 2003 (Audited) |
|---|---|---|
| REVENUES | | |
| Consulting fees | $9,348,668 | $8,330,993 |
| Interest income | 9 | 490 |
| TOTAL REVENUES | 9,348,677 | 8,331,483 |
| EXPENSES | | |
| Subcontracting expenses | 2,409,951 | 2,659,163 |
| Payroll expense | 5,657,095 | 4,591,605 |
| Payroll tax expense | 486,483 | 341,102 |
| Insurance expense | 220,771 | 208,882 |
| Professional fees | 116,048 | 117,977 |
| Employee reimbursement expense | 8,223 | 6,224 |
| Retirement plan contributions | 32,184 | 23,139 |
| Rent | 47,684 | 63,870 |
| Office expense | 18,653 | 17,258 |
| Telephone | 12,875 | 17,879 |
| Postage and delivery | 4,435 | 2,878 |
| Travel and entertainment | 158,451 | 69,499 |
| Depreciation | 13,075 | 6,080 |
| Recruiting expenses | 790 | – |
| Bank and license fees | 2,467 | 1,874 |
| Relocation expence | 1,500 | – |
| Repairs | 22,000 | – |
| Training | 35,000 | 16,989 |
| Miscellaneous | 8,066 | 58,787 |
| TOTAL EXPENSES | 9,255,751 | 8,203,206 |
| INCOME BEFORE INCOME TAXES | 92,926 | 128,277 |
| (BENEFIT) PROVISION FOR INCOME TAXES | (260) | 3,069 |
| NET INCOME | 93,186 | 125,208 |
| ACCUMULATED DEFICIT - Beginning | (121,410) | (246,618) |
| ACCUMULATED DEFICIT - Ending | $(28,224) | $(121,410) |

The accompanying notes are an integral part of the financial statements.

## STATEMENT OF CASH FLOWS
See Accountant's Compilation Report
For the Year Ended March 31, 2004 and 2003

| | 2004 (Audited) | 2003 (Audited) |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $93,186 | $125,208 |
| Non cash expenses included in net income: | | |
| Depreciation | 13,075 | 6,080 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | 93,575 | (2,467,055) |
| Other assets | (2,689) | (34,857) |
| Accounts payable | 268,507 | 171,559 |
| Accrued expenses | 86,256 | 108,446 |
| Other current liabilities | (14,491) | (159,696) |
| NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES | 537,419 | (2,250,315) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of fixed assets | (28,807) | (17,659) |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | (28,807) | (17,659) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment to (advances from) related entity | (508,612) | 2,267,974 |
| NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES | (508,612) | 2,267,974 |
| NET DECREASE IN CASH | – | – |
| CASH - Beginning of year | – | – |
| CASH - End of year | $ – | $ – |
| SUPPLEMENTAL DISCLOSURES | | |
| Cash paid during the year for: | | |
| Interest | $ – | $ – |
| Income taxes | $ 11,510 | $ – |

The accompanying notes are an integral part of the financial statements.

## NOTES TO FINANCIAL STATEMENTS
March 31, 2004 and 2003

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Nature of Operations

Subex Technologies, Inc. "the Company" is a wholly owned subsidiary of Subex Systems Limited - India "the Parent". The Company is a placement company for computer personnel and maintenance. Customers are located throughout the United States. Credit is granted substantially to all customers.

### Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

### Accounts Receivable - Recognition of Bad Debts

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is provided.

### Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets as follows:

| | Method | Estimated Useful Life |
|---|---|---|
| Equipment | Declining balance | 5 years |
| Furniture and Equipment | Declining balance | 5-7 years |

### Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses for the years ended March 31, 2004 and 2003 was $0 and $0, respectively.

### Income Taxes

Deferred income taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. Deferred tax asses and liabilities represent future tax consequences of those differences that will either be taxable or deductible when the related assets and liabilities are recovered or settled. At March 31, 2004 and 2003 there were no material temporary differences giving rise to deferred tax assets and liabilities.

### Goodwill

Goodwill represents the purchase price and transaction costs associated with business acquisitions in excess of estimated fair value of the net assets of the business.

The FASB issued SFAS No. 142, "Goodwill and Intangible Assets". SFAS No. 142 eliminates the amortization of goodwill, requires annual impairment testing of goodwill and introduces the concept of indefinite life intangible assets.

Management annually reviews the carrying value of goodwill to determine whether an impairment may exist. The Company considers relevant cash flow and profitability information, including estimated future operating results, trends, and other available information, in assessing whether the carrying value of intangible assets can be recovered. If it is determined that the carrying value of goodwill will not be recovered from the undiscounted future cash flows of the acquired business, the carrying value of such intangible assets would be considered impaired and reduced by a charge to operations in the amount of the impairment. An impairment charge is measured if any deficiency in the amount of estimated undiscounted future cash flows of the acquired business is available to recover the carrying value related to the intangible assets. Based on this assessment there was no impairment to goodwill.

### Use of Estimates

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

### Reclassifications

Certain reclassifications have been made for the prior years' financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

## 2. INCOME TAXES

The (benefit) provision for income taxes for the years ended March 31, 2004 and 2003 consists of current tax expense.

| | 2004 | 2003 |
|---|---|---|
| Federal | $(6,548) | $ (8,922) |
| State | 6,288 | 11,991 |
| | $ (260) | $ 3,069 |

## 3. EMPLOYEE BENEFIT PLAN

The Company maintains a 401 (k) Savings Plan for qualified employees. The terms of the plan define qualified employees as those over 21 years of age, with at least six months of service with the Company. Employee contributions are discretionary to a maximum of 15% of compensation. The Company matches 50% of the employees contributions up to 6% of compensation. 401(k) expenses of the years ended March 31, 2004 and 2003 were $32,184 and $23,139, respectively.

## 4. DEBT

The Company has available a revolving line of credit with a bank. Borrowings under this line of credit bear interest at the bank's prime rate plus 1.0%. The outstanding balances at March 31, 2004 and 2003 was $0 and $0, respectively.

## 5. RELATED PARTY

The Company billed Subex Systems Limited "SSL" (a division of the Parent) on a cost plus basis for manpower requirement through September 30, 2002. As of October 1, 2002 the Company bills the Parent company on a cost plus basis for manpower requirements. Revenue from SSL and the Parent company for the years ended March 31, 2004 and 2003 was $9,345,874 and $8,291,630, respectively.

The Company has advanced and received funds from SSL for working capital purposes. At March 31, 2004 the Company owed SSL $1,620,422 and at March 31, 2003, SSL owed the Company $2,129,034

Accounts receivable at March 31, 2004 and 2003 include $2,541,021 and $2,467,054 respectively due from the Parent company.

## 6. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable. The Company controls credit risk through credit approvals, credit limits, and monitoring procedures. The Company generally does not require collateral to support accounts receivable.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. The Company has not experienced any losses in such accounts.

## 7. COMMITMENTS

The Company leases office space under a four year lease expiring December 31, 2004. Rent expense for the years ended March 31, 2004 and 2003 was $47,684 and $63,870, respectively.

Future minimum lease payments are as follows for the years ended March 31:

| | |
|---|---|
| 2005 | $43,752 |

# Consolidated Accounts

# Auditors' Report

To the Board of Directors of Subex Systems Limited

1. We have examined that attached Consolidated Balance Sheet of Subex Systems Limited and its subsidiary as at March 31, 2004 and also the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year then ended. 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 generally accepted auditing standards in India. These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with and identified financial reporting framework and are free from material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements. We believe our audit provides a reasonable basis for our opinion.

3. We did not audit the financial statements of the subsidiary, Subex Technologies, Inc. whose audited financial statements reflect gross total assets of Rs. 65,769,854 as at March 31, 2004 and total turnover of Rs. 426,050,102 for the year then ended and the financial statements of the US Branch of the Company. These financial statements have been audited by other auditors, whose report/returns have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of the subsidiary, is based solely on the report of the other auditors.

4. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of Subex Systems Limited and its subsidiary included in the consolidated financial statements.

5. On the basis of the information and explanation given to us and on the consideration of the separate audit reports on individual financial statements of Subex Systems Limited and its aforesaid subsidiary, we are of the opinion that:

   a) The consolidated Balance Sheet gives a true and fair view of the consolidated state of affairs of Subex Systems Limited and its subsidiary at March 31, 2004;

   b) The consolidated Profit and Loss Account gives a true and fair view of the consolidated results of operations of Subex Systems Limited and its subsidiary for the year then ended; and

   c) The consolidated Cash Flow Statement gives a true and fair view of the consolidated cash flows of Subex Systems Limited and its subsidiary for the year then ended.

**For Deloitte Haskins & Sells**
Chartered Accountants

Place : Bangalore
Date : April 30, 2004

**V Srikumar**
Partner
M.No.84494

# Consolidated Balance Sheet

| | SCH | As at March 31, 2004 Rs. | Rs. | As at March 31, 2003 Rs. | Rs. |
|---|---|---|---|---|---|
| **SOURCES OF FUNDS :** | | | | | |
| **SHAREHOLDERS FUNDS :** | | | | | |
| Share Capital | A | 258,464,110 | | 227,322,260 | |
| Share application money | | 243,535 | | – | |
| Reserves and Surplus | B | 544,134,826 | 802,842,471 | 401,750,321 | 629,072,581 |
| **LOAN FUNDS :** | | | | | |
| Secured Loans | C | 147,203,061 | | 156,020,508 | |
| Unsecured Loans | D | 1,748,508 | | 43,078,500 | |
| Deferred payment consideration towards acquisition of a subsidiary and Intellectual Property Rights (Refer Note II.3) | | 18,883,619 | 167,835,188 | 84,220,955 | 283,319,963 |
| **DEFERRED TAX LIABILITY (NET):** | | | 1,570,000 | | – |
| **TOTAL** | | | 972,247,659 | | 912,392,544 |
| **APPLICATION OF FUNDS :** | | | | | |
| **FIXED ASSETS :** | E | | | | |
| Gross Block | | 215,272,583 | | 166,333,099 | |
| Less : Depreciation | | 124,715,710 | | 87,886,434 | |
| Net Block | | 90,556,873 | | 78,446,665 | |
| Capital work in progress | | 437,108 | | – | |
| | | | 90,993,981 | | 78,446,665 |
| **GOODWILL** | | | 308,987,980 | | 308,987,980 |
| **INVESTMENTS** | F | | 1,000 | | 2,000 |
| **DEFERRED TAX ASSET (Net):** | | | – | | 2,050,000 |
| **CURRENT ASSETS, LOANS & ADVANCES :** | | | | | |
| Inventories | G | 138,025 | | 198,023 | |
| Sundry Debtors | H | 615,168,612 | | 428,247,017 | |
| Cash & Bank balances | I | 33,607,318 | | 162,355,299 | |
| Loans & Advances | J | 43,168,846 | | 29,365,925 | |
| | | 692,082,801 | | 620,166,264 | |
| Less: Current liabilities & Provisions | K | 120,075,045 | | 98,992,031 | |
| **NET CURRENT ASSETS** | | | 572,007,756 | | 521,174,233 |
| **MISCELLANEOUS EXPENDITURE :** | | | | | |
| (To the extent not written off or adjusted) | L | | 256,942 | | 1,731,666 |
| **TOTAL** | | | 972,247,659 | | 912,392,544 |
| **NOTES ON ACCOUNTS :** | R | | | | |

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

In terms of our report of even date

**For Deloitte Haskins & Sells**
Chartered Accountants

**V. Srikumar**
Partner
Membership No. : 84494

Place : Bangalore
Date : April 30, 2004

**Subash Menon**
Chairman & Managing Director

**V. Balaji Bhat**
Director

**Rajkumar C.**
Company Secretary & Legal Counsel

**Alex J. Puthenchira**
Executive Director

# Consolidated Profit and Loss Account

For the period ended March 31, 2004

| | SCH | 2003-2004 Rs. | Rs. | 2002-2003 Rs. | Rs. |
|---|---|---|---|---|---|
| **INCOME :** | | | | | |
| Sales & Services | | | 879,250,709 | | 700,102,094 |
| Other Income | M | | 12,685,900 | | 8,244,660 |
| **TOTAL** | | | 891,936,609 | | 708,346,754 |
| **EXPENDITURE :** | | | | | |
| Materials Consumed | N | | 15,637,526 | | 2,645,712 |
| Personnel Costs | O | | 509,465,295 | | 457,924,118 |
| Other Operating, Selling and Administrative Expenses | P | | 119,958,700 | | 81,198,207 |
| Financial Costs | Q | | 14,415,306 | | 22,553,992 |
| Miscellaneous Expenses amortised | | | 1,474,724 | | 1,474,724 |
| Depreciation | E | | 41,813,946 | | 36,796,796 |
| **TOTAL** | | | 702,765,497 | | 602,593,549 |
| **Profit Before Taxation** | | | 189,171,112 | | 105,753,205 |
| Provision for taxation | | | | | |
| - Current (Net of excess provision relating to earlier years of Rs.3,125,857(PY: Nil) | | 7,912,175 | | 6,278,825 | |
| - Deferred | | 3,620,000 | 11,532,175 | (500,000) | 5,778,825 |
| **Profit After Taxation** | | | 177,638,937 | | 99,974,380 |
| Add: Balance brought forward from Previous year | | | 131,223,916 | | 41,592,552 |
| **Profit Available for Appropriation** | | | 308,862,853 | | 141,566,932 |
| **APPROPRIATION :** | | | | | |
| Transfer to General Reserve | | | 13,500,000 | | 2,000,000 |
| Proposed dividend | | | | | |
| - Equity Shares | | 14,707,622 | | 7,343,825 | |
| - Preference Shares for 2003-04 | | 22,652,990 | 37,360,612 | 51,646 | 7,395,471 |
| Tax on distributed profits | | | 4,786,829 | | 947,545 |
| **Surplus carried to Balance Sheet** | | | 253,215,412 | | 131,223,916 |
| | | | 308,862,853 | | 141,566,932 |
| Earnings per Share - Basic | | | 20.70 | | 13.64 |
| Earnings per Share - Diluted | | | 18.64 | | 13.28 |
| **NOTES ON ACCOUNTS :** | R | | | | |

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

In terms of our report of even date

**For Deloitte Haskins & Sells**
Chartered Accountants

**V. Srikumar**
Partner
Membership No. : 84494

Place : Bangalore
Date : April 30, 2004

**Subash Menon**
Chairman & Managing Director

**V. Balaji Bhat**
Director

**Rajkumar C.**
Company Secretary & Legal Counsel

**Alex J. Puthenchira**
Executive Director

## Consolidated Cash Flow Statement

For the period ended March 31, 2004

| | | 2003-2004 Rs. | 2002-2003 Rs. |
|---|---|---|---|
| **Cash flow from Operating Activities** | | | |
| Net Profit before Tax and before Extraordinary items | | 189,171,112 | 105,753,206 |
| **Adjustments for :** | | | |
| a) Depreciation and amortization | | 43,288,670 | 38,271,520 |
| b) Interest / Dividend Income | | (1,676,428) | (324,978) |
| c) Interest on borrowings | | 14,415,306 | 22,553,992 |
| d) Asets written off / Loss on sale | | 1,273,594 | 1,069,043 |
| e) Profit on sale of assets | | (204,833) | (510,328) |
| f) Employee compensation expenses | | 1,580,438 | (203,172) |
| g) Provision for doubtful debts | | – | 3,472,789 |
| h) Direct Taxes paid | | (12,795,609) | (1,582,599) |
| **Operating Profit before Working Capital Changes** | | 235,052,250 | 168,499,473 |
| **Adjustments for :** | | | |
| a) Trade and other receivables | | (186,921,596) | (165,466,799) |
| b) Loans and advances | | (7,908,268) | 2,789,410 |
| c) Inventories | | 59,998 | 2,632,109 |
| d) Trade and other payables | | (1,020,811) | 14,940,688 |
| **Cash generated from operations** | A | 39,261,574 | 23,394,881 |
| **Cash Flow from Investing activities** | | | |
| a) Purchase of Fixed Assets | | (56,719,212) | (9,817,153) |
| b) Sale / disposal of fixed assets | | 1,289,189 | 3,591,108 |
| c) Sale / Purchase of Investments | | 1,000 | 250 |
| d) Payment towards Acquisition of Subsidiary/ IPR | | (65,337,336) | (53,135,674) |
| **Net Cash from Investing Activities** | B | (120,766,359) | (59,361,469) |
| **Cash Flow from Financing Activities** | | | |
| a) Proceeds from issue of Share Capital | | 32,135,049 | 172,692,938 |
| b) Proceeds/(Repayments) from Borrowings (Net) | | (50,147,439) | 31,822,964 |
| c) Dividends paid | | (21,054,836) | (6,995,479) |
| d) Interest paid on Borrowings | | (14,415,306) | (22,553,992) |
| e) Interest received | | 1,676,428 | 324,978 |
| **Net Cash from Financing Activities** | C | (51,806,104) | 175,291,409 |
| Exchange Fluctuation reserve on account of consolidation | | 4,562,908 | 4,202,027 |
| Net increase in Cash or Cash equivalents [A + B + C] | | (133,310,889) | 139,324,821 |
| Cash or Cash equivalents at the start of the year | | 162,355,299 | 18,828,451 |
| **Cash or Cash equivalents at the close of the year** | | **33,607,318** | **162,355,299** |

In terms of our report of even date

**For Deloitte Haskins & Sells**
Chartered Accountants

**V. Srikumar**
Partner
Membership No. : 84494

Place : Bangalore
Date : April 30, 2004

**Subash Menon**
Chairman & Managing Director

**V. Balaji Bhat**
Director

**Rajkumar C.**
Company Secretary & Legal Counsel

**Alex J. Puthenchira**
Executive Director

# Schedules to Consolidated Balance Sheet

| | As at March 31, 2004 Rs. | Rs. | As at March 31, 2003 Rs. | Rs. |
|---|---|---|---|---|
| **SCHEDULE - A :** | | | | |
| **SHARE CAPITAL :** | | | | |
| **AUTHORISED :** | | | | |
| 1,11,80,000 Equity Shares of Rs. 10/- each | | 111,800,000 | | 111,800,000 |
| 20,00,000 Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) of Rs.98/- each | | 196,000,000 | | 196,000,000 |
| **TOTAL** | | 307,800,000 | | 307,800,000 |
| **ISSUED, SUBSCRIBED AND PAID UP:** | | | | |
| **A) EQUITY :** | | | | |
| 7,353,811 ( PY- 7,343,825) Equity Shares of Rs. 10/- each | | 73,538,110 | | 73,438,250 |
| **Of the above:** | | | | |
| a) 115,000 shares of Rs.10/- each were allotted for consideration otherwise than for cash; | | | | |
| b) 4,626,940 shares of Rs.10/- each are allotted as Bonus shares by capitalisation of General Reserve; | | | | |
| c) 12,840 shares of Rs.10/- each are allotted in part settlement of cost of acquisition of subsidairy. | | | | |
| **B) PREFERENCE:** | | | | |
| 1,887,000 (PY 1,570,245) Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) of Rs.98/- each | | 184,926,000 | | 153,884,010 |
| **TOTAL** | | 258,464,110 | | 227,322,260 |
| **SCHEDULE - B :** | | | | |
| **RESERVES AND SURPLUS :** | | | | |
| Capital Reserve | | 13,006,920 | | 13,006,920 |
| General Reserve - Opening Balance | 84,802,608 | | 82,802,608 | |
| Add : Additions during the year | 13,500,000 | | 2,000,000 | |
| | 98,302,608 | | 84,802,608 | |
| | – | 98,302,608 | – | 84,802,608 |
| Securities Premium Account - Opening Balance | 165,577,841 | | 307,907,000 | |
| Less : Miscellaneous expenses adjusted as per High Court Order (Refer Note II.5 to Schedule R) | – | | 158,956,637 | |
| | 165,577,841 | | 148,950,363 | |
| Add : Additions during the year (Net of Share issue exps) | 749,664 | 166,327,505 | 16,627,478 | 165,577,841 |
| Employees Stock Options Outstanding | 6,936,691 | | 2,959,834 | |
| Deferred Employees Compensation Expenses | 3,181,655 | 3,755,036 | 785,236 | 2,174,598 |
| Exchange Reserve on Consolidation | | 9,527,345 | | 4,964,437 |
| Profit & Loss Account | | 253,215,412 | | 131,223,917 |
| **TOTAL** | | 544,134,826 | | 401,750,321 |
| **SCHEDULE - C :** | | | | |
| **SECURED LOANS :** | | | | |
| State Bank of India - MTL (Amount repayable within one year Rs.10,020,000) (Previous Year: Rs.10,020,000) | | 15,725,000 | | 1,003,400 |
| State Bank of India - Cash Credit | | 51,018,213 | | 9,977,358 |
| State Bank of India - FCNR (B) Loan | | 68,010,000 | | 134,893,300 |
| (First charge on all fixed assets of the company, both present and future, book debts, stock, personal guarantee of two directors and equitable mortgage of industrial land) [Amount repayable within one year: Rs.68,010,000) (Previous Year: Rs.134,893,300) | | | | |
| Hire Purchase (Secured by Hypothecation of Motor cars and Server) [Amount repayable within one year: Rs.5,068,539] (Previous Year:Rs.4,807,401) | | 12,449,848 | | 10,146,450 |
| **TOTAL** | | 147,203,061 | | 156,020,508 |
| **SCHEDULE - D :** | | | | |
| **UNSECURED LOANS :** | | | | |
| Inter Corporate Deposits | | 1,748,508 | | 43,078,500 |
| | | 1,748,508 | | 43,078,500 |

## SCHEDULE - E :

## FIXED ASSETS

| | | GROSS BLOCK | | | | DEPRECIATION | | | | NET BLOCK | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Sl. No. | Particulars | As at April 1, 2003 | Additions during the Year | Deletions during the Year | As at March 31, 2004 | Upto April 1, 2003 | For the Period | On deletion | Upto March 31, 2004 | As at March 31, 2004 | As at March 31, 2003 |
| 1 | Freehold Land | 5,819,103 | – | – | 5,819,103 | – | | – | – | 5,819,103 | 5,819,103 |
| 2 | Plant & Machinery | 1,533,199 | 74,010 | – | 1,607,209 | 1,011,759 | 327,481 | – | 1,339,240 | 267,969 | 521,440 |
| 3 | Furniture & Fixtures | 15,714,038 | 1,162,026 | 3,098,726 | 13,777,338 | 10,530,891 | 2,455,895 | 2,780,852 | 10,205,934 | 3,571,404 | 5,183,147 |
| 4 | Computers | 121,833,088 | 43,725,108 | 162,528 | 165,395,668 | 66,767,365 | 34,465,858 | 169,614 | 101,063,609 | 64,332,059 | 55,065,723 |
| 5 | Office Equipment's | 5,168,479 | 1,067,454 | 23,704 | 6,212,229 | 2,932,089 | 1,060,820 | 9,224 | 3,983,685 | 2,228,544 | 2,236,390 |
| 6 | Electrical Installations | 2,029,933 | – | – | 2,029,933 | 1,440,550 | 271,577 | – | 1,712,127 | 317,806 | 589,383 |
| 7 | Motor Car | 13,952,193 | 10,253,506 | 3,808,439 | 20,397,260 | 5,095,199 | 3,186,980 | 1,896,650 | 6,385,529 | 14,011,731 | 8,856,994 |
| 8 | Other Fixed Assets | 283,066 | – | 249,223 | 33,843 | 108,581 | 45,335 | 128,330 | 25,586 | 8,257 | 174,485 |
| | | **166,333,099** | **56,282,104** | **7,342,620** | **215,272,583** | **87,886,434** | **41,813,946** | **4,984,670** | **124,715,710** | **90,556,873** | **78,446,665** |
| | **PREVIOUS YEAR** | **167,698,440** | **9,817,153** | **(11,182,494)** | **166,333,099** | **58,153,613** | **36,796,796** | **(7,063,975)** | **87,886,434** | **78,446,665** | **109,544,827** |

Gross Block as at 31st March 2004 includes Computers and Motor Cars costing Rs. 22,685,357 in respect of which Hire Purchase Contracts are in force as at year end (PY Rs.16,830,714)

# Schedules to Consolidated Balance Sheet

| | As at March 31,2004 Rs. | Rs. | As at March 31, 2003 Rs. | Rs. |
|---|---|---|---|---|
| **SCHEDULE - F :** | | | | |
| **INVESTMENTS :** | | | | |
| (Unquoted at Cost) | | | | |
| Long Term - Non Trade | | 1,000 | | 2,000 |
| In Government Securities - I.V.P | | | | |
| **TOTAL** | | 1,000 | | 2,000 |
| **SCHEDULE - G :** | | | | |
| **INVENTORIES :** | | | | |
| (At cost) | | | | |
| Traded Goods | | 138,025 | | 198,023 |
| **TOTAL** | | 138,025 | | 198,023 |
| **SCHEDULE - H :** | | | | |
| **SUNDRY DEBTORS :** | | | | |
| (Unsecured) | | | | |
| Outstanding for more than six months | | | | |
| Considered Good | 225,765,633 | | 188,763,570 | |
| Considered Doubtful | 22,975,896 | | 24,045,589 | |
| | 248,741,529 | | 212,809,159 | |
| Less: Provision for Doubtful Debts | 22,975,896 | 225,765,633 | 24,045,589 | 188,763,570 |
| Others | | 389,402,979 | | 239,483,447 |
| **TOTAL** (Considered good) | | 615,168,612 | | 428,247,017 |
| **SCHEDULE - I :** | | | | |
| **CASH & BANK BALANCES :** | | | | |
| Cash on Hand | | 285,624 | | 66,867 |
| Cheques on Hand | | 1,721,759 | | – |
| **Balance with Scheduled Banks** | | | | |
| - in Current Account in Indian Rupees | | 3,322,211 | | 156,029,056 |
| - in Deposit Account in Indian Rupees | | 564,346 | | 1,672,856 |
| - in EEFC Account in Foreign Currency | | 1,429,756 | | 2,310,681 |
| **Balance with Non Scheduled Banks** | | | | |
| - Deposit with Royal Bank of Canada | | 846,602 | | 806,000 |
| (Maximum outstanding during the year Rs. 846,602) | | | | |
| - in Current Account with Royal Bank of Canada, Canada | | 544,038 | | 917,637 |
| (Maximum outstanding during the year Rs. 38,701,553) | | | | |
| - in CAP Account with First Union Bank, New Jersey | | 23,449,091 | | 182,830 |
| (Maximum outstanding during the year Rs. 37,955,501) | | | | |
| - in Hellinic Bank - CYP Account - Cyprus | | 145,967 | | 143,119 |
| (Maximum outstanding during the year Rs. 521,631) | | | | |
| - in Hellinic Bank - USD Account - Cyprus | | 73,173 | | 226,253 |
| (Maximum outstanding during the year Rs. 1,597,598) | | | | |
| - in Bank of China - RMB account - China | | 697,413 | | – |
| (Maximum outstanding during the year Rs.1,249,791) | | | | |
| - in Bank of China - USD Account - China | | 527,337 | | – |
| (Maximum outstanding during the year Rs.922,175) | | | | |
| **TOTAL** | | 33,607,317 | | 162,355,299 |

## Schedules to Consolidated Balance Sheet

| | As at March 31,2004 Rs. | Rs. | As at March 31, 2003 Rs. | Rs. |
|---|---|---|---|---|
| **SCHEDULE - J :** | | | | |
| **LOANS & ADVANCES :** | | | | |
| (Unsecured, considered good, subject to confirmation) | | | | |
| Loans and advances recoverable in cash or in kind or for value to be received | | 15,688,369 | | 8,251,021 |
| Advance Income Tax including TDS | | 10,690,398 | | 4,795,745 |
| Other Deposits | | 16,790,079 | | 16,319,159 |
| **TOTAL** | | 43,168,846 | | 29,365,925 |
| **SCHEDULE - K :** | | | | |
| **CURRENT LIABILITIES & PROVISIONS :** | | | | |
| **SUNDRY CREDITORS :** | | | | |
| Sundry Creditors (other than Small Scale Industrial Undertaking) | 73,854,288 | | 78,405,866 | |
| Duties & Taxes | 5,819,039 | | 2,288,273 | |
| Unclaimed Dividends (Refer Note II.12.3 of Schedule R) | 324,581 | 79,997,908 | 293,958 | 80,988,097 |
| **PROVISIONS :** | | | | |
| Taxation | 10,672,138 | | 9,660,918 | |
| Dividends | 26,065,372 | | 7,395,471 | |
| Tax on proposed dividends | 3,339,626 | 40,077,136 | 947,545 | 18,003,934 |
| **TOTAL** | | 120,075,044 | | 98,992,031 |
| **SCHEDULE - L :** | | | | |
| **MISCELLANEOUS EXPENDITURE :** | | | | |
| (To the extent not written off or adjusted) | | | | |
| Share Issue Expenses | | 256,942 | | 1,731,666 |
| **TOTAL** | | 256,942 | | 1,731,666 |

## Schedules to Consolidated Profit and Loss Account

For the year ended March 31, 2004

| | 2003 - 2004 | | 2002 - 2003 | |
|---|---|---|---|---|
| | Rs. | Rs. | Rs. | Rs. |
| **SCHEDULE - M :** | | | | |
| **OTHER INCOME :** | | | | |
| Interest Received (Gross - TDS Rs. 194,853/-, Previous Year Rs.33,096/-) | | 1,676,428 | | 324,978 |
| Other income received | | 3,723,051 | | 3,975,514 |
| Creditors no longer required written back | | 3,536,021 | | 2,216,783 |
| Rent Received | | 3,750,400 | | 1,727,385 |
| **TOTAL** | | 12,685,900 | | 8,244,660 |
| **SCHEDULE - N :** | | | | |
| **MATERIALS, FINISHED GOODS CONSUMED :** | | | | |
| **Consumption of raw materials and bought out components** | | | | |
| Purchase of Systems & Solutions | | 15,577,528 | | 13,603 |
| **(Increase)/Decrease in finished goods** | | | | |
| Opening Stock - Finished Goods | 198,023 | | 2,830,132 | |
| Closing Stock - Finished Goods | 138,025 | 59,998 | 198,023 | 2,632,109 |
| **TOTAL** | | 15,637,526 | | 2,645,712 |
| **SCHEDULE - O** | | | | |
| **PERSONNEL COSTS :** | | | | |
| Salaries, Wages & Allowances | | 349,008,304 | | 290,018,883 |
| Contribution to Provident Fund and Other Funds | | 36,044,009 | | 28,768,227 |
| Other staff related costs | | 13,482,937 | | 10,194,191 |
| Sub Contract Charges | | 110,930,045 | | 128,942,817 |
| TOTAL | | 509,465,295 | | 457,924,118 |

## Schedules to Consolidated Profit and Loss Account

For the year ended March 31, 2004

| | 2003 - 2004 Rs. | 2002 - 2003 Rs. |
|---|---|---|
| **SCHEDULE - P :** | | |
| **OTHER OPERATING, SELLING AND ADMINISTRATIVE EXPENSES :** | | |
| Software Purchases | 192,806 | 458,821 |
| Rent | 10,327,060 | 9,876,431 |
| Power, Fuel and Water Charges | 2,189,506 | 1,640,396 |
| Repairs & Maintenance - Others | 2,560,340 | 2,559,207 |
| Insurance | 826,234 | 525,964 |
| Communication Costs | 5,527,909 | 4,984,840 |
| Printing & Stationery | 1,676,709 | 1,641,883 |
| Travelling & Conveyance | 34,944,954 | 23,216,168 |
| Directors sitting fees | 30,500 | 9,000 |
| Rates & Taxes Including Filing Fees | 503,346 | 321,790 |
| Advertisement & Business Promotion | 13,597,004 | 7,192,773 |
| Consultancy Charges | 12,504,516 | 7,754,915 |
| Bad Debts Written Off | – | 515,613 |
| Warranty Expenses | 1,416,767 | 795,731 |
| Provision for Doubtful Debts | – | 3,472,789 |
| Loss on sale of Asset & Assets Written Off | 1,273,594 | 1,069,043 |
| Exchange Fluctuation Account | 25,649,186 | 8,244,168 |
| Miscellaneous Expenses | 6,738,269 | 6,918,674 |
| **TOTAL** | 119,958,700 | 81,198,206 |
| **SCHEDULE - Q :** | | |
| **FINANCIAL COSTS :** | | |
| Interest on Fixed Loans | 1,715,117 | 4,163,810 |
| Other Interest & Bank Charges | 12,700,189 | 18,390,182 |
| **TOTAL** | 14,415,306 | 22,553,992 |

## SCHEDULE – R

## I. SIGNIFICANT ACCOUNTING POLICIES

### 1.1. Basis for preparation of consolidated financial statements

The consolidated financial statements relate to Subex Systems Limited (the Company) and its wholly owned subsidiary.

The consolidated financial statements have been prepared under the historical cost convention in accordance with the applicable Accounting Principles in India, the Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956, as adopted consistently by the Company. Revenues are recognised and expenses accounted on their accrual, including provisions / adjustments for committed obligations and amounts determined as payable or receivable during the year.

### 1.2. Use of Estimates

The preparation of the financial statements in conformity with India GAAP requires that management makes estimates and assumption that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as at the date of the financial statements and the reported amount of revenue and expenses during the reported period. Actual results could differ from those estimates.

### 1.3. Principles of Consolidation

The financial statements of the Company and it's wholly owned subsidiary have been combined on a line by line basis by adding together like items of assets, liabilities, income and expense. The intra-group balances and intra-group transactions are eliminated.

The excess of cost to the Company of its investments in the subsidiary over it's share of the equity of the subsidiary, at the date on which the investments in the subsidiary company was made, is recognized as 'goodwill' being an asset in the consolidated financial statements.

The financial statements of both companies are prepared according to uniform accounting policies in accordance with the generally accepted accounting principles in India.

### 1.4. Revenue Recognition

Sales are recognised on the dispatch of goods to customers and are recorded net of discounts, rebates for price adjustment, rejections, shortages in transit, taxes and duties but include wherever applicable, export incentives.

Contracts for sale of software licences include fees for transfer of software licences (which normally coincides with delivery), installation and commissioning. Activities relating to installation and commissioning involve minimal time and cost and are not subject to uncertainties. Revenues from composite contracts wherein fees for software licenses and implementation/commissioning fees are not identifiable separately are recognized on transfer of the software licenses and a provision is made for the estimated costs relating to the installation and commissioning. In the case of contracts, where the fees for software licenses and implementation costs are identified separately, revenues from software licenses are recognized on transfer of software licenses and revenues from implementation are recognized on completion of implementation and commissioning.

Revenue from software development is recognised on the basis of chargeble time or achievement of prescribed milestones as relevant to each contract.

Interest on investments and deposits are booked on a time proportion basis taking into account the amounts invested and the rate of interest.

Agency commission is accrued on shipment of consignment by principal.

Maintenance and service income is recognised on accrual basis.

### 1.5. Fixed Assets

Fixed assets are stated at cost of acquisition inclusive of freight, duties, taxes and interest on borrowed money allocated to and utilised for fixed assets upto the date of capitalisation and other direct expenditure incurred on ongoing projects. Assets acquired on hire purchase are capitalised at gross value and interest thereon is charged to revenue.

### 1.6. Depreciation

Fixed assets are depreciated using the straight-line method over the useful lives of assets. Depreciation is charged on pro-rata basis for assets purchased/sold during the year.

The rates of depreciation adopted on the assets of the Company is as under ;

| Particulars | Depreciation Rates |
|---|---|
| Plant & Machinery | 20.00 % |
| Computers | 25.00 % |
| Vehicles | 20.00 % |
| Furniture & Fixtures | 20.00 % |

Individual assets costing less than Rs. 5,000 are depreciated in full, in the year of purchase.

### I.7. Inventories

Inventories are valued at lower of cost or net realizable value, after providing for cost of obsolescence and other anticipated losses, wherever considered necessary. Spares and Consumables are charged off to revenue in the year of purchase. Cost includes the aggregate of all expenditure incurred in bringing the inventories to the present condition and situation.

### I.8. Employee Stock Option

For the shares granted /allocated under Employee Stock Option Plan - I (ESOP-I), the Securities Exchange Board of India (SEBI) guidelines are not followed, since the scheme was formulated prior to the promulgation of the guidelines.

Employee Stock Option under Employees Stock Option - II are accounted in accordance with the guidelines stipulated by SEBI. The difference between the market price of the shares underlying the options granted on the date of grant of option and the option price is expensed as "Employees Compensation" over the period of vesting.

### I.9. Retirement benefits to employees

The Company's liability towards retirement benefits in the form of provident fund is fully provided and charged to expenditure. The Company has entered into an agreement with LIC of India for managing the gratuity liability through a fund, the premium for which is funded by the Company and charged to expenditure. Leave encashment benefits is accounted for an estimated liability as at the date of the balance sheet.

### I.10. Research and Development

Expenses incurred on research and developments are charged to revenue in the same year. Fixed assets purchases for research and development purposes are capitalized and depreciated as per the Company's policy.

### I.11. Foreign Currency Transactions and Translation

Transactions denominated in foreign currencies are recorded at the exchange rates prevailing on the date of the transaction. Monetary items denominated in foreign currencies at year-end are translated at the exchange rate prevailing on the date of the Balance Sheet. Non-monetary items denominated in foreign currencies are carried at cost. Exchange differences on settlement or restatement are adjusted in the profit & loss account. For transactions entered prior to 1-4-2003 exchange differences on settlement or restatement are adjusted to related asset account/Profit and Loss account.

Assets and liabilities of the foreign subsidiary and branch are translated into Indian rupees at the rate of exchange prevailing as at the Balance Sheet date. Revenue and expenses are translated into Indian rupees at yearly average exchange rates prevailing during the year. The exchange difference arising out of the transactions pertaining to the branch have been recognised as exchange gain/(loss) in the Profit & loss account while those relating to the subsidiary have been disclosed as 'Exchange Reserve Arising on Consolidation' in Reserves and Surplus.

### I.12. Investments

Long term Investments are stated at cost. Diminution in the value of investments other than temporary in nature is provided for.

### I.13. Income Taxes

Income Tax comprises the current tax provision under the tax payable method and the net change in the deferred tax asset or liability in the year. Deferred Tax Assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying values of the assets and liabilities and their respective tax bases. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be received or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income statement in the period of enactment of the change.

### I.14. Cash Flow Statement

Cash flow statements has been prepared in accordance with the indirect method prescribed in Accounting Standard 3, issued by the Institute of Chartered Accountants of India.

### I.15. Preliminary and Share Issue Expenses

Expenses incurred during the Initial Public Offer, follow-on offer and issue of Bonus Shares are amortised over 5 years. Other share issue expenses are charged to the securities premium account.

## II. NOTES TO ACCOUNTS

### II.1. Subsidiary Company

The Company's wholly owned subsidiary, Subex Technologies, Inc., incorporated in the USA, has been considered in the consolidated financial statements.

### II.2. Deferred income taxes

a) Provision for income taxes has been made in terms of Accounting Standard 22 "Accounting for Taxes on Income". Deferred tax assets are subject to a valuation allowance that reduces the amount recognized to that which is more likely than not to be realized.

b) Movement in deferred tax asset:

| | 2003-04 | 2002-03 |
|---|---|---|
| Net Deferred tax Assets at April 1, 2003 (2002) | 2,050,000 | 1,550,000 |
| Add: Tax benefits/(charge) for current year | (3,620,000) | 500,000 |
| **Net Deferred Tax Assets/(Liabiltity) at March 31, 2004** | (1,570,000) | 2,050,000 |

c) The net deferred tax asset as at March 31, 2004 comprises the tax impact arising from the timing differences on account of:

| | As at March 31, 2004 | As at March 31, 2003 |
|---|---|---|
| - Depreciation | (4,373,610) | (3,124,053) |
| - Business loss/unabsorbed depreciation | – | 8,702,151 |
| | (4,373,610) | 5,578,098 |
| Net deferred asset/(liability) relating to above | (1,570,000) | 2,050,000 |

### II.3. Contingent Liabilities

Disputed taxes on appeal net of advance tax paid is Rs. Nil. (Previous Year: Nil)

### II.4. Acquisition of Wholly Owned Subsidiary

During 1999-2000, the Company acquired the whole of the outstanding shares of the IVth Generation, Inc. New Jersey, USA, from its three owners. To reflect the true and correct state of affairs, the acquisition was accounted at the full value of Rs.335,795,161 including advisory, syndication fees and other costs although a part of the amount payable is contingent upon the future performance of the acquiree Company. During 2000-2001, the cost of acquisition was reduced in accordance with the final purchase consideration as per the Definitive Purchase Agreement and accordingly the cost was stated at Rs.326,217,997. The amount of investment at March 31,2004 stands at Rs.326,901,626 after adjusting for the exchange fluctuation on the deferred consideration as at the year end.

As agreed to between the Company and the seller, on account of non-receipt of certain receivables in the Subsidiary, the balance of Deferred payment of Rs.18,883,619 towards acquisition of the subsidiary is no longer considered payable. The Company's application to set-off these balances with the receivables in the subsidiaries books is pending approval of the Reserve Bank of India. Pending such approval, no adjustments have been made in the accounts.

The Goodwill recognized in the consolidated financial statements represents the excess of cost over it's share of the equity of the subsidiary, at the date on which the investments in the subsidiary company was made. The management has received an independent valuation of the subsidiary, which indicates that there is no impairment on the value of the Goodwill.

### II.5. Acquisition of Intellectual Property Rights

During 2001-2002, the Company acquired the intellectual property comprising software codes and licenses of OUTsmart, a Wireline Fraud Management System and INcharge, an intercarrier billing verification system from PricewaterhouseCoopers, Inc. (being the receivers of the property, assets and undertaking of Magardi, Inc. on behalf of the Toronto Dominion Bank, who are the secured lenders of Magardi, Inc.). The total cost of acquisition amounting to Rs.158,956,637 includes the purchase consideration, advisory, syndication fees and other costs. INcharge was only at a conceptual stage during the acquisition and hence it is not possible to attribute any part of the cost of acquisition to this product.

Consequent to the approval of the shareholders' of the Company for write-off of the above cost of acquisition of the intangible asset against the balance in the Securities Premium account, an application for confirming the write-off was preferred to the Honourable High Court of Karnataka under the provisions of Section 78 and 100 of the Companies Act, 1956. The Honourable High Court of Karnataka approved the said write-off vide their confirmation order dated January 28, 2003 and the same was registered with the Registrar of Companies, Karnataka in October 2003. The Company has, accordingly, set-off the cost of the IPR against the Securities Premium account in accordance with the principles laid down in AS - 1, wherein it is stated that the accounting treatment and presentation in financial statements of transactions and events should be governed by their substance and not merely by the legal form.

### II.6. Operating leases

The Company has various operating leases for office facilities and residential premises for employees which include leases that are renewable on a yearly basis, cancelable at its option and other long term leases. Rental expenses for operating leases included in the Income statement for the year is Rs.10,327,060.

As of March 31, 2004 future minimum lease payments for non-cancellable operating leases for the next five fiscal years are:

| For the year ending | March 31,2004 Amount in Rs. | March 31,2003 Amount in Rs. |
|---|---|---|
| Within one year from the date of the Balance Sheet | 4,410,412 | 9,883,542 |
| Due in a period between one year and five years | 503,513 | 4,139,838 |
| Due after five years | — | — |

## II.7. Hire Purchase Transactions

The Company has entered into various hire purchase transactions for the acquisition of vehicles and computer systems. As of March 31, 2004, future minimum lease payments on these transactions are:

Amount in Rs.

| For the year ending | Minimum Lease Payments | | Interest | | Present Value | |
|---|---|---|---|---|---|---|
| | 2003-04 | 2002-03 | 2003-04 | 2002-03 | 2003-04 | 2002-03 |
| Within one year from the date of the Balance Sheet | 4,676,248 | 3,614,736 | 807,717 | 796,930 | 3,868,531 | 2,817,806 |
| Due in a period between one year and five years | 9,118,357 | 6,061,244 | 994,349 | 778,342 | 8,124,009 | 5,282,902 |
| Due after five years | Nil | Nil | Nil | Nil | Nil | Nil |

## II.8. Employee Stock Option Plan (ESOP)

### ESOP - I

The Company had issued 120,000 Equity Shares at Rs.10/- each to Subex Foundation, an Employee Welfare Trust, constituted to operate an Employees Stock Option Plan. Consequent to the issue of Bonus Shares, the total shares available with the trust had increased to 240,000. As per the Scheme in force, the trust allocates shares to those employees deemed eligible by the Advisory Board constituted for the purpose. The shares are allocated at a price, which is not less than 50% of the fair market price. The original Shares granted are subject to a minimum lock-in period of three years and the Bonus shares are subject to a minimum lock-in of 1 year, where after the shares granted can be sold / en-cashed. As at March 31, 2004, 152,780 shares have been granted under the scheme to 30 employees. The balance of 87,220 shares, are available with the trust for future grants. Since the Scheme was formulated prior to the promulgation of SEBI guidelines on ESOP dated June 19, 1999, the Company has been advised that the said guidelines are not applicable to the present scheme.

### ESOP - II

During 1999-2000, the Company established a new Stock Option Scheme under which 500,000 options have been allocated for grant to the employees. Each option comprises of one underlying equity share of Rs.10/- each. This scheme has been formulated in accordance with the SEBI guidelines on ESOP & ESPS dated June 19, 1999. As per the scheme, the compensatory committee grants the options to the employees deemed eligible by the Advisory Board constituted for the purpose. The options are granted at a price, which is not less than 85% of the average market price of the underlying shares based on the quotation on the Bombay Stock Exchange for 15 days prior to the date of grant. The shares granted vest over a period of 1 to 4 years can be exercised over a maximum period of 3 years from the date of vesting.

Under this scheme 301,440 option have been granted to 180 employees as at March 31, 2004. Out of the above option 69,473 options have been vested. The difference between the market price of the share underlying the options granted on the date of grant of option and the exercise price of the option are expensed over the vesting period as per the SEBI guidelines. The net impact of the movement in option grants during the period ended resulted in a debit of Rs.1,580,438 (previous year: credit of Rs.168,088) to the Profit & Loss account for the year.

Employees stock options details as on the balance sheet date are ;

### ESOP – I

| | As at March 31, 2004 | As at March 31, 2003 |
|---|---|---|
| Options outstanding at the Beginning of the year | 51,397 | 152,720 |
| Granted | — | — |
| Forfeited/Cancelled | 1,965 | 4,630 |
| Exercised | 22,830 | 96,693 |
| **Balance at end of the year** | 26,602 | 51,397 |

ESOP - II

| | As at March 31, 2004 | As at March 31, 2003 |
|---|---|---|
| Options outstanding at the Beginning of the year | 196,375 | 207,900 |
| Granted | 130,650 | 79,550 |
| Forfeited/Cancelled | 15,599 | 87,700 |
| Exercised | 9,986 | 3,375 |
| **Balance at end of the year** | 301,440 | 196,375 |

## II.9. Related Party Information

### A) Related Parties

Companies under same management

Subex Cellcomm Limited

Subex Holdings Private Limited

Key Management Personnel

Subash Menon, Chairman & Managing Director

Alex Puthenchira, Executive Director

Sudeesh Yezhuvath, Whole Time Director

B) Details of the transactions with the related parties other than employees who are related to the Directors of the Company is as under:

(in Rs.)

| Nature of Transaction | Companies under same management | | Key Management Personnel | | Total | |
|---|---|---|---|---|---|---|
| | 2003-04 | 2002-03 | 2003-04 | 2002-03 | 2003-04 | 2002-03 |
| Inter Corporate Deposits received | 21,300,000 | 16,523,500 | – | – | 21,300,000 | 16,523,500 |
| Interest paid on Inter Corporate Deposit | 531,106 | 4,905,222 | – | – | 531,106 | 4,905,222 |
| Repayment of Inter Corporate Deposit | 57,675,000 | 8,920,000 | – | 2,920,000 | 57,675,000 | 11,840,000 |
| Salary & Perquisites | – | – | 10,179,435 | 4,602,870 | 10,179,435 | 4,602,870 |
| Amount due from as at Mar. 31, 2004 | – | – | – | – | – | – |
| Amount due to as at Mar. 31, 2004 | 1,748,508 | 43,078,500 | 1,806,869 | – | 3,555,377 | 43,078,500 |

## II.10. Earnings per Share

| | | 2003-04 | 2002-03 |
|---|---|---|---|
| Profits after Tax | A | 177,638,937 | 99,974,380 |
| Less: Dividend on Preference Shares & distribution tax | | (25,555,404) | (58,263) |
| Net Profit Available to Equity Shareholders | B | 152,083,533 | 99,916,117 |
| Weighted Average Number of Shares - Basic | C | 7,346,581 | 7,325,235 |
| Weighted Average Number of Shares - Diluted | D | 9,529,828 | 7,525,779 |
| Earnings per Share - Basic | B / C | 20.70 | 13.64 |
| Earnings per Share - Diluted | A / D | 18.64 | 13.28 |

## II.11. Segmental Reporting

The Company's operation comprises of software development, services and sale of Telecom Products. Primary segmental reporting comprises of products and services segment. Secondary segment is reported based on geographical location of customers. The accounting principles consistently used in the preparation of the financial statements are also consistently applied to record income and expenditure in individual segments. These are as set out in the note on significant accounting policies.

In primary segment, revenue and direct expenses, which relate to particular segment and which are identifiable, are reported, while certain expenses such as depreciation and interest, which form a significant component of total expenses, are not specifically allocable to specific segments as the underlying services are used interchangeably. The company believes that it is not practical to provide segment disclosures relating to those costs and expenses, and accordingly these expenses are separately disclosed as "unallocated" and directly charged against total income.

***Information about Primary Business Segment***

(Amount in Rs.)

| Particulars | Products | | Services | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2003-04** | **2002-03** | **2003-04** | **2002-03** | **2003-04** | **2002-03** |
| Revenues | 396,753,259 | 254,517,837 | 482,497,450 | 445,584,257 | 879,250,709 | 700,102,094 |
| **Segment results before interest & taxes** | 168,899,498 | 130,296,431 | 27,584,690 | 25,178,911 | 196,484,188 | 155,475,342 |
| Less: Unallocable income, net of unallocable expenses | | | | | 7,102,230 | (27,168,144) |
| Interest expense | | | | | 14,415,306 | 22,553,992 |
| **Profit before tax** | | | | | **189,171,112** | **105,753,206** |
| Provision for taxation: | | | | | | |
| Current (as per standalone) | | | | | 7,912,175 | 6,278,825 |
| Written Back (AY 2002-03) | | | | | – | – |
| Deferred | | | | | 3,620,000 | (500,000) |
| **Profit after tax** | | | | | **177,638,937** | **99,974,381** |
| **Profit for the year** | | | | | **177,638,937** | **99,974,381** |

***Particulars of Segment Assets & Liabilities***

(Amount in Rs.)

| | Products | | Services | | Unallocable | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2003-04** | **2002-03** | **2003-04** | **2002-03** | **2003-04** | **2002-03** | **2003-04** | **2002-03** |
| Segment Assets | 421,052,294 | 272,541,563 | 194,288,996 | 155,903,476 | 157,045,093 | 265,372,145 | 772,386,383 | 693,817,184 |
| Segment Liabilties | | | | | 79,997,906 | 80,988,097 | 79,997,906 | 80,988,097 |
| ***Unallocable Assets exclude*** | | | | | | | | |
| Goodwill (On Consolidation) | | | | | | | 308,987,980 | 308,987,980 |
| Investments | | | | | | | 1,000 | 2,000 |
| Advance income taxes | | | | | | | 10,690,398 | 4,795,745 |
| Miscellaneous Expenditure | | | | | | | 256,942 | 1,731,666 |
| Deferred tax asset | | | | | | | – | 2,050,000 |
| | | | | | | | 319,936,320 | 317,567,391 |
| ***Unallocable Liabilities exclude*** | | | | | | | | |
| Loans - secured | | | | | | | 147,203,061 | 156,020,508 |
| Loans – unsecured | | | | | | | 1,748,508 | 43,078,500 |
| Deferred consideration | | | | | | | 18,883,619 | 84,220,955 |
| Provisions | | | | | | | 40,077,136 | 18,003,934 |
| Defer Tax Liability | | | | | | | 1,570,000 | – |
| | | | | | | | 209,482,324 | 301,323,897 |

Fixed assets used in the company's business or liabilities contracted have not been identified to any of the primary reportable segments, as the fixed assets and services are used interchangeably between segments. Significantly all the fixed assets of the Company are located in India. 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.

**Information about Secondary Business Segment**

Revenue attributable to location of customers is: (Amount in Rs.)

| Revenue | India | North America | European Countries | Middle East | African Countries | Rest of the World |
|---|---|---|---|---|---|---|
| | 2003-04 | 2003-04 | 2003-04 | 2003-04 | 2003-04 | 2003-04 |
| Software Products | 50,456,446 | 85,765,752 | 35,354,116 | 125,473,460 | 52,438,711 | 47,074,063 |
| Sofware Services | 77,250 | 482,420,200 | – | – | – | — |
| Others | 190,711 | – | – | – | – | – |
| Total | **50,724,407** | **568,185,952** | **35,354,116** | **125,473,460** | **52,438,711** | **47,074,063** |

| Revenue | India | North America | European Countries | Middle East | African Countries | Rest of the World |
|---|---|---|---|---|---|---|
| | 2002-03 | 2002-03 | 2002-03 | 2002-03 | 2002-03 | 2002-03 |
| Software Products | 19,743,713 | 20,799,905 | 34,864,320 | – | 54,740,691 | 121,600,963 |
| Sofware Services | 1,580,500 | 444,003,757 | – | | – | – |
| Others | 2,768,245 | – | – | | – | – |
| Total | **24,092,458** | **464,803,662** | **34,864,320** | – | **54,740,691** | **121,600,963** |

**Segment assets based on their location**

(Amount in Rs.)

| | 2003-2004 | 2002-2003 |
|---|---|---|
| Africa | 7,193,274 | 63,653,121 |
| North America | 301,596,327 | 184,034,888 |
| Europe | 38,316,733 | 66,983,789 |
| India | 106,437,806 | 28,201,600 |
| Middle East | 123,554,250 | – |
| Rest of the world | 62,690,472 | 85,571,642 |
| | 639,788,862 | **428,445,040** |

**II.12. Others**

1. Fund and Non-fund based credit facilities availed from State Bank of India are secured by the first charge on all the fixed and current assets of the Company. These loans are also secured by equitable mortgage of land belonging to the Company. The loans are further secured by the personal guarantee of promotor Directors of the Company and property belonging to Subex Holdings Pvt. Ltd.
2. Estimated amount of contracts, remaining to be executed on capital account and not provided for (net of advances paid) Rs.Nil (Previous year Rs. 78,800).
3. Amount of Rs.324,581 represents the unclaimed dividend for the period from 1999-2003. No part thereof has remained unpaid or unclaimed for a period of seven years from the date they become due for payment requiring a transfer to the 'Investor Education and Protection Fund'.
4. Personnel Cost for the year include expenditure on research and development of Rs. 5,328,021 (PY Rs.3,839,004)
5. The shareholders of the Company had approved the allotment of 1,887,000 12.25% Redeemable Optionally Convertible Cumulative Preference Shares (ROCCPS) at a face value of Rs. 98 per share and tenor of 36 months in the Extra ordinary General Meeting in March , 2003. Out of this, 1,570,245 ROCCPS were allotted to Intel and UTI on March 31, 2003 and the balance 316,755 ROCCPS have been allotted to Toronto Dominion Bank on April 7, 2003 after receipt of subscription amount from them.

   As per terms of issue each ROCCPS is convertible at the option of the shareholder into an equity share at a premium of Rs.88 each. Such option is to be exercised before expiry of 18 months from the date of allotment.

   Subsequently, post balance sheet date in April 2004, 1,090,745 ROCCPS have been converted into 1,090,745 equity shares at a premium of Rs.88/- per share, pursuant to the option exercised by Intel (478,500 equity shares) and UTI (612,245 equity shares).
6. Amount of Rs.31,041,990 received towards allotment of 316,755 ROCCPS of Rs.98/- per share to TD Bank during the year have been applied towards repayment of liability for acquisition charges of the Magardi, Inc IPR. No amount remains unutilized out of these proceeds as at March 31,2004.
7. Previous year's figures have been regrouped to conform to the classifications for the year.

**Signature to the Schedules A – R**

**Subash Menon**
Chairman & Managing Director

**Alex J Puthenchira**
Executive Director

**Place : Bangalore**
**Date : April 30, 2004**

**V Balaji Bhat**
Director

**Rajkumar C.**
Company Secretary & Legal Counsel

# Shareholders' Information

1. Date and venue of the Annual General Meeting : 24th August 2004 at Le Meridien, 28, Sankey Road, Bangalore - 560 052
2. Dates of book Closure : 19th August 2004 to 24th August 2004. (both days inclusive)
3. Dividend Payment : @20% to Equity shareholders.
   @12.25% to Preference Shareholders as per Subscription Agreements
4. Financial calendar (tentative and subject to change) :

   | | |
   |---|---|
   | Quarter ending 30th June, 2004 | July 2004 |
   | Half year ending 30th Sept.,2004 | Oct. 2004 |
   | Quarter ending 31st Dec.,2004 | Jan. 2005 |
   | Year ending 31st March, 2005 | May/June 2005 |

5. Listed on Stock Exchanges : National Stock Exchange (NSE)
   The Stock Exchange, Mumbai (BSE)
   Bangalore Stock Exchange (BgSE)
   The Hyderabad Stock Exchange Ltd (HSE)
6. Listing Fees : Paid for all the above Stock Exchanges for 2004-05
7. Registered office : No.721, 7th Main, Mahalaxmi Layout, Bangalore – 560 086
8. Shares of the Company have been quoting from 5th September 2003 at National Stock Exchange (NSE) , from 31st July 2000 at The Stock Exchange, Mumbai (BSE), from 3rd September 1999 at Bangalore Stock Exchange Limited (BgSE) and from 7th September 1999 at Hyderabad Stock Exchange (HSE).
9. Share transfers and other communication regarding Share certificates and change of address, etc., may be addressed to:

   **M/s Canbank Computer Services Ltd., R & T Centre**
   Hotel Broadway Complex, # 19, K. G. Road, BANGALORE – 560 009
   Ph : 080 – 22872461 / 22872462; Fax : 080 – 22872804; e-mail : ccslrnt@vsnl.com
10. Share Transfer System:

    Share transfers would be registered and returned within a period of 20 days from the date of receipt, if the documents are clear in all respects. The Share Transfer Committee normally meets 2 times a month.
11. Stock Market data relating to shares listed in India:

    Monthly high and low quotations as well as the volume of shares traded at Mumbai, Bangalore and Hyderabad Stock Exchanges for 2003-04 are:

| | NSE | | | BSE | | | BgSE & HSE | | |
|---|---|---|---|---|---|---|---|---|---|
| **Month** | **High Rs.** | **Low Rs.** | **Volume Nos.** | **High Rs.** | **Low Rs.** | **Volume Nos.** | **High Rs.** | **Low Rs.** | **Volume Nos.** |
| Apr '03 | - | - | - | 111.50 | 84.20 | 1,497,261 | NT NT | NT NT | NT NT |
| May '03 | - | - | - | 120.50 | 100.70 | 1,372,073 | NT NT | NT NT | NT NT |
| Jun '03 | - | - | - | 142.50 | 112.50 | 1,321,765 | NT NT | NT NT | NT NT |
| Jul '03 | - | - | - | 158.50 | 119.15 | 1,697,491 | NT NT | NT NT | NT NT |
| Aug '03 | - | - | - | 213.90 | 145.00 | 891,168 | NT NT | NT NT | NT NT |
| Sep' 03 | 257.85 | 195.00 | 209,044 | 258.00 | 193.05 | 1,107,771 | NT NT | NT NT | NT NT |
| Oct '03 | 269.75 | 216.00 | 229,136 | 270.00 | 218.50 | 454,852 | NT NT | NT NT | NT NT |
| Nov '03 | 284.00 | 242.00 | 134,430 | 282.00 | 240.30 | 310,733 | NT NT | NT NT | NT NT |
| Dec '03 | 425.00 | 286.00 | 358,674 | 412.00 | 284.00 | 382,005 | NT NT | NT NT | NT NT |
| Jan '04 | 417.00 | 286.25 | 137,663 | 415.20 | 281.50 | 120,745 | NT NT | NT NT | NT NT |
| Feb '04 | 378.70 | 290.00 | 136,123 | 378.60 | 292.00 | 68,623 | NT NT | NT NT | NT NT |
| Mar '04 | 343.45 | 252.70 | 133,215 | 272.00 | 250.00 | 127,882 | NT NT | NT NT | NT NT |
| | TOTAL | | 1,338,285 | TOTAL | | 9,352,369 | | | |

NT: Not Traded.

12. Investor's services – Complaints received from 1st April 2003 to 31st March 2004:

| Nature of complaints | | Received | Cleared |
|---|---|---|---|
| 1. | Non-receipt of share certificates/refund orders/call money notice/allotment advice/dividend warrant | - | - |
| 2. | Letters from NSDL, Banks etc. | - | - |
| 3. | Correction/change of bank mandate of refund order, change of address | - | - |
| 4. | Postal returns of ~~cancelled stockinvests~~ / ~~refund orders~~ / share certificates / ~~dividend warrants~~ | 3 | 3 |
| 5. | Other general query | - | - |
| | Total | 3 | 3 |

The Company has attended to investors' grievances / correspondence within a period of 10 days from the date of receipt of the same, during the year ended 31st March 2004.

13. Legal proceedings:

Subex has been made as defendant in a case filed by Mr. Arun Dhariwal in respect of complaint received by the Company regarding loss of 12 share certificates comprising of 1,200 shares by Mr. Ashok Dhariwal & Others. The matter is presently sub-judice. However this case is not material in nature.

14. Distribution of shareholding as on :

| No. of equity shares held | As at March 31, 2004 | | As at March 31, 2003 | |
|---|---|---|---|---|
| | No. of shareholders | % of shareholders | No. of shareholders | % of shareholders |
| 1 - 500 | 3,441 | 87.87 | 4,571 | 87.95 |
| 501 - 1000 | 263 | 6.71 | 333 | 6.41 |
| 1001 - 5000 | 157 | 4.02 | 230 | 4.43 |
| 5001 - 10000 | 13 | 0.33 | 23 | 0.44 |
| 10001 and above | 42 | 1.07 | 40 | 0.77 |
| | 3,916 | 100.00 | 5,197 | 100.00 |

15. Categories of shareholders as on:

| | As at March 31, 2004 | | | As at March 31, 2003 | | |
|---|---|---|---|---|---|---|
| Category | No. of shareholders | Voting strength % | No. of shares held | No. of shareholders | Voting strength % | No. of shares held |
| Public & Others | 3522 | 20.71 | 1,523,256 | 4,782 | 26.60 | 1,954,273 |
| Companies | 376 | 4.02 | 295,533 | 403 | 8.20 | 602,074 |
| Core Promoters | 3 | 54.69 | 4,021,600 | 3 | 54.72 | 4,018,360 |
| Mutual Funds | 8 | 4.11 | 302,552 | 5 | 5.00 | 367,157 |
| ESOP | 1 | 1.55 | 113,822 | 1 | 1.87 | 137,191 |
| Foreign Insttn. Investors | 6 | 14.92 | 1,097,048 | 3 | 3.61 | 264,770 |
| | 3916 | 100.00 | 7,353,811 | 5,197 | 100.00 | 7,343,825 |

16. Investors' correspondence may be addressed to:

**For investor matters:**
**Rajkumar. C**
**Company Secretary & Legal Counsel**

Subex Systems Limited, No. 52/44, 8th Main, Ganesha Block, Mahalaxmi Layout, Bangalore – 560 096, India,

Telephone : 91 80 2349 7581. E-mail: rajkumarc@subexgroup.com; investorrelations@subexgroup.com

For queries relating to financial statements:

Mr. Subash Menon, Chairman & Managing Director OR Mr. Alex P. J., Executive Director
Subex Systems Limited, No. 52/44, 8th Main, Ganesha Block, Mahalaxmi Layout, Bangalore – 560 096, India, Telephone : 91 80 23497581

17. Dematerialisation of shares and liquidity:

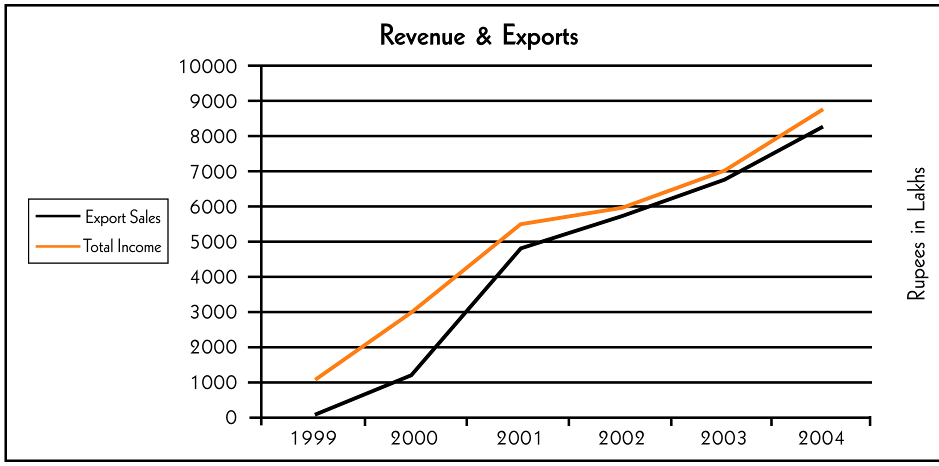
All Shareholders holding shares in physical form are requested to convert their holdings into electronic form.

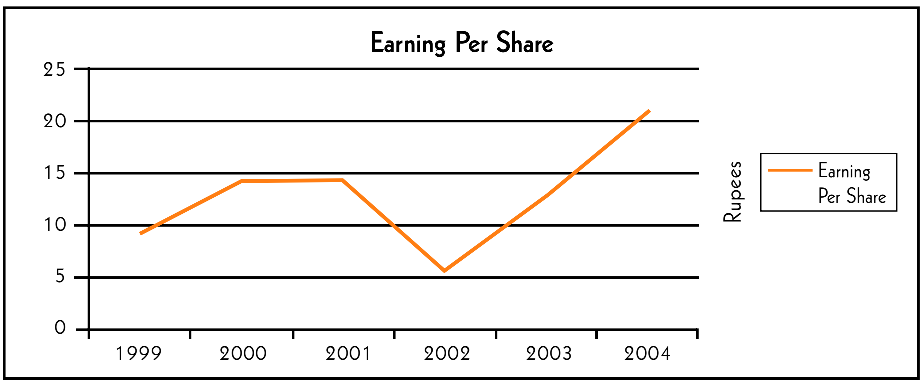
18. Stock Code

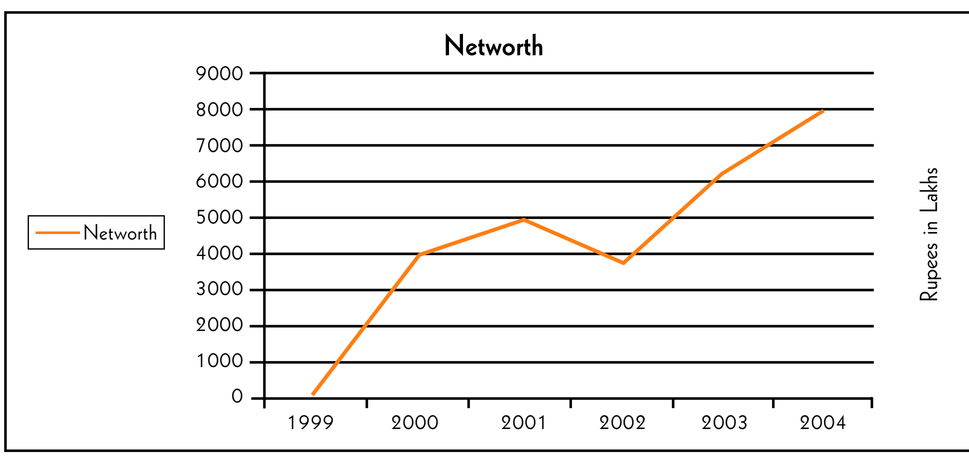
SUBEX (NSE), SUSL.B (BSE), SUBEXSYS (BgSE), SUBSEXS (HSE)

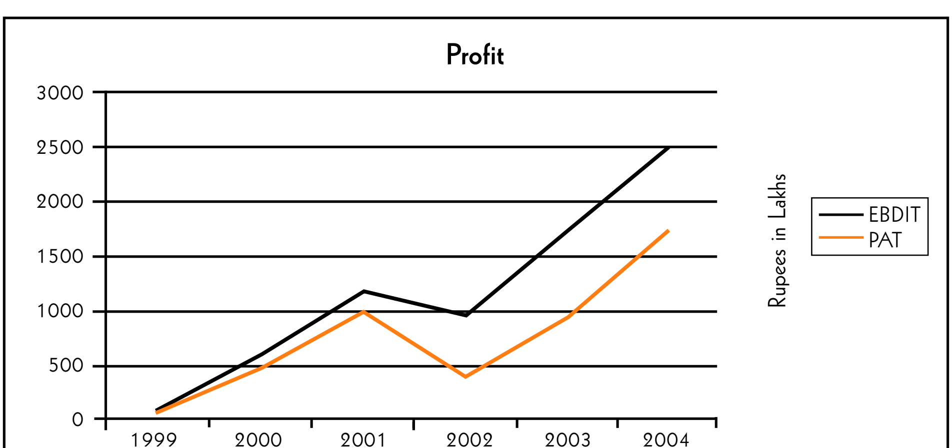
## Subex Systems Limited

### 5 years - At a glance



## Subex Systems Limited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