MASTEK LIMITED

## 1. FINANCIAL RESULTS – CONSOLIDATED RESULTS OF MASTEK LIMITED AND ITS SUBSIDIARIES

₹ in Crore

| PARTICULARS | **Year ended June 30, 2011** | Year ended June 30, 2010 |
|---|---|---|
| **Income** | | |
| Income from IT Services and Products | **593.3** | 713.8 |
| Other Income | **20.9** | 8.1 |
| **Total Income** | **614.2** | 721.9 |
| Expenses | **612.5** | 626.6 |
| Depreciation | **28.8** | 26.7 |
| Interest and Financial Charges | **1.2** | 1.3 |
| **(Loss)/Profit Before Exceptional Items and Tax** | **(28.3)** | 67.3 |
| Exceptional item | **27.2** | – |
| **(Loss)/Profit Before Tax** | **(55.5)** | 67.3 |
| Provision for Tax, net charge/(credit) | **0.4** | (0.4) |
| **(Loss)/Profit After Tax** | **(55.9)** | 67.7 |

## FINANCIAL RESULTS – MASTEK LIMITED (STANDALONE)

₹ in Crore

| PARTICULARS | **Year ended June 30, 2011** | Year ended June 30, 2010 |
|---|---|---|
| Income | **413.2** | 440.9 |
| (Loss)/Profit before Tax | **(5.6)** | 24.0 |
| Tax Expense/(credit) | **(4.3)** | (13.0) |
| (Loss)/Profit After Tax | **(1.3)** | 37.0 |
| Add: Profit brought forward from Previous Year | **249.4** | 239.5 |
| Profit available for appropriation | **248.1** | 276.5 |
| Interim Dividend | **–** | 5.4 |
| Final Dividend | **–** | 3.4 |
| Corporate Dividend Tax | **–** | 1.5 |
| Transferred to General reserve | **–** | 16.9 |
| Balance carried to Balance Sheet | **248.1** | 249.4 |

## 2. RESULTS OF OPERATIONS

### A) Group global operations

The Company's performance for the financial year ended June 30, 2011 under review (FY 2011) was affected by a number of factors. Key among those was the marked decrease in clients engaging in transformational deals due to the global economic crisis and particularly in UK where Mastek has a substantial presence. The long sales cycles as well as reduction in insurance revenues from Capita, UK added to the head winds that the Company faced this year. The above mentioned reasons along with the continued product development spends in the insurance vertical in North America and wage hikes to retain the best talent had a substantial impact on the financial performance.

On a consolidated basis, the Company registered a total income of ₹ 614.2 crore in FY2011. This represents a 14.9% decline compared to ₹ 721.9 crore in the preceding year. As a consequence, it had a loss of ₹ 55.9 crore in FY 2011 compared to the profit of ₹ 67.7 crore in FY 2010. The loss in FY 2011 is after considering an exceptional item of ₹ 27.2 crore in relation to impairment of goodwill of Vector Insurance Services. Despite the adverse circumstances, the Company registered a Cash profit of ₹ 0.5 crore in FY 2011 compared to ₹ 94 crore in FY 2010.

The UK remained the largest contributor to Mastek's business among all its operating geographies. During the year under review, the UK operations contributed ₹ 290.9 crore in revenues, amounting to 49% of overall consolidated revenues for the year. This was however a de-growth of 22% compared to ₹ 373.9 crore during the corresponding period last year. One of the key clients, Capita UK, took a relook at its strategy with respect to migrating policies of its clients on to the Elixir4 platform. The further development on this platform has been put on hold leading to a reduction in the revenues from the insurance vertical.

The North American operations, which now includes both the US and Canada businesses, also registered a de-growth of 11.9% to ₹ 258.0 crore from ₹ 292.8 crore last year primarily due to lack of new account wins in the first half of the year.

During the year under review, the Company has targeted its product development spends in North America with the objective of building the end to end platform in the Life and Annuity space. The Company also acquired substantially all of the assets of Glastonbury, CT based SEG Software, LLC, a leading provider of policy administration systems covering individual and group life, health & annuity insurance products. This acquisition reinforces the Company's commitment to the North American insurance market and will expand its presence and capabilities in the life and annuity policy administration arena.

Mastek's operations in the Asia-Pacific region, specifically India, were impacted on the insurance side due to the new IRDA regulations which have forced providers to become competitive to survive in the market place. Expenses related to IT and marketing have been slashed leading to a decreased pipeline of opportunities for the IT players in the insurance space. However, there was good traction from government projects in India and have been involved in implementing niche projects on the social justice, sales tax and the education fields for various State Governments in India. During FY 2011, these operations (Asia-Pacific including India & Middle East) contributed ₹ 44.3 crore to overall consolidated revenues as compared to ₹ 47.1 crore in FY 2010 reflecting a de-growth of 6%.

The last quarter of the year has reflected improved performance with the 12 month order backlog ending higher at ₹ 309 crore. Overall, the Company added 14 new clients in this financial year.

(A more detailed discussion of the Company's business model, strategy, and performance appears in the Management Discussion & Analysis section of this annual report.)

**B) Mastek standalone operations**

On a stand-alone basis, Mastek reported a total income of ₹ 413.2 crore for FY 2011 as compared to ₹ 440.9 crore for FY 2010. The Company made a Net Loss of ₹ 1.3 crore compared to the profit of ₹ 37 crore in FY 2010.

**C) Board and management**

During the year under review, Ms. Priti Rao, Mr. Venkatesh Chakravarty and Dr. Rajendra Sisodia were inducted as Independent Directors of the Company. In the same period, Mr. Raj Nair and Mr. Amit Shah resigned from the Board of the Company.

Mr. Mrinal Sattawala, Group President resigned from the services of the Company in June, 2011. Mr. Sudhakar Ram, the Company's Chairman & Managing Director has now taken over responsibility of all operations and the senior leadership team reports to him directly.

## 3. BUSINESS OUTLOOK

FY 2012 is expected to be a better year with increased traction across the key geographies in UK and North America. Positive signals of the momentum can be witnessed from the deal wins in UK in the last quarter of FY 2011, increasing pipeline of opportunities in the Non-Life (Property & Casualty) space in North America, improved order backlog position and some exciting developments on the Government side in India. The initiatives that were put in place at the start of the year are expected to translate into revenue growth while the Company will strive towards profitability.

## 4. LIQUIDITY AND CASH EQUIVALENT

The Company continues to maintain a good level of cash and cash equivalent, which enables it to not only eliminate short and medium-term liquidity risks but also provide the leverage to scale up operations at a short notice.

During the year, Mastek invested surplus funds in Liquid Schemes and Fixed Maturity Plans of Mutual Funds and Fixed Deposits with leading Banks. As of June 30, 2011, the Cash and Cash Equivalent (including investment in Mutual Funds) stood at ₹ 159 Crore.

## 5. AUDITED ACCOUNTS OF SUBSIDIARY COMPANIES

In view of the Circular No.2/2011 dated 8th February, 2011 issued by the Government of India, Ministry of Company Affairs, New Delhi, the accounts of subsidiary companies are not attached to the audited accounts of the Company. The Board of Directors of the Company has given consent for not attaching the Annual Accounts of the subsidiary companies. We, hereby, undertake that the Annual Accounts of subsidiary companies and related detailed information shall be made available to the shareholders at any point of time. Copies of the annual accounts of subsidiary companies shall also be available for inspection by any shareholder at the registered office of the Company.

**6. ISSUE OF SHARE CAPITAL**

During the year, the Company allotted 7,250 equity shares of ₹ 5 each to its eligible employees who exercised their options under Employee Stock Option Plan.

**7. DIVIDEND**

In view of the loss incurred by the Company during the year and to conserve Cash resources for future business operations, the Directors do not propose a Dividend for the year ended June 30, 2011.

**8. EXCESS REMUNERATION PAID TO CHAIRMAN & MANAGING DIRECTOR AND EXECUTIVE DIRECTOR**

In response to the Paragraph 4 of the Auditor's Report for the year ended June 30, 2011 in respect of excess remuneration paid to Chairman & Managing Director and Executive Director aggregating to ₹ 0.6 crore and ₹ 0.2 crore respectively, the Company is approaching the shareholders and Central Government to seek their approval in respect of the waiver for recovery of excess remuneration paid as mentioned above.

**9. DIRECTORS' RESPONSIBILITY STATEMENT**

The Board of Directors of the Company confirms:

- that in the preparation of the annual accounts, the applicable accounting standards have been followed and there has been no material departure;
- that the selected accounting policies were applied consistently and the Directors 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 on June 30, 2011, and of the Loss of the Company for the year ended on that date;
- that proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, to safeguard the Company's assets and prevent and detect fraud and other irregularities;
- that the annual accounts have been prepared on a going concern basis.

**10. DIRECTORS**

Mr. Anil Singhvi and Dr. Rajendra Sisodia, Directors of the Company, retire by rotation and, being eligible, offer themselves for re-appointment.

The Board of Directors, in modification of existing terms, re-appointed Mr. Sudhakar Ram as Chairman & Managing Director and Mr. Radhakrishnan Sundar as Executive Director effective July 1, 2011, subject to approval of shareholders and other prescribed authorities for a period of 3 years.

**11. AUDITORS**

You are requested to appoint Auditors and fix their remuneration. The retiring auditors, M/s. Price Waterhouse, Chartered Accountants, (Firm Registration No. 012754N) have confirmed their availability within the limits of section 224(1B) of the Companies act,1956.

**12. HUMAN RESOURCES**

Mastek deploys its intellectual capability to create and deliver intellectual property (IP)-led solutions that make a business impact for its global clients. For this, the key success enabler and most vital resource is world-class talent. Mastek continually undertakes measures to attract and retain such high quality talent.

As on June 30, 2011, the Company had a total of 2905 employees. The Company has resumed recruitment of fresh talent for its different projects.

The Directors wish to place on record their appreciation for the contributions made by employees to the Company during the year under review.

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, forms part of this report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, the report and accounts, excluding the Statement of Particulars under Section 217(2A), are being sent to all members. Any member interested in obtaining a copy of the Statement of Particulars may write to the Company at its Registered Office.

**13. EMPLOYEE STOCK OPTIONS**

**Plan II**

The Company established a new scheme in 2002 for granting 700,000 stock options to employees and each option representing one equity share of the Company. The exercise price is as governed by the guidelines issued by SEBI. The scheme is governed by the Employee Stock Option Scheme and Employees Stock Purchase Guidelines issued in 1999 by SEBI. There is a minimum period of twelve months for the first vesting from the date of the grant of options. The options are exercisable within two years of their vesting. As per the SEBI guidelines issued in 1999, and as amended from time to time, the excess of the market price of the underlying equity shares as of the date of the grant of the option over the exercise price of the option is to be recognized and amortized on a straight line basis over the vesting period. The options granted during the year have been granted at an exercise price which is equal to the market price of the underlying equity shares. Consequently, there is no compensation cost in the current year. In April, 2006, the Company issued Bonus Shares in the ratio of 1:1 and the number of unvested and unexercised options and the price of the said options have been adjusted accordingly.

In accordance with the Guidelines, the Company has passed the necessary special resolutions in January 2002 to approve the scheme and to extend the plan to the employees of its subsidiaries.

(No. of options)

| | **Year ended June 30, 2011** | Year ended June 30, 2010 |
|---|---|---|
| Opening Balance | **7,750** | 91,520 |
| Granted during the year | **–** | – |
| Exercised during the year | **(5,250)** | (14,458) |
| Cancelled during the year | **(2,500)** | (69,312) |
| Balance unexercised options | **–** | 7,750 |

**Plan III**

The Company passed special resolutions at its Annual General Meeting held on September 20, 2004 approving the allocation of 700,000 stock options to the eligible employees of the Company and its subsidiaries.

The Company subsequently established a new scheme in 2004 for granting 700,000 stock options to the employees referred to above, each option representing one equity share of the Company. The exercise price is as governed by the guidelines issued by SEBI. The scheme is governed by the Employee Stock Option Scheme and Employee Stock Purchase Guidelines issued in 1999 by SEBI and as amended from time to time. The first vesting of the stock options shall happen only on completion of one year from the date of grant and the options are exercisable within two years from the date of vesting. As per the SEBI guidelines, the excess of market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the option is to be recognized and amortized on a straight line basis over the vesting period. The options granted during the year have been granted at an exercise price which is equal to the market price of the underlying equity shares. Consequently, there is no compensation cost in the current year. In April, 2006 the Company issued Bonus Shares in the ratio of 1:1 and the number of unvested and unexercised options and the price of the said options have been adjusted accordingly.

(No. of options)

| | **Year ended June 30, 2011** | Year ended June 30, 2010 |
|---|---|---|
| Opening Balance | **546,794** | 898,624 |
| Granted during the year | **–** | – |
| Exercised during the year | **–** | (26,938) |
| Cancelled during the year | **(267,502)** | (324,892) |
| Balance unexercised options | **279,292** | 546,794 |

**Plan IV**

The Shareholders of the Company through Postal Ballot on August 9, 2007 approved the allocation of 1,000,000 stock options to the eligible employees of the Company and its subsidiaries.

The Company subsequently established a new scheme in 2007 for granting 1,000,000 stock options to the employees referred to above, each option representing one equity share of the Company. The exercise price is as governed by the guidelines issued by SEBI. The scheme is governed by the Employee Stock Option Scheme and Employee Stock Purchase Guidelines issued in 1999 by SEBI and as amended from time to time. The first vesting of the stock options shall happen only on completion of one year from the date of grant and the options are exercisable within two years from the date of vesting. During the year the Company has extended the vesting period from two years to seven years. As per the SEBI guidelines, the excess of market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the option is to be recognized and amortized on a straight line basis over the vesting period. The options granted during the year have been granted at an exercise price which is equal to the market price of the underlying equity shares. Consequently, there is no compensation cost in the current year.

(No. of options)

| | **Year ended June 30, 2011** | Year ended June 30, 2010 |
|---|---|---|
| Opening Balance | **513,714** | 614,917 |
| Granted during the year | **–** | – |
| Exercised during the year | **(2,000)** | (3,047) |
| Cancelled during the year | **(104,476)** | (98,156) |
| Balance unexercised options | **407,238** | 513,714 |

**Plan V**

The Company introduced a new scheme in 2008 for granting 1,500,000 stock options to the employees, each option representing one equity share of the Company. The exercise price as may be determined by the Compensation Committee and such price may be the face value of the share from time to time or may be the Market Price or any price as may be decided by the Committee and will be governed by the guidelines issued by SEBI. The scheme is governed by the Employee Stock Option Scheme and Employee Stock Purchase Guidelines issued in 1999 by SEBI and as amended from time to time. The first vesting of the stock options shall happen only on completion of one year from the date of grant and the options are exercisable within seven years from the date of vesting. As per the SEBI guidelines, the excess of market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the option is to be recognized and amortized on a straight line basis over the vesting period. The options granted during the financial year ended June 30, 2011 and June 30, 2010 have been granted at an exercise price which is equal to the market price of the underlying equity shares except for 50,000 Options (Previous Year 25,000 options), which had been granted at a price less than the market price. Consequently, compensation cost of ₹ 0.9 crore (Previous Year ₹ 0.6 crore) has been charged to the Profit and Loss account during the current year.

(No. of options)

| | **Year ended June 30, 2011** | Year ended June 30, 2010 |
|---|---|---|
| Opening Balance | **891,000** | 61,000 |
| Granted during the year | **879,248** | 1,116,000 |
| Exercised during the year | **–** | – |
| Cancelled during the year | **(452,900)** | (286,000) |
| Balance unexercised options | **1,317,348** | 891,000 |

**Plan VI**

The Company introduced a new scheme in 2010 for granting 2,000,000 stock options to the employees, each option representing one equity share of the Company. The exercise price as may be determined by the Compensation Committee and such price may be the face value of the share from time to time or may be the Market Price or any price as may be decided by the Committee and will be governed by the guidelines issued by SEBI. The scheme is governed by the Employee Stock Option Scheme and Employee Stock Purchase Guidelines issued in 1999 by SEBI and as amended from time to time. The first vesting of the stock options shall happen only on completion of one year from the date of grant and the options are exercisable within seven years from the date of vesting. As per the SEBI guidelines, the excess of market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the option is to be recognized and amortized on a straight line basis over the vesting period.

(No. of options)

| | **Year ended June 30, 2011** | Year ended June 30, 2010 |
|---|---|---|
| Opening Balance | **–** | – |
| Granted during the year | **569,600** | – |
| Exercised during the year | **–** | – |
| Cancelled during the year | **–** | – |
| Balance unexercised options | **569,600** | – |

Disclosure required under SEBI (ESOS & ESPS) Guidelines, 1999

In order to enable the Company to continue with its ESOP, the Company passed special resolutions through postal ballot in January, 2002 for issue of 700,000 stock options to its employees. At the Annual General Meeting held on September 20, 2004, the Company passed special resolutions to issue 700,000 stock options to its employees. The Company passed special resolutions through postal ballot in August 9, 2007 for issue of 1,000,000 stock options to its employees. On March 20, 2009, the shareholders of the Company approved the further issue of 1,500,000 options to the employees. At the Annual General Meeting of the Company held on October 1, 2010, the shareholders of the Company approved the further issue of 2,000,000 options.

a) Options granted: Opening: 1,959,258

b) Issued during the year: 1,598,848

c) Pricing formula: Market Price as defined by SEBI from time to time or face value or such price as may be decided by the Compensation committee from time to time.

d) Options vested: 781,246

e) Options exercised: 7,250

f) Total number of shares arising as a result of exercise of options: 7,250

g) Options lapsed: 827,378

h) Variations of terms of options: NIL

i) Money realized by exercise of options: ₹ 1,129,625

j) Total number of options in force: 2,723,478

k) Employee-wise details of options granted to:

(1) Senior managerial personnel: 37

(2) Any other employee who receives a grant in any one year of option amounting to 5% or more of more of option granted during that year: 5

(3) Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant: Mr. Mrinal Sattawala was granted 400,000 options during the year ended June 30, 2011.

l) Diluted EPS pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) 20 is ₹ (0.50).

m) The impact of this difference on profits and on EPS of the Company

(₹ in Crore)

| | |
|---|---|
| Profit After Tax (PAT) | (1.33) |
| Less: Additional employee compensation based on fair value | 4.27 |
| Adjusted PAT | (5.60) |
| Adjusted EPS (in ₹) | (2.08) |

n) Weighted-average exercise price and fair value of Stock Options granted during the year:

| Stock options granted on | Weighted average exercise price (in ₹) | Weighted Average fair value | Closing market price at BSE on the date of grant (in ₹) |
|---|---|---|---|
| July, 2010 | 295.40 | 153.93 | 295.40 |
| October, 2010 | 242.65 | 124.90 | 242.65 |
| April, 2011 | 125.30 | 63.57 | 125.30 |

o) Description of the method and significant assumptions used during the year to estimate the fair value of the options, including the following weighted average information: The Black Scholes option pricing model was developed for estimating fair value of traded options that have no vesting restrictions and are fully transferable. Since Option pricing models require use of substantive assumptions, changes therein can materially affect fair value of options. The option pricing models do not necessarily provide a reliable measure of fair value of options.

The main assumptions used in the Black-Scholes option-pricing model during the year were as follows:

| Sr. no | Grant Date | July 20, 2010 | October 13, 2010 | April 14, 2011 |
|---|---|---|---|---|
| 1 | Risk Free Interest Rate | 7.54% | 7.94% | 7.94% |
| 2 | Expected Life (years) | 6 | 6 | 6 |
| 3 | Expected Volatility | 53.25% | 51.46% | 50.00% |
| 4 | Dividend Yield | 1.54% | 1.54% | 1.54% |

## 14. ADDITIONAL INFORMATION RELATING TO CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Information under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1968, forming part of the Directors' Report for the year ended June 30, 2011:

### a) Conservation of Energy

As a software Company, energy costs constitute a small portion of the total cost and there is not much scope for energy conservation.

Form A is not applicable for software industry.

**b) Technology Absorption**

Not Applicable

**c) Foreign Exchange Earnings and Outgo -**

Total foreign exchange used and earned by the Company

(₹ in Crore)

| | **June 30, 2011** | June 30, 2010 |
|---|---|---|
| Exchange Used | **162.1** | 173.3 |
| Exchange Earned | **384.0** | 383.1 |

## 15. CORPORATE GOVERNANCE

Mastek follows best practices in Corporate Governance by benchmarking them with the best in the world.

The Board of Directors re-appointed Mr. Sudhakar Ram as Chairman & Managing Director and Mr. Radhakrishnan Sundar as Executive Director with effect from July 1, 2011, subject to approval of shareholders and other prescribed authorities for a period of 3 years on the following terms and conditions:

**Mr. Sudhakar Ram, Chairman & Managing Director**

**Basic Salary:**

₹ 3,35,000/- month (Rupees Three Lakhs Thirty Five Thousand only), with an option of annual increment as may be decided by the Compensation Committee/ Board of Directors, from time to time.

**Bonus:**

Based on the performance as may be evaluated by the Board of the Directors/Compensation Committee, from time to time on the basis of Actual (1) order booking (2) Revenue and (3) Net profits for each year.

**Company Accommodation:**

The Company will provide rent-free furnished accommodation to Mr Ram and his family members and the annual cost to the Company thereof shall not exceed ₹ 20 Lakhs (Rupees Twenty Lakhs only).

**Special Allowance:**

₹ 332,000/- month (Rupees Three Lakhs Thirty Two Thousand only).

**Car Facility:**

Car facility with driver to be used for the business of the Company.

**Club Fees:**

Re-imbursement of Club Fees.

**Education Expenses:**

Reimbursement of Education Expenses for one dependent child, not exceeding ₹ 11 Lakhs per annum.

**Telephone:**

Free telephone facility at his residence to be used for the business of the Company.

**Provident Fund Contribution:**

Company's contribution towards provident fund as per rules of the Company, but not exceeding 12% of the salary.

**Gratuity:**

As per rules of the Company.

**Perquisites:**

As may be permitted as per the policy of the Company or by the Board of Directors and/or the Compensation Committee of the Board of Directors.

For the purposes of calculating the above ceilings, perquisites shall be evaluated as per Income-tax Rules, wherever applicable. In the absence of any such Rules, perquisites shall be evaluated at actual basis. Provision of car and telephone for use of the Company's business and telephone at the Chairman and Managing Director's Residence will not be considered as perquisites. The following shall not be included for the purposes of computation of the Chairman and Managing Director's remuneration or perquisites as aforesaid:

(i) the Company's contribution to Provident fund,

(ii) encashment of leave at the end of the tenure of office of the Chairman and Managing Director,

(iii) Gratuity payable at the rate not exceeding half a month's salary for each completed year of service.

**Notice Period:** Six months notice or Notice pay equivalent to six months basic salary.

**Severance Fees:** The Company has not made any special provisions for severance fees.

**Stock Options:** NIL

**Mr. Radhakrishnan Sundar, Executive Director**

**Basic Salary:**

₹ 2,35,000/- (Rupees Two Lakhs Thirty Five Thousand only) per month, with an option of annual increment as may be decided by the Compensation Committee/ Board of Directors, from time to time.

**Bonus:**

Based on the performance as may be evaluated by the Board of the Directors/Compensation Committee, from time to time on the basis of Actual (1) order booking (2) Revenue and (3) Net profits for each year.

**House Rent Allowance:**

The Company will provide furnished accommodation to Mr Sundar. However, where no accommodation is provided by the Company to Mr Sundar or Mr Sundar does not opt for the accommodation provided by the Company, then he shall be entitled to House Rent Allowance subject to a ceiling of 50% of the basic salary i.e ₹ 1,17,500/- (Rupees One Lakh Seventeen thousand Five hundred only) per month.

**Adhoc Allowance:**

₹ 2,31,000 (Rupess Two Lakhs Thirty One thousand only) per month.

**Car Facility:**

Car facility with driver to be used for the business of the Company.

**Telephone:**

Free telephone facility at his residence to be used for the business of the Company.

**Provident Fund Contribution:**

Company's contribution towards provident fund as per rules of the Company, but not exceeding 12% of the salary.

**Gratuity:**

As per rules of the Company.

**Perquisites:**

As may be permitted as per the policy of the Company or by the Board of Directors and/or the Compensation Committee of the Board of Directors.

For the purposes of calculating the above ceilings, perquisites shall be evaluated as per Income-tax Rules, wherever applicable. In the absence of any such Rules, perquisites shall be evaluated at actual basis.

Provision of car and telephone for use of the Company's business and telephone at the Executive Director's Residence will not be considered as perquisites. The following shall not be included for the purposes of computation of the Executive Director's remuneration or perquisites as aforesaid:

(i) the Company's contribution to Provident fund,

(ii) encashment of leave at the end of the tenure of office of the Executive Director,

(iii) Gratuity payable at the rate not exceeding half a month's salary for each completed year of service.

**Notice Period:** Six months notice or Notice pay equivalent to six months basic salary.

**Severance Fees:** The Company has not made any special provisions for severance fees.

**Stock Options:** NIL

The report on corporate governance is included in the Annual Report.

**16. ACKNOWLEDGEMENTS**

The Directors would like to place on record their sincere appreciation for the continued co-operation, guidance, support and assistance provided by the SEEPZ Authorities, MIDC, Department of Electronics, ICICI Bank, Standard Chartered Bank Ltd and other government departments and authorities.

By the Order of the Board

Mumbai
July 25, 2011

**Ashank Desai**
Director

# AUDITORS' REPORT TO THE MEMBERS OF MASTEK LIMITED

1. We have audited the attached Balance Sheet of Mastek Limited (the "Company") as at June 30, 2011, and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. 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 the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 (together the "Order"), issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

4. Without qualifying our opinion, we draw your attention to Note 20 of Schedule 16, regarding excess remuneration paid during the year to the Chairman and Managing Director and an Executive Director of the Company, aggregating ₹ 63.36 Lacs and ₹ 22.40 Lacs respectively, for which Company intends to seek approval of the Members of the Company in the ensuing Annual General Meeting of the Company, and also from the Central Government.

5. Further to our comments in the Annexure referred to in paragraph 3 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 purposes 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 those books;

   (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

   (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;

   (e) On the basis of written representations received from the Directors, as on June 30, 2011 and taken on record by the Board of Directors, none of the Directors is disqualified as on June 30, 2011 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Act;

   (f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give, in the prescribed manner, the information required by the Act, and give a true and fair view in conformity with the accounting principles generally accepted in India:

      (i) in the case of the Balance Sheet, of the state of affairs of the Company as at June 30, 2011;

      (ii) in the case of the Profit and Loss Account, of the loss for the year ended on that date; and

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

For Price Waterhouse
Firm Registration Number: 012754N
Chartered Accountants

**Pradip Kanakia**
Partner
Membership Number: 39985

Mumbai
July 25, 2011

# ANNEXURE TO AUDITORS' REPORT

Referred to in paragraph 3 of the Auditor's Report of even date to the members of Mastek Limited on the financial statements for the year ended June 30, 2011

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

   (b) The fixed assets of the Company have been physically verified by the Management during the year and no material discrepancies between the book records and the physical inventory have been noticed. In our opinion, the frequency of verification is reasonable.

   (c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed of by the Company during the year.

2. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of fixed assets and for the sale of goods and services. Further, on the basis of our examination of the books and records of the Company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.

3. According to the information and explanations given to us, there have been no contracts or arrangements referred to in Section 301 of the Act during the year to be entered in the register required to be maintained under that Section. Accordingly, the question of commenting on transactions made in pursuance of such contracts or arrangements does not arise.

4. The Company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the rules framed thereunder.

5. In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.

6. The Central Government of India has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Act for any of the products of the Company.

7. (a) According to the information and explanations given to us and the records of the Company examined by us, in our opinion, the Company is regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues as applicable with the appropriate authorities.

   (b) According to the information and explanations given to us and the records of the Company examined by us, there are no dues of sales-tax, wealth-tax, service-tax, customs duty, excise duty and cess which have not been deposited on account of any dispute. The particulars of dues of income-tax as at June 30, 2011 which have not been deposited on account of a dispute are as follows:

| **Name of the statute** | **Nature of dues** | **Amount (₹)*** | **Period to which the amount relates** | **Forum where the dispute is pending** |
|---|---|---|---|---|
| The Income Tax Act, 1961 | Demand on account of Transfer Pricing disallowances and disallowances for other expenses | 108,825,510 | A.Y 2007-08 | Commissioner of Income-tax (Appeals), Ahmedabad |
| The Income Tax Act, 1961 | Demand on account of Transfer Pricing disallowances and disallowances for other expenses | 48,685,385 | A.Y 2006-07 | Income Tax Appellate Tribunal, Ahmedabad |

*Net of amounts paid under protest or otherwise

8. The Company has no accumulated losses as at June 30, 2011 and has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.

9. According to the records of the Company examined by us and the information and explanation given to us, the Company has not defaulted in repayment of dues to any financial institution or bank or debenture holders as at the balance sheet date.

10. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

11. The provisions of any special statute applicable to chit fund/ nidhi/ mutual benefit fund/ societies are not applicable to the Company.

12. In our opinion, the Company is not a dealer or trader in shares, securities, debentures and other investments.

13. In our opinion and according to the information and explanations given to us, the terms and conditions of the guarantees given by the Company, for loans taken by others from banks or financial institutions during the year, are not prejudicial to the interest of the Company.

14. The Company has not obtained any term loans.

15. On the basis of an overall examination of the balance sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.

16. During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the Management.

17. Clauses (ii), (iii), (xviii), (xix) and (xx) of paragraph 4 of the Companies (Auditor's Report) Order 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, are not applicable in the case of the Company for the year, since in our opinion there is no matter to be reported.

For Price Waterhouse
Firm Registration Number: 012754N
Chartered Accountants

**Pradip Kanakia**
Partner
Membership Number: 39985

Mumbai
July 25, 2011

# BALANCE SHEET AS AT JUNE 30, 2011

(₹ in Lakhs)

| | Schedule | As at June 30, 2011 | As at June 30, 2010 |
|---|---|---|---|
| **I. Sources of funds** | | | |
| **1. Shareholders' funds** | | | |
| (a) Capital | 1 | **1,347.56** | 1,347.20 |
| (b) Reserves and surplus | 2 | **36,426.54** | 36,460.55 |
| | | **37,774.10** | 37,807.75 |
| **2. Loan funds** | | | |
| Secured loans | 3 | **52.55** | 16.27 |
| | | **37,826.65** | 37,824.02 |
| **II. Application of funds** | | | |
| **1. Fixed assets** | 4 | | |
| (a) Gross block | | **31,062.73** | 25,191.29 |
| (b) Less: Depreciation | | **20,057.57** | 17,500.52 |
| (c) Net block | | **11,005.16** | 7,690.77 |
| Capital work-in-progress (including capital advances) | | **18.52** | 3,538.45 |
| | | **11,023.68** | 11,229.22 |
| **2. Investments** | 5 | **21,199.94** | 19,177.51 |
| **3. Deferred Taxation** | 6 | **1,781.01** | 1,922.84 |
| **4. Current assets, loans and advances** | | | |
| (a) Sundry debtors | 7 | **4,695.02** | 6,073.22 |
| (b) Cash and bank balances | 8 | **1,795.13** | 4,163.78 |
| (c) Loans and advances | 9 | **9,086.89** | 10,071.31 |
| | | **15,577.04** | 20,308.31 |
| **Less: Current liabilities and provisions** | | | |
| (a) Liabilities | 10 | **4,276.70** | 4,095.00 |
| (b) Provisions | 11 | **7,478.32** | 10,718.86 |
| | | **11,755.02** | 14,813.86 |
| **Net current assets** | | **3,822.02** | 5,494.45 |
| | | **37,826.65** | 37,824.02 |
| Notes to the accounts | 16 | | |

The Schedules referred to above and the notes thereon form an integral part of the Balance Sheet and should be read in conjunction therewith.

In terms of our report of even date

For Price Waterhouse
Firm Registration Number: 012754N
Chartered Accountants

**Pradip Kanakia**
Partner
Membership Number: 39985

Mumbai
Dated: July 25, 2011

For and on behalf of the Board of Directors

**Sudhakar Ram**
Chairman & Managing Director

**Ashank Desai**
Director

**Bhagwant Bhargawe**
Company Secretary

# PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2011

(₹ in Lakhs)

| | Schedule | Year ended June 30, 2011 | Year ended June 30, 2010 |
|---|---|---|---|
| **INCOME** | | | |
| Information Technology Services and Products | | **36,397.12** | 43,563.64 |
| Other income | **12** | **4,925.92** | 524.85 |
| | | **41,323.04** | 44,088.49 |
| **EXPENDITURE** | | | |
| Operational expenses | **13** | **36,444.59** | 35,709.96 |
| Other expenses | **14** | **2,713.40** | 3,493.14 |
| Depreciation | | **2,713.09** | 2,475.62 |
| Finance costs | **15** | **9.31** | 10.89 |
| | | **41,880.39** | 41,689.61 |
| **(Loss)/Profit before taxation** | | **(557.35)** | 2,398.88 |
| Provision for taxation (Refer Note 7 of Schedule 16) | | | |
| For the year | | | |
| - Current tax | | **466.83** | 673.99 |
| Less: MAT credit receivable | | **–** | (289.38) |
| | | **466.83** | 384.61 |
| - Deferred tax | | **141.83** | (680.49) |
| | | **608.66** | (295.88) |
| Income tax for earlier years | | **(1,032.57)** | (1,005.08) |
| **(Loss)/Profit after taxation** | | **(133.44)** | 3,699.84 |
| Add: Profit brought forward from previous year | | **24,935.52** | 23,952.52 |
| **Profit available for appropriation** | | **24,802.08** | 27,652.36 |
| **Appropriations** | | | |
| Interim dividend | | **–** | 539.50 |
| Final dividend | | **–** | 336.80 |
| Corporate dividend tax | | **–** | 147.63 |
| Transferred to General Reserve | | **–** | 1,692.91 |
| Balance carried to Balance Sheet | | **24,802.08** | 24,935.52 |
| | | **24,802.08** | 27,652.36 |
| **(Loss)/Earnings per share (net of taxes) in ₹** | | | |
| - Basic | | **(0.50)** | 13.74 |
| - Diluted | | **(0.50)** | 13.66 |
| (Refer Note 10 of Schedule 16) (Nominal value per share ₹ 5/- each) | | | |
| Notes to the accounts | **16** | | |

The Schedules referred to above and the notes thereon form an integral part of the Profit and Loss Account and should be read in conjunction therewith.

In terms of our report of even date

For Price Waterhouse
Firm Registration Number: 012754N
Chartered Accountants

**Pradip Kanakia**
Partner
Membership Number: 39985

Mumbai
Dated: July 25, 2011

For and on behalf of the Board of Directors

**Sudhakar Ram**
Chairman & Managing Director

**Ashank Desai**
Director

**Bhagwant Bhargawe**
Company Secretary

(₹ in Lakhs)

| | As at June 30, 2011 | As at June 30, 2010 |
|---|---|---|
| **SCHEDULE 1 - CAPITAL** | | |
| **Authorised** | | |
| 40,000,000 equity shares of ₹ 5/- each | **2,000.00** | 2,000.00 |
| 2,000,000 preference shares of ₹ 100/- each | **2,000.00** | 2,000.00 |
| | **4,000.00** | 4,000.00 |
| **Issued, Subscribed and Paid up:** | | |
| **Equity Shares** | | |
| 26,951,187 shares of ₹ 5/- each, fully paid-up | **1,347.56** | 1,347.20 |
| (Previous year 26,943,937 shares of ₹ 5/- each, fully paid-up) | | |
| (Refer Note 5 of Schedule 16) | | |
| | **1,347.56** | 1,347.20 |

Of the above:

- 14,054,594 and 6,913,280 equity shares of ₹ 5/- each fully paid, have been issued as bonus shares by utilisation of Capital Redemption Reserve and Share Premium Account respectively.
- 660,000 equity shares of ₹ 5/- each fully paid have been issued as bonus shares by capitalisation of profits transferred from General Reserve.

| | As at June 30, 2011 | As at June 30, 2010 |
|---|---|---|
| **SCHEDULE 2 - RESERVES AND SURPLUS** | | |
| **Capital Reserve** | | |
| As per last Balance Sheet | **0.02** | 0.02 |
| | **0.02** | 0.02 |
| **Capital Redemption Reserve Account** | | |
| As per last Balance Sheet | **1,295.27** | 1,295.27 |
| | **1,295.27** | 1,295.27 |
| **Securities Premium Account** | | |
| As per last Balance Sheet | **139.66** | 36.63 |
| Add: Addition on account of ESOP | **10.93** | 103.03 |
| | **150.59** | 139.66 |
| **Employees stock options outstanding (Refer Note 5 of Schedule 16)** | **145.50** | 57.00 |
| **General Reserve** | | |
| As per last Balance Sheet | **10,033.08** | 8,340.17 |
| Add: Transferred from Profit and Loss Account | **–** | 1,692.91 |
| | **10,033.08** | 10,033.08 |
| **Profit and Loss Account** | **24,802.08** | 24,935.52 |
| | **36,426.54** | 36,460.55 |
| **SCHEDULE 3 - SECURED LOANS** | | |
| Obligations on assets under Finance Leases | **52.55** | 16.27 |
| (secured by hypothecation of vehicles taken on lease) | | |
| (Due within one year ₹ 11.24 Lakhs (Previous year ₹ 7.94 Lakhs)) | | |
| | **52.55** | 16.27 |

## SCHEDULE-4 - FIXED ASSETS

(₹ in Lakhs)

| Description | Gross Block (at Cost) | | | | | Depreciation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at July 01, 2010 | Additions | Deletions | Adjustment (Refer Note 3 below) | **As at June 30, 2011** | As at July 01, 2010 | For the year | Deletions | Adjustment (Refer Note 3 below) | **As at June 30, 2011** | **As at June 30, 2011** | As at June 30, 2010 |
| Goodwill | 130.32 | – | – | – | **130.32** | 43.44 | 43.44 | – | – | **86.88** | **43.44** | 86.88 |
| Leasehold Land and Premises | 3,090.44 | – | – | – | **3,090.44** | 695.57 | 96.40 | – | – | **791.97** | **2,298.47** | 2,394.87 |
| Owned Premises (Note 1) | 2,683.06 | 1,483.66 | – | – | **4,166.72** | 488.99 | 152.56 | – | – | **641.55** | **3,525.17** | 2,194.07 |
| Plant and Machinery | 7,515.59 | 1,181.94 | 83.73 | – | **8,613.80** | 6,113.33 | 917.52 | 82.99 | – | **6,947.86** | **1,665.94** | 1,402.26 |
| Software | 6,712.68 | 2,002.69 | 1.13 | – | **8,714.24** | 6,103.61 | 791.14 | 1.13 | – | **6,893.62** | **1,820.62** | 609.07 |
| Furniture and Fittings | 4,254.30 | 1,207.60 | – | – | **5,461.90** | 3,437.95 | 621.46 | – | – | **4,059.41** | **1,402.49** | 816.35 |
| Leasehold Improvements | 409.24 | 37.51 | – | – | **446.75** | 395.15 | 20.73 | – | – | **415.88** | **30.87** | 14.09 |
| Vehicles (Note 2) | 395.66 | 138.63 | 95.73 | – | **438.56** | 222.48 | 69.84 | 71.92 | – | **220.40** | **218.16** | 173.18 |
| **Total** | 25,191.29 | 6,052.03 | 180.59 | – | **31,062.73** | 17,500.52 | 2,713.09 | 156.04 | – | **20,057.57** | **11,005.16** | 7,690.77 |
| Previous Year | 23,222.86 | 1,892.87 | 260.48 | 336.04 | 25,191.29 | 15,057.78 | 2,475.62 | 230.99 | 198.11 | 17,500.52 | 7,690.77 | |

1. Owned premises include subscription towards share capital of Co-operative socities amounting to ₹ 250 (Previous year ₹ 250).
2. Net block of vehicles include leased assets amounting to ₹ 42.73 Lakhs (Previous year ₹ 16.53 Lakhs).
3. Adjustment columns represent value of assets acquired from Keystone Solutions Private Limited on acquisition of business during the year ended June 30, 2010. (Refer Note 16 of Schedule 16)
4. The Company has capitalized the assets lying at its Chennai SEZ facility, with effect from July 1, 2010. Depreciation amounting to ₹ 546.29 Lakhs on these capitalized assets has been charged at the rates specified in Note 1b to Schedule 16 to recognise the loss of value through effluxion of time, although the said facility has not yet been put to use.

(₹ in Lakhs)

| | | **As at June 30, 2011** | As at June 30, 2010 |
|---|---|---|---|
| **SCHEDULE 5 - INVESTMENTS** | | | |
| **I. Investments in equity shares (Long-term, trade, unquoted)** | | | |
| **Subsidiary Companies at cost** | | | |
| **MajescoMastek, USA** | | | |
| 128,415,000 (Previous year - 163,700,000) Equity Shares of US $ 0.002 each, fully paid-up (Refer Note 17 of Schedule 16) | | **11,565.47** | 14,392.14 |
| **Mastek Asia Pacific Pte Ltd., Singapore** | | | |
| 3,650,000 (Previous year - 3,650,000) Equity Shares of S $ 1 each, fully paid-up | 886.22 | | |
| Less: Provision for diminution in value | (661.40) | **224.82** | 224.82 |
| **Mastek MSC Sdn Bhd., Malaysia** | | | |
| 11,262,000 Equity Shares (Previous year - 11,262,000) of RM 1 each, fully paid-up | | **1,443.42** | 1,443.42 |
| **Mastek UK Ltd., UK** | | | |
| 200,000 (Previous year - 200,000) Equity Shares of £ 1 each, fully paid-up | | **215.81** | 215.81 |
| **Mastek GmbH, Germany** | | | |
| 1(Previous year - 1) Share fully paid-up | 274.11 | | |
| Less: Reduction of Share capital | (261.42) | **12.69** | 274.11 |
| (Refer Note 18 of Schedule 16) | | | |
| **MajescoMastek Canada Ltd.** | | | |
| 3,500,000 (Previous year - 1,500,000) Shares of CN $ 1 each, fully paid-up | | **1,555.01** | 654.48 |

(₹ in Lakhs)

| SCHEDULE 5 - INVESTMENTS (CONTD.) | As at June 30, 2011 | As at June 30, 2010 |
|---|---|---|
| **II. Investment in others - units (Current, non trade, unquoted)** | | |
| 15,077,249 (Previous year - Nil) units of Sundaram Ultra Short Term - Super Inst. Plan - Daily Dividend Reinvestment. Purchased during the year ₹ 3,580.18 Lakhs (35,669,856 units) and sold during the year ₹ 2,066.88 Lakhs (20,592,607 units). | **1,513.30** | – |
| 12,665,379 (Previous year - Nil) units of DWS Ultra Short Term Fund - Inst. Plan - Daily Dividend Reinvestment. Purchased during the year ₹ 2,895.56 Lakhs (28,903,847 units) and sold during the year ₹ 1,626.76 Lakhs (16,238,468 units). | **1,268.80** | – |
| 12,057,334 (Previous year - Nil) units of ICICI Prudential Blended Plan - B Option II - Daily Dividend Reinvestment. Purchased during the year ₹ 1,206.64 Lakhs (12,057,334 units) and sold during the year ₹ Nil (Nil units). | **1,206.64** | – |
| 7,173,190 (Previous year - Nil) units of SBI Magnum Income Fund - Floating Rate Plan - Saving Plus Bond Plan - Daily Dividend Reinvestment. Purchased during the year ₹ 721.78 Lakhs (7,173,190 units) and sold during the year ₹ Nil (Nil units). | **721.78** | – |
| 7,036,776 (Previous year - Nil) units of Tata Floater Fund - Daily Dividend Reinvestment. Purchased during the year ₹ 3,778.55 Lakhs (37,651,422 units) and sold during the year ₹ 3,072.37 Lakhs (30,614,646 units). | **706.18** | – |
| Nil (Previous year - 4,499,550) units of TATA Fixed Income Portfolio Fund Scheme A2 - Inst. Purchased during the year ₹ 1.99 Lakhs (19,931 units) and sold during the year ₹ 451.99 Lakhs (4,519,481 units). | **–** | 450.00 |
| 7,599,526 (Previous year - 225,384) units of Kotak Floater Long Term Fund - Daily Dividend Reinvestment. Purchased during the year ₹ 1,627.07 Lakhs (16,142,006 units) and sold during the year ₹ 883.78 Lakhs (8,767,864 units). | **766.02** | 22.73 |
| **III. Investment in deposits** | | |
| Deposit with Housing Urban Development Corporation | **–** | 1,500.00 |
| | **21,199.94** | 19,177.51 |
| Aggregate of unquoted investments - at cost | **21,199.94** | 19,177.51 |

**Note: Details of Current Investments (other than trade, quoted) purchased and sold during the year other than those disclosed above**

| Scheme | Nos. of Units | Cost in ₹ Lakhs |
|---|---|---|
| Canara Robeco Treasury Advantage Fund - Super Inst. Plan - Daily Dividend Reinvestment | **4,981,098.10** | 618.01 |
| DSP BlackRock Liquidity Fund - Inst. Plan - Daily Dividend Reinvestment | **125,482.76** | 1,255.22 |
| DSP Blackrock Money Manager Fund - Inst. Plan - Daily Dividend Reinvestment | **111,771.71** | 1,118.61 |
| DWS Treasury Fund - Cash - Inst. Plan - Daily Dividend Reinvestment | **5,154,125.51** | 517.97 |
| Fidelity Cash Fund - Super Inst. Plan - Daily Dividend Reinvestment | **13,966,669.52** | 1,429.21 |
| Fidelity Ultra Short Term Debt Fund - Super Inst. Plan - Daily Dividend Reinvestment | **29,895,735.30** | 2,991.73 |

**SCHEDULE 5 - INVESTMENTS (CONTD.)**

| Scheme | Nos. of Units | Cost in ₹ Lakhs |
|---|---|---|
| Franklin Templeton India Ultra Short Bond Fund - Super Inst. Plan - Daily Dividend Reinvestment | **29,204,070.87** | 2,923.79 |
| ICICI Prudential - Flexible Income Plan - Daily Dividend Reinvestment | **3,835,138.47** | 4,055.08 |
| ICICI Prudential - Interval Fund II - Quarterly Interval Plan D - Inst. - Daily Dividend Reinvestment | **6,088,472.64** | 608.85 |
| ICICI Prudential Interval Fund I - Monthly Interval Plan A - Inst. - Daily Dividend Reinvestment | **2,312,399.16** | 231.24 |
| ICICI Prudential Liquid - Super Inst. Plan - Daily Dividend Reinvestment | **3,056,713.18** | 3,057.40 |
| IDFC Cash Fund Plan C - Super Inst. Plan - Daily Dividend Reinvestment | **4,822,892.63** | 482.41 |
| IDFC Money Manager Treasury - Plan C - Daily Dividend Reinvestment | **5,125,832.40** | 512.66 |
| JM High Liquidity Fund - Super Inst. Plan - Daily Dividend Reinvestment | **19,869,650.11** | 1,990.24 |
| JM Money Manager Fund - Regular Plan - Daily Dividend Reinvestment | **5,031,592.17** | 503.72 |
| JM Money Manager Fund - Super Plan - Daily Dividend Reinvestment | **17,976,887.94** | 1,799.81 |
| JM Short Term Fund - Inst. Plan - Daily Dividend Reinvestment | **11,433,996.59** | 1,143.40 |
| JPMorgan India Liquid Fund - Super Inst. Plan - Daily Dividend Reinvestment | **59,501,812.69** | 5,954.88 |
| JPMorgan India Treasury Fund - Super Inst. Plan - Daily Dividend Reinvestment | **62,678,923.85** | 6,273.47 |
| L & T Freedom Income STP - Inst. Plan - Daily Dividend Reinvestment | **15,837,997.21** | 1,608.38 |
| Sundaram Money Fund - Super Inst. Plan - Daily Dividend Reinvestment | **21,597,429.10** | 2,180.33 |
| Tata Floater Fund - Growth | **3,179,617.77** | 467.00 |
| TATA Liquid Super High Investment Fund - Daily Dividend Reinvestment | **80,770.70** | 900.21 |

(₹ in Lakhs)

| | **As at June 30, 2011** | As at June 30, 2010 |
|---|---|---|
| **SCHEDULE 6 - DEFERRED TAXATION** | | |
| **Deferred Tax Asset** | | |
| Tax effect of timing difference on account of: | | |
| - Fixed assets (Excess of written down value as per the provisions of Income Tax Act, 1961 over Net Block) | **702.01** | 721.23 |
| - Provision for Leave encashment | **462.13** | 478.20 |
| - Provision for Gratuity | **574.97** | 723.41 |
| - Provision for Statutory payments | **13.12** | – |
| - Provision for doubtful debt | **28.78** | – |
| | **1,781.01** | 1,922.84 |
| **SCHEDULE 7 - SUNDRY DEBTORS (UNSECURED)** | | |
| **a) Debts outstanding for a period exceeding six months** | | |
| Considered good | **17.49** | 302.94 |
| Considered doubtful | **88.69** | 102.40 |
| | **106.18** | 405.34 |
| **b) Other debts considered good #** | **4,677.53** | 5,770.28 |
| | **4,783.71** | 6,175.62 |
| Less: Provision for doubtful debts | **88.69** | 102.40 |
| | **4,695.02** | 6,073.22 |

# Debtors include dues from Subsidiaries ₹ 2,731.99 Lakhs (Previous year ₹ 3,813.74 Lakhs)

(₹ in Lakhs)

| | As at June 30, 2011 | As at June 30, 2010 |
|---|---|---|
| **SCHEDULE 8 - CASH AND BANK BALANCES** | | |
| Cash balance on hand | **1.46** | 1.51 |
| Balance with Scheduled banks | | |
| - in Current Accounts * | **790.00** | 704.61 |
| - in Fixed Deposits ** | **13.79** | 2,104.55 |
| | **803.79** | 2,809.16 |
| Balance with Unscheduled banks | | |
| - in Current Accounts | | |
| - Lloyds TSB, UK | **1.69** | – |
| - in Fixed Deposits | | |
| - Lloyds TSB Deposit Account, UK | **988.19** | 1,353.11 |
| | **989.88** | 1,353.11 |
| | **1,795.13** | 4,163.78 |
| Maximum balance held during the year with Unscheduled banks | | |
| - Lloyds TSB Deposit Account, UK | **2,316.79** | 3,772.91 |
| - Lloyds Bank, UK | **3.58** | 3.49 |

* Includes amounts restricted ₹ 52.14 Lakhs (Previous year ₹ 53.10 Lakhs) on account of unpaid dividend.

** Includes ₹ 13.76 Lakhs (Previous year ₹ 12.76 Lakhs) restricted on account of margin money.

| | | |
|---|---|---|
| **SCHEDULE 9 - LOANS AND ADVANCES** | | |
| (Unsecured, considered good unless otherwise stated) | | |
| Advances recoverable in cash or in kind or for value to be received | **830.36** | 768.21 |
| MAT credit entitlement | **2,263.90** | 2,438.90 |
| Advance tax | **5,992.63** | 6,837.89 |
| Advance Fringe benefits tax (net of provision) | **–** | 26.31 |
| | **9,086.89** | 10,071.31 |

| | | |
|---|---|---|
| **SCHEDULE 10 - LIABILITIES** | | |
| Sundry Creditors | | |
| - Micro and Small Enterprises (Refer Note 11 of Schedule 16) | **–** | – |
| - Others | **3,878.78** | 3,374.40 |
| Book overdraft in current account with bank | **–** | 1.17 |
| Unclaimed dividends * | **52.14** | 53.11 |
| Unearned revenue | **54.57** | 27.37 |
| Other Liabilities | **291.21** | 638.95 |
| | **4,276.70** | 4,095.00 |

* Note: There is no amount due and outstanding to be credited to Investor Education and Protection Fund

| | | |
|---|---|---|
| **SCHEDULE 11 - PROVISIONS** | | |
| Proposed dividend | **–** | 336.80 |
| Provision for Corporate Dividend Tax | **–** | 55.94 |
| Provision for taxes | **4,281.82** | 6,275.41 |
| Provision for gratuity | **1,772.14** | 2,319.76 |
| Provision for leave encashment | **1,424.36** | 1,730.95 |
| | **7,478.32** | 10,718.86 |

# SCHEDULES TO THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2011

(₹ in Lakhs)

| | Year ended June 30, 2011 | Year ended June 30, 2010 |
|---|---|---|
| **SCHEDULE 12 - OTHER INCOME** | | |
| Interest on deposits (Tax deducted at source ₹ 5.34 Lakhs (Previous year ₹ 16.37 Lakhs)) | **53.43** | 208.39 |
| Interest on Income tax refunds | **134.41** | 41.82 |
| Interest on others | **14.23** | 2.28 |
| Profit on sale of investments (current, non-trade) | **0.90** | 0.03 |
| Profit on sale of investment in subsidiary (Refer Note 17 of Schedule 16) | **279.12** | – |
| Exchange gain (net) | **1,017.82** | – |
| Income from investments (current, non-trade) | **149.42** | 131.90 |
| Dividend from subsidiary | **3,181.79** | 102.83 |
| Bad debts recovered | **35.62** | – |
| Miscellaneous income | **59.18** | 37.60 |
| | **4,925.92** | 524.85 |
| **SCHEDULE 13 - OPERATIONAL EXPENSES** | | |
| Salaries, bonus and incentives* | **27,567.81** | 27,934.28 |
| Gratuity charges | **139.99** | 329.79 |
| Contribution to provident and other funds | **866.66** | 735.42 |
| Staff Welfare | **1,410.95** | 1,768.60 |
| Recruitment and training expenses | **189.96** | 187.55 |
| Travelling and conveyance | **1,475.86** | 1,905.80 |
| Communication charges | **288.77** | 328.71 |
| Electricity | **553.56** | 607.52 |
| Consultancy charges | **3,142.10** | 1,693.75 |
| Purchase of hardware and software for resale | **808.93** | 218.54 |
| | **36,444.59** | 35,709.96 |

* Includes ₹ 88.50 Lakhs (Previous year - ₹ 57.00 Lakhs) on account of Employee Stock Option cost.

| | | |
|---|---|---|
| **SCHEDULE 14 - OTHER EXPENSES** | | |
| Rates and Taxes | **187.63** | 150.78 |
| Repairs | | |
| - Building | **262.11** | 235.02 |
| - Machinery | **743.95** | 729.11 |
| Insurance | **74.93** | 103.37 |
| Printing and stationery | **38.35** | 61.45 |
| Professional fees (Refer Note 15 of Schedule 16) | **595.87** | 939.55 |
| Rent (Refer Note 3 of Schedule 16) | **202.05** | 259.26 |
| Advertisement and publicity | **63.50** | 164.78 |
| Exchange loss (net) | **–** | 372.06 |
| Loss on sale of fixed asset (net) | **3.08** | 1.02 |
| Donation | **29.37** | 37.97 |
| Provision for doubtful debts | **21.91** | 55.98 |
| Bad debts written off | **50.68** | – |
| Hire charges | **312.60** | 273.02 |
| Investments written off | **–** | 1.91 |
| Commission | **72.83** | 56.39 |
| Miscellaneous expenses | **54.54** | 51.47 |
| | **2,713.40** | 3,493.14 |
| **SCHEDULE 15 - FINANCE COSTS** | | |
| Bank charges | **4.73** | 8.57 |
| Interest on finance lease | **4.58** | 2.32 |
| | **9.31** | 10.89 |

**SCHEDULE 16**

**1. Significant Accounting Policies**

**a. Basis of accounting and preparation of financial statements**

The financial statements are prepared under the historical cost convention and comply in all material aspects with all the applicable accounting principles in India, the applicable accounting standard notified under sub-section (3C) of Section 211 of 'The Companies Act, 1956' of India (The 'Act') and other relevant provisions of the Act.

**b. Fixed Assets and Depreciation**

Fixed Assets are stated at cost of acquisition less accumulated depreciation. Direct costs are capitalized until the assets are ready for use and include inward freight, duties, taxes and expenses incidental to acquisition and installation.

Depreciation on fixed assets is provided on the Straight Line Method over the useful life of assets, as estimated by the management or as per Schedule XIV of the Act in cases where the rates specified therein are higher. Assets individually costing less than ₹ 5,000 are depreciated fully in the year of acquisition. Expenditure incurred on purchase of Software used in operations of the entity is depreciated over its estimated life. The useful lives estimated by the management which are higher than rates specified as per Schedule XIV are as under:

| | |
|---|---|
| Goodwill | 3 years |
| Leasehold Land | Lease Term ranging from 95-99 years |
| Owned/Leasehold Premises | 25 - 30 years |
| Computers (Included in Plant and Machinery) | 2 years |
| Other Plant and Machinery | 5 years |
| Software | 1 - 5 years |
| Furniture and Fittings | 5 years |
| Leasehold Improvements | 5 years or the primary period of lease whichever is less |
| Vehicles | 5 years |

**c. Investments**

Long-term investments are stated at cost less provision made to recognize any decline, other than temporary, in the value of such investments. Investments in subsidiaries are carried at their original rupee cost unless impaired. Current investments are stated at the lower of cost and fair value. Any reduction in carrying amount and any reversal of such reductions are charged or credited to the Profit and Loss Account.

**d. Foreign Currency Transactions and Translation**

Transactions denominated in foreign currencies are recorded at the rates of exchange prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currency are converted at the rate of exchange prevailing on the date of the Balance Sheet. Exchange differences arising on foreign currency transactions and balances are recognized as income or expense in the Profit and Loss Account.

In case of forward exchange contract or any other financial instrument that is in substance a forward exchange contract to hedge the foreign currency risk which is on account of firm commitment and/or is a highly probable forecast transaction, the premium or discount arising at the inception of the contract is amortized as expense or income over the life of the contract.

Gains/losses on settlement of transaction arising on cancellation or renewal of such a forward exchange contract are recognized as income or expense for the period.

In case of Forward Contracts that are open on the Balance Sheet date and are not backed by Receivables, the gain or loss is computed by multiplying the foreign currency amount of the forward contract by the difference between the forward rate available at the reporting date for the remaining maturity of the contract and the contracted forward rate. The loss so computed is recognised in the profit and loss account for the period, however the gain is not recognised.

In respect of transactions related to foreign branch, all revenue and expense transactions during the year are reported at average rate. Monetary assets and liabilities are translated at the rate prevailing on the Balance Sheet date whereas non-monetary assets and liabilities are translated at the rate prevailing on the date of the transaction. Net gain/loss on foreign currency translation is recognized in the Profit and Loss Account.

**e. Employee Benefits**

1. Defined Contribution Plans

The Company has Defined Contribution Plans for post employment benefits in the form of Provident Fund and

Superannuation Fund in India which are administered through Government of India and/or Life Insurance Corporation of India (LIC). Provident Fund and Superannuation Fund (which constitutes an insured benefit) are classified as Defined Contribution Plans. The Company also makes contributions towards defined contribution plans in respect of its branches in foreign jurisdictions, as applicable. Under such Defined Contribution Plans, the Company has no further obligation beyond making the contributions. The Company's contributions to Defined Contribution Plans are charged to the Profit and Loss Account as incurred.

2. Defined Benefit Plans

The Company has Defined Benefit Plans for post employment benefits in the form of Gratuity and Leave Encashment. Gratuity schemes of the Company are administered through Life Insurance Company of India. Liability for Defined Benefit Plans is provided on the basis of actuarial valuations, as at the Balance Sheet date, carried out by independent actuary. The actuarial valuation method used by independent actuary for measuring the liability is the Projected Unit Credit method. Actuarial gains and losses comprise experience adjustments and the effects of changes in actuarial assumptions and are recognized immediately in the Profit and Loss Account as income or expense.

**f. Revenue Recognition**

The Company derives its revenues primarily from software services.

Revenues from customer support services are recognized ratably over the term of the support period.

Revenues from software related services are primarily related to implementation services performed on a time and materials basis under separate service arrangements. Revenues with respect to time and material contracts are recognized as and when services are rendered.

Revenues from fixed price, fixed time frame contracts are recognized in accordance with the percentage of completion method measured by the percentage of cost incurred over the estimated total cost for each contract. The cumulative impact of any revision in estimates of the percentage of work completed is reflected in the period in which the change becomes known. Provisions for estimated losses on such engagements are made during the period in which a loss becomes probable and can be reasonably estimated.

Amounts received or billed, in advance of services performed are recorded as unearned revenue. Unbilled revenue included in debtors represents amounts recognized based on services performed in accordance with contract terms and where billings are pending.

Dividend income from investments is recognized when the right to receive payment is established. Dividend declared by the subsidiary companies after the date of the Balance Sheet is accounted during the year as required by Accounting Standard (AS) 9 - 'Revenue Recognition'.

Interest income is recognized on time proportion basis.

**g. Borrowings Costs**

Borrowing costs that are incurred on borrowings made specifically for the acquisition, construction or production of a qualifying asset are capitalized as a part of that asset. The amount of borrowing costs from funds that are borrowed generally and used for the purpose of obtaining a qualifying asset are calculated by applying a weighted average capitalization rate to the expenditure on that asset. Other borrowing costs are recognized as an expense in the period in which they are incurred.

**h. Leases**

Assets taken on leases which transfer substantially all the risks and rewards incidental to ownership of the assets i.e. finance leases, in terms of provisions of Accounting Standard (AS) 19 – 'Leases', are capitalized. The assets are capitalized at the lower of the fair value at the inception of the lease and the present value of minimum lease payments and a liability is created for an equivalent amount. Such assets are disclosed as a part of the class of owned assets to which they belong and are depreciated accordingly. Each lease rental paid on the finance lease is allocated between the liability and interest cost, so as to obtain a constant periodic rate of interest on the outstanding liability for each period. Other leases are classified as operating leases and rental payments in respect of such leases are charged to Profit and Loss Account on a straight line basis over the lease term.

**i. Earnings per share**

Basic earnings per share (EPS) are calculated by dividing the net loss/profit after tax for the year (including the post-tax effect of extraordinary items, if any) attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. Diluted earnings per share is computed by adjusting the number of shares used for basic EPS with the weighted average number of shares that could have been issued on the conversion of all dilutive potential equity shares.

Dilutive potential equity shares are deemed converted as of the beginning of the year, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at fair value i.e. average market value of outstanding shares. The number of shares and potentially dilutive shares are adjusted for share splits and bonus shares, as appropriate. In calculating diluted earnings per share, the effects of anti dilutive potential equity shares are ignored. Potential equity shares are anti-dilutive when there conversion to equity shares would increase earnings per share or decrease loss per share.

**j. Income taxes**

Provision for tax for the year comprises of current tax and deferred tax. Current tax provision is measured by the amount of tax expected to be paid on the taxable profits after considering tax allowances and exemptions and using applicable tax rates and laws. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to timing differences between the financial statements' carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. Deferred tax assets and liabilities are measured on the timing differences applying the tax rates and tax laws that have been enacted or substantively enacted by the Balance Sheet date. Changes in deferred tax assets and liabilities between one Balance Sheet date and the next are recognized in the Profit and Loss Account in the year of change. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Profit and Loss Account in the year of change. Deferred tax assets are recognized only if there is reasonable certainty that they will be realized by way of future taxable income. Deferred tax assets related to unabsorbed depreciation and carry forward losses are recognized only to the extent that there is virtual certainty of realization. Deferred tax assets are reviewed for appropriateness of their carrying amounts at each Balance Sheet date.

**k. Accounting for Employee Stock Options**

Stock options granted to employees of the Company and its subsidiaries under the stock option schemes established after June 19, 1999 are accounted as per the treatment prescribed by Employee Stock Option Scheme and Employee Stock Purchase Scheme Guidelines 1999 (SEBI guidelines) as amended from time to time, issued by the Securities and Exchange Board of India. According to the above guidelines, the excess of market value of the stock options as on the date of grant over the exercise price of the options, if any is to be recognized as deferred employee compensation and is charged to the Profit and Loss account ratably over the vesting period of the options.

**l. Estimates**

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

**m. Provisions**

Provisions are recognised when the Company has a present obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed regularly and are adjusted where necessary to reflect the current best estimates of the obligation. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset, only when such reimbursement is virtually certain.

**n. Impairment of Assets**

At each Balance Sheet date, the Company assesses whether there is any indication that an asset may be impaired. If any such indication exists, management estimates the recoverable amount. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised in the Profit and Loss Account to the extent carrying amount exceeds recoverable amount.

## 2. CONTINGENT LIABILITIES AND COMMITMENTS

(₹ in Lakhs)

| | | **As at June 30, 2011** | As at June 30, 2010 |
|---|---|---|---|
| (i) | Counter guarantees outstanding in respect of guarantees given by banks on behalf of the Company | **175.25** | 103.19 |
| (ii) | Corporate performance guarantees given by the Company: | | |
| | - on behalf of subsidiary, MajescoMastek Canada Ltd. | **2,411.84** | 967.53 |
| | - on behalf of subsidiary, Mastek MSC (Thailand) Co. Ltd. | **229.34** | 153.49 |
| | - on behalf of subsidiary, Mastek (UK) Limited | **42,828.87** | 36,462.26 |
| (iii) | Corporate guarantees given: | | |
| | - on behalf of subsidiary, MajescoMastek for its term loan | **1,341.00** | 4,180.05 |
| | - on behalf of subsidiary, MajescoMastek for its Line of Credit for Working Capital from Bank | **447.00** | – |
| (iv) | Claims against the Company not acknowledged as debts* | **2,309.06** | 105.78 |
| (v) | Estimated amount of contracts remaining to be executed on capital account not provided for | **196.95** | 1,813.15 |

* Claims against the Company not acknowledged as debts include:

a) a demand from the Indian tax authorities for payment of additional tax of ₹ 1,115.03 Lakhs, including interest of ₹ 379.47 Lakhs upon completion of their tax review for financial year ended March 31, 2006.

b) a demand from the Indian tax authorities for payment of additional tax of ₹ 1,088.25 Lakhs, including interest of ₹ 370.73 Lakhs upon completion of their tax review for financial year ended March 31, 2007. A substantial portion of both the tax demands pertains to the adjustment to total income carried out on account of transfer pricing. The matter in respect of 2006 is pending before the Income Tax Appellate Tribunal, Ahmedabad and in respect of 2007 before the Commissioner of Income-tax (Appeals), Ahmedabad. Against the additional tax demand of ₹ 1,115.03 Lakhs for the year 2006, the Income-Tax department has adjusted ₹ 628.17 Lakhs in respect of Income Tax Refunds due to the Company.

The Company has treated such adjustment as payment under protest and has accordingly reflected this adjustment under Loans and advances. The Company is contesting the demands and the Management believes that its position will likely be upheld in the appellate process and accordingly the same will not have a material adverse effect on the Company's financial position and the result of its operations. As a result, no provision has been made in the financial statements for the tax demands raised.

## 3. LEASES

(₹ in Lakhs)

| | | **As at June 30, 2011** | As at June 30, 2010 |
|---|---|---|---|
| a) | Total minimum finance lease payments outstanding (in respect of vehicles): | | |
| | Due within one year | **17.52** | 10.01 |
| | Due later than 1 year but not later than 5 years | **50.83** | 9.07 |
| | Due later than 5 years | **–** | – |
| | Total minimum lease payments | **68.35** | 19.08 |
| | Less: Interest not due | **(15.80)** | (2.81) |
| | Present value of net minimum finance leases payments | **52.55** | 16.27 |
| b) | Operating lease rentals recognized in the profit and loss account | **202.05** | 259.26 |
| c) | Future minimum lease payments under non-cancellable operating leases (in respect of properties): | | |
| | Due within one year | **8.72** | 41.16 |
| | Due later than 1 year but not later than 5 years | **–** | – |
| | Due later than 5 years | **–** | – |
| | Total minimum lease payments | **8.72** | 41.16 |

d) Description of significant operating lease arrangements:

- The Company has given refundable interest free security deposit under the lease agreements.
- All agreements contain provision for renewal at the option of either parties.
- All agreements provide for restriction on sub lease.

**4. FORWARD CONTRACTS**

Forward Contracts outstanding as on June 30, 2011 amounting to ₹ 21,113.84 Lakhs (Previous year ₹ 28,034.66 Lakhs). Gain/(loss) of foreign exchange forward contracts are included under the head Exchange gain/loss (net). Forward contracts amounting to ₹ Nil (Previous year ₹ 3,830.93Lakhs) are backed by receivables.

**5. EMPLOYEE STOCK OPTIONS**

**Plan II**

The Company established a new scheme in 2002 for granting 700,000 stock options to employees and each option representing one equity share of the Company. The exercise price is as governed by the guidelines issued by SEBI. The scheme is governed by the Employee Stock Option Scheme and Employees Stock Purchase Guidelines issued in 1999 by SEBI. There is a minimum period of twelve months for the first vesting from the date of the grant of options. The options are exercisable within two years of their vesting. As per the SEBI guidelines issued in 1999, and as amended from time to time, the excess of the market price of the underlying equity shares as of the date of the grant of the option over the exercise price of the option is to be recognized and amortized on a straight line basis over the vesting period. The options granted during the year have been granted at an exercise price which is equal to the market price of the underlying equity shares. Consequently, there is no compensation cost in the current year. In April, 2006, the Company issued Bonus Shares in the ratio of 1:1 and the number of unvested and unexercised options and the price of the said options have been adjusted accordingly.

In accordance with the Guidelines, the Company has passed the necessary special resolutions in January 2002 to approve the scheme and to extend the plan to the employees of its subsidiaries.

(No. of options)

| | **Year ended June 30, 2011** | Year ended June 30, 2010 |
|---|---|---|
| Opening Balance | **7,750** | 91,520 |
| Granted during the year | **–** | – |
| Exercised during the year | **(5,250)** | (14,458) |
| Cancelled during the year | **(2,500)** | (69,312) |
| Balance unexercised options | **–** | 7,750 |

**Plan III**

The Company passed special resolutions at its Annual General Meeting held on September 20, 2004 approving the allocation of 700,000 stock options to the eligible employees of the Company and its subsidiaries.

The Company subsequently established a new scheme in 2004 for granting 700,000 stock options to the employees referred to above, each option representing one equity share of the Company. The exercise price is as governed by the guidelines issued by SEBI. The scheme is governed by the Employee Stock Option Scheme and Employee Stock Purchase Guidelines issued in 1999 by SEBI and as amended from time to time. The first vesting of the stock options shall happen only on completion of one year from the date of grant and the options are exercisable within two years from the date of vesting. As per the SEBI guidelines, the excess of market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the option is to be recognized and amortized on a straight line basis over the vesting period. The options granted during the year have been granted at an exercise price which is equal to the market price of the underlying equity shares. Consequently, there is no compensation cost in the current year. In April, 2006 the Company issued Bonus Shares in the ratio of 1:1 and the number of unvested and unexercised options and the price of the said options have been adjusted accordingly.

(No. of options)

| | **Year ended June 30, 2011** | Year ended June 30, 2010 |
|---|---|---|
| Opening Balance | **546,794** | 898,624 |
| Granted during the year | **–** | – |
| Exercised during the year | **–** | (26,938) |
| Cancelled during the year | **(267,502)** | (324,892) |
| Balance unexercised options | **279,292** | 546,794 |

**Plan IV**

The Shareholders of the Company through Postal Ballot on August 9, 2007 approved the allocation of 1,000,000 stock options to the eligible employees of the Company and its subsidiaries.

The Company subsequently established a new scheme in 2007 for granting 1,000,000 stock options to the employees referred to above, each option representing one equity share of the

Company. The exercise price is as governed by the guidelines issued by SEBI. The scheme is governed by the Employee Stock Option Scheme and Employee Stock Purchase Guidelines issued in 1999 by SEBI and as amended from time to time. The first vesting of the stock options shall happen only on completion of one year from the date of grant and the options are exercisable within two years from the date of vesting. During the year the Company has extended the vesting period from two years to seven years. As per the SEBI guidelines, the excess of market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the option is to be recognized and amortized on a straight line basis over the vesting period. The options granted during the year have been granted at an exercise price which is equal to the market price of the underlying equity shares. Consequently, there is no compensation cost in the current year.

(No. of options)

| | **Year ended June 30, 2011** | Year ended June 30, 2010 |
|---|---|---|
| Opening Balance | **513,714** | 614,917 |
| Granted during the year | **–** | – |
| Exercised during the year | **(2,000)** | (3,047) |
| Cancelled during the year | **(104,476)** | (98,156) |
| Balance unexercised options | **407,238** | 513,714 |

**Plan V**

The Company introduced a new scheme in 2008 for granting 1,500,000 stock options to the employees, each option representing one equity share of the Company. The exercise price as may be determined by the Compensation Committee and such price may be the face value of the share from time to time or may be the Market Price or any price as may be decided by the Committee and will be governed by the guidelines issued by SEBI. The scheme is governed by the Employee Stock Option Scheme and Employee Stock Purchase Guidelines issued in 1999 by SEBI and as amended from time to time. The first vesting of the stock options shall happen only on completion of one year from the date of grant and the options are exercisable within seven years from the date of vesting. As per the SEBI guidelines, the excess of market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the option is to be recognized and amortized on a straight line basis over the vesting period. The options granted during the financial year ended June 30, 2011 and June 30, 2010 have been granted at an exercise price which is equal to the market price of the underlying equity shares except for 50,000 Options (Previous year 25,000 options), which had been granted at a price less than the market price. Consequently, compensation cost of ₹ 88.50 Lakhs (Previous year ₹ 57.00 Lakhs) has been charged to the Profit and Loss account during the current year.

(No. of options)

| | **Year ended June 30, 2011** | Year ended June 30, 2010 |
|---|---|---|
| Opening Balance | **891,000** | 61,000 |
| Granted during the year | **879,248** | 1,116,000 |
| Exercised during the year | **–** | – |
| Cancelled during the year | **(452,900)** | (286,000) |
| Balance unexercised options | **1,317,348** | 891,000 |

**Plan VI**

The Company introduced a new scheme in 2010 for granting 2,000,000 stock options to the employees, each option representing one equity share of the Company. The exercise price as may be determined by the Compensation Committee and such price may be the face value of the share from time to time or may be the Market Price or any price as may be decided by the Committee and will be governed by the guidelines issued by SEBI. The scheme is governed by the Employee Stock Option Scheme and Employee Stock Purchase Guidelines issued in 1999 by SEBI and as amended from time to time. The first vesting of the stock options shall happen only on completion of one year from the date of grant and the options are exercisable within seven years from the date of vesting. As per the SEBI guidelines, the excess of market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the option is to be recognized and amortized on a straight line basis over the vesting period

(No. of options)

| | **Year ended June 30, 2011** | Year ended June 30, 2010 |
|---|---|---|
| Opening Balance | **–** | – |
| Granted during the year | **569,600** | – |
| Exercised during the year | **–** | – |
| Cancelled during the year | **–** | – |
| Balance unexercised options | **569,600** | – |

**6. EMPLOYEE BENEFIT PLANS**

a) Defined contribution plans

The Company makes contribution towards provident fund and superannuation fund to a defined contribution employee benefit plan for qualifying employees. The provident fund plan is operated by the Regional Provident Fund Commissioner and the superannuation fund is maintained by making contribution to Life Insurance Corporation of India. Under the schemes, the Company is required to contribute a specified percentage of payroll cost to the employee benefit schemes to fund the benefits.

The Company recognized ₹ 831.98 Lakhs (Previous year ₹ 694.52 Lakhs) for provident fund contribution and ₹ 31.68 Lakhs (Previous year ₹ 30.16 Lakhs) for superannuation contribution in the Profit and Loss account. The contributions payable to these plans by the Company are at rates specified in the rules of the schemes. In addition UK branch contributed ₹ 3.00 Lakhs (Previous year ₹ 10.74 Lakhs) towards other funds as per the requirements of the local laws.

b) Defined benefit plans

The Company makes annual contributions to the Mastek Limited Employees Group Gratuity Assurance Scheme administered by Life Insurance Corporation of India. The scheme provides benefit to the members upon retirement on or after normal retirement date or upon death whilst in service or upon retirement owing to ill-health or incapacitation equivalent to 15 days of salary for each completed year of service. Further the scheme also provides benefit on death of a member whilst in service before normal retirement date equivalent to 15 days of salary for each completed year of service up to the date of death and the sum assured under the term assurance effected in respect of the member.

The Company also provides for leave encashment payable to employees. Leave encashment vest to the employees at time of retirement, death while in employment or on termination of employment equivalent to salary payable for number of days of accumulated leave balance.

c) The following table sets out the status of gratuity and the amounts recognized in the Company's financial statements as at June 30, 2011 and June 30, 2010.

(₹ in Lakhs)

| | **As at June 30, 2011** | As at June 30, 2010 |
|---|---|---|
| **1. Change in defined benefit obligations:** | | |
| Projected benefit obligation, beginning of the year (July 1, 2010) | **2,330.95** | 1,998.55 |
| Transfer from Keystone Solutions Private Limited | **–** | 115.05 |
| Service cost | **428.60** | 472.81 |
| Interest cost | **239.01** | 186.31 |
| Actuarial (gain)/loss | **(531.62)** | (318.14) |
| Benefits paid | **(220.75)** | (123.63) |
| **Projected benefit obligation, closing of the year (June 30, 2011)** | **2,246.19** | 2,330.95 |
| **2. Change in fair value of assets:** | | |
| Fair value of plan assets, beginning of the year (July 1, 2010) | **–** | – |
| Expected return on plan assets | **–** | – |
| Employer's contribution | **687.60** | 123.63 |
| Acquisitions | **–** | – |
| Benefit paid | **(220.75)** | (123.63) |
| Actuarial (gain)/loss | **–** | – |
| **Fair value of plan assets, closing of the year (June 30, 2011)** | **466.85** | – |
| **3. Amount recognized in the Balance Sheet** | | |
| Present value of obligations as at June 30, 2011 | **2,246.19** | 2,330.95 |
| Fair value of plan assets as at June 30, 2011 | **466.85** | – |
| Amount not recognized as an asset | **–** | – |
| Unrecognised Past service cost | **7.20** | 11.19 |
| Net Liability recognized as at June 30, 2011 | **1,772.14** | 2,319.76 |
| **4. Net gratuity cost for the year ended June 30, 2011** | | |
| Service cost | **432.60** | 461.62 |
| Interest cost | **239.01** | 186.31 |
| Expected return on plan assets | **–** | – |
| Net actuarial (gain)/loss recognized in the year | **(531.62)** | (318.14) |
| **Net gratuity cost** | **139.99** | 329.79 |
| **5. Assumptions used in accounting for the gratuity plan:** | | |
| Discount rate (p.a.) | **8.50%** | 8.15% |
| Salary escalation rate (p.a.) | **10%** | 20% p.a. for 1st year & 10% p.a. thereafter |
| **6. Return on Plan Assets (p.a.)** | **7.50%** | N.A. |

**Experience adjustments**

₹ in Lakhs

| | June 30, 2011 | June 30, 2010 | June 30, 2009 | June 30, 2008 | June 30,2007 |
|---|---|---|---|---|---|
| Defined benefit obligation | **2,246.19** | 2,330.95 | 2,122.17 | 1,284.64 | 1,159.48 |
| Plan assets | **466.85** | – | – | – | – |
| Surplus/(deficit) | **(1,779.34)** | (2,330.95) | (2,122.17) | (1,284.64) | (1,159.48) |
| Experience adjustments on: | | | | | |
| - On plan liabilities | **(434.66)** | (402.73) | 199.45 | (61.68) | (51.21) |
| - On plan assets | **–** | – | – | – | – |

d) Leave encashment charged during the year amount to ₹ 174.12 Lakhs (Previous year ₹ 230.29 Lakhs).

**7. INCOME TAXES**

The Company follows Accounting Standard 22 'Accounting for taxes on income'.

a) The Company's operations were eligible for significant tax incentives up to 31st March, 2011 under the Indian taxation laws. These incentives presently include an exemption from payment of Indian corporate taxes for a period of ten consecutive years of operations of software development facilities designated as Software Technology Park or in Special Economic Zone. The management estimates the provision for current taxes and deferred taxes after considering such tax benefits and the expected results of the future operations of the Company.

b) Pursuant to the changes in the Indian Income Tax Act, the Company has calculated its tax liability after considering Minimum Alternate Tax (MAT). The MAT liability can be carried forward and set off against future tax liability. Accordingly, a sum of ₹ 2,263.90 Lakhs (Previous year ₹ 2,438.90 Lakhs) has been carried forward and shown under 'Loans and Advances'.

c) Provision for income tax for the year is the aggregate of the provision for the nine months ended March 31, 2011 and provision on the profits, if any for the three months ended June 30, 2011. However, the ultimate tax liability for the financial year 2011-12 will be determined on the basis of the profit for the year April 1, 2011 to March 31, 2012.

**8. RELATED PARTY DISCLOSURES**

Subsidiaries: MajescoMastek USA; Mastek UK Ltd., UK; Mastek GmbH, Germany; Mastek Asia Pacific Pte. Ltd., Singapore; Mastek MSC Sdn. Bhd., Malaysia; MajescoMastek Canada Ltd., Keystone Solutions Private Limited, India; Mastek MSC Thailand Co Ltd., Thailand; System Task Group International Ltd., USA; Vector Insurance Services LLC, USA (90% held by the Company) and Carretek LLC, USA (closed with effect from 27th September, 2010). These Companies constitute entities under the control of the Company.

Key Management Personnel: Sudhakar Ram (Chairman & Managing Director)

R Sundar (Executive Director)

The Company has entered into transactions with the following related parties:

(₹ in Lakhs)

| | Transactions during the year ended | |
|---|---|---|
| | **June 30, 2011** | June 30, 2010 |
| **Income from services** | | |
| Mastek (UK) Ltd. | **20,252.97** | 28,677.51 |
| MajescoMastek | **9,434.35** | 8,146.83 |
| Others | **234.24** | 1,275.74 |
| **Dividend from subsidiary** | | |
| Mastek (UK) Ltd. | **3,181.79** | – |
| Mastek GmbH, Germany | **–** | 102.83 |
| **Sale of Investments in equity shares (refer Note 17 of Schedule 16)** | | |
| Mastek (UK) Ltd. | **4,914.54** | – |
| **Commission expenses** | | |
| Mastek (UK) Ltd. | **72.83** | 56.39 |
| **Reduction of capital** | | |
| Mastek GmbH, Germany | **261.42** | – |
| **Purchase of Business operations** | | |
| Keystone Solutions Private Limited | **–** | 2,036.00 |
| **Investment in Equity Shares** | | |
| MajescoMastek | **1,808.75** | 2,979.46 |
| Mastek Msc Sdn Bhd | **–** | 487.76 |
| MajescoMastek Canada Ltd. | **900.53** | 447.09 |

(₹ in Lakhs)

| | Transactions during the year ended | |
|---|---|---|
| | **June 30, 2011** | June 30, 2010 |
| **Remuneration to Key Management Personnel** | | |
| - Sudhakar Ram | **116.19** | 175.12 |
| - R. Sundar | **73.78** | 73.38 |

(₹ in Lakhs)

| | Closing Balance as at | |
|---|---|---|
| | **June 30, 2011** | June 30, 2010 |
| **Outstanding receivables** | | |
| Mastek (UK) Ltd. | **1,906.97** | 2,532.80 |
| MajescoMastek | **823.52** | 1,157.76 |
| Others | **1.50** | 123.18 |
| **Corporate guarantees given on behalf of subsidiaries** | | |
| Mastek (UK) Ltd. | **42,828.87** | 36,462.26 |
| MajescoMastek | **1,788.00** | 4,180.05 |
| MajescoMastek Canada Ltd. | **2,411.84** | 967.53 |
| Mastek MSC Thailand Co. Ltd. | **229.34** | 153.49 |
| **Investments in Equity shares** | | |
| MajescoMastek | **11,565.47** | 14,392.14 |
| Others | **3,451.75** | 3,474.04 |

Note:

The disclosures given above have been reckoned on the basis of information available with the Company.

**9. SEGMENTS**

The Company has presented data relating to its segments in its consolidated financial statements which are presented in the same annual report as Mastek Limited. In terms of provisions of Accounting Standard (AS) 17 – 'Segment Reporting', no disclosures related to segments are presented in these stand alone financial statements.

**10. EARNINGS PER SHARE (EPS)**

The components of basic and diluted earnings per share are as follows:

| | **As at June 30, 2011** | As at June 30, 2010 |
|---|---|---|
| - Net (loss)/income available to equity shareholders (₹ in Lakhs) | **(133.43)** | 3,699.84 |
| - Weighted average number of outstanding equity shares | | |
| Considered for basic EPS | **26,950,108** | 26,923,796 |
| Add: Effect of dilutive issue of stock options | **322,025** | 168,742 |
| Considered for diluted EPS | **27,272,133** | 27,092,538 |
| - (Loss)/Earnings per share (net of taxes) in ₹ | | |
| Basic | **(0.50)** | 13.74 |
| Diluted * | **(0.50)** | 13.66 |
| (Nominal value per share ₹ 5/- each) | | |

*The effect of potential equity shares on the net loss for the year is anti-dilutive hence the diluted EPS is same as the basic EPS.

**11. MICRO, SMALL AND MEDIUM ENTERPRISES**

There are no dues to micro, small and medium enterprises which are outstanding at the Balance Sheet date. The information regarding micro, small and medium enterprises has been determined on the basis of the information available with the Company. This has been relied on by the auditors.

**12. DIRECTORS' REMUNERATION**

(₹ in Lakhs)

| | **Year ended June 30, 2011** | Year ended June 30, 2010 |
|---|---|---|
| **Directors' Remuneration** | | |
| Salary | **151.26** | 211.37 |
| Contribution to Provident Fund | **8.21** | 8.21 |
| Perquisites | **30.50** | 28.92 |
| Sitting Fees | **5.90** | 4.60 |
| **Total** | **195.87** | 253.10 |
| Commission to Wholetime Director (see Note No. 13 below) | **–** | – |
| Commission to Non Wholetime Director (see Note No. 13 below) | **–** | 26.00 |
| **Total** | **–** | 26.00 |
| **Grand Total** | **195.87** | 279.10 |

(a) Provision for gratuity and leave encashment benefit which is based on actuarial valuation carried out on an overall basis for the Company, has been excluded from the above remuneration.

(b) Also refer Note 20 of Schedule 16.

## 13. COMPUTATION OF NET PROFIT IN ACCORDANCE WITH SECTION 349 OF THE COMPANIES ACT, 1956 AND COMMISSION PAYABLE TO DIRECTORS:

(₹ in Lakhs)

| | **Year ended June 30, 2011** | Year ended June 30, 2010 |
|---|---|---|
| (Loss)/Profit before tax as per Profit and Loss Account | **(557.34)** | 2,398.88 |
| Add: | | |
| Managerial Remuneration (excludes sitting fees) | **189.97** | 274.50 |
| Depreciation charge as per accounts | **2,713.09** | 2,475.62 |
| Loss on scrapped assets as per accounts | **3.08** | 1.02 |
| Provision for doubtful debts | **21.91** | 55.98 |
| | **2,370.71** | 5,206.00 |
| Less: | | |
| Depreciation under Section 350 of the Companies Act, 1956* | **2,713.09** | 2,475.62 |
| Profit on sale of Investment in subsidiary | **279.12** | – |
| Profit on sale of investments (current, non-trade) | **0.90** | 0.03 |
| Net (loss)/profit as per Section 349 of the Companies Act, 1956 | **(622.40)** | 2,730.35 |
| Maximum commission allowable to Non-Wholetime Directors as per the Companies Act, 1956 at 1% | **–** | 27.30 |
| Commission payable to Non-Wholetime Directors, restricted by the Board of Directors to | **–** | 26.00 |
| Total commission payable | **–** | 26.00 |

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

## 14. ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PART II OF SCHEDULE VI OF THE COMPANIES ACT, 1956.

(i) The Company is engaged in the development of computer software and other software related services. Considering the nature of business, certain details required under Part II of schedule VI are not applicable.

(₹ in Lakhs)

| | | **Year ended June 30, 2011** | Year ended June 30, 2010 |
|---|---|---|---|
| (ii) | **Value of Imports on C.I.F basis** | | |
| | Capital Goods | **1,594.02** | 296.57 |
| (iii) | **Expenditure in Foreign Currency** | | |
| | (Including expenditure incurred by the Company's overseas branch) | | |
| | Salaries, bonus and incentives | **10,021.19** | 13,569.92 |
| | Travelling and conveyance | **692.99** | 1,011.79 |
| | Consultancy charges | **2,856.08** | 1,561.30 |
| | Professional fees | **131.13** | 354.55 |
| | Advertisement and publicity | **0.93** | 40.53 |
| | Communication charges | **58.76** | 85.65 |
| | Electricity | **5.71** | 8.15 |
| | Insurance | **16.85** | 25.68 |
| | Printing and stationery | **5.11** | 8.47 |
| | Rates and Taxes | **20.54** | 16.00 |
| | Recruitment and training expenses | **2.78** | 7.09 |
| | Rent | **131.79** | 138.81 |
| | Repairs – Machinery | **137.31** | 147.92 |
| | Repairs – Buildings | **4.49** | 0.84 |
| | Bad Debt Written off | **50.68** | – |
| | Purchase of hardware and software for resale | **393.40** | – |
| | Miscellaneous expenses | **12.25** | 4.45 |
| | Commission | **72.83** | 56.39 |
| (iv) | **Earnings in foreign exchange** | | |
| | Income from services | **29,971.17** | 38,151.65 |
| | Dividend from subsidiary | **3,181.79** | 102.83 |
| | Profit on sale of Investment in subsidiary | **279.12** | – |
| | Others | **11.71** | 52.51 |

## 15. AUDITORS' REMUNERATION

Professional fees includes payment to auditors:

(₹ in Lakhs)

| | | **Year ended June 30, 2011** | Year ended June 30, 2010 |
|---|---|---|---|
| i) | As auditor | **66.50** | 66.50 |
| ii) | As adviser | **–** | – |
| iii) | In any other matter | **–** | – |
| iv) | Out of pocket expenses | **2.10** | 1.90 |

**16. ACQUISITION OF KEYSTONE BUSINESS**

The Board of Directors of the Company at its meeting held on May 9, 2009 had approved the acquisition of business activities pertaining to "Keystone Solutions Private Limited" ('Keystone'). Consequent to this, the Company had entered into a business transfer agreement dated June 8, 2009 and addendum to agreement dated August 1, 2009 with Keystone to purchase the entire business on a slump sale basis as a going concern for a total consideration of ₹ 2,036 Lakhs with effect from August 31, 2009.

On acquisition, the Company has recorded net assets of ₹ 1,905.68 Lakhs and the balance of ₹ 130.32 Lakhs is shown as Goodwill (to be amortized over a period of 3 years).

**17. SALE OF INVESTMENT IN MAJESCOMASTEK, USA**

During the year, the Company sold 55,035,000 equity shares of MajescoMastek, USA (a wholly owned subsidiary before this sale) to Mastek UK Ltd. (also a wholly owned subsidiary) for a total consideration of ₹ 4,914.54 Lakhs. After the sale, Mastek Ltd holds 70% of MajescoMastek and the balance 30% is held by Mastek UK Ltd.

Profit of ₹ 279.12 Lakhs arising from the transaction has been shown as 'Other Income' in the current year Profit and Loss account.

**18. REDUCTION OF CAPITAL OF MASTEK GmbH**

Pursuant to management decision to discontinue business operation in Germany, the share capital of Mastek GmbH (wholly owned subsidiary) has been reduced by ₹ 261.42 Lakhs (Euro 515,000) during the year to align with business requirements. Hence, the Investment of Mastek Ltd in Mastek GmbH stands reduced from ₹ 274.11 lakhs to ₹ 12.69 lakhs.

**19. MERGER OF KEYSTONE SOLUTIONS LTD WITH MASTEK LTD.**

The Scheme of Amalgamation of Keystone Solutions Private Limited (a wholly owned step down subsidiary) with the Company with appointed date as July 1, 2011 has been approved by the Boards of Directors of the respective Companies. Under the scheme, all assets and liabilities of Keystone will be transferred to and vested in the Company with effect from the appointed date. Since the entire share capital of Keystone is currently held by a wholly owned subsidiary of the Company, upon the scheme becoming effective, no shares will be issued by the Company as consideration in accordance with the scheme of amalgamation. The scheme is pending approval of the Jurisdictional High Court under Sections 391 to 394 of the Companies Act, 1956.

**20.** Excess managerial remuneration paid during the year to the Chairman & Managing Director and an Executive Director of the Company, aggregating ₹ 63.36 Lakhs and ₹ 22.40 Lakhs respectively, over the permissible limits as prescribed under Schedule XIII to the Companies Act, is subject to the approval of shareholders and Central Government of India. The Company intends to apply to the Central Government in this regard.

In the event that the Central Government approval is not received for the amounts mentioned above, these amounts will have to be refunded by such Directors. Had the Company paid managerial remuneration to these Directors as per the limits prescribed under Schedule XIII to the Companies Act, the loss for the year would have been lower by ₹ 85.76 Lakhs.

**21.** As per the annual practice to meet the requirement of tax legislation, the Company carried out a transfer pricing study for the year ended March 31, 2011 and has aligned its transfer prices for inter-Company transactions with the bench-marks obtained in the study. Accordingly, the additional revenue accruing to the Company pertaining to the previous period April to June 2011 amounting to ₹ 111.86 Lakhs has been recorded in the current financial year.

**22.** The previous year's figures have been regrouped/ reclassified, wherever necessary.

Signatures to Schedules 1 to 16

For and on behalf of the Board of Directors

| | |
|---|---|
| For Price Waterhouse<br>Firm Registration Number: 012754N<br>Chartered Accountants | **Sudhakar Ram**<br>Chairman & Managing Director |
| **Pradip Kanakia**<br>Partner<br>Membership Number: 39985 | **Ashank Desai**<br>Director |
| Mumbai<br>Dated: July 25, 2011 | **Bhagwant Bhargawe**<br>Company Secretary |

# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2011

(₹ in Lakhs)

| | **Year ended June 30, 2011** | Year ended June 30, 2010 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net (Loss)/Profit before tax | **(557.35)** | 2,398.88 |
| Adjustments for: | | |
| Interest income | **(202.07)** | (252.49) |
| Income from investments | **(149.42)** | (131.90) |
| Employee stock compensation expense | **88.50** | 57.00 |
| Interest on finance lease | **4.58** | 2.32 |
| Loss on Investments written off | **–** | 1.91 |
| Depreciation and amortisation | **2,713.09** | 2,475.62 |
| Provision for doubtful debts | **21.91** | 55.98 |
| Bad debts written off | **50.68** | – |
| Dividend from subsidiary | **(3,181.79)** | (102.83) |
| Profit on sale of investments (current, non-trade) | **(0.90)** | (0.03) |
| Profit on sale of investments in subsidiary | **(279.12)** | – |
| Loss on sale of fixed assets (net) | **3.08** | 1.02 |
| Unrealised Foreign exchange (gain)/loss | **(364.63)** | 644.43 |
| Operating (loss)/profit before working capital changes | **(1,853.44)** | 5,149.91 |
| Decrease/(Increase) in sundry debtors | **1,273.39** | (167.63) |
| Decrease/(Increase) in loans and advances | **(26.50)** | (528.63) |
| Decrease in liabilities and provisions | **(295.28)** | (513.82) |
| Cash (used in)/generated from operations | **(901.83)** | 3,939.83 |
| Income taxes paid (net of refunds received) | **(396.34)** | (679.62) |
| *Net cash (used in)/from operating activities* | **(1,298.17)** | 3,260.21 |
| **Cash flows from investing activities** | | |
| Proceeds from sale of fixed assets | **21.43** | 28.47 |
| Purchase of fixed assets, net of capital work-in-progress capitalised | **(2,483.30)** | (1,897.89) |
| Interest received | **202.07** | 252.49 |
| Dividend received from subsidiary | **3,181.79** | 102.83 |
| Investment in subsidiaries | **(2,709.27)** | (3,914.31) |
| Sale of shares in subsidiary | **4,914.54** | – |
| Reduction of share capital in subsidiary | **261.42** | – |
| Sale proceeds of current investments | **36,619.32** | 67,018.72 |
| Dividend from current investments | **149.42** | 131.90 |
| Purchase of current investments | **(40,828.42)** | (60,153.45) |
| *Net cash (used in)/from investing activities* | **(671.00)** | 1,568.76 |

# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2011 (Contd.)

(₹ in Lakhs)

| | Year ended June 30, 2011 | Year ended June 30, 2010 |
|---|---|---|
| **Cash flows from financing activities** | | |
| Proceeds from Issue of share capital | **11.29** | 105.26 |
| Payment of Lease obligation (net) | **(12.49)** | (1.22) |
| Dividends paid (including Corporate dividend tax) | **(393.71)** | (2,980.68) |
| Interest paid on finance lease | **(4.58)** | (2.32) |
| *Net cash used in financing activities* | **(399.49)** | (2,878.96) |
| **Total (decrease) / increase in cash and equivalents during the year** | **(2,368.66)** | 1,950.01 |
| **Cash and cash equivalents at the beginning of the year** | **4,163.78** | 2,213.77 |
| **Cash and cash equivalents at the end of the year** | **1,795.12** | 4,163.78 |

1. The above cash flow statement has been prepared under the "Indirect Method" as set out in the Accounting Standard-3 on Cash Flow Statement issued by the Institute of Chartered Accountants of India.
2. Assets acquired on lease - ₹ 48.77 Lakhs (Previous year ₹ 8.88 Lakhs) being a non-cash transaction has not been considered in cash flow statement.
3. Cash and cash equivalents includes ₹ 52.14 Lakhs (Previous year ₹ 53.10 Lakhs) restricted on account of unpaid dividend.
4. Figures in brackets indicate cash outgo.
5. Previous year's figures have been regrouped/reclassified wherever necessary.

This is the cash flow referred to in our report of even date

For Price Waterhouse
Firm Registration Number: 012754N
Chartered Accountants

**Pradip Kanakia**
Partner
Membership Number: 39985

Mumbai
Dated: July 25, 2011

For and on behalf of the Board of Directors

**Sudhakar Ram**
Chairman & Managing Director

**Ashank Desai**
Director

**Bhagwant Bhargawe**
Company Secretary

# BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

**I. Registration Details:**

| | | | |
|---|---|---|---|
| Registration No. | 04-5215 | State code | 04 |
| Balance Sheet Date | 30-Jun-11 | | |

**II. Capital Raised during the Year** (Amount in ₹ Thousands)

| | | | |
|---|---|---|---|
| Public Issue | – | Rights Issue | – |
| Bonus Issue | – | Private Placement* | 36.00 |

*Options exercised by employees as per ESOP

**III. Position of Mobilisation and Deployment of Funds -** (Amount in ₹ Thousands)

| | | | |
|---|---|---|---|
| Total Liabilities | 3,782,665 | Total Assets | 3,782,665 |
| Source of Funds | | | |
| Paid-Up Capital | 134,756 | Reserves & Surplus | 3,642,654 |
| Secured Loans | 5,255 | Unsecured Loans | – |
| Application of Funds | | | |
| Net Fixed Assets | 1,102,368 | Investments | 2,119,994 |
| Deferred Tax Assets | 178,101 | Net Current Assets | 382,202 |
| Accumulated Losses | – | | |

**IV. Performance of Company** (Amount in ₹ Thousands)

| | |
|---|---|
| Turnover (including other income) | 4,132,304 |
| Total Expenditure | 4,188,039 |
| Profit/Loss before Tax | (55,735) |
| Profit/Loss after Tax | (13,344) |
| Earning Per Share in ₹ | (0.50) |
| Dividend rate % | – |

**V. Generic Names of Three Principal Products/Services of Company**

(as per monetary terms)

| | |
|---|---|
| Item Code No. (ITC Code) | 85249113 |
| Product Description | Computer software and consulting services |

**Sudhakar Ram**
Chairman & Managing Director

**Ashank Desai**
Director

**Bhagwant Bhargawe**
Company Secretary

Mumbai
July 25, 2011

# STATEMENT PURSUANT TO EXEMPTION RECEIVED UNDER SECTION 212(8) OF THE COMPANIES ACT, 1956 RELATING TO SUBSIDIARY COMPANIES

**Information relating to subsidiaries as at June 30, 2011**

(₹ in Lakhs)

| Sr. No. | Name of the Subsidiary Company | Reporting currency | Exchange rate | Capital | Reserves | Total Assets | Total Liabilities | Investment other than investment in subsidiary | Turnover | Profit/ (Loss) before tax | Provision for tax | Profit/ (Loss) after tax | Proposed dividend | Country |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. | Mastek (UK) Limited | GBP | 71.553 | 143.11 | 11,107.62 | 15,122.11 | 3,871.39 | – | 25,571.59 | 1,257.88 | 348.51 | 909.37 | – | UK |
| 2. | MajescoMastek, USA | USD | 44.700 | 164.00 | 15,065.11 | 19,234.79 | 4,005.67 | | 14,640.65 | 278.39 | 55.97 | 222.42 | | USA |
| 3. | Mastek GmbH | EUR | 64.740 | 16.19 | 26.67 | 45.68 | 2.82 | – | 1.58 | (2.70) | (0.00) | (2.70) | – | Germany |
| 4. | Mastek Asia Pacific Pte. Ltd. | SGD | 36.380 | 1,327.87 | (911.17) | 500.00 | 83.29 | – | 431.49 | 21.29 | – | 21.29 | – | Singapore |
| 5. | Mastek MSC Software Sdn Bhd. | RM | 14.805 | 1,667.34 | 218.97 | 1,986.24 | 99.93 | – | 1,012.50 | (30.88) | (4.69) | (26.19) | – | Malaysia |
| 6. | Mastek MSC (Thailand) Co. Ltd. | BAHT | 1.455 | 101.85 | (96.22) | 191.93 | 186.29 | – | 81.63 | (30.46) | – | (30.46) | – | Thailand |
| 7. | MajescoMastek Canada Ltd. | CAD | 46.228 | 1,555.01 | (943.98) | 1,266.02 | 654.99 | – | 1,562.73 | (306.90) | 166.84 | (473.74) | – | Canada |
| 8. | Vector Insurance Services LLC | USD | 44.700 | 416.84 | (784.62) | 227.01 | 594.79 | – | 903.78 | 105.22 | – | 105.22 | – | USA |
| 9. | Systems Task Group International Limited | USD | 44.700 | 1.22 | 1,389.58 | 3,409.82 | 2,019.03 | – | 8,508.54 | (285.00) | (84.04) | (200.96) | – | USA |
| 10. | Keystone Solutions Pvt. Ltd. | INR | 1.000 | 106.05 | 2,118.93 | 2,232.13 | 7.15 | – | 161.21 | 148.14 | 21.20 | 126.94 | – | India |

**Notes:**

1. Indian rupee equivalents of the figures given in foreign currencies in the accounts of the subsidiary companies, are based on the exchange rates as on June 30, 2011

Mumbai
July 25, 2011

**Sudhakar Ram**
Chairman & Managing Director

**Ashank Desai**
Director

**Bhagwant Bhargawe**
Company Secretary