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R S SOFTWARE (INDIA) LIMITED

ANNUAL REPORT 2003-2004

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Foreword

Notwithstanding the global security concerns and the backlash against outsourcing, IT is coming back in a big way. All signs indicate that the recovery will sustain this time. The growth in the Indian IT Industry will be steady, (@~8% in '04 according to IDC). The Tier 1 players have once again engaged into a recruitment overdrive to grab the best talent. E-business is back on track and probably in a much bigger way. As software is further commoditized, and lack of scalability forces small and medium enterprises to innovate and adopt a more niche-centric approach, the sheer cost advantage of the offshore outsourcing model is attracting a wide array of companies including MNCs to set up their own outsourcing destination in India. This is creating healthy competition, which in turn is creating a huge demand for talent. New opportunities have emerged through innovations in various sectors including banking and financial services, telecommunications, retail, distribution, utilities and healthcare. The payment systems industry in particular is expecting significant growth in this fiscal with a focus on card-based systems and check authorization, which will certainly go up even further as US financial entities apply the Check 21 Act to their own needs.

Consistent in its focus to emerge as a key player in a vertical market, RS has positioned itself as a solutions provider to specialists in the electronic payments space by seamlessly combining the benefits of the offshore outsourcing model with its competency in payment systems. During the last fiscal, RS has struck alliances with multiple market leaders, and has come out with solutions for Issuers, Acquirers, Processors and Merchants. These solutions include Transaction Management, Merchant Solution, Back Office Management, Network Management, Risk Mitigation & Fraud Management, Data Analytics, and Check Payment Solutions. In the technology domain, RS has not only started getting traction in the market for its printer driver competencies, but has also made good progress in the area of multi-modal biometrics resulting into a strategic alliance with a key player that will certainly extend RS' competency in this area.

Organically, RS has reinforced itself through consistent improvement in performance and adopting several strategic initiatives which include strengthening of workforce, re-engineering of cost structure, restructuring of debt repayments, enhancing current asset management and investments in critical areas to boost sales and marketing processes. RS has moved in the direction of redefining its relations with its most premium customer by offering a dedicated *Offshore Delivery Centre* model, which is expected to create significant opportunities of growing captive business in its largest revenue source.

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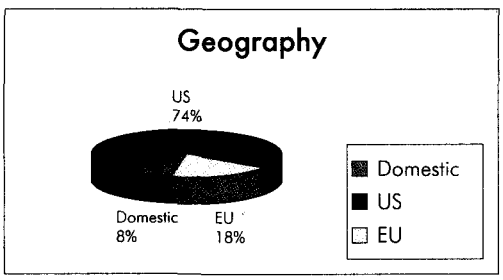
Operational Highlights

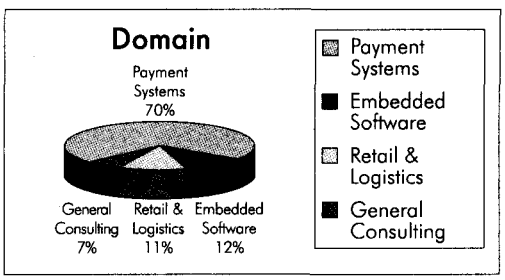
In the last twelve months, your company has consolidated its domain-centric approach by focusing on creating marketable offerings in the Payment space. In doing so, it has transitioned from strategy to implementation by way of clearly defining each niche, and creating within each, opportunities for developing capabilities through a host of alliances with specialists in the Payment space. In the technology area, RS made its entry into Security solutions while continuing to generate traction for its capabilities in Printer Drivers.

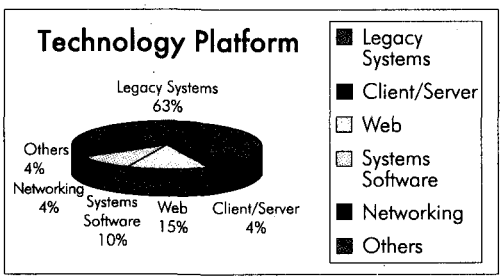
Our premium clients in the US & EU regions have individually renewed their contracts with RS. They have extended the relationships under which they have engaged the services of your company for application development and support services for a wide range of applications. These contracts and extensions are a testament to the quality of work and dedication that your company has shown in all its deliverables.

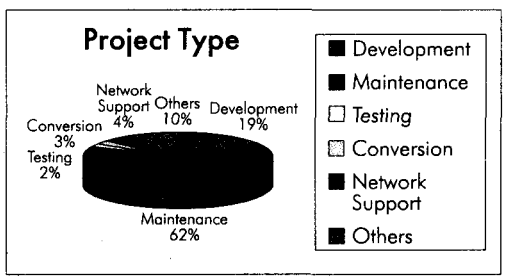
During the year, a major part of your company's revenues came from maintenance projects for US based clients in the Payment Systems domain. This is in line with the focus on Payment Card space, where RS has chosen to leverage its carefully nurtured knowledge base and domain competency. To further enhance its capabilities in this area, RS has also joined hands with industry leaders to develop cutting-edge solutions for players in the Payment Card business. A significant contract won by RS this year was to create a biometrics-enabled personal check-cashing system using fingerprint-matching technology. This project has enabled your company to foray into two new areas in Payment Systems viz. Check Cashing and Biometrics. RS has also tied up with US based companies to work on Facial and Multimodal Biometrics to provide security solutions in the Payment Card space.

Other new contracts from US clients include projects involving migration of applications from existing VB/COM architecture to. NET architecture, providing consulting and development services on multiple platforms using the on-site offshore model, upgradation and platform migration of a mail order and cataloguing product, re-engineering of existing applications to make them GTIN compliant, and an Internet-based Call Center application with Auditing & QC functionality of data for a Call Centre service provider. On the domestic front, RS has bagged a new order from a Kolkata based communication devices company for analysis, design, development and testing of a Controller Software that will communicate with the 70 MHz C & Ku Band Transceiver via Rs232.









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The Technology Organization

In 03-04, the Technology Organization (TO) has been busy creating new tools and competencies for the organization, and maintaining the Corporate MIS and the RS intranet. A significant achievement this year has been the automation of ROCS and Sourcing. Among the important Intranet-based applications developed by TO this year are the Defect Report, Fan Out Report, Role Based Activity Logging System, Role Based Software Process Database (SPDB), Role Based Project Dashboard (a project management tool) for the Quality and Benchmarking process to further strengthen the quality of our software deliverables. A new module has been developed to serve as the repository of knowledge documents for the organization. TO has also developed a web-based application for Resource Requisition Form & Reporting, to enable the Facility team to provide better service.

An application was developed using .NET technology, as part of competency development program, to maintain & update status of CR-s received from clients. Expertise was built on XML and web services. In the Java domain, the Struts framework was used for application development.

The ClickToTest application was developed as a product, which evoked positive response from a number of prospective customers. Among tools developed by TO this year was the Euro Impact Analysis Tool. A demo application was also built in the area of MultiModal Biometrics. A CBT authoring tool was developed for our internal use.

Infrastructure Support

The infrastructure teams have had a very busy year. They worked on major renovations and security system enhancements in keeping with business requirements.

More specifically, the Facility team has worked towards enhancing Network & System security & scalability, revising and updating of information security policies in compliance with client requirements, and introduction of policy measures pertaining to business continuity planning and business resumption. In addition, Project Data Security has been enhanced with the addition and restructuring of Virtual LANs and backup infrastructure planning has been facilitated with the addition of scalable hardware and software. In its endeavor to augment security measures, the team has introduced Spam filtering and multi-tier virus scanning of e-mails and has focused on perimeter security issues. A major task undertaken this year was the upgrading of all Desktops to a uniform operating system without causing any loss of productivity to users. To enhance the process of communication, Facility has worked towards building the Facility website and the online resource requisition process.

The Operations and Support (O&S) team has put in place processes to tighten physical security and maintain the infrastructure for the offshore development center. The team has made elaborate arrangements to revamp an alternate location to function as a BCP (Business Continuity Process) site. A proximity based access control system and round the clock CCTV recording in digital media have been installed in addition to a total makeover of designated areas at the Development Center premises.

Quality and Benchmarking

In 03-04, the key focus of the Quality & Benchmarking function was to implement Information Security processes across the organization in line with the BS7799 requirements. In this context, training was conducted by KPMG for all project managers, project leaders and support function heads followed by a Gap Analysis and modification of process manuals. Other activities included upgrading the Quality Management System in line with ISO 9001:2000 requirements. The result became visible when KPMG certified your company in July 2003 as per the new standards. During the year, the Software Process Engineering Group was restructured to drive process improvements across the organization. The Quality Management System was also extended at onsite. Accordingly, an onsite Quality Representative has been nominated, process manuals are being formalized and verification of implementation of the processes has already been started.

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HR & Sourcing

2003-4 was packed with activities for the HR team. As part of a significant initiative taken by your company this year, HR has completed a tiering activity for all software professionals. This is expected to facilitate the manpower allocation & costing processes, and motivate employees by putting in place well-defined career growth paths. In line with this requirement, the HR team has concluded an elaborate exercise on talent categorization.

To encourage employee efficiency, the variable pay structure has been extended to team members. An Employee Satisfaction Survey has also been conducted to gauge the satisfaction level of employees. A Workforce Planning process has already been implemented across the organization to enhance the recruitment planning and person power allocation processes.

In 04-05, apart from striking a balance between person power cost alignment, and timely recruitment and management of an optimal resource pool, HR & Sourcing will remain alert to possible poaching of critical resources due to increasing competition. At the same time, it will continue to work closely with Corporate Communications to bring about a greater sense of belonging and bonding amongst Rsites.

Corporate Planning, Communications and Training

The fiscal 03-04 was buzzing with activities for the Corporate Planning and Development (CPD) team. The team has been busy coordinating the Business Planning and Budgeting exercise with activities spanning Strategic Business Planning Workshops to tracking of roadmaps of individual functions. To support the marketing back office services, the team has created smart collaterals, product brochures and other tools for the Sales Organization. To boost Sales activities, the CPD team has been supporting the onsite Sales teams' participation in international events like Sales Conferences. The team has also been coordinating client visits which have yielded significant business prospects for your company. As part of the Brand Management activities, CPD has been updating and maintaining the RS website and has started working on creating an 'extended RS family' with the RS alumni. The RS Club has been conducting various activities to strengthen the bondage among Rsites.

With the objective of developing competency and enhancing the knowledge base, the CPD team has been facilitating the knowledge repository and has been organizing training on a wide range of technical, domain-based and soft skills modules. As a gesture towards acknowledging the dedication of employees, CPD has organized an Award ceremony to felicitate the achievements of employees in various delivery and support functions.

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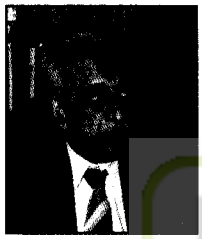
Board of Directors

Mr. K. S. Bhatnagar
Chairman

Mr. R. R. Jain
Vice Chairman & Managing Director



Maj. Gen. A. Balasubramaniam (Retd.)
Director

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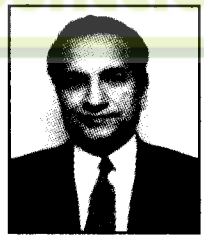

Mr. S. K. Jain
Director

Dr. P. K. Basu
Nominee Director (ICICI)

Mrs. S. Jain
Director

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Executive Council

Mr. R. R. Jain
C.E.O.

Mr. Kunal Sen
VP Finance & Company Secretary

Mr. Bibek Shankar Das
VP Corporate

Mr. Rakesh Srivastava
General Manager,
Business Development, US

Mr. Rajil Vohra
General Manager,
Business Development, US

Mr. Harmeet Kalra
General Manager,
Business Development, US

Mr. Pradyp Kanabar
Manager,
Business Development, UK

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Mr. Debasis Bandyopadhyay
Associate Vice-President,
Business Support

Mr. Aniruddha De Choudhury
General Manager,
Corporate Planning & Development

Mr. Sanjib K. Mukherjee
Deputy General Manager,
Corporate HR

Mr. Kalarab Ray
Associate Vice-President,
Projects

Mr. Prasun Maharatna
Manager,
HR & Sourcing (US)

Mr. Sabyasachi Chatterjee
CTO & Business Manager

Mr. Aniruddha Rai Chaudhuri
General Manager,
Quality & Benchmarking

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Notice to Members

The Sixteenth Annual General Meeting of R S Software (India) Limited will be held on Friday, 27th August 2004 at 3.30 pm at Sisir Mitra Hall, Webel Bhavan, Block EP & GP, Sector V, Bidhan Nagar, Kolkata 700 091 to transact the following business :

ORDINARY BUSINESS

1. To consider and adopt the Audited Balance Sheet as on 31.03.2004 and Profit & Loss Account for the year ended on that date and the Report of Auditors and Directors thereon.
2. To appoint a Director in place of Mr. Shital Jain who retires by rotation and being eligible offers himself for reappointment.
3. To appoint a Director in place of Maj. Gen. A. Balasubramanian (Retd.) who retires by rotation and being eligible offers himself for appointment.
4. To appoint Auditors and to fix their remuneration and for this purpose to consider and, if though fit, to pass the following resolution as an Ordinary Resolution.

   "Resolved that pursuant to the provision of Sec 224 and other appropriate provision, if any, of the Companies Act 1956, Messrs Chaturvedi & Company to retire at the conclusion of the Meeting be and are hereby re-appointed Auditors of the company to hold office from conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company at a remuneration to be decided by the Board of Directors of the Company".

Corporate Office:
234/3A, A.J.C. Bose Road
Kolkata 700 020
April 27, 2004

By order of the Board
KUNAL SEN
VP - Finance & Company Secretary

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NOTES

1. A member entitled to attend and vote at this meeting is entitled to appoint a Proxy to attend and vote instead of himself. A Proxy need not be a member of the Company. Proxies, in order to be effective, must be received at the registered office of the Company not less than 48 hours before the meeting.
2. The Register of Members and Transfer Books of the Company will remain closed from 20th August to 27th August 2004 (both days inclusive).
3. Members/Proxy holder must bring the Attendance Slip to the Meeting and hand it over at the entrance duly signed.
4. Members desirous of any information on the Accounts at the Meeting are requested to send their queries at least 10 days before the Meeting.
5. PLEASE BRING YOUR COPY OF THE ANNUAL REPORT AT THE MEETING.
6. Conveyance facility would be available from our Corporate Office on the date of the AGM for reaching the venue and back. Those interested in availing the same may kindly register their names and folio nos. / DP & Client ID to the desk of the Corporate Office at least 72 hours prior to the Meeting.

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Mr. K. S. BHATNAGAR
CHAIRMAN

Directors' Report

Dear Member,

Your Directors present their Sixteenth Annual Report and Audited Statement of Accounts highlighting the business operations and financial results of your Company for the year ended 31st March, 2004.

The Financial Highlights

	(Rs. in million)	
	2003-04	**2002-03**
Gross Revenue	594.00	603.93
Operating Profit (PBDIT)	69.45	(49.69)
Interest	70.92	75.62
Depreciation	86.88	69.27
Profit Before Tax	(88.35)	(194.58)
Provision For Tax	Nil	Nil
Profit After Tax	(88.35)	(194.58)
Basic Earning Per Share (Rs.)	(17.85)	(39.26)

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Review of Finance Performance

During the year under review, the income for this fiscal in comparison to that of the previous year was adversely affected by two main factors :

a) Significant rate pressures in the market place, leading to large reduction in billings.

b) Considerable Rupee appreciation vis-à-vis Dollar (about 6%) so that the average exchange rate during 2003-04 was Rs.48.10 fell down to an average of Rs.45.82 during 2003-04.

The combined impact of these two factors became disproportionately high for companies of our size, amounting to approximately Rs.55 million, which is about nine percent of our revenue base, and a huge adverse effect on operating profits and cash flows. Inspite of all this, the Company has successfully generated operating profits of Rs.69 million, as compared to an operating loss in the previous fiscal.

It is heartening to note that several strategic initiatives taken by your Management to improve the operational excellencies in the Company are starting to show results. It is these initiatives which enabled your Company to absorb the adverse impact of the above two factors and that eventually will enable us to achieve the required turnaround in our financial performance

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