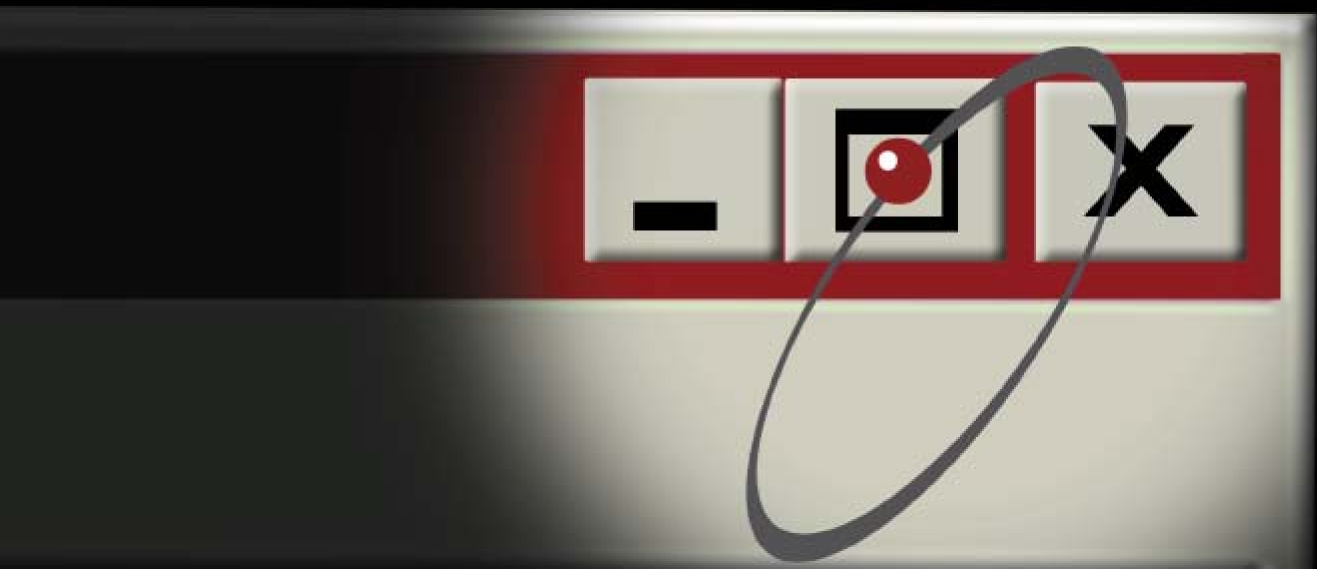
maximize...!



Subex Systems Limited

Annual Report 2001 - 2002

Year at a Glance

Feb 02 — Subex launches its revenue maximization suite, RevMax™ at the 3GSM World Congress in Cannes, France.

Jan 02 — Subex wins the HR Excellence Award for 'Organization with Innovative HR Practices' from India HRD Congress.

Jan 02 — Subex's Chairman and Managing Director speaks on 'Leveraging an EBSS solution for improved customer relationship and effective marketing' under the forum for 'Customer, Partner & Management focused strategies for maximizing revenue' at The 5th Annual Billing and Customer Care conference in New Delhi.

Nov 01 — Subex launches its new product eProficio™ - Electronic Business Support System (EBSS) at the GSM Africa event in Cape Town, South Africa.

Aug 01 — First European installation at Cyprus Telecommunications Authority (CYTA).

May 01 — Subex makes headlines by acquiring the product line of Canada-based Magardi, Inc.

May 01 — First African installation goes live at Econet Wireless, Nigeria.

April 01 — Subex opens a new support center in the South African capital, Johannesburg to support its increasing presence in the continent.

SUBEX Systems

2001 - 02

Contents

Board of Directors

Subash Menon	*Chairman and Managing Director*
Alex J. Puthenchira	*Executive Director*
Sudeesh Yezhuvath	*Wholetime Director*
V. Balaji Bhat	*Director*
K. Bala Chandran	*Director*
Vinod R. Sethi	*Director*

Company Secretary

S. Rama Kumar

Bankers

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

Auditors

M/s. Deloitte Haskins & Sells
Chartered Accountants

Internal Auditors

M/s. P. Chandrasekar
Chartered Accountants

Registrars & Transfer Agents

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

Registered Office

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

Board of Directors

Subash Menon

Alex J. Puthenchira

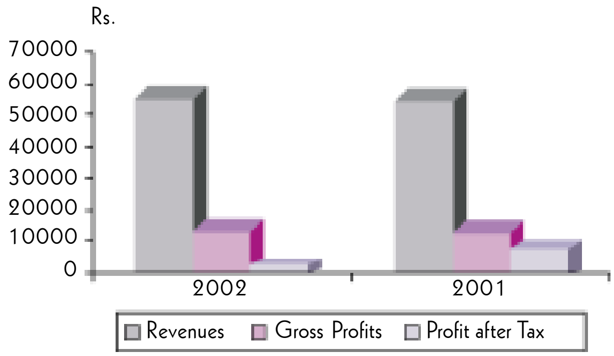
Sudeesh Yezhuvath

V. Balaji Bhat

K. Bala Chandran

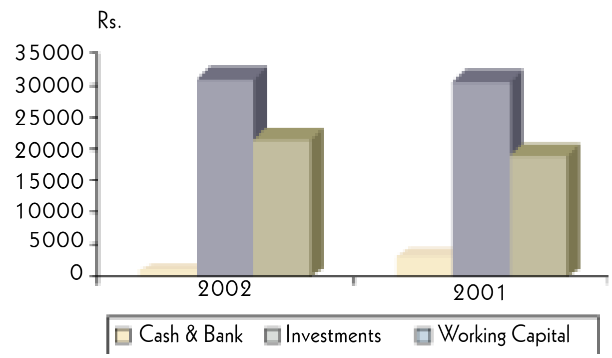
Vinod R. Sethi

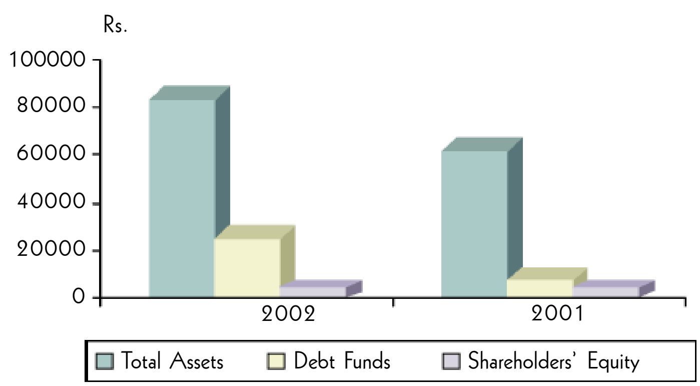
Financial Highlights



While revenues & gross profits increased by 6.1% & 4.6%, profit after tax decreased by 145.6%.

Cash & Bank balances decreased by 127.8%, Investment & Working capital increased by 1.2% & 12.2% respectively.

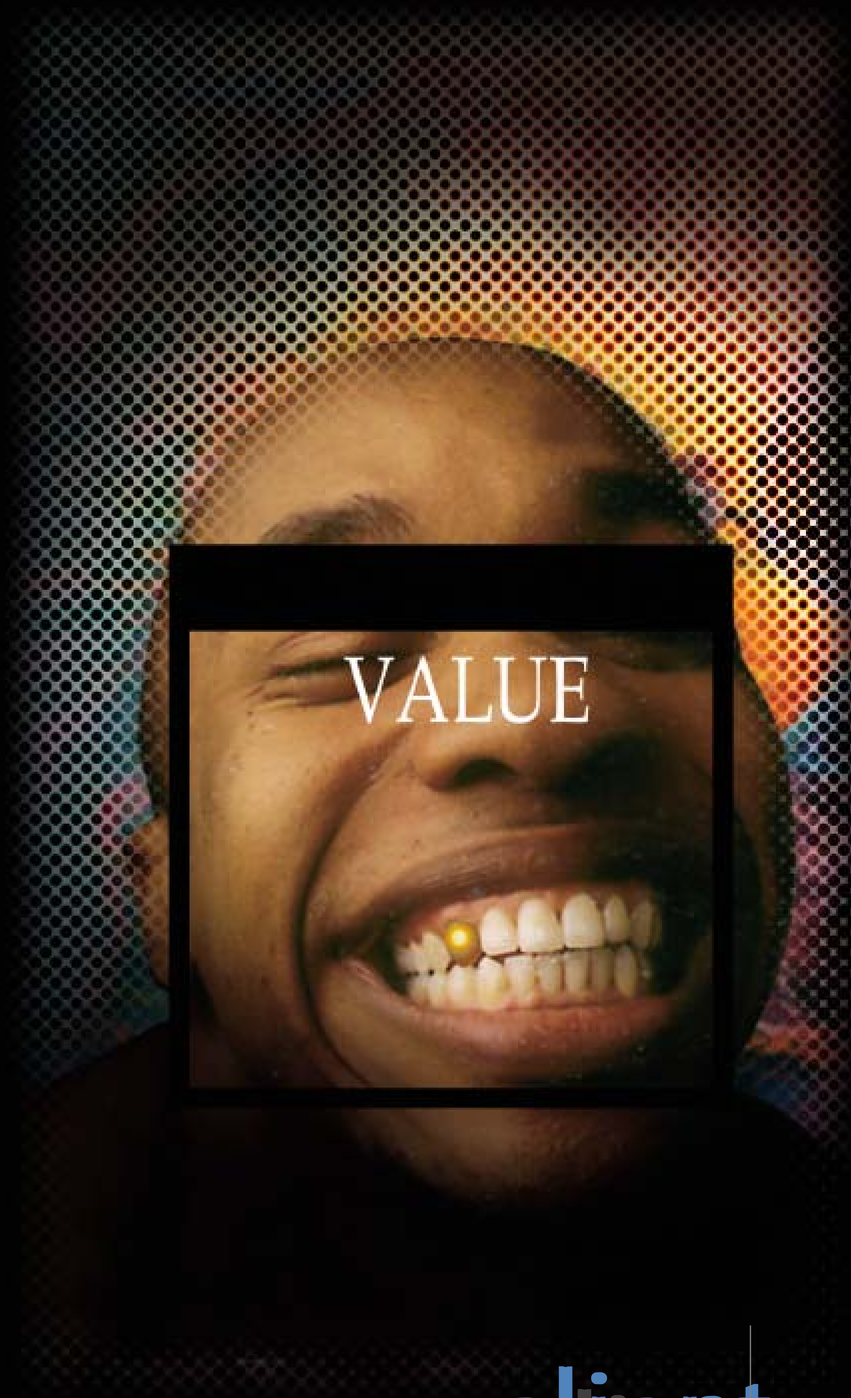




Total Assets and Debt funds increased by 31.9% and 134.1%.

Year ended March 31

Particulars (Rs. '000)	2002	2001
Revenues	592,508	557,884
Gross profit	173,659	165,988
Profit after tax	41,843	102,772
Basic earnings per share (Rs.)	5.87	14.42
Cash and bank balances	18,828	42,889
Investments	330,184	326,221
Working capital	232,026	206,763
Total assets	896,164	679,382
Loan funds	304,633	130,094
Shareholders' equity	71,257	71,257



client speak

"We felt that RevMax™ suite's approach by Subex fits us the best. Moreover, taking into consideration Subex's experience in the African market and the flexibility of their products, we zeroed in on Subex"

—Ms Cheryl Packwood,
Director General
Cora de Comstar, Ivory Coast

Subash Menon
Chairman & Managing Director

September 17, 2002

Dear Shareholder,

The telecom industry, which your company operates in, has been experiencing an unprecedented downturn with carriers across the world cutting capital expenditure. Some of the large carriers have declared bankruptcies and several small ones have closed down. Many others are in the throes of consolidation. On the whole, the much acclaimed telecom industry is going through a phase of metamorphosis which threatens to erode investor confidence, in this industry, for years to come and to stymie growth for the next few years. Your company, like others, is not immune to these winds of change and the same have reflected in our financial performance for the year ended 31st March, 2002. While we have managed to grow at a rate of 23% comparing the software business post the closure of the Telecom Division (which contributed about Rs. 70 million to the revenue in FY01), profitability has been impacted severely dropping to 7.5%. Thus, while the revenues have grown from about Rs. 480 million in FY01 (software products and services revenues only) to Rs. 592 million in FY02, Profit After Tax (PAT) has declined from Rs. 103 million to Rs. 44.7 million, due to the restructuring of offshore software development business and provisions towards doubtful receivables.

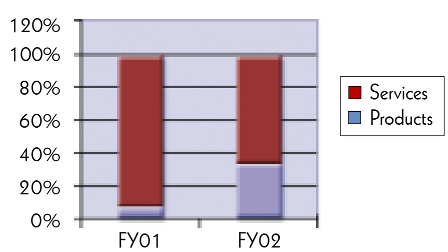
Acquisition

Your company completed the acquisition of the business assets of Magardi, Inc. on the 29th of May, 2001. The operations have been integrated with the activities of the Software Products Division of your company wherein software development has been shifted to India and sales & marketing of the acquired products has been launched aggressively. The prime concern with regard to any acquisition, namely integration, has thus been addressed effectively.

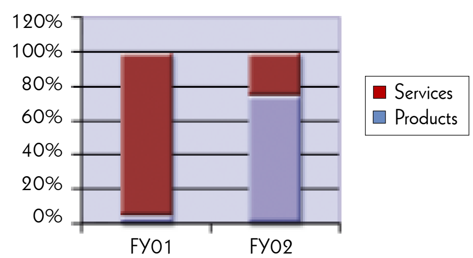
This acquisition and the subsequent integration has resulted in a positive impact on the performance of the products division during FY02. This is discussed in more detail in the relevant section of this letter.

Software Products Business

Amidst the gloom in the sector and the unsatisfactory financial performance of your company, I am happy to report a silver lining that is expected to boost our prospects in the future. Blazing a new path in the software business segment in the country in general and in the telecom software business segment in particular, we have grown quite substantially in the application software products arena. Our special commitment to this part of the business and the continued focus achieved increasingly throughout the year has started to bear fruits in a very satisfying manner as shown in Figures 1 & 2.

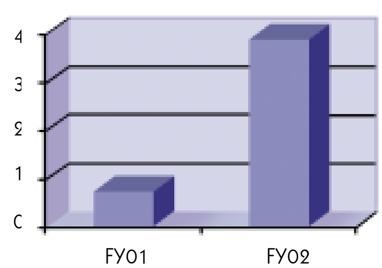


Revenue Composition
Fig 1



Profit Composition
Fig 2

Thus, 33% of the revenue has contributed 74% of the profits. Needless to say, this amply justifies the focus of the company on products. We expect to increase the tilt in the revenue composition in favour of this segment to further improve the profitability of the company that will be witnessed in the years to come, starting with the financial year FY03. The products business has recorded a growth of about 400% as shown in Figure 3.



Product Revenue in US$ Mln.
Fig 3

Software Services Business - Offshore

The offshore software services business unit of the company was mainly developing products for its' customers in the US. These customers, who are vendors of telecom software and hardware products have been battered by the downturn and hence had to downsize quite considerably and cut costs on an unprecedented scale. This resulted in a mass cancellation of contracts rendering the unit financially unviable. As a step to improve the financial strength of the company and to direct the management bandwidth and resources at more promising areas, the Board of Directors decided to withdraw from this business segment. Consequently, the personnel were transferred to the products division and sales & marketing activities were discontinued. The company does not foresee a revival of demand in this segment in the near future.

Software Services Business - Consulting

The consulting software services business unit of the company, which derives a significant portion of its' revenues from contracts awarded by AT&T, experienced a considerable contraction of business during the first ten months of the year. I am glad to report that this unit has witnessed huge growth in demand since February of 2002. While addition of new customers has progressed at a relatively slow pace, we have managed to grow deeper into each account thereby strengthening our relationship with those customers. The company is confident of an excellent performance by this unit in the future. During the year, the company undertook extensive cost reduction measures at this unit to improve the profitability. Results of these measures have been experienced in the recent months.

New Products

While our flagship product Ranger™ has been quite successful, we need to introduce more products to maintain the momentum of growth and to emerge as a significant player in this segment on a global basis. To this end, we have launched two new products during the year – eProficio™ and INcharge™. Both these products are in the initial version (Ver. 1.0) with new releases planned in due course of time. Further, all the three products now form part of the RevMax™ suite which has been launched to alter the positioning of the company by moving up the value chain.

The strategic positioning that is being attempted through the launch and marketing of RevMax™ has been adequately augmented by the new products owing to the application of the same. eProficio™, an Electronic Business Support System, is aimed at improving customer satisfaction thereby reducing churn while increasing revenues and optimizing costs. INcharge™, an inter-carrier billing verification system, identifies the revenue leakages in the inter-carrier billing process and assists in enhancing the profitability in interconnect agreements. Thus, both the products effectively further the philosophy of RevMax™, that is to maximize revenue while reducing cost and improving profit.

Additional Investment – A Strategic Approach

In keeping with our plans to grow at a brisk pace in the software applications segment for telecom operators the world over, your company intends to make strategic investments in sales, marketing and research & development. Global sales & marketing efforts, at par with those undertaken by the majors in the industry, is absolutely essential to propel us to the forefront.

Towards this end, a fund raising activity is in progress. The proceeds will primarily be used to strengthen the sales & marketing infrastructure and activities. The steps to be undertaken will include opening up of new sales & support offices to address new geographies, additional sales & marketing personnel, setting up of extensive and high-end test beds for the products etc. However, the investments will be made in a prudent manner to ensure maximum returns.

Further, as a matter of prudence, your company has also provided for doubtful debts to the tune of about Rs. 20 million. However, efforts are continuing to collect these receivables. This provision is largely with respect to a customer who is unable to pay solely due to foreign exchange issues in their country and does not indicate any problem with the product or its' implementation.

Business Outlook

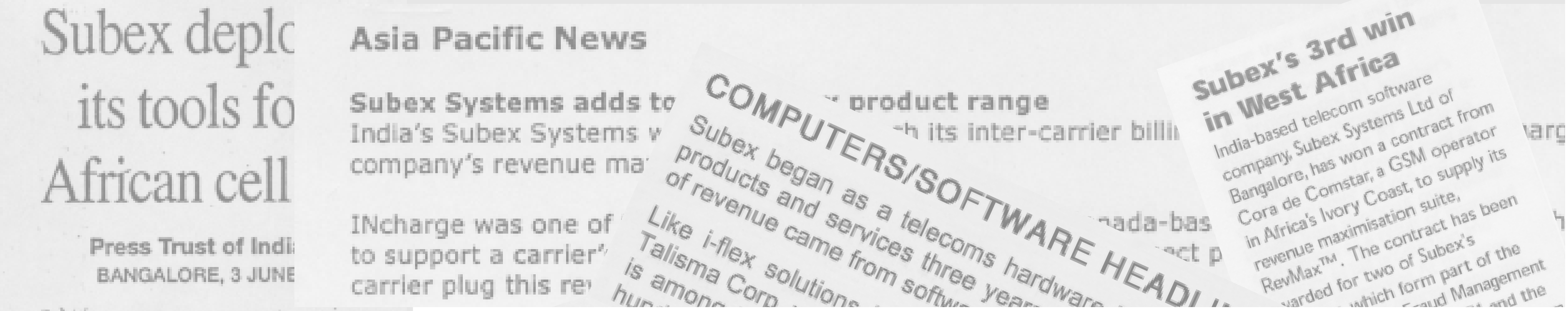
While the depressed conditions are expected to last for another 12 to 18 months in the telecom industry, various market research reports indicate a bright future for the BSS/OSS (Business Support Systems / Operations Support Systems) sector that your company specializes in. According to a study conducted by a global market research firm, the BSS/OSS industry is expected to clock a growth of 15% from 2002 to 2005 resulting in the global BSS/OSS revenue growing from US$ 31 billion to US$ 48 billion. These projections are supported by other findings related to the overall situation that the carriers find themselves in.

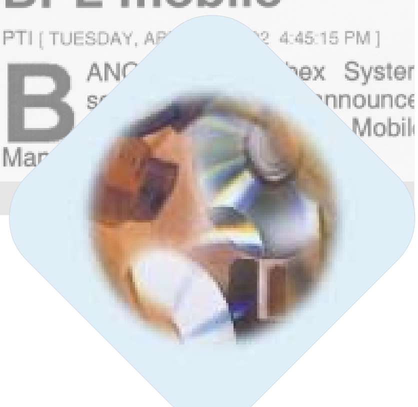
Owing to a huge investment binge in network equipment and other hardware in the past few years, carriers today are inundated with disparate pieces of equipment that fail to operate in a cohesive manner. Decision support systems and management information systems required to garner and analyze vital information regarding revenue leakages, customer behaviour, market trends, demographic dependencies etc. fall far short of the needs. Further, software solutions that are critical to achieve seamless operation with regard to provisioning of services, billing, customer care, performance monitoring etc. are woefully inadequate in today's networks. Thus, it can be logically ascertained that carriers will have to invest in software solutions to fill these lacunae in their operations. Hence the buoyancy in the telecom application software segment, about the future.

Further, it has been established beyond doubt that revenues from data, alongwith those from commercial transactions, will form the main element in the growth of the carriers in the future. The advent of these revenue streams will significantly enhance the vulnerability of the telecom operators on the revenue leakage front. This scenario is bound to create attractive opportunities for companies like ours that are focused on revenue maximization solutions. While the revenues from voice services are clearly declining, the possibilities of revenue leakages are increasing, resulting in an enhanced need for revenue maximization solutions. And while the ratio of revenue leakages to revenue may remain constant or might even reduce, the absolute loss and its' relative significance with respect to the profits will continue to grow. Therein lies the opportunity for offerings like RevMax™.

I take this opportunity to thank all the customers, the vendors, the shareholders and Subexians for their excellent support in these testing times. Let me assure you that the Board of Directors and the management of your company will continue to strive to maximize your returns.

Subash Menon





Mission Statement

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

client speak

"We were particularly satisfied with Ranger's end-to-end approach and inherent flexibility"

Bruno Clery,
General Director,
Sonatel Mobiles

client speak

"Our requirement is for a partner and a system that can meet the demands of this market and we believe we have found the right choice in Subex and its product, Ranger™"

—Douglas Mboweni,
Chief Information Officer,
Econet Wireless, Nigeria

Subex Brand Building

An Overview

Subex Systems came into existence in 1992 with the objective of integrating and marketing telecom hardware products. In 1997, its business focus shifted from telecom hardware marketing to telecom software development. Being a late entrant into the telecom software domain, Subex had to make a mark for itself. It had to quickly acquire the status of the 'most preferred employer' and be capable of attracting and retaining quality software professionals. To achieve this Subex had to embark on Employer Brand Building, a journey from **awareness to attraction**.

Building Awareness: This meant that there should be a high recall value for the Subex name amongst the target segment (Bangalore-based IT professionals) and a strong association of the Subex brand name with Telecom software.

Attraction for Subex Brand image: This meant Subex should be able to command a premium in the job market. Commanding a premium in the market was defined as 'Subex being capable of attracting and retaining professionals at a compensation of 30% markdown from the industry average'.

Brand Positioning: Targeted Image

Subex should not to be perceived as yet another IT Company but a Company which is innovative and with a rich work culture. It should be recognized by the customers (both internal and external) as a role model in the industry and acknowledged for its customer orientation, speed, innovation and quality of personnel.

Phase 1 (Awareness stage)

Objective: Subex name recall and association with Telecom Software.

Media used

Hoardings: In prominent locations with a high density of IT traffic. The message was: "**Telecom Software - Our Domain Your Future**".

Traffic signs: Subex took up traffic signs at various strategic junctions.

Job Fair: Participation in job / career fairs in major cities. This resulted in extensive coverage for the Company and interest evinced by career seekers with appropriate skill sets.

Campus Recruitment: Subex consciously decided not to visit campuses for the first three years. However Subex's recruitment posters were sent to all South-based engineering campuses directly inviting applications from fresh engineering graduates.

Brand recall / awareness tools used: Traffic signs, Subex vehicles with reflective stickers, T-shirts, mementos and hoardings.

Phase 2 (Subex's Unique Selling Proposition)

Objective: To identify the USPs of Subex and get across the same to the target audience.

The HR team met up with a section of Subexians as well as prospective Subexians in trying to identify the following:

a) The key factors that determine the choice of employer for an IT professional.

b) The factors that have influenced the professionals to join Subex.

The following aspects were zeroed-in as the deciding factors:

MNC	v/s	an Indian company
Start-up	v/s	Established
Offshore	v/s	Onsite (opportunities)
Compensation	v/s	ESOP
Technology	v/s	Work culture

Subex launched a campaign that read "**With Subex You Get The Best Of Both Worlds**".

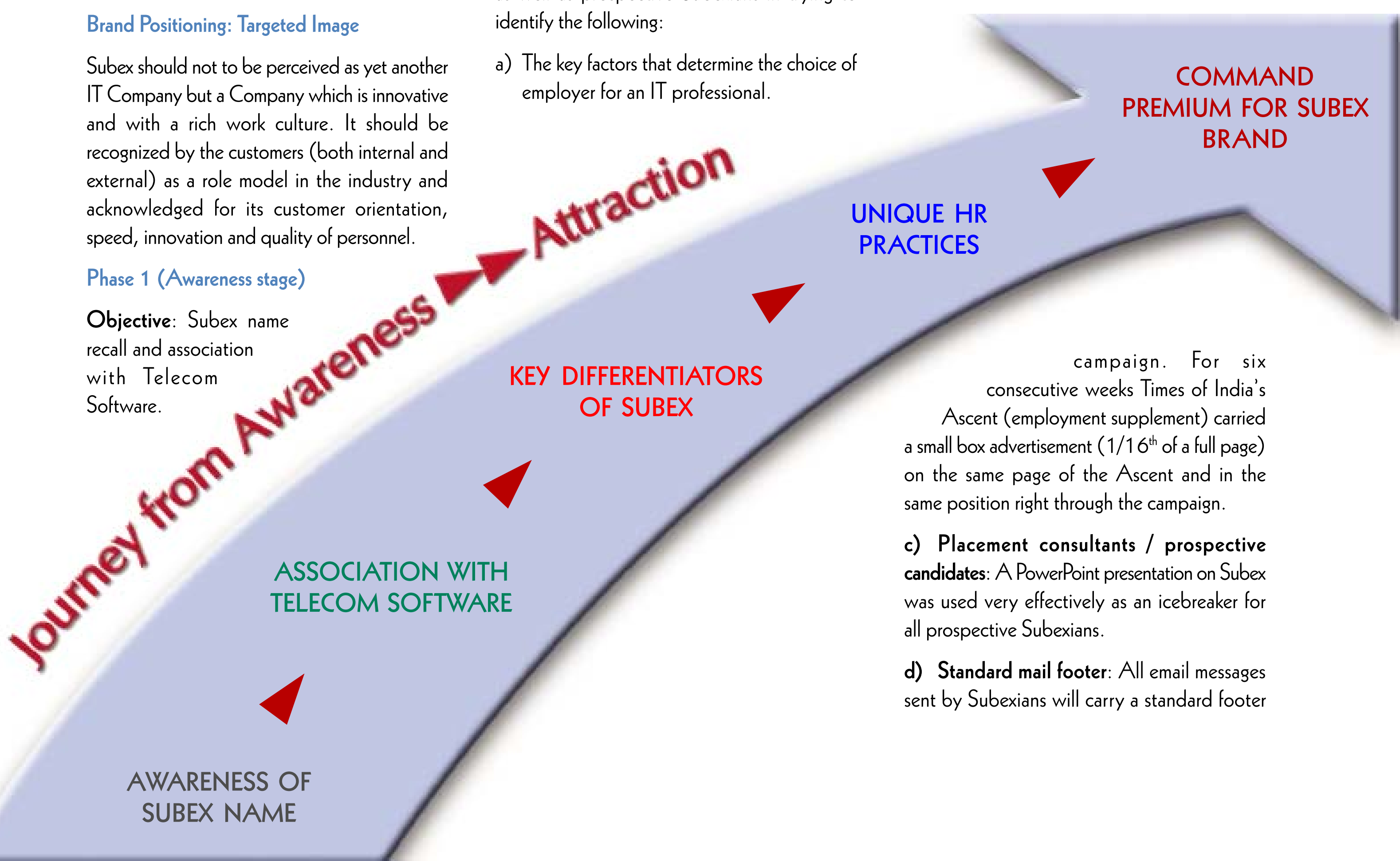
Media used

a) Hoardings: Prominent hoardings were used to highlight the Subex USPs. The USPs changed every fortnight (this also provided a sense of curiosity for the target segment to guess the next USP). The header message / background was constant.

b) Times of India Ascent Walk-in Advertisement: The USP advertisement was used very effectively for a sustained walk-in campaign. For six consecutive weeks Times of India's Ascent (employment supplement) carried a small box advertisement (1/16th of a full page) on the same page of the Ascent and in the same position right through the campaign.

c) Placement consultants / prospective candidates: A PowerPoint presentation on Subex was used very effectively as an icebreaker for all prospective Subexians.

d) Standard mail footer: All email messages sent by Subexians will carry a standard footer



signifying Subex's name. For Subexians, the name is an offshoot of **Su**ccess **B**y **Ex**cellence.

e) EPABX voice over: Every incoming call on hold has a recorded message that provides a brief introduction of the Company.

Phase 3 (Unique HR Practices)

Objective: Subex should not to be perceived as yet another IT Company but a Company that is innovative and with a rich work culture

It was recognized that this could be achieved only if

- Subex does things differently (needless to mention, with a higher degree of effectiveness).
- The target segment is able to experience the difference

Touch point concept

Subex identified several touch points (contact points) with the target segment. The following illustrates some of the touch points and the unique HR practices associated with the same

a) First contact with a candidate: Realizing the importance of the first point of contact, all prospective candidates are sent MS PowerPoint presentation/ write-up on Subex even before a telephonic discussion on the career option.

b) Invitation for discussion: Candidates invited for a career discussion to the office receive a location / route map to the office with instructions for vehicle parking.

c) Welcome letter: A personal welcome letter is ready at the security. Formality of recording visit details at the security desk is waived off. Along with the welcome letter, the candidate is also given a two-page articulation of Subexian traits.

d) Work Culture Show Case: A separate room is reserved for career discussions. The soft board in this room is replete with photographs/collages of Subex work ethos/ cultural events.

e) Memento: Senior candidates (in the first level meetings) and junior candidates (during the second level meetings) are given a memento. The memento is chosen such that it can be put to use at home or in office. The Company by-line and the logo printed on the memento also contribute to the brand recall.

f) Multimedia presentation: Before the scheduled meeting the candidate is taken through a ten-minute multimedia corporate presentation. This presentation covers both business aspects as well as the work culture.

g) Dinner for two with the offer: Every candidate along with the offer also receives a Welcome letter from Subex Culture Club (SCC). This entitles the candidate for a celebration dinner even before he accepts the offer. The covering letter also highlights activities of the SCC.

h) Mentor Assignment Letter: Post acceptance, there is a mentor assignment letter sent to the candidate outlining the mentorship scheme in Subex and sets the expectations on the mentor-mentee relationship

i) Post offer feedback form: If the candidate chooses to pursue alternate options then he is sent a post feedback form from the HR seeking his assessment of the Subex option and as to what would have made him accept the offer. (This also becomes a gateway for those who would like to revive the offer).

j) Welcome Bouquet: On the joining date all candidates are welcomed with a small bouquet from HR, at the reception.

k) Welcome board: The new recruits are greeted with a welcome signboard at the reception on the first day.

l) Subex walkthrough: Every new recruit is taken through a comprehensive PowerPoint presentation on Subex work facilities and practices. This gives the new recruits the complete run down on the work facilities, services and also familiarizes with all the processes.

m) Informal net-introduction: The new recruit is asked to fill in a profile form which seeks information on his likes / hobbies / sports / interests / favorite movie star /channel, etc. The completed form along with the photograph of the new recruit is uploaded on the intranet. This provides scope for Subexians to associate with the new recruit better.

n) House Assignment: Every Subexian is assigned to one of the four houses. The house concept helps in integration across various locations / groups / levels / functions. Each house selects a captain and they are expected to put up events on a fortnightly basis by rotation. There is also an annual trophy for the best house.

o) Icebreaker lunch with the mentor: The new recruit is taken out for a one-on-one Company sponsored lunch meeting with the mentor on the first or second day of his joining.

p) Subexian Traits: Subex work culture is a manifestation of a set of common traits, which are exhibited on the job. These traits have been identified and articulated over a two-page write up titled Subexian Traits. To facilitate better understanding and internalization, these traits are also translated with a clear example of 'on the job behavior'. This document is also uploaded on the intranet. Every candidate attending the career discussion is also given this write up.

q) Subexian Traits Integration Camp (STIC): Every new recruit is nominated for a unique two day residential outbound orientation program that helps Subexians internalize the Subexian traits and achieve higher level of cohesion and identity with the organization.

r) Campus Selection test at various centers entails a multimedia corporate presentation, FAQs on the company and the selection process, toffees in the exam hall, on the house refreshments, followed by a specially designed 'Thank you' card.

s) Besides these normal practices, other regular activities include birthday bashes, marriage anniversary bouquet to the Subexian's residence, birthday gift cheques for children below 12 years, etc.

t) The Subexian spirit: This is the guiding spirit and the purpose statement for all our decision/ actions / priorities

Subex will do *whatever it takes* for Subexians
Subexians will do *whatever it takes* for Customers

This highlights the interplay between Subex, Subexians and Customers. The Subex workplace echoes this message, with each Subexian proudly displaying it in their workstations.

Acknowledgement of Subex HR Practices

Subex has won the HR excellence award under the category **"Organization with Innovative HR Practices"** from 'All India HRD Congress' in January 2002.

In our brand-building journey we believe we are currently at a phase where the industry has acknowledged our unique HR practices and we are on the threshold of the final phase i.e. being able to command a premium for the Subex Employer Brand.

— HR Team

Subexian

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


INNOVATION
Restore
Move
Size
Minimize
Maximize
Close Alt+F4
Clipboard
Start
Subex Systems

Extreme Programming

Dakshinamurthy K.

Extreme programming (XP) is a refreshingly new approach to software development that is being adopted by more and more organizations. Success of XP is based on its validation-centric and trust-based approach to software development. Most XPers (that is how XP practitioners call themselves) believe that XP brings back the fun in software development. XP is based on a core set of values that are shared among the team members - simplicity, communication, feedback and courage. This value system of XP brings in high discipline into software development.

This write-up focuses on how XP addresses and resolves some of the issues faced by traditional approaches.

Software life cycle and cost of change

Developing software is a complicated process and consists of different activities. The main activities include - requirement analysis, high-level design, implementation and maintenance. Often these activities overlap and some times these activities may be split into smaller activities. Enough studies indicate that the cost of change dramatically increases if the time between finding a defect and fixing it increases.

Most of the traditional approaches to software development address the cost of change by introducing controls into the development process by way of documents, reviews and checklists. These controls try to reduce the number of defects that are injected into the system at every stage.

However, there is a flaw in this approach. Software that is being developed to solve a real world problem is supposed to satisfy the requirements that exist at the time of delivery and not to satisfy the requirements that exist at the time of conceptualization of the software. If the development of the software is going to take more than 6 months (this is true for any non-trivial software project), the probability of changes being found at the time of delivery is very high.

Extreme programming addresses the cost of change in a different and radical manner. XP assumes that the cost of change is constant throughout the life cycle of the project. XP does not avoid change – rather embraces it. The practices of XP are built in such a way that the interactions among the practices ensure good quality software to be delivered in short release cycles and delivering business value at every stage of the project.

Planning

There are four variables in software development: cost, time, quality and scope. Out of these four variables quality has a special status. You cannot get software delivered faster by reducing the quality. You have to raise the quality, to be certain of delivering software faster.

That leaves three variables that can be controlled. In traditional approaches the part scope plays in the development is either ignored or strongly diminished. Study after study found that one major reason for cancellation of projects is the delay in delivering the software. Unfortunately, most of these cancelled projects did not deliver any business value either.

An XP approach to software development actively considers all the four variables. During the planning stage, the customer chooses the features that make most business sense. The short release cycles ensures that the project adds business value to the customer as soon as possible. An XP project that is canceled, still would have delivered some business value to the enterprise.

Technical vs. Business decisions

Traditional approaches do not distinguish between the technical and business decisions. So some business decisions like what portion of software to develop might be made by the development team. Similarly the business people might undertake estimate and technology related decisions. This results in decisions that might be relying on half knowledge and may harm the project.

XP clearly lays down the rules for making decisions. In a typical project a business person will not be allowed to make a technical decision and vice versa. This ensures that the best person for the job handles all the decisions for completing the job.

The estimation problem

Estimation is an important part of planning to complete a software project on time. Once we have the specification and the delivery date fixed, the problem is to decide how many developers are required to complete the project. Once the software project is delayed, we need to find a way in which we can bring the project back on track.

Unfortunately, most of the estimation techniques that are available to the development teams are based on concepts like function points, quality of the resources available etc. Some estimates are based on lines of code that are yet to be written. The success of these estimation techniques is based on statistical factors that require a big enough sample to be of any use. Most of the small and medium software projects are staffed with 4-20 developers and these estimates might not generate any useful figures.

XP realizes the vagueness of estimations. Instead of using any formal techniques for estimation, XP relies on the past performance of the team to find its future performance. This 'yesterday's weather' technique ensures that the estimates are accurate and takes into consideration the development team learning during the course of a project.

Quality assurance

Traditional approaches introduce quality controls into the software development by way of documents and reviews. It is common knowledge in the software engineering circles that the quality of software improves by the review processes. Most of the reviews are conducted once the work products are created. There are problems in reviewing the work products after they are created:

a. It is already working

If the work product is already created and proven to be working (as in case of code) there will always be a tendency to avoid changes to the work product. The old engineering adage "don't fix if it ain't broken" comes into play in this kind of reviews.

b. Developers pride

For reviews to be effective there is a need for open mind from the author of the work products. In some cases the review comments might be considered to be commenting on the developer's performance. It is a long way to go before all programmers will be humble.

In XP approach there are no reviews for work products after they are created. All of the reviews take place while the work product is being created in the form of pair programming. Collective wisdom of the developers is used to make major design decisions during the release planning and iteration planning.

Testing

A major difference between an XP project and a traditional project is the way testing is performed. In XP all the tests are automated. No functionality is allowed to exist without proper testing - either unit level or functional. At the unit level, the tests are written first before the code is written, thus ensuring that most of the code is covered. At the functionality level, each story is always accompanied by the acceptance tests that need to run, for completion of the feature. The insistence on quality from the ground up in XP projects is a major factor for the success of these projects.

XP @ Subex

We started experimenting with XP for product development from January 2001. A pilot project executed with XP gave good results. The QA team at Subex along with the development team created a hybrid version that can meet the requirements of ISO and that of XP. In a nutshell, most development teams follow pure-XP, whereas the requirement analysis follows a traditional approach.

Extreme Programming - A simple introduction

XP can be described as a set of practices. These practices must be followed by all XP projects. The practices are derived from the core values - simplicity, communication, feedback and courage. These practices are designed to increase the business value of the software produced.

1. The planning game

XP consists of two types of planning - Release and Iteration. Release planning is usually done for a 3-4 months period and iteration planning is at a much smaller scale of 1-3 weeks. During these sessions, the customers choose the stories (features) that are required to be implemented. The developers then estimate these stories. The scope is adjusted to fit into the available development time.

2. Small releases

At the end of each iteration (1-3 weeks), the development team releases the system to the customer. A release at the end of a release cycle (3-4 months) is no different than any other iteration release and should have all the functionality that is committed during the release plans.

3. Metaphor

Metaphor is an informal replacement for the architecture of the system. The metaphor is the language in which the customers and developers talk about the system. A 'naive' metaphor can also be used, in which case, the object model of the system is used to discuss the stories.

4. Simple design

XP does not have a separate design phase or a design document. XP relies on the code being written in such a fashion that a design document becomes superfluous. A simple design is defined as one that

a. Runs all the tests

b. Has no duplicated logic

c. Communicates the intention of the code to the programmers

d. Has the fewest possible classes and methods

5. Testing

XP supports two types of testing: Unit and Acceptance. Both types of tests should be automated. The unit tests are written before the code is written and that too only for the part that is being developed currently. The acceptance tests are written and maintained by the customers.

6. Refactoring

Refactoring is an approach to change the internal design of a system without altering it's external behavior. The XP development cycle does not have a separate design phase. XP relies on simple design, unit tests and refactoring to ensure that the software has the simplest possible design.

7. Pair programming

Pair programming is two developers sitting together and writing a piece of code. The developer handling the keyboard is called the driver and his pair is called the navigator. XP mandates that all the production code should be written using this approach. During a session, the development pair switches roles between driver and navigator many times.

8. Collective ownership

The code in the system belongs to the whole development team. There are no designated developers who are responsible for individual modules. Any developer who finds a need for simplifying the system should do so.

9. Continuous integration

All the software is built multiple times every day.

10. Sustained pace

Sustained pace (previously called 40-hour week in XP literature) mandates that the developers should work only that amount of time where they can sustain the pace of their work. Overtime during two consecutive weeks is not allowed by XP.

11. On-site customer

When the developers are working at a fast pace, even a delay of few hours in obtaining a clarification over a feature might delay the project. XP realizes that the best form of communication possible is face to face. A customer should be available to the development team. The customer should be available on-site to ensure that there are no delays.

12. Coding standards

The team collectively decides the coding standards. Everyone in the team should follow these coding standards.

The software developers know all the practices mentioned above for a long time. Most of the practices have been tried before. Some of these practices were abandoned in favor of other practices due to the drawbacks associated with them. However, the innovation of XP is in bringing all these practices together and ensuring that the weaknesses of one practice is covered by the strengths of one or more of the other practices.

Vision Statement

To be the leader in our areas of business through: Total Customer Satisfaction, Commitment to Excellence and Determination to Succeed.

Quality Statement

To meet the demanding needs of the customers through strict adherence to superior quality in every branch and level of the organization and in all products and services provided by Subex.

Financial Statements

for the year ended March 31, 2002

client speak

Subex's Ranger™ Fraud Management System will not only help us with our current subscriber base, in postpaid as well as prepaid, but also in anticipating a prospective subscriber who is likely to demonstrate fraudulent behavior. We therefore expect our current business processes to become more optimized, delivering greater efficiency as well as profitability"

F.B. Cardoso,
President & CEO,
BPL Mobile, India

Directors' Report to the Members of Subex Systems Limited

Your directors have pleasure in presenting the Eighth Annual Report together with the Audited Accounts of the Company for the year ended March 31, 2002.

FINANCIAL RESULTS :

	2001-02 (Rs.in lacs)	2000-01 (Rs.in lacs)
Total Revenue	5925.09	5578.84
Profit before Interest, Depreciation & Amortisation	956.67	1269.01
Interest, Depreciation & Amoritisation	477.52	229.57
Profit before tax	479.15	1039.44
Provision for taxes	32.00	0.60
Profit after tax	447.15	1038.84
Prior year taxes	28.72	11.12
Profit for the year	418.43	1027.72
APPROPRIATIONS :		
Dividend proposed	71.26	142.51
Provision for tax on Dividends	–	14.54
Transfer to General Reserve	15.00	750.00
Surplus carried to Balance Sheet	519.17	187.00

OVERVIEW :

The downturn in the telecom industry impacted the performance of your Company in the year under review. While the overall income grew from Rs. 5,578.84 lacs to Rs. 5,925.09 lacs, registering a growth of 6%, the net profit declined from Rs. 1,027.72 lacs to Rs. 418.43 lacs. Lower margins in the professional services rendered in the US, the closure of the offshore services business and provision for doubtful receivables were the significant contributories to the reduction in the profits. However, the business mix improved, wherein Software Products contributed 32.82% of the revenue and 73.73% of operating profits and Software Services contributed 66.34% of the revenue and 22.48% of the operating profits.

The continued downturn also affected several customers to whom the products were sold and taking into consideration the financial health of some of these customers, the management has made a provision of Rs. 205.73 lacs towards doubtful debts. These provisions have been made in view of the additional information received regarding the present financial conditions of these customers post the adoption of the un-audited accounts and hence the audited accounts reflect a reduced net profit for the year at Rs. 418.43 lacs as against Rs. 600.19 lacs reflected in the un-audited numbers.

While the provisions have been made in the accounts as a matter of prudence, the management is making all efforts to collect the amounts due and holds a strong belief that these amounts will be realized over the next 12 to 15 months.

DIRECTORS' RESPONSIBILITY STATEMENT :

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

a) That in the preparation of the accounts for the year ending March 31 2002, the applicable accounting standards have been followed and there are no material departures there from.

b) That the accounting policies have been selected and applied consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31 2002 and of the profit of the Company for the year ended on that date.

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

d) That the accounts for the year ended March 31 2002 has been prepared on a going concern basis.

DIVIDEND :

Your Directors recommend a dividend of Rs. 1/- per share (10% on par value of Rs.10/-), for the current year. In absolute value, the dividend payout for the current year is Rs. 71.26 lacs as compared to Rs. 142.51 lacs for the previous year. The dividend payout as a percentage of net profit is 17.03% as against 15.28% (inclusive of dividend tax) in the previous year. The dividend is payable on all the shares issued during the year.

The dividend has been reduced from 20% in the previous year to 10% this year with a view to conserve cash to be able to extend special payment terms to potential customers and thereby win more business in a tough environment. This move will also enable the company to overcome the impact of long collection cycles.

BUSINESS :

The Company maintained its focus on applications' software for telecom. Several large carriers were added as the customers for the "RevMax™" suite of products. Since the key challenge before a telecom carrier today is to maximize revenue, retain customers and optimize the infrastructure, the response, for RevMax™, comprising Ranger™, a fraud management system, eProficio™ an electronic business support system and churn management tool and INcharge™, an inter-carrier billing verification system, has been excellent.

The offshore services delivery model that the company had established could not be sustained, since the customers in the US, for whom R&D work was undertaken by the company, were impacted by the downturn in the telecom industry and hence were unable to continue the contracts. In view of the uncertainty in the recovery of the sector and future contracts, your management decided to discontinue the offshore service centre. Several employees of this division were absorbed in the Software Products Division.

The professional consulting services in the US, offered through the subsidiary, also was not spared by the downturn. There were several project cancellations and the margins were under pressure. However, the management is happy to state that the business has improved in the last two quarters and the outlook is positive.

SHARE CAPITAL :

The Company allotted 2,13,770 shares of Rs. 10/- each at a premium of Rs. 90/- per share to Toronto Dominion Bank, for cash, on 27th April 2002.

SUBSIDIARIES – SUBEX TECHNOLOGIES, INC :

For the year ended March 31 2002, Subex Technologies, Inc., earned an income of US$ 72,57,356 and a net profit of US$ 5650. The subsidiary provides consultants for the contracts of your company and as such, the subsidiary's income is reflected in the books of the parent. The consolidated accounts are separately appended to this report. Your management has obtained an independent valuation of the subsidiary, according to which, there has been no impairment in the carrying cost of the investment.

ACQUISITION OF INTELLECTUAL PROPERTY RIGHTS OF MAGARDI, INC :

During the year, the Company acquired the Intellectual Property Rights (IPR) comprising software codes and licenses of OUTsmart™, a wireline fraud management system and INcharge™, an inter-carrier billing verification system from PricewaterhouseCoopers, Inc., (receiver of the property assets and undertaking of Magardi, Inc on behalf of Toronto-Dominion Bank, and secured lenders of Magardi, Inc) at a total cost of Rs. 1,589.57 lacs.

The Company integrated OUTsmart™ into Ranger™ and a single product covering both wireline and wireless operators is being marketed. The product INcharge™ was only at a conceptual stage during acquisition and substantial development is underway for a beta version.

It was the intention of the Company at the time of acquisition that the cost of acquisition will be amortised during the year. Since, the products acquired cease to exist, based on expert opinion, the company proposes to write-off the cost of the intangible asset against the balance in the share premium account. The shareholders of the Company have approved the same in the extraordinary general meeting held on June 27 2002 and the Company has filed an application for the confirmation of the Honourable High Court of Karnataka under the provision of Section 78 and 100 of the Companies Act, 1956.

BRANDING :

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

INFRASTRUCTURE :

The Company setup a marketing office in Cyprus and a marketing and support office in Canada, during the year.

EMPLOYEE STOCK OPTION PLANS :

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

EMPLOYEE STOCK OPTION PLAN - I (ESOP – I)

Instituted during 1999, ESOP – I is operated through Subex Foundation and was vested with 1,20,000 Equity Shares originally. Subsequent to the issue of Bonus Shares, the number of shares available under the scheme has increased to 2,40,000 Equity Shares of which 1,59,375 shares have been allotted to 39 employees. The original shares allotted under the scheme are subject to a minimum lock-in period of three years and Bonus Shares, subject to a minimum lock-in period of one year. The shares under the scheme are allotted at a price, which is not less than 50% of the market value of the shares as on the date of grant.

EMPLOYEE STOCK OPTION PLAN - II (ESOP- II)

Under this scheme, 5,00,000 options have been allocated for grant to the employees. Each option is convertible into one Equity Shares of Rs.10/-, each fully paid. This scheme has been formulated in accordance with the SEBI guidelines on ESOP & ESPS dated June 19,1999. As per the scheme, the Compensation Committee grants the option to those employees deemed eligible by the Advisory Board constituted for the purpose. The options are granted at a price, which is not less than 85% of the average market price of the underlying shares, based on the quotation in the Bombay Stock Exchange for 15 days prior to the date of grant. The options granted vest over a period of 1 to 4 years and can be exercised over a period of 3 years from the date of vesting. As on March 31, 2002, 141 employees were granted options aggregating to 2,07,900.

Additional information as per SEBI guidelines;

		ESOP – I	ESOP - II
1.	Number of shares / options allotted / granted during the year.	Nil	97,950
2.	Grant price – percentage of discount to the market price of the shares on the date allotted / granted.	N.A.	85% of average market price for 15 days prior to the date of grant.
3.	Shares / options issued to Senior Management.	N.A.	J M Prasad 11,000 K.Dakshinamurthy 10,000 Bruce Jones 6,000
4.	No. of employees to whom more than 5% of the shares / options issued during the year.	N.A.	Three
5.	No. of employees who were issued shares exceeding 1% of the issued capital of the Company.	None	None
6.	Diluted earning per share	-	Rs. 5.68

ORGANIZATIONAL CHANGES :

Due to various organizational changes, Mr. Anurag Tyagi, Chief Technology Officer, Telecom Consulting Group, Mr. S.S. Sundarkrishna, Senior Vice President, Software Development and Mr. Prabha Shankar Nadig, Assistant Vice President, Software Development resigned from the Company. Other changes were effected to provide more focus to Software products.

CORPORATE GOVERNANCE :

Your Company has complied with all the recommendations of the Kumaramangalam Birla Committee on Corporate Governance constituted by the Securities Exchange Board of India (SEBI), The compliance report for the financial year ended 2002, is provided in the Corporate Governance report in this Annual Report. The auditors' certificate on compliance with the mandatory recommendations of the committee is annexed to this report.

In addition, your directors have documented your Company's internal policies on Corporate Governance. In line with the committee's recommendations, the management's discussion and analysis of the financial position of the Company is provided in this Annual Report

INVESTOR RELATIONS :

In keeping with the Company's objective of being investor friendly, an Investor Relations Department (IRD) under Mr. Alex J. Puthenchira, co-founder of the Company, has been setup. The IRD proactively interacts with the investors on their suggestions, queries and requests. The Company's web site **(www.subexgroup.com)** has a separate Investor Relations Section which provides considerable information about the Company and answers to the list of Frequently Asked Questions and Return on Investment calculator among other relevant data.

The Company offers holding of shares in de-materialised form and towards this has entered into the necessary agreements with NSDL and CDSL.

DIRECTORS :

Mr. K. Bala Chandran and Mr. V. Balaji Bhat, Directors, retire by rotation and being eligible, offer themselves for re-appointment.

FIXED DEPOSITS :

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

PARTICULARS OF EMPLOYEES :

As required under the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, the names and other particulars of employees are set out in the annexure included in this report.

INFORMATION UNDER SECTION 217 1(e) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 :

a) PARTICULARS OF CONSERVATION OF ENERGY

The operations of the Company involve low energy consumption. However adequate measures have been taken to conserve the energy consumption.

b) FOREIGN EXCHANGE EARNING AND OUTGO :

The change in the business mix of the Company has resulted in substantial foreign exchange earnings as compared to the previous years. With the focus of your Company on software services and product exports, the consequent foreign exchange earning is expected to increase. However the acquisitions will result in foreign exchange outgo, which over a period of time is expected to be exchange neutral.

i) Foreign Exchange earnings Rs. 5,108.59 lacs. (Previous year Rs. 4,256.89 lacs)
ii) Foreign Exchange outgo Rs. 5,365.41 lacs. (Previous year Rs. 4,512.99 lacs)

c) TECHNOLOGY ABSORPTION :

i) Technology Absorption, Adoption and Innovation :

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

AUDITORS' OBSERVATIONS :

The Note No. II.4 of Schedule R referred to in the Auditors' observation no. (vii) is self explanatory.

AUDITORS :

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

SOCIAL RESPONSIBILITIES - SUBEX CHARITABLE TRUST

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

1. Provided health care to tribals at a cost of Rs. 1.31 lacs.
2. Sponsored scholarship for 2 students for an academic year at a cost of Rs. 0.24 lacs.
3. Medical expenses Rs. 0.45 lacs.

ACKNOWLEDGMENTS :

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

For and on Behalf of the Board

Place : Bangalore
Date : September 17, 2002

Subash Menon
Chairman & Managing Director

ANNEXURE TO THE DIRECTORS' REPORT :

Information as per Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended March 31, 2002.

Name	Designation	Quali-fication	Age	Experience (No.of Years)	Date of Commen-cement of Employment	Remuneration received Rs.	Previous Employment
Subash Menon	Managing Director	B.E	36	14	December 1994	1,295,274	Eltel Industries
Alex J Puthenchira	Executive Director	B.E	36	14	December 1994	1,226,388	Inductotherm (India) Limited
Sudeesh Yezhuvath	Wholetime Director	B.Tech	33	12	December 1994	1,621,108	Transmatic Private Limited
Dakshinamurthy Karra	General Manager-Software Devt.	B.Sc	38	14	February 1999	1,359,900	Powertel Boca Ltd
J.M.Prasad	Chief - Human Resources	M.B.A	41	16	April 2000	1,397,664	Tata Elxsi Ltd
Sreejith K.M	Senior Project Manager	B.E	33	10	November 2000	1,424,114	Digital India
Anurag Tyagi *	Chief Technology Officer-Telecom	Ph.D	38	10	September 2000	817,257	The Hong Kong Univ. of Science & Tech.
Prabha Shankar Nadig*	Asst.V.P-Software Development	B.E	44	18	February 2001	1,286,902	C.B.S.I
S. S. Sundarakrishna*	Sr.V.P- Technical	B.E	45	21	February 1999	2,040,135	PSI Data Systems Ltd

* Employed for part of the year.

Report on Corporate Governance

Securities and Exchange Board of India (SEBI) has at its meeting held on January 25, 2000 considered the following recommendations of the Kumaramangalam Birla Committee on Corporate Governance and decided to implement the recommendations through an amendment to the Listing Agreement of Companies listed with the stock exchanges.

I. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

Over the years, Subex has shown a commitment towards effective Corporate Governance. Consistent with this commitment, Subex seeks to achieve a high level of responsibility and accountability in the internal systems and policies. Subex respects the inalienable rights of the shareholders to information on the performance of the Company. The Company's Corporate Governance policies ensures among others the accountability of the Board of Directors and the importance of its decisions to all its participants viz., Customers, employees, investors, regulatory bodies etc.

II. BOARD OF DIRECTORS

A. Composition and category of Directors as on March 31, 2002 is as follows

Category	No. of Directors	%
Promoter Directors	2	33%
Non executive independent directors	3	50%
Other Executive Directors	1	17%
Total	6	100%

B. Attendance of each director at the BOD meetings and the last AGM and membership on other BOD or Committees.

Director	No. of Board Meetings held	No. of Board Meetings attended	Last AGM attendance	No. of other membership on other Boards
Mr. Subash Menon	7	7	Yes	2
Mr. Alex J. Puthenchira	7	6	Yes	2
Mr. K. Bala Chandran	7	4	Yes	1
Mr. V. Balaji Bhat	7	6	Yes	6
Mr. Vinod R. Sethi	7	4	Yes	9
Mr. Sudeesh Yezhuvath	7	3	No	0

C. Number of Board of Directors meetings held, dates on which held.

7 (seven) Board meetings were held during the year. The dates on which the meetings were held are as follows

02-05-2001	26-05-2001	13-07-2001	30-07-2001	22-10-2001
02-01-2002	27-01-2002			

D. Brief details of Directors seeking re-appointment.

Mr. V. Balaji Bhat and Mr. K. Bala Chandran seek re-appointment at the ensuing Annual General Meeting.
Mr. V. Balaji Bhat is a qualified Chartered Accountant with 14 years of experience.
He is also a Director on the Board of following Companies:

IndusAge Advisors Private Limited, IndusAge Management Services Private Limited, IndusAge Advisors (Asia Pacific) Pte Ltd, Federal Technologies Limited, Apara Enterprise Solutions Private Limited, Amsal Infotech Private Limited

Mr. K. Bala Chandran is a Graduate in Physics and holds a Post Graduate Diploma in Business and Industrial Management.

He is the Managing Director & CEO of M/s Krone Communications Ltd., a listed company in the field of Physical Connectivity Solutions for Telecommunications and Data Networking. Prior to this, he was Technical Sales Engineer – High Vacuum Division of Lawrence & Mayo (India) P Ltd and Regional Manager – Clean Systems Division of the S&J Group.

III. AUDIT COMMITTEE

A. As required by the Code of Corporate Governance, a qualified and independent Audit Committee shall be set up having a minimum of three independent non-executive directors as members. The role of the Audit Committee shall include the following:

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

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

B. Composition, name of members and chairperson.

The Company has an Audit Committee since January 25, 2001, under the chairmanship of Mr V. Balaji Bhat with Mr. Subash Menon, Mr. K. Bala Chandran and Mr. Vinod R Sethi as members thereof. The Company Secretary is the secretary of the Audit Committee.

C. Meetings and attendance during the year.

During the financial year 2001-02, the Audit Committee meetings were held two times, i.e., on 2nd May 2001 and 21st October, 2001 and the Audited Accounts for the year ending March 31, 2001 and half-yearly unaudited accounts for the period ending 30th September 2001 were adopted at these meetings respectively. All the Committee members attended both the Meetings.

IV. REMUNERATION COMMITTEE

This committee, being non-mandatory in nature, has not been set up.

A. Details of Remuneration to all Directors.

Name	Designation	Remuneration Rs.
Mr. Subash Menon	Chairman & Managing Director	12,95,274
Mr. Alex J Puthenchira	Executive Director	12,26,388
Mr. Sudeesh Yezhuvath	Wholetime Director	16,21,108

In case of Mr. Subash Menon and Mr. Alex J Puthenchira, there is no Performance Incentive, commission to be paid, notice period or severance fee other than gratuity benefit. No stock options have been granted to these Directors except Mr. Sudeesh Yezhuvath.

V. SHARE TRANSFER COMMITTEE

The Company holds Share Transfer Committee Meetings two / three times a month as may be required, for approving the transfers/transmissions of equity shares. The Company has appointed Canbank Computer Services Limited, a SEBI recognised transfer agent, as its Share Transfer Agent with effect from November 6, 2001. The Share Transfer Committee has met 33 (Thirty Three) times during the financial year 2001-02 on these days:

10-04-2001	20-04-2001	30-04-2001	10-05-2001	19-05-2001	30-05-2001
09-06-2001	20-06-2001	30-06-2001	13-07-2001	20-07-2001	30-07-2001
10-08-2001	20-08-2001	30-08-2001	10-09-2001	20-09-2001	30-09-2001
10-10-2001	20-10-2001	30-10-2001	10-11-2001	20-11-2001	30-11-2001
10-12-2001	20-12-2001	31-12-2001	15-01-2002	31-01-2002	15-02-2002
28-02-2002	15-03-2002	30-03-2002			

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

VI. INVESTOR GRIEVANCE COMMITTEE

A. This Committee looks into redressal of shareholder and investor complaints.

The members of the Company's investor grievance committee are:
Mr. K. Bala Chandran, Chairman
Mr. Alex J. Puthenchira

B. Number of shareholders complaints received, number not solved to the satisfaction of the shareholder and number of pending transfers.

The details are provided in the "Shareholders Information" section of this report.

VII. COMPENSATION COMMITTEE

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

A. Members of the Committee.

The committee comprises of following members:
Mr. V. Balaji Bhat, Chairman
Mr. K. Bala Chandran
Mr. Subash Menon

B. Meetings and attendance during the year.

The committee has met 5 times during the current financial year on these dates:

06-06-2001 26-09-2001 08-10-2001 09-10-2001 01-01-2002

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

VII. GENERAL BODY MEETINGS

A. Location and time of the last three AGMs.

Year	Venue	Time
April 24,1999	Registered Office	10.00 a.m.
June 19, 2000	Le Meridien – Bangalore	3.00 p.m.
Jue 13, 2001	Le Meridien – Bangalore	3.00 p.m.

B. Whether any special resolutions were put through postal ballot last year, details of voting pattern, person who conducted the postal ballot exercise, proposed to be conducted through postal ballot and procedure for postal ballot.

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

VIII. DISCLOSURES

A. Disclosures on materially significant related party transactions i.e. transactions of the Company of material nature, with its founders, the directors or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of the Company at large.

It is provided under the paragraph "related party transactions" in the financial statements section in this Annual Report.

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

None.

IX. MEANS OF COMMUNICATION

A. Quarterly results – which newspaper normally published in; any website, where displayed; whether it also displays official news releases; and the presentations made to institutional investors or to the analysts.

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

B. Whether the Management Discussion and Analysis section is part of the annual report or not.

Yes

X. GENERAL SHAREHOLDER INFORMATION

This is provided in the Shareholders Information section of this Annual Report.

Subex Systems Limited

Place : Bangalore
Date : September 17, 2002

Subash Menon
Chairman & Managing Director

Auditors' Certificate

To the Members of Subex Systems Limited

We have examined the compliance of conditions of Corporate Governance by **Subex Systems Limited,** for the year ended March 31, 2002, as stipulated in clause 49 of the Listing Agreement of the said Company with the Stock Exchanges.

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

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

As required by the Guidance Note issued by the Institute of Chartered Accountants of India, we have to state that based on the report given by the Registrars of the Company to the Investors' Grievances Committee, as on March 31, 2002, there were no investor grievance matters against the Company remaining unattended /pending for more than 30 days.

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

For Deloitte Haskins & Sells
Chartered Accountants

Place : Bangalore
Date : September 17, 2002

V. Srikumar
Partner

Additional Information to Shareholders

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

1. Company

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

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

1.3. Subex, unlike the general trend in the software business sector in India, focuses on developing and marketing application products in the field of telecommunication. These solutions are developed at the facilities of the company in Bangalore and are sold, marketed and supported by its' many offices around the world. The Company's vision is to be a global leader in providing software products and solutions for telecom applications. Towards this, the business strategy is focused on :

1.3.1. Creation and promotion of a master brand "RevMax™" which forms the platform for all the products. RevMax™ is squarely positioned in the revenue maximization space.

1.3.2. Conceptualising, designing and developing products for telecom applications in the revenue maximization segment with a special emphasis on fraud management, churn management, inter-carrier billing verification, intra-carrier billing verification etc. for both circuit switched and packet switched networks.

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

1.3.4. Acquiring businesses which are strategic and complementary to the existing line of activities.

2. Business and Operations

2.1. Business Segments

2.1.1. The Company operates in two major business segments.

2.1.1.1. **Telecom Software Products -** The Company's defined space of operation for products is Revenue Maximization. The objective is to develop and market products that belong to this category. Towards this end, the Company has developed and is marketing Ranger™, a fraud management system; eProfocio™, an Electronic Business Support System for churn management through enhanced customer satisfaction and INcharge™, an inter-carrier billing verification system. Further, the company is in the process of developing more products for the same market segment. These products form a suite in the Revenue Maximization space, called RevMax™. The customers for these products are voice, data, internet and such other communications service providers.

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

2.1.1.3. **Business Mix -** Blazing a new path in the software business segment in the country in general and in the telecom software business segment in particular, we have grown quite substantially in the application software products arena. Our special commitment to this part of the business and the continued focus achieved increasingly throughout the year has started to bear fruits in a very satisfying manner with regard to the revenue and profit composition.

The Company expects to increase the tilt in the revenue composition in favour of this segment to further improve the profitability of the Company that will be witnessed in the years to come, starting with the financial year FY03.

2.2. Sales & Marketing, Customers & Growth :

2.2.1. Brand building and positioning form the under pinning strategies for success in software products business. Subex has successfully positioned its' RevMax™ suite of product offering in the vibrant area of revenue maximization. Several methods have been adopted to continue this crucial activity and they include participation in trade shows, speakerships at trade conferences, channel partnerships, technology partnerships, direct marketing and memberships in industry associations.

2.2.2. Trade shows - Subex participates in more than 15 trade shows in a year in select geographies. The objective is to increase this to about 25 in the coming years.

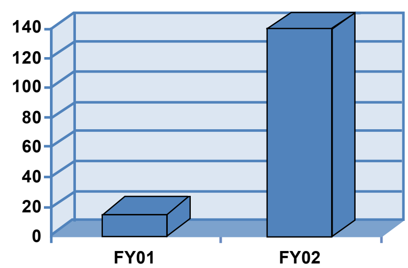
2.2.3. Channel Partnerships - Subex has several partners who operate in various strata of sales efforts. These include Tekelec, Voicecom, Erlang Communications etc.

2.2.4. Technology Partnerships - These are essential to stay in the leading edge of technology that in itself forms a key aspect for growth. Subex partners with world leaders like Intel, Sun Microsystems, HP, IBM, Microsoft, Oracle etc.

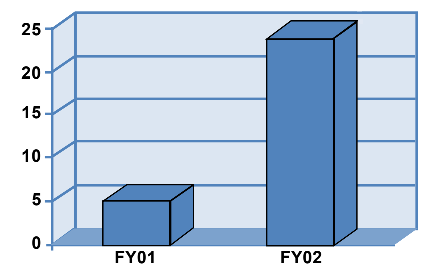
2.2.5. Direct Marketing - Subex regularly produces white papers and technology documents which are distributed worldwide to the industry professionals. This effort helps position Subex as an organization in the forefront of technology. Further, it leads to a consulting relationship with customers who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

2.2.6. Memberships - Keeping abreast of technology calls for active participation in industry bodies. Such association also provides an opportunity for Subex to play a key role in formulating specifications and guidelines for the industry. Subex is a member of GSM Association, FIINA, CFCA, TUFF and NASSCOM.

2.2.7. The company has been constantly expanding its' customer base while growing deeper into each relationship. An increasing number. of installations have been achieved during FY02. This is expected to result in an increased annuity base for the years to come. Key statistics about customer acquisition and the growth of the same are given below graphically.



Call Detail Records (CDR) being processed by Ranger™ per day, in millions



Total number of networks with Ranger™ installations

2.3. Quality

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

2.4. Employees

2.4.1. Subex had 200 employees as at March 31, 2002. The Company provides excellent opportunities for professionals to be involved in leading edge technologies with a view to solve complex technical problems. This has resulted in an ability to attract and retain highly qualified professionals. The Company has Employee Stock Option Plans to reward performance. On the whole, the Company has been able to achieve a high level of retention. The Company empowers its personnel extensively and provides continuous training and upgradation of skills.

2.5. Properties

2.5.1. The Company operates from about 27,000 Sq. Ft. of leased premises at various locations in India and US. The Company is also in the process of setting up additional facilities.

3. Outlook – Issues & Risks

3.1. Technology & Trends

3.1.1. The telecom software products and services segments that Subex operates in, is subject to high levels of obsolescence and rapid technological changes. This is particularly true for the products business of the Company. Subex has set up processes and methodologies to address this threat and to turn it into a strategic advantage by being in the forefront of technological evolution. Regular skill upgradation programs and training sessions that include attending global conferences, employing specialized consultants etc. are undertaken.

3.1.2. The products and services offered by the Company fulfill the critical need of any carrier with regard to maximizing revenues & profits and optimizing costs. Given the tough financial and growth conditions being faced by the carriers, the world over, managements of these Companies today accord an increased significance to the procurement and deployment of revenue maximization solutions. This attitudinal change in the market place has resulted in a healthy demand for the products and services of the company while boosting competition necessitating a continuous learning process. Subex has been successful in overcoming these challenges in the market place and establishing its' RevMax™ brand as a reliable, robust and technically advanced suite of products and services that adequately meets the requirements of the carriers.

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

3.2. Market

3.2.1. The downturn in the telecom industry, on an unprecedented scale, could affect the growth of the Company. However, the focus of the Company in the high margin business of telecom software applications is expected to overcome the impact.

3.2.2. Certain markets in which the Company sells its products are subject to foreign exchange repatriation and economic risks, which may result in either delayed recoverability or even non realisability of revenue. Though the Company entered several such markets in the past to gain product acceptance, the management is presently cautious in venturing into such markets.

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

3.3. Statutory Obligations

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

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

3.4. Environmental Matter

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

3.5. Legal Proceedings

3.5.1. There are no material legal proceedings pending against the Company.

3.6. Foreign Exchange

3.6.1. The Company has substantial exposure to foreign exchange related risks on account of import of hardware & related software for integration and revenue earnings & expenses relating to export of software. The Indian Rupee has depreciated against the US dollar during the year and it is difficult to predict the future exchange rates. The Company intends to improve Foreign Exchange Management within the Company with the help of outside professionals.

3.7. Taxation

3.7.1. Significant tax benefits have been given to the software Companies in India. These benefits are presently available to the Company. However, with frequent changes in the Government, the policies are also subject to change. Any changes may adversely affect the post tax profits of the Company.

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

3.8. Litigation

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

3.9. Contractual Obligation

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

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

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

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

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

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

5. Key Financials and Ratio Analysis

Rs. in lacs except the key indicators

Financial Highlights / Year ending March 31	2002	2001	2000	1999	1998
Total Income	5925.09	5,578.84	3,158.58	1,183.32	813.09
Export Sales	5737.92	4,795.94	1,341.97	156.21	–
Operating Profits (EBDIT)	956.67	1,269.01	654.52	173.22	118.17
Depreciation & Amortisation	356.76	208.00	37.70	11.80	9.44
Profit before tax	479.15	1,039.44	562.58	115.77	80.22
Profit after tax	418.43	1,027.72	502.58	102.51	58.72
Equity Dividend %	10%	20.00%	40.00%	30.00%	30.00%
Share Capital	712.57	712.57	356.24	106.41	106.41
Reserves & Surplus	4,580.12	4,218.17	3,690.52	214.53	147.12
Net Worth	3,671.06	4,883.93	3,998.05	320.79	253.35
Gross Fixed Assets	1,638.05	1,098.24	507.43	242.79	189.61
Net Fixed Assets	1,095.28	855.03	450.11	209.20	167.63
Total Assets	8,961.64	6,720.57	6,355.11	1,005.16	748.97
Key Indicators					
Earning per Share	5.87	14.42	14.11	9.63	5.52
Cash Earning per Share	10.88	17.34	15.17	10.74	6.41
Book value per Share	51.52	68.54	112.23	30.15	23.81
Debt (including Working Capital) Equity Ratio	0.46	0.01	0.01	0.53	0.40
EBDIT / Sales - %	16.15%	22.75%	20.72%	14.63%	14.53%
Net Profit Margin - %	7.06%	18.42%	15.91%	8.66%	7.22%
Return on year end Net Worth %	11.40%	21.04%	12.57%	31.96%	23.18%
Return on year end Capital Employed %	17.90%	25.62%	16.22%	31.81%	30.06%

Auditors' Report

To the Members of Subex Systems Limited

We have audited the attached Balance Sheet of **Subex Systems Limited,** as at March 31, 2002, and the Profit and Loss Account of the Company for the year ended on that date annexed thereto. These finanical statements are the responsibility of the management of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As required by the Manufacturing and Other Companies (Auditors' Report) Order, 1988 issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order, to the extent applicable to this Company.

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

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

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

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

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

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

(vi) On the basis of written representations received from the Directors of the Company, as at March 31, 2002 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on March 31, 2002 from being appointed as a Director in terms of clause (g) of sub-section(1) of Section 274 of the Companies Act, 1956.

(vii) *As explained in Note II.4 of Schedule R, the management does not propose to develop and market OUTsmart™ as a stand alone product and, on receipt of the approval of the High Court of Karnataka, proposes to write off the cost of the acquisition of the intellectual property rights of Rs. 158,956,637 against the balance in the share premium account rather than writing off the same to revenue.*

(viii) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the notes and accounting policies give the informaton required by the Companies Act, 1956, in the manner so required and *subject to our comments in para (vii) above*, give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2002; and

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

For Deloitte Haskins & Sells
Chartered Accountants

Place : Bangalore
Date : September 17, 2002

V. Srikumar
Partner

Annexure to the Auditors' Report

(Referred to in our Report of even date)

1. The Company has maintained proper records showing full particulars including quantitative details and situation of Fixed Assets. The programme of physical verification of Fixed Assets by the Management provide for such verification in a phased manner over a period. The verification carried out by the Management, in our opinion, is reasonable having regard to the size of the Company and nature and location of its assets.

2. The Fixed Assets of the Company have not been revalued during the year.

3. The stock of finished goods, stores and spare parts and raw materials have been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.

4. The procedures of physical verification of stock followed are reasonable and adequate in relation to the size of the Company and the nature of its business.

5. The discrepancies noticed on verification between the Physical Stocks and the book records have been properly dealt with in the books of accounts.

6. On the basis of our examination of stock, we are of the opinion that the valuation of stocks is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the preceeding year.

7. The Company has taken inter corporate deposits from Companies under the same management within the meaning of Section 370 (1B) of the Companies Act, 1956, the terms of which are not prima facie prejudicial to the interests of the Company. The Company has not taken any loans from Companies, Firms or other parties listed in the Register maintained under Section 301 of the Companies Act 1956.

8. The Company has not granted any loans to Companies, Firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956 and Companies under the same management within the meaning of Section 370(1B) of the Companies Act, 1956.

9. Loans and Advances in the nature of loans have been given to employees and others who are repaying the principal amount as stipulated and are also regular in payment of interest where applicable.

10. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of stores, raw materials including components, plant and machinery, equipment, other assets and for the sale of services. With respect to the sale of software products, the Company is in the process of strengthening it's documentation procedures for the delivery of its products to customers.

11. In our opinion, and according to the information and explanations given to us, the transaction of purchase of goods and materials and services made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to Rs.50,000/- or more in respect of each party have generally been made at prices which are reasonable having regard to the prevailing market prices as available with the Company or prices at which transactions for similar goods or services have been made with other parties.

12. As explained to us, the Company has a regular procedure for determination of unserviceable or damaged stores, raw materials and finished goods. Adequate provision has been made in the accounts for the loss arising on the items so determined.

13. As explained to us, the Company has not accepted any deposits from the public.

14. As explained to us, the Company does not generate any scrap and does not have any by-products.

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

16. We are informed that the Central Government has not prescribed the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956, for the products of the Company.

17. According to the records of the Company, the Company has been regular in depositing Provident Fund and Employees' State Insurance dues with the appropriate authorities during the year.

18. According to the information and explanations given to us, no undisputed amounts payable in respect of Income Tax, Wealth Tax, Sales Tax, Customs Duty and Excise Duty were outstanding as at March 31, 2002, for a period of more than 6 months from the date they became payable.

19. According to the information and explanations given to us, no personal expenses have been charged to revenue other than those payable under contractual obligations or in accordance with generally accepted business practice.

20. In our opinion, the Company is not a Sick Industrial Company within the meaning of clause(0) of subsection (1) of Section 3 of the Sick Industrial Companies (special Provisions) Act, 1985.

21. In our opinion, and according to the information and explanations given to us, the Company has a reasonable system of allocating man-hours utilized to the relative projects, commensurate with the size of the Company and nature of its business.

For Deloitte Haskins & Sells
Chartered Accountants

Place : Bangalore
Date : September 17, 2002

V. Srikumar
Partner

Balance Sheet

As at March 31, 2002

	SCH	AS AT MARCH 31,2002 Rs.	Rs.	AS AT MARCH 31, 2001 Rs.	Rs.
SOURCES OF FUNDS :					
SHAREHOLDERS' FUNDS :					
Share Capital	A	71,256,800		71,256,800	
Reserve and Surplus	B	458,011,936	529,268,736	421,817,355	493,074,155
LOAN FUNDS :					
Secured Loans	C	131,801,044		6,969,534	
Unsecured Loans	D	35,475,000		–	
Deferred payment consideration towards acquisition of a subsdiary and Intellectual Property Rights		137,356,629	304,632,673	123,124,749	130,094,283
TOTAL			833,901,409		623,168,438
APPLICATION OF FUNDS :					
FIXED ASSETS :	E				
Gross Block		163,773,960		109,764,299	
Less : Depreciation		54,277,502		24,320,658	
Net Block		109,496,458		85,443,641	
Capital work in progress		31,304		59,748	
			109,527,762		85,503,389
INVESTMENTS :	F		330,184,287		326,220,847
DEFERRED TAX ASSET (NET):			1,550,000		–
CURRENT ASSETS, LOANS & ADVANCES :					
Inventories	G	2,830,132		3,707,351	
Sundry Debtors	H	234,868,075		177,312,714	
Cash & Bank balances	I	18,828,451		42,889,432	
Loans & Advances	J	36,212,617		39,067,290	
		292,739,275		262,976,787	
Less: Current liabilities & Provisions	K	62,262,942		56,213,699	
Net Current Assets			230,476,333		206,763,088
MISCELLANEOUS EXPENDITURE :					
(To the extent not written off or adjusted)	L		162,163,027		4,681,114
TOTAL			833,901,409		623,168,438
NOTES ON ACCOUNTS :	R				

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

In terms of our report of even date

For Deloitte Haskins & Sells
Chartered Accountants

V. Srikumar
Partner

Place : Bangalore
Date : September 17, 2002

Subash Menon
Chairman & Managing Director

V. Balaji Bhat
Director

S. Rama Kumar
Company Secretary

Alex J. Puthenchira
Executive Director

Vinod R. Sethi
Director

Profit and Loss Account

For the period ended March 31, 2002

	SCH	2001 - 2002 Rs.	2001 - 2002 Rs.	2000 - 2001 Rs.	2000 - 2001 Rs.
INCOME :					
Sales & Services			591,826,924		552,381,608
Other Income	M		681,763		5,502,692
TOTAL			592,508,687		557,884,300
EXPENDITURE :					
Materials Consumed	N		1,337,136		53,006,578
Personnel Costs	O		417,512,724		338,889,936
Other Manufacturing, Selling and Administrative Expenses	P		77,992,144		39,087,106
Financial Costs	Q		12,075,645		2,156,588
Miscellaneous Expenses amortised			1,474,724		1,474,724
Depreciation	E		34,200,824		19,325,320
TOTAL			544,593,197		453,940,252
Profit Before Taxation			47,915,490		103,944,048
Provision for taxation					
- Current		4,350,000		59,780	
- Deferred		(1,150,000)	3,200,000	–	59,780
Profit After Taxation			44,715,490		103,884,268
Prior period taxes [Refer Note II.5 of Schedule R]			2,872,540		1,112,382
			41,842,950		102,771,886
Add: Balance brought forward from Previous Year			18,700,368		6,633,481
Profit Available for Appropriation			60,543,318		109,405,367
APPROPRIATION :					
Transfer to General Reserve			1,500,000		75,000,000
Proposed dividend			7,125,680		14,251,360
Tax on distributed profits			–		1,453,639
Balance carried to Balance Sheet			51,917,638		18,700,368
			60,543,318		109,405,367
Earnings per Share - Basic			5.87		14.42
Earnings per Share - Diluted			5.68		14.02
NOTES ON ACCOUNTS :	R				

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

In terms of our report of even date

For Deloitte Haskins & Sells
Chartered Accountants

Subash Menon
Chairman & Managing Director

Alex J. Puthenchira
Executive Director

V. Srikumar
Partner

V. Balaji Bhat
Director

Vinod R. Sethi
Director

Place : Bangalore
Date : September 17, 2002

S. Rama Kumar
Company Secretary

Schedules to Balance Sheet

As at March 31, 2002

	As at March 31, 2002 Rs.	Rs.	As at March 31, 2001 Rs.	Rs.
SCHEDULE - A :				
SHARE CAPITAL :				
AUTHORISED :				
20,000,000 Equity Shares of Rs. 10/- each		200,000,000		200,000,000
TOTAL		200,000,000		200,000,000
ISSUED, SUBSCRIBED AND PAID UP:				
7,125,680 Equity Shares of Rs. 10/- each		71,256,800		71,256,800
Of the above:				
a) 115,000 shares of Rs.10/- each were allotted for consideration otherwise than for cash;				
b) 4,626,940 shares of Rs.10/- each are allotted as Bonus Shares by capitalisation of General Reserve;				
c) 12,840 shares of Rs.10/- each are allotted in part settlement of cost of acquisition of subsidairy.				
TOTAL		71,256,800		71,256,800
SCHEDULE - B :				
RESERVES AND SURPLUS :				
Capital Reserve		13,006,920		13,006,920
General Reserve - Opening Balance	80,902,608		41,531,008	
Add : Additions during the year	1,500,000		75,000,000	
	82,402,608		116,531,008	
Less : Utilised for issue of Bonus Share	–		35,628,400	
	82,402,608		80,902,608	
Add: Deferred Tax Asset as at 01/04/2001	400,000	82,802,608	–	80,902,608
Share Premium Account		307,907,000		307,907,000
Employees Stock Options Outstanding	3,877,098		5,526,345	
Deferred Employees Compensation Expenses	1,499,328	2,377,770	4,225,886	1,300,459
Profit & Loss Account		51,917,638		18,700,368
TOTAL		458,011,936		421,817,355
SCHEDULE - C :				
SECURED LOANS :				
State Bank of India - MTL		29,698,327		–
State Bank of India - FCNB Loan		91,810,100		–
(First charge on all fixed assets of the Company, both present and future, book debts, stock, personal guarantee of two directors and equitable mortgage of industrial land) [Amount repayable within one year: Rs.101,830,100 (Previous Year: Nil)]				
Hire Purchase		10,292,617		6,969,534
(Hypothecation of Motor cars and Server) [Amount repayable within one year: Rs.3,311,062 (Previous Year: Rs.1,516,450)]				
TOTAL		131,801,044		6,969,534
SCHEDULE - D :				
UNSECURED LOANS :				
Inter Corporate Deposit - Subex Holdings Pvt. Ltd		35,475,000		–
		35,475,000		–

SCHEDULE - E :

FIXED ASSETS

Sl. No.	Particulars	GROSS BLOCK As at April 1, 2001	GROSS BLOCK Additions during the Year	GROSS BLOCK Deletion during Year	GROSS BLOCK As at March 31, 2002	DEPRECIATION Upto April 1, 2001	DEPRECIATION For the Year	DEPRECIATION On deletion	DEPRECIATION Upto March 31, 2002	NET BLOCK As at March 31, 2002	NET BLOCK As at April 1, 2001
1	Freehold Land	5,819,103	–	–	5,819,103	–	–	–	–	5,819,103	5,819,103
2	Plant & Machinery	4,629,024	37,186	(125,450)	4,540,760	2,733,199	920,289	(109,876)	3,543,612	997,148	1,895,825
3	Furniture & Fixtures	15,284,247	435,561	–	15,719,808	4,673,208	3,055,333	–	7,728,541	7,991,267	10,611,039
4	Computers	63,458,966	56,991,511	(4,069,319)	116,381,158	11,483,914	25,902,526	(3,079,819)	34,306,621	82,074,537	51,975,052
5	Office Equipments	5,713,532	992,122	(7,250)	6,698,404	1,552,759	1,289,945	(3,228)	2,839,476	3,858,928	4,160,773
6	Electrical Installations	2,163,206	–	–	2,163,206	761,847	429,983	–	1,191,830	971,376	1,401,359
7	Vehicles	11,516,812	1,402,745	(1,242,499)	11,677,058	2,888,415	2,412,867	(932,895)	4,368,387	7,308,671	8,628,397
8	Other Fixed Assets	1,179,409	5,451	(410,397)	774,463	227,316	189,881	(118,162)	299,035	475,428	952,093
		109,764,299	**59,864,576**	**(5,854,915)**	**163,773,960**	**24,320,658**	**34,200,824**	**(4,243,980)**	**54,277,502**	**109,496,458**	**85,443,641**
	PREVIOUS YEAR	**46,552,330**	**66,985,281**	**(3,773,312)**	**109,764,299**	**5,732,774**	**19,325,320**	**(737,436)**	**24,320,658**	**85,443,641**	**40,819,556**

Fixed Assets include assets acquired under Hire Purchase of Rs.15,138,000 (Previous Year : Rs.10,546,000)

Schedules to Balance Sheet

As at March 31, 2002

	As at March 31, 2002 Rs.	As at March 31, 2002 Rs.	As at March 31, 2001 Rs.	As at March 31, 2001 Rs.
SCHEDULE - F :				
INVESTMENTS :				
(Unquoted at Cost)				
Long Term - Non Trade		2,250		2,850
In Government Securities - I.V.P				
Long Term - Trade		330,182,037		326,217,997
Subex Technologies Inc (Wholly Owned Subsidiary, incorporated in U.S.A, common stock 3000 shares, fully paid up, of no par value) [Refer note II.3 of Schedule R]				
TOTAL		330,184,287		326,220,847
SCHEDULE - G :				
INVENTORIES :				
(At cost)				
Raw Materials and Components		–		730
Finished Goods		2,830,132		3,706,621
TOTAL		2,830,132		3,707,351
SCHEDULE - H :				
SUNDRY DEBTORS :				
(Unsecured, considered good, subject to confirmation)				
Outstanding for more than six months				
Considered Good	53,973,341		9,982,756	
Considered Doubtful	20,572,800		–	
	74,546,141		9,982,756	
Less: Provision for Doubtful Debts	20,572,800	53,973,341	–	9,982,756
Others		180,894,734		167,329,958
TOTAL		234,868,075		177,312,714
SCHEDULE - I :				
CASH & BANK BALANCES :				
Cash on hand		119,729		87,817
Balance with Scheduled Banks				
- in Current Account in Indian Rupees		2,764,266		1,344,147
- in Deposit Account in Indian Rupees		13,477,151		3,147,941
- in EEFC Account in foreign Currency		1,334,764		7,505,927
Balance with Non Scheduled Banks				
- in Current Account with First Union Bank, Atlanta (Maximum outstanding during the year Rs.405,066)		–		405,066
- in Current Account with Royal Bank of Canada, Canada (Maximum outstanding during the year Rs. 4,014,396)		462,659		–
- in CAP Account with First Union Bank, New Jersey (Maximum outstanding during the year Rs. 33,094,000)		669,882		30,398,534
TOTAL		18,828,451		42,889,432

Schedules to Balance Sheet

As at March 31, 2002

	As at March 31, 2002 Rs.	Rs.	As at March 31, 2001 Rs.	Rs.
SCHEDULE - J :				
LOANS & ADVANCES :				
(Unsecured, considered good, subject to confirmation)				
Loans and advances recoverable in cash or in kind or for value to be received		3,962,417		9,593,320
Advance Income Tax including TDS		11,908,479		8,780,646
Other Deposits		20,341,721		20,693,324
TOTAL		36,212,617		39,067,290
SCHEDULE - K :				
CURRENT LIABILITIES & PROVISIONS :				
SUNDRY CREDITORS :				
Sundry Creditors (other than Small Scale Industrial Undertaking)	43,307,457		33,025,530	
Unclaimed Dividends	163,757	43,471,214	98,390	33,123,920
PROVISIONS :				
Taxation	11,666,048		8,838,419	
Dividends	7,125,680	18,791,728	14,251,360	23,089,779
TOTAL		62,262,942		56,213,699
SCHEDULE - L :				
MISCELLANEOUS EXPENDITURE :				
(To the extent not written off or adjusted)				
Share Issue Expenses		3,206,390		4,681,114
Intellectual Property Rights [Refer Note II.4 to Schedule R]		158,956,637		–
TOTAL		162,163,027		4,681,114

Schedules to Profit and Loss Account

For the year ended March 31, 2002

	2001 - 2002 Rs.	Rs.	2000 - 2001 Rs.	Rs.
SCHEDULE - M :				
OTHER INCOME :				
Interest Received (Gross - TDS Rs.59,091/-, Previous Year Rs.404,704/-)		262,867		3,134,235
Other Income Received		374,130		1,701,004
Dividend Received		–		140,000
Exchange Fluctuation		44,766		527,453
TOTAL		681,763		5,502,692
SCHEDULE - N :				
MATERIALS, FINISHED GOODS CONSUMED :				
Consumption of raw materials and bought out components				
Opening Stock as at 01-04-2001	730		496,395	
ADD : Purchases	–		–	
	730		496,395	
LESS : Closing Stock	–		730	
		730		495,665
Purchase of Systems & Solutions		459,917		41,358,269
(Increase)/Decrease in finished goods				
Opening Stock - Finished Goods	3,706,621		14,859,265	
Closing Stock - Finished Goods	2,830,132	876,489	3,706,621	11,152,644
TOTAL		1,337,136		53,006,578
SCHEDULE - O :				
PERSONNEL COSTS :				
Salaries, Wages & Allowances				
- Directors	3,794,696		2,760,087	
- Others	63,931,696	67,726,392	30,642,546	33,402,633
Contribution to Provident Fund and Other Funds		2,321,376		2,155,723
Other staff related costs		10,734,960		11,304,903
Sub Contract Charges		336,729,996		292,026,677
TOTAL		417,512,724		338,889,936

Schedules to Profit and Loss Account

For the year ended March 31, 2002

	2001 - 2002		2000 - 2001	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE - P :				
OTHER MANUFACTURING, SELLING AND ADMINISTRATIVE EXPENSES :				
Rent		5,361,946		2,493,726
Power, Fuel and Water Charges		1,618,125		1,394,689
Repairs & Maintenance Others		1,429,191		1,615,295
Insurance		425,727		470,080
Communication Costs		4,444,347		3,345,829
Printing & Stationery		966,803		1,175,730
Travelling & Conveyance		23,135,051		12,275,491
Directors' sitting fees		5,000		1,000
Rates & Taxes Including Filing Fees		1,167,914		1,578,073
Advertisement & Business Promotion		6,070,062		3,400,026
Lease Rentals		–		1,562,000
Consultancy Charges		2,353,824		3,007,782
Bad Debts Written Off		1,204,966		832,119
Provision for Doubtful Debts		20,572,800		–
Loss on sale of Asset		3,574		650,841
Fixed Assets written off		989,500		–
Miscellaneous Expenses		8,243,314		5,284,426
TOTAL		77,992,144		39,087,106

	2001 - 2002		2000 - 2001	
SCHEDULE - Q :				
FINANCIAL COSTS :				
Interest on Fixed Loans		5,147,413		204,469
Other Interest & Bank Charges		6,928,232		1,952,119
TOTAL		12,075,645		2,156,588

SCHEDULE – R :

I. SIGNIFICANT ACCOUNTING POLICIES

1.1. Basis for preparation of financial statements

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

1.2. Revenue recognition

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

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

Contracts for sale of software licences include fees for transfer of software licences (which normally coincides with delivery), installation and commissioning. Activities relating to installation and commissioning involve minimal time and cost and are not subject to uncertainties. Revenue from such contracts are recognised on transfer of the software licences and a provision is made for the estimated costs relating to installation and commissioning.

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

Agency commission is accrued on shipment of consignment by principal.

Maintenance and service income is recognised on accrual basis.

1.3. Fixed Assets

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

1.4. Depreciation

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

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

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

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

1.5. Inventories

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

1.6. Employee Stock Option

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

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

1.7. Retirement benefits to employees

The Company's liability towards retirement benefits in the form of provident fund is fully provided and charged to expenditure. The Company has entered into an agreement with LIC of India for managing the gratuity liability through a fund, the premium for which is funded by the Company and charged to expenditure on accrual basis. Leave encashment benefits accrued during the year are settled before the end of the calender year.

I.8. Research and Development

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

I.9. Foreign Currency Transactions and Translation

Transactions denominated in foreign currencies are recorded at the exchange rates prevailing on the date of the transaction. Monetary items denominated in foreign currencies at year end are translated at the exchange rate prevailing on the date of the Balance Sheet. Non-monetary items denominated in foreign currencies are carried at cost. Exchange differences on settlement or restatement are adjusted in the Profit & Loss account/ related asset account.

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

I.10. Investments

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

I.11. Income Taxes

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

I.12 Share Issue Expenses

Expenses incurred during the Initial Public Offer, follow on offer and issue of Bonus Shares are amortised over 5 years.

II. NOTES TO ACCOUNTS

II.1. Deferred Income Taxes

a) In terms of Accounting Standard 22 "Accounting for Taxes on Income", the provision for income taxes has been made in terms of these standards in the above financial statements. The Company recorded the cumulative net deferred tax asset of Rs.400,000 as on March 31, 2001, as an addition to the general reserves. Deferred Tax Assets are subject to a valuation allowance that reduces the amount recognized to that which is more likely than not to be realized.

b) Movement in Deferred Tax Asset:

Net Deferred Tax Assets at April 1, 2001	400,000
Add: Tax benefits for the year ended March 31, 2002	1,150,000
Net Deferred Tax Assets at March 31, 2002	1,550,000

c) The net Deferred Tax Asset as at March 31, 2002 comprises the tax impact arising from the timing differences on account of:

- Depreciation	(4,514,116)
- Business loss	8,702,151
	4,188,035
Net Deferred asset relating to above	1,550,000

II.2. Contingent Liabilities

Disputed taxes on appeal net of advance tax paid is Rs. 577,000 (Previous Year Rs 226,000).

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

During 1999-2000, the Company acquired the whole of the outstanding shares of the IVth Generation, Inc. New Jersey, USA, from its three owners. To reflect the true and correct state of affairs, the acquisition was accounted at the full value of Rs.335,795,161 including advisory, syndication fees and other costs although a part of the amount payable is contingent upon the future performance of the acquiree Company. During 2000-2001, the cost of acquisition was reduced in accordance with the final purchase consideration as per the Definitive Purchase Agreement and accordingly the cost was stated at Rs.326,217,997. The amount of investment at March 31, 2002 stands at Rs.330,182,037 after adjusting for the exchange fluctuation on the deferred consideration as at the year end. The amount of Rs.88,899,548 payable over the next two years has been accounted as Deferred Consideration. Exchange Fluctuation arising on the amount payable is added to the liability with the corresponding debit to investments.

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

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

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

The amount of Rs.48,457,081 outstanding at March 31, 2002 towards consideration payable over the next two years has been accounted as Deferred Consideration.

Based on the Company's marketing plans, OUTsmart™ is being integrated into Ranger™ (the Company's own product), to provide a single comprehensive product covering both wireline and wireless operators. The management does not propose to develop and market OUTsmart™ as a stand alone product and this product will cease to exist. It was the intention of the Company at the time of acquisition that the cost of acquisition will be fully amortised during the year ended March 31, 2002. The management now proposes to write off the above cost of acquisition of the intangible asset against the balance in the share premium account after obtaining the approval of the shareholders of the Company and subject to the confirmation from the Honourable High Court of Karnataka under the provisions of Section 78 and 100 of the Companies Act, 1956. An application for the confirmation of the Honourable High Court of Karnataka has been filed.

II.5 Prior Period Items

Amount relates to the tax on the profits earned by the foreign branch of the Company relating to earlier years.

II.6. Operating Leases

The Company has various Operating Leases for office facilities and residential premises for employees which include leases that are renewable on a yearly basis, cancelable at its option and other long term leases. Rental Expenses for Operating Leases included in the Income Statement for the year is Rs.5,361,946.

As of March 31, 2002 future minimum lease payments for non-cancellable operating leases for the next five fiscal years are:

Particulars	Amount in Rs.
Within one year from the date of the Balance Sheet	6,102,985
Due in a period between one year and five years	5,969,345
Due after five years	—

II.7. Hire Purchase Transactions

The Company has entered into various hire purchase transactions for the acquisition of vehicles and computer systems. As of March 31, 2002, future minimum lease payments on these transactions are:

Amount in Rs.

Particulars	Minimum Lease Payments	Interest	Present Value
Within one year from the date of the Balance Sheet	1,657,955	699,702	958,253
Due in a period between one year and five years	3,398,060	511,892	2,886,168
Due after five years	—	—	—

II.8. Employees Stock Option Plan (ESOP)

ESOP – I

The Company had issued 1,20,000 Equity Shares at Rs.10/- each to Subex Foundation, an Employee Welfare Trust, constituted to operate an Employees Stock Option Plan. Consequent to the issue of Bonus Shares, the total shares available with the trust had increased to 2,40,000. The trust has been granted a Loan by the Company to subscribe for the original Shares. As per the Scheme in force, the trust allocates shares to those employees deemed eligible by the Advisory Board constituted for the purpose. The shares are allocated at a price, which is not less than 50% of the fair market price. The Original Shares granted are subject to a minimum lock-in period of three years and the Bonus Shares are subject to a minimum lock-in period of one year, where after the shares granted can be sold / en-cashed. As at March 31, 2002, 1,59,375 shares have been granted under the scheme to 39 employees. The balance of 80,625 shares are available with the trust for future grants. Since the Scheme was formulated prior to the promulgation of SEBI guidelines on ESOP dated June 19, 1999, the Company has been advised that the said guidelines are not applicable to the present scheme. Had the Company followed the guidelines, there would have been a charge of Rs. Nil (Previous Year Rs.256,000) against the revenues.

ESOP – II

During 1999-2000, the Company established a new Stock Option Scheme under which 5,00,000 options have been allocated for grant to the employees. Each option comprises of one underlying Equity Share of Rs.10/- each. This scheme has been formulated in accordance with the SEBI guidelines on ESOP & ESPS dated June 19, 1999. As per the scheme, the compensatory committee grants the options to the employees deemed eligible by the Advisory Board constituted for the purpose. The options are granted at a price, which is not less than 85% of the average market price of the underlying shares based on the quotation on the Bombay Stock Exchange for 15 days prior to the date of grant. The shares granted vest over a period of 1 to 5 years, can be exercised over a period of 4 years from the date of vesting.

Under this scheme 2,07,900 options have been granted to 141 employees as at March 31, 2002. Out of the above option 31,281 options have been vested. The difference between the market price of the share underlying the options granted on the date of grant of option and the exercise price of the option are expensed over the vesting period as per the SEBI guidelines. The amount expensed during the period under the scheme is Rs.1,077,311 (previous year Rs. 1,300,459).

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

ESOP – I

	March 31, 2002	March 31, 2001
Options outstanding at the beginning of the year	176,900	182,000
Granted	—	—
Forfeited/Cancelled	17,525	5,100
Exercised	6,655	—
Balance at end of the year	**152,720**	**176,900**

ESOP - II

	March 31, 2002	March 31, 2001
Options outstanding at the beginning of the year	205,600	—
Granted	97,950	208,350
Forfeited/Cancelled	95,650	2,750
Exercised	—	—
Balance at end of the year	**207,900**	**205,600**

II.9. Related Party Information

A) Related Parties

Wholly Owned Subsidiaries controlled by the Company:

Subex Technologies Inc., USA

Companies under same management

Subex Cellcomm Limited

Subex Holdings Private Limited

Key Management Personnel

Subash Menon, Chairman and Managing Director

Alex J. Puthenchira, Executive Director

Sudeesh Yezhuvath, Wholetime Director

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

Amount in Rs.

Nature of Transaction	Subsidiary	Companies under same management	Key Management Personnel
Purchase of services	336,729,996	–	–
Inter Corporate Deposits received	–	40,475,000	–
Interest paid on Inter Corporate Deposit	–	3,765,980	–
Salary & Perquisites	–	–	4,142,770
Amount due from as at March 31, 2002	4,602,311	–	–
Amount due to as at March 31, 2002	6,738,590	35,475,000	–

II.10. Earnings per Share:

	March 31, 2002	March 31, 2001
Profit After Tax available to Equity Shareholders: A	41,842,950	102,771,886
Weighted Average number of shares – Basic: B	7,125,680	7,125,680
Weighted Average number of shares – Diluted: C	7,369,208	7,331,280
Earnings per Share - Basic	5.87	**14.42**
Earnings per Share - Diluted	5.68	**14.02**

II.11. Managerial Remuneration to Managing Director and Wholetime Directors:

	2001-02	2000-01
Salary	3,527,208	2,517,000
Perquisites	615,562	443,000
	4,142,770	**2,960,000**

As no commission is payable to the Directors, the computation of net profit in accordance with Section 349 of the Companies Act, 1956 has not been given.

II.12. Auditors' Remuneration

Miscellaneous Expenditure includes Remunerations to Auditors:

	2001-02	2000-01
Audit fees (inclusive of service tax)	420,000	68,250
For tax matters and other consultancy	—	41,500
Reimbursement of expenses	1,760	42,000
	421,760	**188,500**

II.13. Quantitative Details

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

II.14. Others

1. Fund and Non-fund based facilities covering Letter of Credit and Bank Guarantees availed from State Bank of India are secured by the first charge on all the Fixed and Current Assets of the Company. These loans are also secured by equitable mortgage of land belonging to the Company. The loans are further secured by the personal guarantee of two of the Directors of the Company.

2. Loans and Advances includes Rs. 285,000 loan to Subex Foundation, the trust created for administration of Employee Stock Option Plan - I, towards subscription for 1,20,000 Equity Shares in the Company.

3. Estimated amount of contracts, remaining to be executed on capital account and not provided for (net of advances paid) Rs.5,581,000 (Previous year Rs.73,000).

4. The shareholders of the Company have approved the allotment of 213,770 Equity Shares at a price of Rs.100 per share of the Company on preferential basis to Toronto Dominion Bank in the Extraordinary General Meeting on February 14, 2002. The formalities relating to the allotment have been completed by the Company in April 2002 after receipt of the subscription amount from the Bank.

5. Previous Year's figures have been regrouped to conform to the classifications for the year.

II.15 Other Information pursuant to Schedule VI of the Companies Act, 1956.

Amounts in Rs.

	2001-02	2000-01
CIF value of imports	8,535,000	86,453,000
Expenditure in Foreign Currency		
Traveling Expenses	5,800,729	8,149,000
Import of goods	2,143,079	74,767,000
Import of capital goods	72,486,710	17,300,000
Acquisition of Intellectual Property Rights (IPR) – Magardi, Inc.	40,641,156	–
Investment in subsidiary on payment basis	37,553,058	–
Product Marketing Expense and Other Expenditure incurred overseas for software Development	377,916,692	351,083,000
Earnings in foreign exchange		
Income from software development services and Products on receipt basis	510,859,250	425,280,000
Commission	–	409,000
Remittance in Foreign Currency on account of dividend		
Amount remitted during the year in Foreign Currency on account of dividends for the year ended March 31, 2001	51,360	–
Non-Resident Shareholders to whom remittance was made for the year ended March 31, 2001	3	–
Shares held by Non-Resident Shareholders on which dividend was due for the year ended March 31, 2001	25,680	–

Signature to the Schedules A – R

Subash Menon
Chairman & Managing Director

Alex J Puthenchira
Executive Director

V Balaji Bhat
Director

Vinod R Sethi
Director

Place : Bangalore
Date : Septermber 17, 2002

S. Rama Kumar
Company Secretary

Cash Flow Statement

For the period / year ended March 31, 2002

	2001 - 2002 Rs.	2000 - 2001 Rs.
Cash flow from Operating Activities		
Net Profit before Tax and before Extraordinary items	47,915,490	103,944,048
Adjustments for :		
a) Depreciation and amortization	35,675,548	20,800,044
b) Interest / Dividend Income	(514,515)	(4,975,239)
c) Interest on borrowings	12,075,645	2,156,588
d) Assets written off / Loss on sale	993,074	650,841
e) Profit on sale of assets	(122,482)	–
f) Employee compensation Expenses	1,077,311	1,300,459
g) Provision for doubtful debts	20,572,800	–
h) Direct Taxes paid	(6,069,105)	(1,137,537)
Operating Profit before Working Capital Changes	111,603,766	**122,739,204**
Changes in Working Capital :		
a) Trade and other receivables	(78,128,161)	(10,088,553)
b) Loans and advances	5,982,506	(18,770,619)
c) Inventories	877,219	11,648,309
d) Trade and other payables	(18,729,509)	(49,319,072)
Cash generated from operations	21,605,821	**56,209,269**
Cash Flow from Investing activities		
a) Purchase of Fixed Assets	(59,836,132)	(62,853,841)
b) Sale / disposal of fixed assets	740,343	2,389,653
c) Sale / Purchase of Investments	600	1,400,000
d) Acquisition of subsidiary - adjustment on purchase price	–	7,974,887
e) Payment towards acquisition of subsidiary / IPR	(115,647,954)	–
f) Dividend received	–	140,000
g) Exchange fluctuation on investment carrying value	(3,964,040)	–
Net Cash from Investing Activities	(178,707,183)	**(50,949,301)**
Cash Flow from Financing Activities		
a) Proceeds from issue of Share Capital	–	30,000
b) Proceeds from Borrowings	165,608,183	(3,789,826)
c) Repayment towards borrowings	(5,301,673)	–
d) Preliminary Expenses	–	(1,284,682)
e) Dividends paid	(15,704,999)	(12,904,769)
f) Interest paid on Borrowings	(12,075,645)	(2,156,588)
g) Interest received	514,515	4,835,239
Net Cash from Financing Activities	133,040,381	**(15,270,626)**

Cash Flow Statement

For the period / year ended March 31, 2002

	2001 - 2002 Rs.	2000 - 2001 Rs.
Net increase in Cash or Cash equivalents	(24,060,981)	(10,010,658)
Cash or Cash equivalents at the start of the year	42,889,432	52,900,090
Cash or Cash equivalents at the close of the year	18,828,451	**42,889,432**

For and on behalf of the Board of Directors

Subash Menon
Chairman & Managing Director

Alex J. Puthenchira
Executive Director

V. Balaji Bhat
Director

Vinod R. Sethi
Director

S. Rama Kumar
Company Secretary

Place : Bangalore
Date : September 17, 2002

AUDITORS' CERTIFICATE

We have examined the above Cash Flow Statement of Subex Systems Limited for the year ended March 31, 2002. The statement has been prepared by the Company in accordance with the requirements of Clause 32 of the listing agreement with Stock Exchanges and is based on and in agreement with the corresponding Profit & Loss Account and the Balance Sheet of the Company covered by our report of even date to the members of the Company.

For Deloitte Haskins & Sells
Chartered Accountants

V. Srikumar
Partner

Place : Bangalore
Date : September 17, 2002

Balance Sheet Abstract and Company's General Business Profile

COMPANY : SUBEX SYSTEMS LIMITED **YEAR - 2001-2002**

I. Registration Details

Registration No.	16663	State Code	08
Balance Sheet Date	31-03-2002		

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

Public Issue	-	Rights Issues	–
Bonus Issue	-	Private Placements	–

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

Total Liabilities	833901	Total Assets	833901

Sources of Funds

Paid up Capital	71257	Reserves & Surplus	458012
Secured Loans	131801	Unsecured Loans	172831

Application of Funds

Net Fixed Assets	109528	Investments	330184
Net Current Assets	232026	Miscellaneous Expenditure	162163
Accumulated Losses	-		

IV. Performance of Company (Rupees in thousands)

Turnover	592508	Total Expenditure	544593
Profit before tax	47915	Profit after tax	41843
Earning per share (in Rs.)	5.87	Dividend Rate %	10

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

Item code no. (ITC code no.)	85/24	Product Description	SOFTWARE
Item code no. (ITC code no.)	85	Product Description	CELLULAR BASE STATION PRODUCTS CELLULAR PHONE ACCESSORIES
Item code no. (ITC code no.)	85/90	Product Description	FIBRE OPTIC TEST EQUIPMENTS AND ACCESSORIES

Subash Menon
Chairman & Managing Director

Alex J.Puthenchira
Executive Director

V. Balaji Bhat
Director

Vinod R. Sethi
Director

S.Rama Kumar
Company Secretary

Management Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

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

1. COMMENTARY ON THE FINANCIAL STATEMENTS

1.1. Share Capital

1.1.1. The Company has at present, only one class of shares.

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

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

1.1.3. There are no calls in arrears.

1.1.4. 2,13,770 share of Rs. 10/- each were allotted at premium of Rs. 90/- per share to Toronto Dominion Bank for cash during April 2002.

1.2. Reserves and Surplus

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

1.2.2. Share Premium Account represents the premium collected in cash on the 9,71,000 Equity Shares issued at a premium of Rs.65/- per share through an Initial Public Offer and on 3,30,800 equity shares issued at a premium of Rs.740/- per share to Mutual Funds and Bodies Corporate on a preferential basis during 1999-2000.

1.2.3. The Company had acquired the Intellectual Property Rights (IPR) from Magardi, Inc during the year. Based on expert advise, the management proposes to write-off the cost of the IPR aggregating to Rs. 1,589.57 lacs against the balance in the share premium account, subject to the approval of the shareholders and the confirmation from the Honourable High Court of Karnataka under the provisions of Section 78 and 100 of the Companies Act, 1956.

1.2.4. The Company has transferred Rs.15.00 lacs (Previous years Rs.750.00 lacs) to General Reserves during the year.

1.2.5. A sum of Rs. 4.00 lacs has been transferred (Previous year – Nil) to General Reserves on account of Deferred tax Assets.

1.2.6. In accordance with the guidelines issued by SEBI under the ESOS & ESPS Scheme 1999, the Company has created a Reserve towards the excess of market price of the underlying equity shares as on the date of the grant of the option over the exercise price of the option, to be adjusted over the period of vesting. The amount adjusted and credited to reserves as at March 31, 2002 is Rs. 23.78 lacs (Previous year Rs. 13.00 lacs).

1.3. Secured Loans

1.3.1. The Company has a sanction of fund and Non-fund based facilities such as Guarantee and Letter of credit facilities aggregating to Rs.1,435.00 lacs for its working capital requirements from State Bank of India. The facilities are utilized by the Company on need basis.

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

1.3.3. Installment of term loan due within one year is – Rs. 100.20 lacs (Previous year - Nil)

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

1.4. Unsecured Loans

1.4.1. During the year Company has taken unsecured short term loan of Rs. 354.75 lacs from a Company under the same management M/s. Subex Holdings Private Limited. The interest paid during the year is Rs. 37.66 lacs (Previous year - Nil).

1.5. Deferred Payment Consideration

1.5.1. Deferred payment consideration comprises future liability of the Company to the erstwhile owners of Subex Technologies, Inc., formerly IVth Generation, Inc., USA in terms of the agreement entered into for the acquisition of the Company. The liability is payable over a period of three years and is subject to terms and conditions stipulated in the said agreement and the liability payable in foreign currency does not carry any interest, but is subject to foreign exchange parity risk.

1.5.2. Deferred Payment consideration also comprises amount payable to PricewaterhouseCoopers, on behalf of Toronto Dominion Bank, towards the cost of acquisition of Intellectual Property Rights of Magardi, Inc., The liability is subject to Foreign exchange parity risk and carries interest at LIBOR + 0.50 %.

1.6. Fixed Assets

1.6.1. During the year, the Company added Rs. 598.93 lacs to its gross block consisting of Rs. 598.65 lacs upon capitalization of assets and Rs. 0.28 lacs as capitalwork in progress. During the year the Company disposed certain assets no longer required. The Company has assets worth Rs.151.38 lacs (Previous year Rs. 105.46 lacs) under hire purchase agreements.

1.6.2. The capital expenditure for 2002-03 is estimated at Rs. 600.00 lacs. The Company estimates that it would have adequate internal accruals and liquid funds to fund the capital expenditure. Company may also take recourse to borrowings to meet its capital acquisition program in case of need.

1.7. Investments

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

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

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

1.8. Inventories

1.8.1. The Company's stock of inventory consists of Raw Materials, Packing Materials, and Finished products, and accessories of the erstwhile Telecom System Integration activities. All these are valued in accordance with the Accounting Policy consistently adopted by the Company. A periodic review of the slow-moving stock is conducted and appropriate provisions are made for anticipated losses, if any.

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

1.9. Sundry Debtors

1.9.1. The major customers of the Company are AT & T, Cora, Cyprus Telecommunications Authority, Hutch Max, BPL Mobiles, Sonatel, Econet Wireless, software vendors in US and other telecom and cellular operators overseas and in India. The receivables are spread over a large customer base. There is no significant concentration of credit risk on a single customer.

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

1.9.3. Sundry Debtors as a percentage of total revenue is 39.63% as against 31.78% in the previous year.

1.9.4. The age profile is as given below :

Rs. in lacs

Period in days	March 31, 2002		March 31, 2001	
	Value	%	Value	%
Less than 30 days	646.67	27.53	963.50	54.34
30 to 90 days	612.45	26.08	420.25	23.70
90 - 180 days	549.83	23.41	289.55	16.33
More than 180 days	539.73	22.98	99.83	5.63
Total	2348.68	100.00	**1773.13**	**100.00**

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

1.9.6. Based on the current financial condition of certain customers, the company has made a provision for doubtful debts of Rs. 205.73 lacs. (Previous year - Nil).

1.9.7. Dues from Companies under the same management.

- Subex Technologies Inc, towards dues from certain customers serviced by Subex Systems - Rs. 46.02 lacs (Previous year - Rs. 601.31 lacs).
- Maximum due during the year Rs. 601.31 lacs (Previous year - Rs. 601.31 lacs).

1.9.8. Bad debts pertaining to Telecom System Integration activity written-off during the year Rs. 12.05 lacs. (Previous year Rs. 8.32 lacs)

1.10. Cash and Bank Balances

1.10.1. The bank balances in India includes both rupee accounts and foreign currency accounts. Fixed deposits of Rs. 14.40 lacs (Previous year – Rs. 31.47 lacs) are given as security towards the issue of bank guarantee and Letters of Credit.

1.10.2. Cash and Bank balances constitute 2.25% of the total assets as against 6.88% in the previous year.

1.11. Loans and Advances

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

1.11.2. Dues from Companies under the same management.

- Subex Technologies, Inc., - Nil (Previous year – Rs. 2.13 lacs)

1.11.3. Deposits represent electricity deposit, telephone deposits and advances of like nature. The Company has taken on lease several buildings for operations and facilities in various cities and also for housing its staff upon payment of Rs. 62.51 lacs as rental and maintenance deposits.

1.12. Current Liabilities

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

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

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

1.13. Provisions

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

1.14. Preliminary Expenses

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

1.15. Miscellaneous Expenditure – Intellectual Property Rights

1.15.1. During the year, the Company had acquired the intellectual property rights (IPR) comprising software codes and licenses of OUTsmart™, a wireline fraud management system and INcharge™, an intercarrier billing verification system from Pricewaterhouse Coopers, Inc (official receivers of the property assets and undertaking of Magardi, Inc on behalf of Toronto-Dominion Bank, and secured lenders of Magardi, Inc) at a cost of Rs.1,589.57 lacs. It was the intention of the management to amortise the amount against the revenue. However due to subsequent developments, whereby the acquired products will cease to exist, the said amount is proposed to be written off against the Share Premium Account as per the provisions of Section 78 and 100 of the Companies Act, 1956. Post the approval of the Shareholders, the Company has filed an application before the Honourable High Court of Karnataka for confirming the write-off.

2. FINANCIAL INSTRUMENTS

2.1. Letters of Credit

2.1.1. The Company has various letters of credit outstanding, issued to different vendors, amounting to - Nil and Rs. 4.91 lacs for the year ended 2002 and 2001 respectively.

2.2. Guarantees

2.2.1. The Company has outstanding guarantees for various purposes amounting to Rs. 57.61 lacs and Rs. 93.90 lacs for the year ended 2002 and 2001 respectively. These guarantees are in the nature of performance guarantees and bid bonds and are subject to the risk of performance by the Company.

3. Profit & Loss Account

3.1. Income

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

Rs. in lacs

Particulars	2001-2002		2000-2001	
	Value	%	Value	%
Software Services	3930.90	66.34	4463.50	80.01
Software Products	1944.65	32.82	380.64	6.82
Others	49.54	0.84	734.70	13.17
Total	5925.09	100.00	**5578.84**	**100.00**

3.1.2. Geographically, the Company earns income from export of Software Services to USA and Software Products to all countries. The Software Products revenue grew by 410.89%.

3.2. Non Operating Income

3.2.1. Non-operating income consists of income derived by the Company from exchange fluctuation, dividend income, interest on deposit with Bank, insurance claims received towards damages of goods in transit / storage, Service and Agency Commission.

3.3. Expenditure

3.3.1. The staff cost increased to Rs. 4,175.13 lacs from Rs. 3,388.90 lacs during the previous year. The increase is primarily due to addition of personnel in the overseas offices of the Company to market and support the product activities.

3.3.2. The Company incurred administration and other expenses at 13.16% of its total income during the year as compared to 7.00% during the previous year. The increase is on account of the marketing expenses and expenses in connection with new office opened in Cyprus and Canada during the year and the provision towards doubtful debts (3.47% of total income).

3.4. Operating Profits

3.4.1 During the year, the Company earned an Operating Profit (Profit before Interest, Depreciation and Tax) of Rs. 956.67 lacs being 16.15% of total income as against Rs. 1,269.01 lacs at 22.75% during the previous year. The Operating Profit decreased on account of lower margins in the Software Services business due to global slow down, increased spend on personnel and marketing expenses for software products and Provision for doubtful debts.

3.5. Interest & Bank Charges

3.5.1. The Company incurred an expenditure of Rs. 120.76 lacs as against Rs. 21.57 lacs during the previous year. The increase is due to working capital facilities availed from bankers by the Company.

3.6. Depreciation

3.6.1. The provision for depreciation for the year increased to Rs. 342.01 lacs as compared to Rs. 193.25 lacs on account of addition of fixed assets during the year.

3.7. Provision for Tax

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

3.8. Net Profit

3.8.1. The net profit of the Company amounted to Rs. 418.43 lacs as against Rs. 1,027.72 lacs during the previous year. The Company earned a net profit margin of 7.06% to total income as against 18.42 % during the previous year. The net profit margin dropped by 145.61% due to lower margins in the Software Services business, due to global slow down and increased spend on personnel and marketing expenses for software products and provision for doubtful debts.

3.9. Prior Period Taxes

3.9.1. Prior period taxes of Rs. 28.73 lacs (Previous year Rs. 11.12 lacs) represent income tax paid in respect of earlier years on completion of assessment.

3.10. Earnings Per Share

3.10.1. Earnings per share computed on the basis of number of common stock outstanding, as on the Balance Sheet date was Rs. 5.87 as against Rs. 14.42 per share for the Previous year. The Earnings per share diluted, for the year was Rs. 5.68 as against Rs.14.02 for the previous year. Shares available (not allocated) with Subex Foundation under ESOP 1999 have been fully considered in the calculation of basic EPS.

3.11. Foreign Exchange Difference

3.11.1. An amount of Rs. 0.45 lacs (Previous year – Rs. 5.27 lacs) has been considered as income during the current year, on account of foreign exchange differences arising due to timing differences between accrual of income / expense and receipt / payment of the same.

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

3.12.1. During the year, the Company charged depreciation at one hundred percent in respect of assets costing less than Rs. 5,000 each, amounting to Rs. 0.43 lacs. (Previous year - Rs. 1.03 lacs). Cost of Software charged off to revenue during the year amounted to Rs.47.69 lacs (Previous year - Rs. 18.32 lacs).

Financial Review - Subex Technologies, Inc.

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

1.	Name of the Subsidiary	: Subex Technologies, Inc.
2.	Finanical Year ended	: March 31, 2002
3.	Holding Company's interest	: 100% in common stock
4.	Shares held by the holding Company in the Subsidiary	: 3,000 nos. of common stock fully paid, no par value.
5.	The net aggregate of profits or losses for the current financial year of the subsidiary so far as it concerns the members of the holding company dealt with or provided for in the accounts of the holding company	
	a. Dealt with or provided for in the accounts of the holding company	: Nil
	b. Not dealt with or provided for in the accounts of the holding company	: US $ 5,650
6.	The net aggregate of profits or losses for previous financial years of the subsidiary so far as it concerns the members of the holding company	
	a. Dealt with or provided for in the accounts of the holding company	: Nil
	b. Not dealt with or provided for in the accounts of the holding company	: Profit US $ 5,650

Place : Bangalore
Date : September 17, 2002

Alex J.Puthenchira
Director

Subash Menon
Director

Directors' Report

For the period ended March 31, 2002

The Directors of Subex Technologies, Inc., present the results of operations for the financial year 2002.

Financial Results :

	2002 (in US $)	2001 (in US $)
Total Revenue	72,57,356	84,83,926
Gross Margin	8,349	25,320
Income before Taxes	6,633	45,023
Net Income	5,650	31,746

The continued downturn in the telecom industry impacted the performance of the company. The total revenue dropped from US $ 84,83,926 to US $ 72,57,356 a drop of 14.46%. The lower margins in the services rendered further drop in the net profit for the year.

Your directors are confident of keeping the growth level in the coming years.

for Subex Technologies, Inc.

Subash Menon
Director

Report of Certified Public Accounts

We have audited the accompanying balance sheets of Subex Technologies, Inc. as of March 31, 2002, and the related statements of income, accumulated deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Subex Technologies, Inc. as of March 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The 2001 finanical statements were compiled by us and our report thereon, dated May 23, 2001, stated we did not audit or review those financial statements and, accordingly, expressed no opinion or other form of assurance on them.

June 28, 2002
Ridgewood, New Jersey

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

BALANCE SHEET

March 31, 2002 and 2001

ASSETS

	2002 (Audited)	2001 (Compiled)
CURRENT ASSETS		
Cash	$ -	$ 52,037
Accounts receivable	603,065	1,887,308
Employee advances	13,793	11,318
Due from related entity	138,940	-
Other current assets	37,686	75,131
TOTAL CURRENT ASSETS	793,484	2,025,794
EQUIPMENT		
Equipment	81,554	81,554
Furniture and fixtures	2,554	2,554
Accumulated depreciation	(82,723)	(68,710)
TOTAL EQUIPMENT	1,385	15,398
OTHER ASSETS		
Goodwill	5,129,176	5,129,176
Security deposit	3,038	3,038
TOTAL OTHER ASSETS	5,132,214	5,132,214
TOTAL ASSETS	$5,927,083	$7,173,406

LIABILITIES AND SHAREHOLDERS' EQUITY

	2002 (Audited)	2001 (Compiled)
CURRENT LIABILITIES		
Accounts payable	$ 162,942	$ 676,136
Accrued expenses	218,568	326,144
Bank line of credit	–	100,000
Deposits payable	94,893	–
Payroll and sales tax payable	81,294	88,942
Due to Parent	–	618,448
TOTAL CURRENT LIABILITIES	557,697	1,809,670
SHAREHOLDERS' EQUITY		
Capital stock, no par value, 10,000 shares authorized, 3,000 shares issued and outstanding	2,000	2,000
Additional paid in capital	5,614,004	5,614,004
Accumulated deficit	(246,618)	(252,268)
TOTAL SHAREHOLDER'S EQUITY	5,369,386	5,363,736
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$5,927,083	$7,173,406

STATEMENTS OF INCOME AND ACCUMULATED DEFICIT

For the Years Ended March 31, 2002 and 2001

	2002 (Audited)	2001 (Compiled)
REVENUES		
Consulting fees	$7,253,166	$8,469,833
Interest income	4,190	14,093
TOTAL REVENUES	7,257,356	8,483,926
EXPENSES		
Subcontracting expense	3,529,249	5,357,454
Payroll expense	2,879,586	2,288,616
Recoverable expenses	12,941	–
Payroll tax expense	231,064	199,720
Insurance expense	154,929	117,641
Professional fees	142,956	110,504
Employee reimbursement expense	42,124	103,589
Retirement plan contributions	36,820	40,937
Rent	65,942	48,926
Office expense	8,146	30,285
Dues and subscriptions	(29)	12,501
Telephone	18,973	17,683
Interest expense	6,889	7,667
Postage and delivery	2,871	3,876
Travel	28,034	27,296
Depreciation	14,013	4,109
Recruiting expenses	595	4,750
Bank and license fees	1,904	1,903
Advertising	–	757
Temporary service	1,433	–
Training	11,967	–
Repairs	467	246
Miscellaneous	59,849	60,443
TOTAL EXPENSES	7,250,723	8,438,903
INCOME BEFORE INCOME TAXES	6,633	45,023
PROVISION FOR INCOME TAXES	983	13,277
NET INCOME	5,650	31,746
ACCUMULATED DEFICIT – beginning	(252,268)	(284,014)
ACCUMULATED DEFICIT – ending	$ (246,618)	$ (252,268)

STATEMENTS OF CASH FLOWS

See Accountant's Compilation Report

For the Years Ended March 31, 2002 and 2001

	2002 (Audited)	2001 (Compiled)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,650	$ 31,746
Non-cash expenses included in net income:		
Depreciation	14,013	4,108
Change in operating assets and liabilities:		
Accounts receivable	1,284,243	(474,983)
Other Assets	34,970	(82,334)
Accounts Payable	(513,194)	287,113
Accrued Expenses	(107,576)	314,762
Other Current Liabilities	87,245	(16,570)
NET CASH PROVIDED BY OPERATING ACTIVITIES	805,351	63,842
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances to related entity	(138,940)	–
Purchase of fixed assets	–	(11,805)
NET CASH USED BY INVESTING ACTIVITIES	(138,940)	(11,805)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bank line of credit	(100,000)	–
Advances (repayments) from Parent	(618,448)	–
NET CASH USED BY FINANCING ACTIVITIES	(718,448)	–
NET (DECREASE) INCREASE IN CASH	(52,037)	52,037
CASH – beginning of year	52,037	–
CASH – end of year	$ -	$ 52,037

SUPPLEMENTAL DISCLOSURES

	2002	2001
Cash paid during the year for:		
Interest	$ 6,889	$ 7,667
Income taxes	$ 983	$13,277

NOTES TO FINANCIAL STATEMENTS

March 31, 2002 and 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Cash Equivalents

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

Accounts Receivable – Recognition of Bad Debts

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

Property and Equipment

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

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the years ended March 31, 2002 and 2001 was $0 and $707, respectively.

Income Taxes

Deferred income taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. Deferred Tax Assets and Liabilities represent future tax consequences of those differences that will either be taxable or deductible when the related assets and liabilities are recovered or settled. At March 31, 2002 and 2001 there were no material temporary differences giving rise to Deferred Tax Assets and Liabilities.

Goodwill

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

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

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

Use of Estimates

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

2. INCOME TAXES

The provision for income taxes for the years ended March 31, 2002 and 2001 consists of current tax expense.

	2002	2001
Federal	$ 64	$ 6,440
State	919	6,837
	$ 983	**$13,277**

3. EMPLOYEE BENEFIT PLAN

The Company maintains a 401(k) Savings Plan for qualified employees. The terms of the plan define qualified employees as those over 21 years of age, with at least six months of service with the Company. Employee contributions are discretionary to a maximum of 15% of compensation. The Company matches 50% of the employees contributions up to 6% of compensation. 401(k) expense for the year ended March 31, 2002 and 2001 was $36,820 and $40,937, respectively.

4. DEBT

The Company has a revolving line of credit with a bank. Borrow ings under this line of credit bear interest at the bank's prime rate plus 1.0%. The outstanding balance at March 31, 2002 and 2001 was $ 0 and $100,000, respectively.

5. RELATED PARTY

The Company bills Subex Systems Limited "SSL" (a division of the Parent) on a cost plus basis for manpower requirement. Revenue from SSL for the years ended March 31, 2002 and 2001 was $7,045,664 (97%) and $6,289,612 (74%), respectively.

The Company was advanced funds from the Parent for working capital purposes. At March 31, 2002 and 2001 amount due to Parent was $0 and $618,448, respectively.

The Company has made advances to SSL for working capital purposes. At March 31, 2002 and 2001 amounts due from related entity was $138,940 and $0, respectively.

6. CONCENTRATION OF CREDIT RISK

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

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

7. COMMITMENTS

The Company leases office space under a four year lease expiring December 31, 2004. Rent expense for the years ended March 31, 2002 and 2001 was $65,942 and $48,926, respectively.

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

2003	$ 55,601
2004	58,336
2005	43,752
	$157,689

Consolidated Accounts

Auditors' Report

To the Board of Directors of Subex Systems Limited

1. We have examined the attached Consolidated Balance Sheet of Subex Systems Limited and it's subsidiary as at March 31, 2002 and the consolidated Profit and Loss Account for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. We did not audit the financial statements of the subsidiary, Subex Technologies, Inc., whose audited financial statements reflect total assets of Rs. 261,978,363 as at March 31, 2002 and total turnover of Rs. 346,652,752 for the year then ended and the financial statements of the US Branch. These financial statements have been audited by other audits, whose report/returns have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of the subsidiary, is based solely on the report of the other auditors.

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

5. *As explained in Note II.5 of Schedule R, the management does not propose to develop and market OUTsmart™ as a stand alone product and, on receipt of the approval of the High Court of Karnataka, proposes to write-off the cost of the acquisition of the intellectual propoerty rights of Rs. 158,956,637 against the balance in the share premium accounts rather than writing off the same to revenue.*

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

   a) The consolidated Balance Sheet gives a true and fair view of the consolidated state of affairs Subex Systems Limited and its subsidiary at March 31, 2002; and

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

For Deloitte Haskins & Sells
Chartered Accountants

Bangalore
September 17, 2002

V. Srikumar
Partner

Consolidated Balance Sheet

	SCH		As at March 31, 2002 Rs.
SOURCES OF FUNDS :			
SHAREHOLDERS' FUNDS :			
Share Capital	A	71,256,800	
Reserve and Surplus	B	448,449,260	519,706,060
LOAN FUNDS :			
Secured Loans	C	131,801,044	
Unsecured Loans	D	35,475,000	
Deferred payment consideration towards acquisition of a subsdiary and Intellectual Property Rights		137,356,629	304,632,673
TOTAL			824,338,733
APPLICATION OF FUNDS :			
FIXED ASSETS :	E		
Gross Block		167,698,439	
Less : Depreciation		58,153,613	
Net Block		109,544,826	
Capital work in progress		31,304	
			109,576,130
INVESTMENTS :			2,250
GOOD WILL (On Consolidation)			308,987,980
DEFERRED TAX ASSET (NET):			1,550,000
CURRENT ASSETS, LOANS & ADVANCES :			
Inventories	G	2,830,132	
Sundry Debtors	H	266,253,007	
Cash & Bank balances	I	18,828,451	
Loans & Advances	J	39,415,606	
		327,327,196	
Less: Current liabilities & Provisions	K	85,267,850	
NET CURRENT ASSETS			242,059,346
MISCELLANEOUS EXPENDITURE :			
(To the extent not written off or adjusted)	L		162,163,027
TOTAL			824,338,733
NOTES ON CONSOLIDATED ACCOUNTS :	R		

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

In terms of our report of even date

For Deloitte Haskins & Sells
Chartered Accountants

Subash Menon
Chairman & Managing Director

Alex J. Puthenchira
Executive Director

V. Srikumar
Partner

V. Balaji Bhat
Director

Vinod R. Sethi
Director

Place : Bangalore
Date : September 17, 2002

S. Rama Kumar
Company Secretary

Consolidated Profit and Loss Account

For the Period ended March 31, 2002

	SCH		2001-2002 Rs.
INCOME :			
Sales & Services			601,749,669
Other Income	M		882,129
TOTAL			602,631,798
EXPENDITURE :			
Materials Consumed	N		1,337,136
Personnel Cost	O		402,678,506
Other Manufacturing, Selling and Administrative Expenses	P		101,735,348
Financial Costs	Q		12,496,126
Miscellaneous Expenses amortised			1,474,724
Depreciation	E		34,870,925
TOTAL			554,592,765
Profit Before Taxation			48,039,033
Provision for Taxation			
- Current		4,397,007	
- Deferred		(1,150,000)	3,247,007
Profit After Taxation			44,792,026
Prior period taxes [Refer Note II.6 of Schedule R]			2,872,540
			41,919,486
Add: Balance brought forward from Previous year			8,298,746
Profit Available for Appropriation			50,218,232
APPROPRIATION :			
Transfer to General Reserve			1,500,000
Proposed Dividend			7,125,680
Tax on distributed profits			–
Surplus carried to Balance Sheet			41,592,552
			50,218,232
Earnings per Share - Basic			5.88
Earnings per Share - Diluted			5.69
NOTES ON CONSOLIDATED ACCOUNTS :	R		

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

In terms of our report of even date

For Deloitte Haskins & Sells
Chartered Accountants

V. Srikumar
Partner

Place : Bangalore
Date : September 17, 2002

Subash Menon
Chairman & Managing Director

V. Balaji Bhat
Director

S. Rama Kumar
Company Secretary

Alex J. Puthenchira
Executive Director

Vinod R. Sethi
Director

Schedules to Consolidated Balance Sheet

		As at March 31, 2002 Rs.
SCHEDULE - A :		
SHARE CAPITAL :		
AUTHORISED :		
20,000,000 Equity Shares of Rs. 10/- each		200,000,000
TOTAL		200,000,000
ISSUED, SUBSCRIBED AND PAID UP CAPITAL :		
7,125,680 Equity Shares of Rs. 10/- each		71,256,800
of the above:		
a) 115,000 shares of Rs.10/- each were allotted for condsideration otherwise than for cash;		
b) 4,626,940 shares of Rs.10/- each are allotted as Bonus shares by capitalisation of General Reserve;		
c) 12,840 shares of Rs.10/- each are allotted in part settlement of cost of acquisition of subsidiary.		
TOTAL		71,256,800
SCHEDULE - B :		
RESERVES AND SURPLUS :		
Capital Reserve		13,006,920
General Reserve - Opening Balance	80,902,608	
Add : Additions during the year	1,500,000	
	82,402,608	
Add: Deferred Tax Asset at 01/04/2001	400,000	82,802,608
Share Premium Account		307,907,000
Employees Stock Options Outstanding	3,877,098	
Deferred Employees Compensation Expenses	1,499,328	2,377,770
Exchange Reserve (On Consolidation)		762,410
Profit & Loss Account		41,592,552
TOTAL		448,449,260
SCHEDULE - C :		
SECURED LOANS :		
State Bank of India - MTL		29,698,327
State Bank of India - FCNB Loan		91,810,100
(First charge on all fixed assets of the Company, both present and future, book debts, stock, personal guarantee of two directors and equitable mortgage of industrial land)		
[Amount repayable within one year: Rs.101,830,100]		
Hire Purchase		10,292,617
(Hypothecation of Motor cars and Server)		
[Amount repayable within one year: Rs.3,311,062]		
TOTAL		131,801,044
SCHEDULE - D :		
UNSECURED LOANS :		
Inter Corporate Deposit - Subex Holdings Pvt. Ltd		35,475,000
		35,475,000

SCHEDULE - E :

FIXED ASSETS

Sl. No.	Particulars	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		As at April 1, 2001	Additions during the Year	Deletion during the Year	As at March 31, 2002	Upto April 1, 2001	For the Year	On deletion	Upto March 31, 2002	As at March 31, 2002	As at April 1, 2001
1	Freehold Land	5,819,103	–	–	5,819,103	–	–	–	–	5,819,103	5,819,103
2	Plant & Machinery	4,629,024	37,186	(125,450)	4,540,759	2,733,199	920,289	(109,876)	3,543,612	997,147	1,895,825
3	Furniture & Fixtures	15,403,417	435,561	–	15,838,978	4,673,208	3,055,333	–	7,728,541	8,110,437	10,730,209
4	Computers	67,264,276	56,991,511	(4,069,319)	120,186,468	14,689,923	26,572,628	(3,079,819)	38,182,732	82,003,736	52,574,353
5	Office Equipments	5,713,532	992,122	(7,250)	6,698,404	1,552,759	1,289,945	(3,228)	2,839,476	3,858,928	4,160,773
6	Electrical Installations	2,163,206	–	–	2,163,206	761,847	429,983	–	1,191,830	971,376	1,401,359
7	Vehicles	11,516,812	1,402,745	(1,242,499)	11,677,058	2,888,415	2,412,867	(932,895)	4,368,387	7,308,671	8,628,397
8	Other Fixed Assets	1,179,409	5,451	(410,397)	774,463	227,316	189,881	(118,162)	299,035	475,428	952,093
		113,688,778	**59,864,576**	**(5,854,915)**	**167,698,439**	**27,526,667**	**34,870,926**	**(4,243,980)**	**58,153,613**	**109,544,826**	**86,162,111**

Fixed Assets include assets acquired under Hire Purchase of Rs. 15,138,000/-

Schedules to Consolidated Balance Sheet

		As at March 31, 2002 Rs.
SCHEDULE - F :		
INVESTMENTS :		
(Unquoted at cost)		
Long term - Non trade		
In Government Securities - I.V.P		2,250
TOTAL		2,250
SCHEDULE - G :		
INVENTORIES :		
(at cost)		
Finished Goods		2,830,132
TOTAL		2,830,132
SCHEDULE - H :		
SUNDRY DEBTORS :		
(Unsecured, considered good, subject to confirmation)		
Outstanding for more than six months		
Considered Good	83,221,994	
Considered Doubtful	20,572,800	
	103,794,794	
Less: Provision for Doubtful Debts	20,572,800	83,221,994
Other debts		183,031,013
TOTAL		266,253,007
SCHEDULE - I :		
CASH & BANK BALANCES :		
Cash on hand		119,729
Balance with Scheduled Banks		
- in Current Account in Indian Rupees		2,764,266
- in Deposit Account in Indian Rupees		13,477,151
- in EEFC Account in foreign Currency		1,334,764
Balance with Non Scheduled Banks		
- in Current Account with Royal Bank of Canada, Canada		462,659
(Maximum outstanding during the year Rs. 4,014,396)		
- in CAP Account with First Union Bank, New Jersey		669,882
(Maximum outstanding during the year Rs. 33,094,000)		
TOTAL		18,828,451

Schedules to Consolidated Balance Sheet

		As at March 31, 2002 Rs.
SCHEDULE - J :		
LOANS & ADVANCES :		
(Unsecured, considered good, subject to confirmation)		
Loans and Advances recoverable in cash or in kind or for value to be received		6,870,526
Advance Income Tax including TDS		12,056,016
Deposits		20,489,064
TOTAL		39,415,606
SCHEDULE - K :		
CURRENT LIABILITIES & PROVISIONS :		
SUNDRY CREDITORS :		
Sundry Creditors	65,753,451	
(other than Small Scale Industrial Undertaking)		
Unclaimed Dividends	163,757	65,917,208
PROVISIONS :		
Taxation	12,224,962	
Dividends	7,125,680	19,350,642
TOTAL		85,267,850
SCHEDULE - L :		
MISCELLANEOUS EXPENDITURE :		
(To the extent not written off or adjusted)		
Share Issue Expenses		3,206,390
Intellectual Property Rights [Refer note II.5 of Schedule R]		158,956,637
TOTAL		162,163,027

Schedules to Consolidated Profit and Loss Account

		2001-2002 Rs.
SCHEDULE - M :		
OTHER INCOME :		
Interest Received (Gross - TDS Rs.59,091/-)		463,233
Other income received		374,130
Exchange Fluctuation		44,766
TOTAL		882,129
SCHEDULE - N :		
MATERIALS, FINISHED GOODS CONSUMED :		
Consumption of raw materials and bought out components		
Opening Stock as at 01/04/2001	730	
ADD : Purchases	–	
	730	
LESS : Closing Stock		
	–	730
Purchase of Systems & Solutions		459,917
(Increase)/Decrease in finished goods		
Opening Stock - Finished Goods	3,706,621	
Closing Stock - Finished Goods	2,830,132	876,489
TOTAL		1,337,136
SCHEDULE - O :		
PERSONNEL COSTS :		
Salaries, Wages & Allowances		375,957,604
Contribution to Provident and Other Funds		13,370,857
Other staff related costs		13,350,045
TOTAL		402,678,506
SCHEDULE - P :		
OTHER MANUFACTURING, SELLING AND ADMINISTRATIVE EXPENSES :		
Rent		8,515,292
Power, Fuel and Water Charges		1,618,125
Repairs & Maintenance Others		1,451,523
Insurance		7,834,432
Communication Costs		5,488,928
Printing & Stationery		1,356,345
Travelling & Conveyance		24,475,636
Rates & Taxes Including Filing Fees		1,167,914
Advertisement & Business Promotion		6,070,062
Consultancy Charges		2,335,674
Bad debts written off		1,204,966
Provision for Doubtful Debts		20,572,800
Loss on sale / disposal of assets		993,074
Miscellaneous Expenses		18,650,577
TOTAL		101,735,348
SCHEDULE - Q :		
FINANCIAL COSTS :		
Interest on Fixed Loans		5,147,413
Other Interest & Bank Charges		7,348,713
TOTAL		12,496,126

SCHEDULE – R :

I. SIGNIFICANT ACCOUNTING POLICIES

1.1. Basis for preparation of consolidated financial statements

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

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

1.2. Principles of Consolidation

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

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

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

1.3. Revenue Recognition

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

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

Contracts for sale of software licences include fees for transfer of software licences (which normally coincides with delivery), installation and commissioning. Activities relating to installation and commissioning involve minimal time and cost and are not subject to uncertainties. Revenue from such contracts are recognised on transfer of the software licences and a provision is made for the estimated costs relating to installation and commissioning.

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

Agency commission is accrued on shipment of consignment by principal.

Maintenance and service income is recognised on accrual basis.

1.4. Fixed Assets

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

1.5. Depreciation

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

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

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

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

1.6. Inventories

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

I.7. Employee Stock Option

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

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

I.8. Retirement benefits to employees

The Company's liability towards retirement benefits in the form of provident fund is fully provided and charged to expenditure. The Company has entered into an agreement with LIC of India for managing the gratuity liability through a fund, the premium for which are funded by the Company and charged to expenditure. Leave encashment benefits accrued during the year are settled before the end of the calender year.

I.9. Research and Development

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

I.10. Foreign Currency Transactions and Translation

Transactions denominated in foreign currencies are recorded at the exchange rates prevailing on the date of the transaction. Monetary items denominated in foreign currencies at year end are translated at the exchange rate prevailing on the date of the Balance Sheet. Non monetary items denominated in foreign currencies are carried at cost. Exchange differences on settlement or restatement are adjusted in the profit & loss account/ related asset account.

Assets and liabilities of the foreign subsidiary and branches are translated into Indian rupees at the rate of exchange prevailing as at the Balance Sheet date. Revenue and expenses are translated into Indian rupees at yearly average exchange rates prevailing during the year. The exchange difference arising out of these transactions have been disclosed as 'Exchange Reserve' in Reserves and Surplus.

I.11. Investments

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

I.12. Income Taxes

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

I.13. Preliminary and Share Issue Expenses

Expenses incurred during the Initial Public Offer, follow on offer and issue of Bonus Shares are being written off over a period of 5 years.

II. NOTES TO ACCOUNTS

II.1. Subsidiary Company

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

II.2. Deferred Income Taxes

a) In terms of Accounting Standard 22 "Accounting for Taxes on Income", the provision for income taxes has been made in terms of these standards in the above financial statements. The Company recorded the cumulative net deferred tax asset of Rs.400,000 as on March 31, 2001, as an addition to the general reserves. Deferred tax assets are subject to a valuation allowance that reduces the amount recognized to that which is more likely than not to be realized.

b) Movement in deferred tax asset:

Net Deferred tax Assets at April 1, 2001	400,000
Add: Tax benefits for the year ended March 31, 2002	1,150,000
Net Deferred Tax Assets at March 31, 2002	**1,550,000**

c) The net deferred tax asset as at March 31, 2002 comprises the tax impact arising from the timing differences on account of:

- Depreciation	(4,514,116)
- Business loss	8,702,151
	4,188,035
Net deferred asset relating to above	**1,550,000**

II.3. Contingent Liabilities

Disputed taxes on appeal net of advance tax paid is Rs. 577,000 (Previous Year Rs 226,000)

II.4. Acquisition of Wholly Owned Subsidiary

During 1999-2000, the Company acquired the whole of the outstanding shares of the IVth Generation Inc. New Jersey, USA, from its three owners. To reflect the true and correct state of affairs, the acquisition was accounted at the full value of Rs.335,795,161 including advisory, syndication fees and other costs although a part of the amount payable is contingent upon the future performance of the acquiree Company. During 2000-2001, the cost of acquisition was reduced in accordance with the final purchase consideration as per the Definitive Purchase Agreement and accordingly the cost was stated at Rs.326,217,997. The amount of investment at March 31, 2002 stands at Rs.330,182,037 after adjusting for the exchange fluctuation on the deferred consideration as at the year end. The amount of Rs.88,899,548 payable over the next two years has been accounted as Deferred Consideration. Exchange Fluctuation arising on the amount payable is added to the liability with the corresponding debit to investments.

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

II.5. Acquisition of Intellectual Property Rights

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

The amount of Rs.48,457,081 outstanding at March 31, 2002 towards consideration payable over the next two years has been accounted as Deferred Consideration.

Based on the Company's marketing plans, OUTsmart is being integrated into Ranger (the Company's own product), to provide a single comprehensive product covering both wireline and wireless operators. The management does not propose to develop and market OUTsmart as a stand alone product and this product will cease to exist. It was the intention of the Company at the time of acquisition that the cost of acquisition will be fully amortised during the year ended March 31, 2002. The management now proposes to write off the above cost of acquisition of the intangible asset against the balance in the share premium account after obtaining the approval of the shareholders of the Company and subject to confirmation from the Honourable High Court of Karnataka under the provisions of Section 78 and 100 of the Companies Act, 1956. An application for the confirmation of the Honourable High Court of Karnataka has been filed.

II.6. Prior Period Items

Amount relates to the tax on profits earned by the foreign branch of the Company relating to earlier years.

II.7. Operating Leases

The Company has various operating leases for office facilities and residential premises for employees which include leases that are renewable on a yearly basis, cancelable at its option and other long term leases. Rental expenses for operating leases included in the Income statement for the year is Rs.5,361,946.

As of March 31, 2002 future minimum lease payments for non-cancellable operating leases for the next five fiscal years are:

Particulars	Amount in Rs.
Within one year from the date of the Balance Sheet	8,799,634
Due in a period between one year and five years	10,920,613
Due after five years	—

II.8. Hire Purchase Transactions

During the Company has entered into various hire purchase transactions for the acquisition of vehicles and computer systems. As of March 31, 2002, future minimum lease payments on these transactions are:

			Amount in Rs.
Particulars	**Minimum Lease Payments**	**Interest**	**Present Value**
Within one year from the date of the Balance Sheet	1,657,955	699,702	958,253
Due in a period between one year and five years	3,398,060	511,892	2,886,168
Due after five years	—	—	—

II.9. Employees Stock Option Plan (ESOP)

ESOP – I

The Company had issued 1,20,000 Equity Shares at Rs.10/- each to Subex Foundation, an Employee Welfare Trust, constituted to operate an Employees Stock Option Plan. Consequent to the issue of Bonus Shares, the total shares available with the trust had increased to 2,40,000. The trust has been granted a Loan by the Company to subscribe for the original Shares. As per the Scheme in force, the trust allocates shares to those employees deemed eligible by the Advisory Board constituted for the purpose. The shares are allocated at a price, which is not less than 50% of the fair market price. The original Shares granted are subject to a minimum lock-in period of three years and the Bonus shares are subject to a minimum lock-in of 1 year, where after the shares granted can be sold / en-cashed. As at March 31, 2002, 1,59,375 shares have been granted under the scheme to 39 employees. The balance of 80,625 shares are available with the trust for future grants. Since the Scheme was formulated prior to the promulgation of SEBI guidelines on the ESOP dated June 19, 1999, the Company has been advised that the said guidelines are not applicable to the present scheme. Had to Company followed the guidelines, there would have been a charge of Rs. Nil against the revenues.

ESOP – II

During 1999-2000, the Company established a new Stock Option Scheme under which 5,00,000 options have been allocated for grant to the employees. Each option comprises of one underlying equity share of Rs.10/- each. This scheme has been formulated in accordance with the SEBI guidelines on ESOP & ESPS dated June 19, 1999. As per the scheme, the compensatory committee grants the options to the employees deemed eligible by the Advisory Board constituted for the purpose. The options are granted at a price, which is not less than 85% of the average market price of the underlying shares based on the quotation on the Bombay Stock Exchange for 15 days prior to the date of grant. The shares granted vest over a period of 1 to 5 years can be exercised over a period of 4 years from the date of vesting.

Under this scheme 2,07,900 options have been granted to 141 employees as at March 31, 2002. Out of the above option 31,281 options have been vested. The difference between the market price of the share underlying the options granted on the date of grant of option and the exercise price of the option are expensed over the vesting period as per the SEBI guidelines. The amount expensed during the period under the scheme is Rs.1,077,311.

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

ESOP – I

	March 31, 2002
Options outstanding at the Beginning of the year	176,900
Granted	—
Forfeited/Cancelled	17,525
Exercised	6,655
Balance at end of the year	152,720

ESOP - II

	March 31, 2002
Options outstanding at the Beginning of the year	205,600
Granted	97,950
Forfeited/Cancelled	95,650
Exercised	—
Balance at end of the year	207,900

II.10. Related Party Information

A) Related Parties

Companies under same management

Subex Cellcomm Limited
Subex Holdings Private Limited

Key Management Personnel

Subash Menon, Chairman and Managing Director
Alex J. Puthenchira, Executive Director
Sudeesh Yezhuvath, Wholetime Director

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

Amount in Rs.

Nature of Transaction	Companies under same management	Key Management Personnel
Inter Corporate Deposits received	40,475,000	–
Interest paid on Inter Corporate Deposit	3,765,980	–
Salary & Perquisites	–	4,142,770
Amount due to as at March 31, 2002	35,475,000	–

II.11. Earnings Per Share

	March 31, 2002
Profit after tax available to Equity Shareholders: A	41,919,486
Weighted Average number of shares – Basic: B	7,125,680
Weighted Average number of shares – Diluted: C	7,369,208
Earnings per Share - Basic	5.88
Earnings per Share - Diluted	5.69

II.12. Segmental Reporting

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

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

Information about Primary Business Segment:

Amounts in Rs.

Particulars	Products	Services	Consolidated
Revenues	198,736,870	403,012,799	601,749,669
Segment results before interest & taxes	92,116,441	29,716,427	121,832,868
Less: Unallocable expenses, net of unallocable income			61,297,709
Interest expense			12,496,126
Profit before tax			**48,039,033**
Provision for taxation:			
Current			4,397,007
Deferred			(1,150,000)
Profit after tax			**44,792,026**
Prior period taxes			2,872,540
Profit for the year			**41,919,486**

Particulars of Segment Assets & Liabilities

	Products	Services	Unallocable	Consolidated
Segment Assets	169,455,940	99,482,654	155,908,716	424,847,310
Segment Liabilities			65,917,208	65,917,208

Unallocable Assets exclude	
Goodwill (On Consolidation)	308,987,980
Investments	2,250
Advance income taxes	12,056,016
Miscellaneous Expenditure	162,163,027
Deferred tax asset	1,550,000
TOTAL	**484,759,273**
Unallocable Liabilities exclude	
Loans - secured	131,801,044
Loans - unsecured	35,475,000
Deferred consideration	137,356,629
Provisions	19,350,642
TOTAL	**323,983,315**

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

Information about Secondary Business Segment

Revenue attributable to location of customers is:

Revenue	India	North America	European Countries	African Countries	Rest of the World
Software Products	13,762,600	95,143,292	15,588,635	52,238,662	17,731,700
Software Services	–	403,012,799	–	–	–
Others	4,271,981	–	–	–	–
Total	**18,034,581**	**498,156,091**	**15,588,635**	**52,238,662**	**17,731,700**

Segment assets based on their location

Africa	42,280,090
North America	161,854,608
Europe	27,146,997
India	19,954,399
Rest of the world	17,702,500
	268,938,594

II.13. Others

1. Fund and Non fund based facilities covering Letter of Credit and Bank Guarantees availed from State Bank of India are secured by the first charge on all the fixed and current assets of the Company. These loans are also secured by equitable mortgage of land belonging to the Company. The loans are further secured by the personal guarantee of the two of the Directors of the Company.

2. Loans and Advances includes Rs. 285,000 loan to Subex Foundation, the trust created for administration of Employee Stock Option Plan - I, towards subscription for 1,20,000 equity shares in the Company.

3. Estimated amount of contracts, remaining to be executed on capital account and not provided for (net of advances paid) Rs. 5,581,000

4. The shareholders of the Company have approved the allotment of 213,770 equity shares at a price of Rs.100 per share of the Company on preferential basis to Toronto Dominion Bank in the Extraordinary General Meeting on February 14, 2002. The formalities relating to the allotment have been completed by the Company in April 2002 after receipt of the subscription amounts from the Bank.

5. These are the first consolidated financial statements of the Company and it's subsidiary. Consequently, previous years figures have not been compiled and, in the absence of these figures, a consolidated cash flow statement has not been prepared.

Signature to the Schedules A – R

Subash Menon
Chairman & Managing Director

Alex J. Puthenchira
Executive Director

V Balaji Bhat
Director

Vinod R. Sethi
Director

Place : Bangalore
Date : Septermber 17, 2002

S. Rama Kumar
Company Secretary

Shareholders' Information

1.	Registered office	: No.721, 7th Main, Mahalaxmi Layout, Bangalore – 560 086
2.	Date of book Closure (both days inclusive)	: 12th November 2002 - 15th November 2002
3.	Date and venue of the Annual General Meeting	: November 15, 2002 at Le Meridien, 28, Sankey Road, Bangalore - 560 052
4.	Dividend Payment	: On or after November 15, 2002, but within the statutory time limit.
5.	Listed on Stock Exchanges at	: Bangalore, Mumbai and Hyderabad Stock Exchanges

6. Company's Shares have commenced quoting from September 3, 1999 at Bangalore Stock Exchange Limited, September 7, 1999 at Hyderabad Stock Exchange and effective July 31, 2000, Company's Shares were listed at The Stock Exchange, Mumbai.

7. Share Transfers and other communication regarding Share certificates and change of address, etc., may be addressed to:

   M/s Canbank Computer Services Ltd., R & T Centre
   Hotel Broadway Complex, # 19, K. G. Road, BANGALORE – 560 009
   Ph : 080 – 2872461 / 2872462; Fax : 080 – 2872804; e-mail : ccslrnt@vsnl.com

8. Share Transfer System:

   Share transfers would be registered and returned within a period of 20 days from the date of receipt, if the documents are clear in all respects. The Share Transfer Committee normally meets 2 times a month.

9. Stock Market data relating to shares listed in India:

   Monthly high and low quotations as well as the volume of shares traded at Mumbai, Bangalore and Hyderabad Stock Exchanges for 2001-2002 are:

	BSE			BgSE			HSE		
Month	**High Rs.**	**Low Rs.**	**Volume Nos.**	**High Rs.**	**Low Rs.**	**Volume Nos.**	**High Rs.**	**Low Rs.**	**Volume Nos.**
Apr '01	72.40	41.45	66,326	–	–	–	–	–	–
May '01	72.90	51.00	598,856	–	–	–	–	–	–
Jun '01	66.40	48.30	674,322	–	–	–	–	–	–
Jul '01	59.25	34.15	184,844	–	–	–	–	–	–
Aug '01	51.90	34.50	186,790	–	–	–	–	–	–
Sep' 01	51.85	26.70	258,987	–	–	–	–	–	–
Oct '01	32.50	24.70	164,053	–	–	–	–	–	–
Nov '01	65.60	30.50	2,006,938	–	–	–	–	–	–
Dec '01	68.95	35.95	3,474,745	–	–	–	–	–	–
Jan '02	102.80	43.10	9,263,187	–	–	–	–	–	–
Feb '02	129.90	84.05	8,302,938	–	–	–	–	–	–
Mar '02	167.00	97.55	10,181,589	–	–	–	–	–	–
			35,363,575						

10. Investor's services – Complaints received from April 1, 2001 to March 31, 2002:

Nature of Complaints	**Received**	**Cleared**
1. Non-receipt of share certificates/refund orders/call money notice/allotment advice/dividend warrant	9	9
2. Letters from NSDL, Banks etc.	0	0
3. Correction/change of bank mandate of refund order, Change of address	14	14
4. Postal returns of cancelled stockinvests / refund orders/ share certificates / dividend warrants	0	0
5. Other general query	11	11
Total	**34**	**34**

The Company has attended to investors' grievances / correspondence within a period of 10 days from the date of receipt of the same, during the year ended March 31, 2002.

11. Legal proceedings:

Subex has been made as defendant in the case filed by Mr. Arun Dhariwal in respect of complaint received by the Company regarding loss of 12 share certificates comprising of 1,200 shares by Mr. Ashok Dhariwal & Others. The matter is presently sub-judice.

12. Distribution of shareholding as on :

No. of equity shares held	As at March 31, 2002		As at March 31, 2001	
	No. of Shareholders	% of Shareholders	No. of Shareholders	% of Shareholders
1 - 500	3,871	86.76	2,881	11.96
501 - 1000	288	6.45	140	4.36
1001 - 5000	221	4.95	135	4.20
5001 - 10000	42	0.94	19	0.59
10001 and above	40	0.90	37	1.12
	4,462	100.00	3,212	100.00

13. Categories of Shareholders as on:

Category	As at March 31, 2002			As at March 31, 2001		
	No. of Share holders	Voting Strength %	No. of Shares held	No. of Share holders	Voting Strength %	No. of Shares held
Public & Others	3,953	27.39	1,951,005	3,034	19.89	1,417,042
Companies	503	11.22	799,549	160	3.09	220,134
Core Promoters	3	56.13	4,000,000	3	56.13	4,000,000
Mutual Funds	2	1.91	136,401	12	11.21	798,597
ESOP	1	3.35	238,725	1	3.37	240,000
Foreign Instn. Investors	0	0.00	0	2	6.31	449,907
	4,462	100.00	7,125,680	3,212	100.00	7,125,680

14. Investors' correspondence may be addressed to:

Investor Relations Department

Subex Systems Limited, No. 52/44, 8th Main, Ganesha Block, Mahalaxmi Layout, Bangalore – 560 096, India, Telephone : 91 80 3497581

15. Any queries relating to the financial statements of the Company can be addressed to:

Mr. Subash Menon, Chairman & Managing Director Or Mr. Alex J. Puthenchira., Executive Director

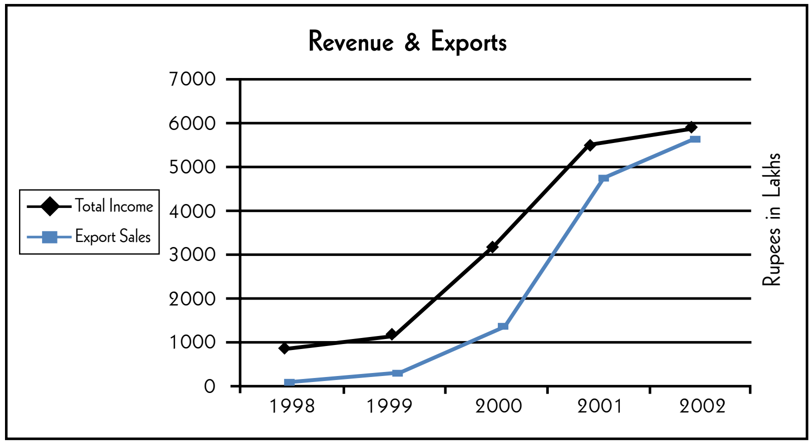
Subex Systems Limited, No. 52/44, 8th Main, Ganesha Block, Mahalaxmi Layout, Bangalore – 560 096, India, Telephone : 91 80 3497581

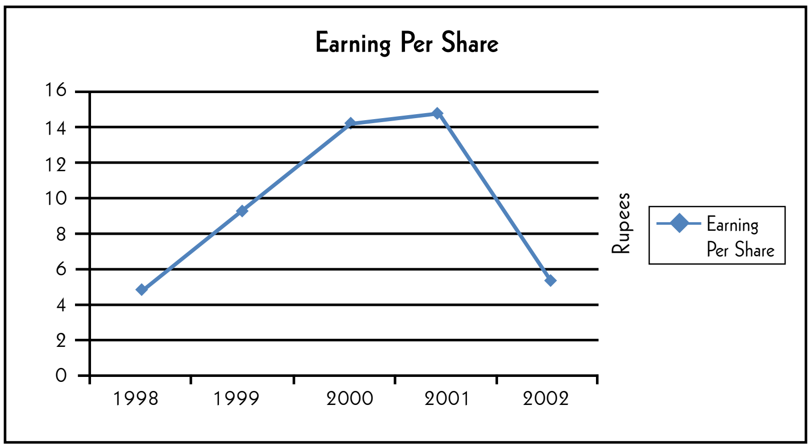
16. Dematerialisation of shares and liquidity:

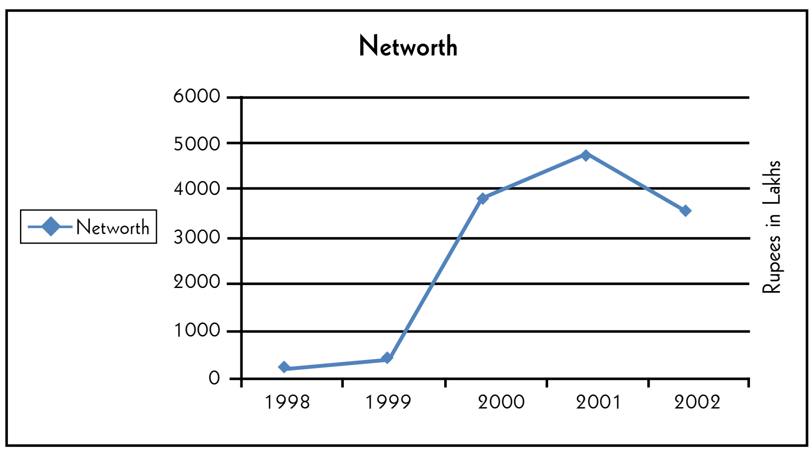
All Shareholders holding shares in physical form are requested to convert their holdings into electronic form.

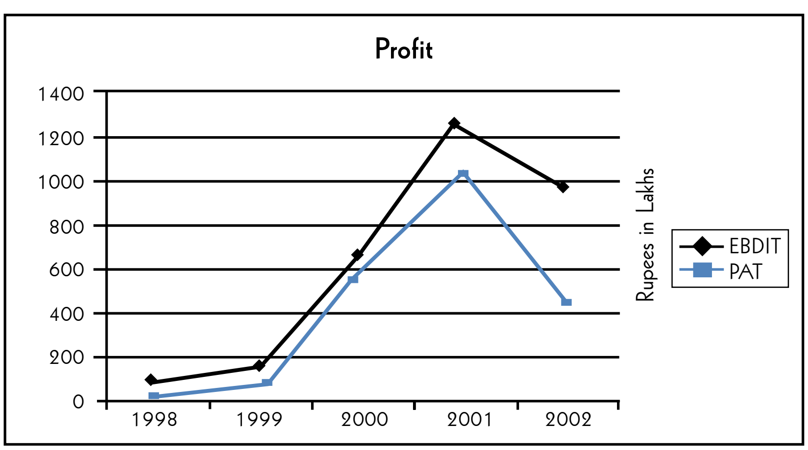
Subex Systems Limited

5 years - At a glance









Notice

Notice is hereby given that the Eighth Annual General Meeting of the Members of Subex Systems Limited will be held on Friday, the 15th day of November, 2002 at 3.00 p.m. at Le Meridien, Sankey Road Bangalore – 560 052, to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider, approve and adopt the Audited Accounts of the Company as at 31st March 2002 and the reports of Board of Directors and Auditors thereon.
2. To declare dividend on Equity Shares.
3. To elect a Director in place of Mr. V. Balaji Bhat, who retires by rotation and being eligible, offers himself for re-election.
4. To elect a Director in place of Mr. K. Bala Chandran, who retires by rotation and being eligible, offers himself for re-election.
5. To appoint Statutory Auditors and fix their remuneration.
6. To appoint Branch Auditors and fix their remuneration and in this regard, pass the following Resolution as an Ordinary Resolution:

   "RESOLVED THAT M/s Flackman, Goodman & Potter, P. A., be and are hereby re-appointed as Branch Auditors of the Company at United States of America for the year 2002-03 on such remuneration as may be determined by the Board of Directors in consultation with the Branch Auditors."

SPECIAL BUSINESS:

7. **To consider and if thought fit, to pass with or without modification, the following as an Ordinary Resolution:**

   "RESOLVED THAT in pursuance of the provisions of Section 317 of the Companies Act, 1956, Mr. Subash Menon be and is hereby re-appointed as Managing Director of the Company for five years with effect from 1st October 2002."
8. **To consider and if thought fit, to pass with or without modification, the following as an Ordinary Resolution:**

   "RESOLVED THAT in pursuance of the provisions of Section 317 of the Companies Act, 1956, Mr. Alex J. Puthenchira be and is hereby re-appointed as Executive Director of the Company for five years with effect from 1st October 2002."
9. **To consider and if thought fit, to pass with or without modification, the following as Special Resolution:**

   "RESOLVED THAT pursuant to the provisions of Section 163 of the Companies Act, 1956, the Company hereby approves that the Register of Members, Index of Members, returns, books, share certificates and documents pertaining to electronic connectivity and other documents be kept at the office of M/s Canbank Computer Services Ltd., having their office at R & T Centre, Hotel Broadway Complex, K. G. Road, Bangalore - 560 009, the Share Transfer Agents of the Company, instead of being kept at the Registered Office of the Company."

NOTES:

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the Company pursuant to Article 73 of the Articles of Association of the Company.
2. Proxies, in order to be effective should be lodged at the Company's Registered Office at least 48 hours before the commencement of the meeting.
3. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, in respect of Special Business is annexed hereto.
4. The Register of Members and the Share Transfer Books of the Company will remain closed from November 12, 2002 to November 15, 2002 (both days inclusive).
5. The Dividend on Shares as recommended by the Board of Directors of the Company, if declared at the meeting, will be payable to those shareholders whose names appear in the Register of Members of the Company as on November 12, 2002.
6. No tax will be deducted at source if the dividend payable to a resident individual shareholder does not exceed Rs. 1,000/-. Other resident shareholders who desire to get their dividend without deduction of tax from the Company may file with the Company or the Share Transfer Agents, M/s Canbank Computer Services Ltd., a declaration in Form 15G, in duplicate, before November 12, 2002.
7. The shareholders intending to get the amount of dividend credited to their bank account through Electronic Clearing Service may kindly send the mandates (as per enclosed format) in respect of physical shareholdings to The Investors Relations Department, Subex Systems Limited, No. 721, 7th Main, Mahalaxmi Layout, Bangalore – 560 086 or to Company's Share Transfer Agents, M/s Canbank Computer Services Ltd., Hotel Broadway Complex, K G Road, Bangalore – 560 009, and in case of electronic holding of shares, to the respective Depository Participants, on or before November 12, 2002 positively.

8. Members are requested to notify change in their address to the Company's Share Transfer agents, M/s. Canbank Computer Services Ltd., at their above-mentioned address immediately.

9. All documents referred to in the accompanying Notice and the Explanatory Statement are open for inspection at the Registered Office of the Company during the office hours on all working days except Saturdays and Sundays between 11.00 A.M. and 1.00 P.M. upto the date of Annual General Meeting.

10. Members seeking any information with regard to Accounts are requested to write to the Company immediately so as to enable the management to keep the information ready.

For and on Behalf of the Board

Place : Bangalore
Date : September 17, 2002

Subash Menon
Chairman & Managing Director

ANNEXURE TO THE NOTICE

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956

Item No. 7

Mr. Subash Menon is the Managing Director of the Company, holding position as such since Incorporation. However, under the provisions of Section 317 of the Companies Act, 1956, Managing Director has to be appointed only for a period of FIVE years at a time. Accordingly, resolution of shareholders is required for continuance of his association with the Company as Managing Director for a further period of FIVE years, with effect from 1st October 2002. The other terms and conditions forming the appointment will be as per the resolution passed by the shareholders on 19th June 2000.

Mr. Subash Menon and Mr. Sudeesh Yezhuvath, being brother of Mr. Subash Menon, are interested in the Resolution.

Item No. 8

Mr. Alex J. Puthenchira is the Executive Director of the Company, holding position as such since Incorporation. However, under the provisions of Section 317 of the Companies Act, 1956, Executive Director may be appointed only for a period of FIVE years at a time. Accordingly, resolution of shareholders is required for continuance of his association with the Company as Executive Director for a further period of FIVE years, with effect from 1st October 2002. The other terms and conditions forming the appointment will be as per the resolution passed by the shareholders on 19th June 2000.

Mr. Alex J. Puthenchira is interested in the Resolution.

Item No. 9

The Company has appointed M/s Canbank Computer Services Ltd., having their office at R & T Centre, Hotel Broadway Complex, K. G. Road, Bangalore – 560 009 as Share Transfer Agents of the Company with effect from 6th November 2001 in place of M/s Karvy Consultants Ltd. In terms of Section 163 of the Companies Act, 1956, approval of the members is sought for keeping the Company's Register of Members, Index of Members, returns, books, share certificates and documents pertaining thereto at the office of Share Transfer Agents of the Company, viz., M/s Canbank Computer Services Ltd., at their above-mentioned address. The Board recommends this resolution for approval of members.

None of the Directors of the Company is concerned or interested in the Resolution

For and on Behalf of the Board

Place : Bangalore
Date : September 17, 2002

Subash Menon
Chairman & Managing Director

ELECTRONIC CLEARING SERVICE (ECS) MANDATE FORM

Investor's Option to receive Dividends through Credit Clearing Mechanism

1. Shareholder's Name :
2. Folio No. in respect of shares held in physical form :
3. For shares held in electronic form :
   [Shareholders holding shares in electronic form should forward this form to their respective Depository Participant]

DP ID								

Client ID												

4. Particulars of Bank Account
   a. Bank Name :
   b. Branch Name :
   c. 9-Digit Code Number of the Bank and branch appearing on the MICR cheque issued by the Bank (Please attach a blank 'cancelled' cheque or a photocopy thereof) :
   d. Account Type (SB Account, Current Account or Cash Credit) with code 10/11/13 :
   e. Ledger No./Ledger Folio No. :
   f. Account No. (as appearing on the cheque book) :
5. Date from which the mandate should be effective :

I hereby declare that the particulars given above are correct and complete. If the transaction is delayed or not effected at all for reasons of incomplete or incorrect information, I would not hold the Company/Registrars and Share Transfer Agents of the Company responsible. I also undertake to advise any change in the particulars of my account to facilitate updation of records for purpose of credit of dividend amount through ECS.

....

Signature of the Investor

Place :

Date :

SUBEX SYSTEMS LIMITED

Registered Office : No. 721, 7th Main, Mahalaxmi Layout
BANGALORE - 560 086

PROXY FORM : Eighth Annual General Meeting – November 15, 2002

Reg. Folio No. No. of Shares

DP ID No. Client IDNo.

I/We...of............
.... being Member/s of Subex Systems Limited hereby appoint ....or failing him...of.....................................
.... as my / our proxy to vote for me / us on my / our behalf at the 8th Annual General Meeting of the Company to be held on November 15, 2002 at 3.00 p.m. at Le Meridien, Sankey Road, Bangalore - 560 052, and at any adjournment thereof.

Signed this .... day of ....2002.

Affix
Rs.1/-
Revenue
Stamp

Notes :

1. This form duly completed and signed must be deposited at the Registered Office of the Company not less than 48 hours before the Meeting.
2. The members who hold shares in dematerialized form shall quote their Demat Account No. and DP id No.
3. A shareholder may vote either for or against each resolution.

SUBEX SYSTEMS LIMITED

Registered Office : No. 721, 7th Main, Mahalaxmi Layout
BANGALORE - 560 086

ATTENDANCE SLIP: Eighth Annual General Meeting – November 15, 2002

Reg. Folio No. No. of Shares

DP ID No. Client ID No.

I / We, certify that I / We, am / are a Member / Proxy for the Member of the Company.

I / We hereby record my / our presence at the Eighth Annual General Meeting to be held at Le Meridien, Sankey Road, Bangalore - 560 052, at 3.00 p.m. on Friday, November 15, 2002.

....

Shareholder's / Proxy's name in block letters Signature of Shareholder / Proxy

Notes :

1. Please fill up this attendance slip and hand it over at the entrance of the meeting hall.
2. Members are requested to bring their copies of the Annual Report to the meeting.

Subex Systems Limited

Registered Office

721, 7th Main, Mahalaxmi Layout
Bangalore - 560 086, India
Tel : +91-80-349 7581
Fax : +91-80-349 1490

BRANCH OFFICES

Asia Pacific

52/44, 8th Main, 2nd Cross,
Ganesha Block, Mahalaxmi Layout
Bangalore - 560 096, India
Tel : +91-80-349 7581
Fax : +91-80-349 1490

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Fax : +00-1-732-981 1666

Canada

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Nepean, Ontario
Canada K2E 7Z1
Tel : +(613) 224 3131
Fax : +(613) 224 4004

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Website: www.subexgroup.com

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