

report on corporate governance

in accordance with clause 49 of the listing agreement with the stock exchanges in India and some of the best practices followed internationally on corporate governance, the report containing the details of governance systems and processes at hmitl is given hereunder:

transparency, fairness, disclosure and accountability are central to the working of the company and its board of directors.

the company is committed to meeting the aspirations of all our stakeholders. this is demonstrated in shareholder returns, governance processes and an entrepreneurial, performance based work environment. our customers have benefited from our high quality service offerings delivered at the most competitive prices.

corporate governance has indeed been an integral part of the way we have done business during the last two decades. this emanates from our strong belief that strong governance is integral to creating value on a sustainable basis. the fundamental concern of corporate governance is to ensure the conditions whereby a company's directors and managers act in the interest of the company and its various stakeholders. your company has always been guided by a strong conviction of adhering to transparency, accountability and integrity. the company strongly believes in maintaining a simple and transparent corporate structure driven solely by business needs. shareholders' interests are utmost and the management is only a trustee of the shareholders capital to carry out the activities in a truthful manner. in terms of distributing wealth to our shareholders, apart from having a track record of uninterrupted dividend payment, the company has also delivered consistent unmatched shareholder returns since listing.

corporate governance is a journey for constantly improving sustainable value creation and is an upward moving target. our employee satisfaction is reflected in the stability of our senior management, low attrition across various levels and substantially higher productivity.

board of directors

including the managing director, there are six directors in the company, of which 2 are promoter directors and 4 are non executive/independent directors.

the board of directors and its committees meet at regular intervals.

the following functions come under the purview of the board of directors and its committees.

- . review of financial plans and budgets
- . formulating strategic business plans
- . monitoring high end projects
- . keeping shareholders informed regarding plans, strategies and performance

a total of 8 meetings of the board of directors were held during the year 2008-09(18 months) on april 30, july 31, august 18, october 31, 2008, january 31, april 30, july 31, october 29, 2009.

details of helios and matheson board of directors, their attendance at company's board meetings and their directorships are set out below:

name of director	board meetings held during the year	attended	attendance at last agm	no of other directorships
chandra ramesh	8	5	yes	2
diwakar sai yerra	8	8	yes	2
muralikrishna g.k. managing director	8	8	yes	2
ramachandiran v. chairperson	8	8	yes	1
air-vice marshal vsm (retd) s r sistla	8	8	yes	3
s.k.patil	8	1	yes	0

in accordance with the listing agreement entered into with the stock exchanges, the board had constituted 2 committees, namely, the audit committee and the investors' services committee.

shares held by non executive directors

air-vice marshal (retd) s.r.sistla holds 850 shares in the company. the other non-executive directors namely, ms. chandra ramesh, mr. s. k. patil and mr. diwakar sai yerra do not hold any share.

disclosures regarding appointment or reappointment of directors

air vice marshal(retd) s r sistla, director retires by rotation at the annual general meeting and offers himself for reelection. mr v ramachandiran who joined the board of your company as chairman in march 1991 will be retiring by rotation at the ensuing annual general meeting and, pursuant to the retirement policy of the company, has opted not to seek reelection. your board has resolved not to fill the vacancy caused by mr v ramachandiran's retirement by rotation. mr v ramachandiran has been responsible for successfully steering the company through the past 2 decades with a focus on profitability and shareholder returns. your board places on record its deep appreciation of the valuable services rendered by mr v ramachandiran during his tenure to your company. mr ramachandiran would continue to be closely associated with your company in an advisory role. it has been decided that mr g k muralikrishna, managing director of the company will also function as chairman of the board from march 25, 2010, the date of the next annual general meeting of the company. it has also been decided that mr.diwakar sai yerra, director, who has been serving on the board since 28.12.1995 would start functioning as wholtime director on the board upon obtaining the approval of the shareholders at the ensuing annual general meeting.

directors with materially significant related party transactions, pecuniary or business relationship with the company there has been no materially significant related party transactions, pecuniary transaction or relationship between helios and matheson and its directors that may have potential conflict with the interests of the company at large

information supplied to the board

the board has unfettered and complete access to any information within the company, and to any of our employee. the information regularly supplied to the board includes :

- . annual operating plans of business, capital budgets and updates
- . quarterly results of the company
- . minutes of meetings of audit and investor grievance committees as well as abstracts of circular resolutions passed. also, board minutes of subsidiary companies.
- . general notices of interest.
- . dividend data
- . information on recruitment and remuneration of senior officers below the board level
- . materially important litigations, show cause, demand, prosecution and penalty notices.
- . any materially relevant default in financial obligations to and by us of substantial nature.
- . details of joint ventures, acquisitions of companies or collaboration agreements.
- . transactions that involve substantial payment towards goodwill, brand equity or intellectual property.
- . any significant development on the human resources front.
- . sale of material nature, of investments, subsidiaries and assets, which are not in the normal course of business.
- . details of foreign exchange exposure and the steps taken by the management to limit risks of adverse exchange rate movement.
- . non-compliance of any regulatory, statutory or listing requirements as well as shareholder services such as non-payment of dividend and delays in share transfer.

the board of helios and matheson is routinely presented with the aforesaid information wherever applicable and materially significant. necessary follow up reports are also presented to the board regularly.

audit committee

the audit committee was constituted in terms of section 292 A of the companies act 1956 and as per the provisions of clause 49 of the listing agreement. the company has an audit committee comprising of two thirds of its composition of independent directors who possess rich experience in the areas of finance, audit and systems and is headed by mr. diwakar sai yerra, with ms. chandra ramesh and mr. v. ramchandiran, directors, as its members. all members of the audit committee are knowledgeable in project finance, accounts and company law matters. minutes of each audit committee meeting are placed before the board and discussed in full. the company's external auditors are also invited to participate in these meetings. both the external and internal auditors have full and unrestricted access to the members of the audit committee.

internal control

management feels that the internal controls in place are sufficient considering the size, nature and complexities of the operations of the company. audit committee overlooks the operation and if required, modifications are put in place. the internal audit function is also reviewed by the audit committee of the board.

the terms of reference stipulated by the board of directors to the audit committee are, as contained in clause 49 of the listing agreement and section 292A of the companies act, 1956, as follows:

- . overseeing the company's financial reporting process and disclosure of financial information to ensure that the financial statement is correct, sufficient and credible.
- . recommending the appointment / reappointment of external auditor, fixation of audit fee and approval for payment of other services.
- . reviewing with management the annual financial statements before submission to the board, focusing primarily on (i) any changes in accounting policies and practices, (ii) major accounting entries based on judgment by management (iii) qualifications in draft audit report, (iv) significant adjustments arising out of audit report, (v) the going concern assumption, (vi) compliance with accounting standards (vii) compliance with stock exchange and legal requirements concerning financial statements and (viii) any related party transactions i.e. transactions of the company of material nature, with promoters or the management, their subsidiaries etc., that may have potential conflict with the interests of the company at large, (viii) matter required to be included in directors responsibility statement to be included in board's report.
- . reviewing with the management and external auditors, the adequacy and compliance of internal control systems.
- . reviewing the adequacy of internal audit functions.
- . discussion with external auditors before the audit commences on the nature and scope of audit, as well as having post-audit discussion to ascertain any area of concern and steps needed to correct the same.
- . reviewing the company's financial and risk management policies.
- . to look into the reasons for substantial defaults in the payment to the depositors, debenture holders and shareholders (in case of non payment of declared dividend) and creditors.

the audit committee mandatorily reviews the terms and reference and the information as laid down before it in terms of the listing agreement.

during the year the committee met 8 times on april 30, july 31, august 18, October 31, 2008, january 31, april 30, july 31 and october 29, 2009 as statutorily required. the statutory auditors of the company were also invited to take part in the proceedings.

attendance record of audit committee members

name of director	no of meetings held	no of meetings attended
mr. diwakar sai yerra	8	8
ms. chandra ramesh	8	5
mr. v ramachandiran	8	8

investors' grievance committee

the investors' grievance committee/investors' services committee specifically looks into redressing of shareholders and investors' complaints such as transfer of shares, non-receipt of annual report and declared dividends and to ensure expeditious share transfer process. the committee comprises of the following members.

mr. v. ramachandiran - chairperson

ms chandra ramesh

mr. diwakar sai yerra

the committee met thrice during the year on april 30 2008, august 18 2008 and july 31, 2009.

given below is the attendance record.

name of director	no of meetings	meetings attended
mr. v. ramachandiran	3	3
ms chandra ramesh	3	3
mr. diwakar sai yerra	3	2

the committee acts in close liaison with its share transfer agents and registrars, m/s integrated enterprises india ltd. the company has received a certificate from its share transfer agents and registrars that complaints, if any, received from the shareholders till 31.12.2009 have been suitably redressed. the company regularly follows up with registrars for redressal of all complaints in time as per statutory requirements.

investor services / complaints during the year

nature of complaints	year ended september 2009 (py march 31 2008)			
	2009		2008	
	received	attended	received	attended
non receipt of share certificates	10	10	30	30
correction in share certificates	3	3	9	9
non receipt of bonus shares/split shares/ annual report	2	2	2	2
non receipt of dividend warrants	10	10	51	51
revalidation	12	12	21	21
change of address/bank mandate/ ecs mandate	0	0	0	0
general queries	4	4	10	10
procedure for loss of share certificate	25	25	36	36
procedure for transmission	2	2	4	4
issue of duplicate share certificate	5	5	16	16
issue of duplicate dividend warrants	1	1	0	0
total	74	74	179	179

all the letters (74) received covering "information and services" have been answered to.

investor grievances

the company has constituted investors' services committee for redressing shareholders' and investors' complaints. the status on complaints is reported to the board of directors as its meetings. mr. k.m.kumar, company secretary is the compliance officer. all the queries of the investors are attended to within a reasonable time limit. the company also has a separate email id investor@heliosmatheson.com to attend to shareholders' queries.

remuneration committee

as the constitution of the remuneration committee is not mandatory, a report of the same is not attached, for the year under review.

details of remuneration paid to the directors during the year are as under

name of director	relationship with other directors	salary in rs. (18 months)	2008 in rs. 3,00,000 (12 months)
mr.g.k.muralikrishna	none	4,50,000 (18 months)	3,00,000 (12 months)

other than the chairman and the managing director, the non executive directors are paid a sitting fee of rs.10,000 for each board meeting attended. they are not paid any sitting fee for attending the committee meetings. the directors are not paid any commission on net profits or any other perquisite.

details of the sitting fees paid during 2008-09 are as follows:
rs.

ms. chandra ramesh	50,000
mr. diwakar sai yerra	80,000
air-vice marshal vsm (retd) s r sistla	80,000
mr. s.k.patil	10,000

management discussion and analysis

this annual report has a detailed chapter on management discussion and analysis.

disclosures by management to the board

all details relating to financial and commercial transactions where directors may have a potential interest are provided to the board and the interested directors neither participate in the discussion nor do they vote on such matters.

shareholders

means of communication

helios and matheson has its own website and all vital information relating to the company and its performance including quarterly results and official press releases are updated and posted on the websites. on line ticker information is also provided so as to keep the investor informed regarding the movement of the share prices in the market. the company's website address is www.heliosmatheson.com.

share transfers and dematerialization requests

all share transfers as well requests for dematerialization of the company's shares by the shareholders are handled by integrated enterprises (India) ltd., registrars & share transfer agents, who are registered with sebi as a category 1 registrar. dematerialisation requests are attended to within the statutory time limit.

details of compliance with listing agreement

the company has complied with all provisions relating to the capital market as laid down in the listing agreement.

payment of listing fees to stock exchanges

the company has remitted the annual listing fees to the respective stock exchanges where its shares are listed (bse, nse and mse).

general body meetings

details of last annual general meetings

financial year ended		date	time	venue
march 31, 2008	16th agm	september 26, 2008	3 pm	rani seethai hall, anna salai, chennai 600 006
march 31, 2007	15th agm	september 28, 2007	3 pm	-----do----
march 31, 2006	14th agm	september 28, 2006	3 pm	-----do----

the following special resolutions were passed by the members during the last 3 annual general meetings:

agm held on 26.09.2008

none

agm held on 26.09.2007

- . alteration in the capital clause of the articles of association.
- . alteration in the articles of association providing for payment of sitting fees as per rules to the directors for attending meetings of the board and its committees.

agm held on 28.09.2006

- . Payment of remuneration not exceeding 1% of the net profits to the non whole time directors for a period of 5 years commencing from 01.04.2006

postal ballot

- . for the year /period ended september 30, 2009, the following business was passed by the company's shareholders by special resolution through postal ballot on 15.09.2008
- . offer, issue and allotment of upto of 57,00,000 nos of convertible warrants, on a preferential basis, carrying a right to subscribe to one fully paid equity share of rs 10 each of the company , the price at which such warrants will be converted will be determined in accordance with the provisions of chapter xiii of sebi(dip) guidelines, 2000.

mr.g.ramachandran, acs practicing company secretary was the scrutiniser appointed to conduct the postal ballot process.

secretarial audit

the company's statutory auditors carried out secretarial audit to reconcile the total admitted capital with national securities depository limited (nsdl) and the central depository services (india) limited (cdsl) and the total issued and listed capital. the secretarial audit report confirms that the total issued/paid-up capital is in agreement with the total number of shares in physical form and the total number of dematerialised shares held with nsdl and cdsl.

auditors' certificate on corporate governance

as required by clause 49 of the listing agreement, the auditors' certificate is given as annexure to the directors' report.

ceo / cfo certification

as required by clause 49 of the agreement, the ceo/cfo certification is provided elsewhere in the annual report.

general shareholder information

1. date, time and venue of agm : thursday, march 25, 2010, 3.00 pm,
rani seethai hall, anna salai, chennai 600006
2. dates of book closure : march 15 to march 25, 2010 (both days inclusive)
3. dividend payment : on or after march 25 , 2010 but within
the statutory time limit of 30 days
4. financial calendar
(tentative and subject to change) : results for qe dec 31, 2009 : announced on January 30, 2010
results for qe march 31, 2010 : last week of april 2010
results for qe june 30, 2010 : last week of july 2010
results for qe sep 30, 2010 : last week of oct 2010
annual general meeting : march 2011
5. listing on stock exchanges : bombay stock exchange ltd (bse)
national stock exchange of india ltd (nse)
madras stock exchange ltd (mse)
luxembourg exchange (for fccb) :xs0257638071
6. stock code & trading symbol/
corporate identification no. : bombay stock exchange : helios mat i (532347)
national stock exchange : heliosmath
madras stock exchange : hms
bloomberg code : hmit in (bse)
cin : L65921TN1991plc020443
7. listing fees : paid to all the stock exchanges for the year 2009-10.
8. corporate office : 9d, ganga griha, i and iii floor, nungambakkam high
road, chennai - 600 034
9. registrars & share transfer agents : integrated enterprises (india) ltd., kences towers,
1, ramakrishna street, t.nagar, chennai 600 017
10. share transfer system : total number of shares transferred in physical form during
2008-09 was 9,998 versus 16,310 during the previous year.

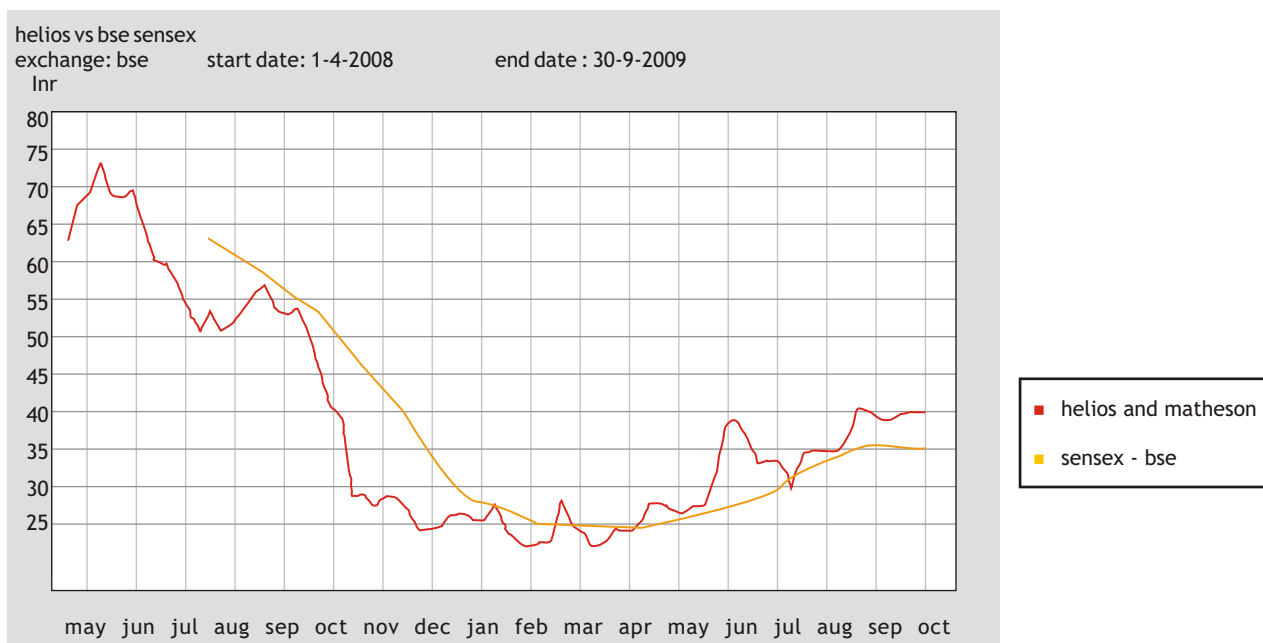
11. market price data (in rs per share)

month	bombay stock exchange		national stock exchange	
	month high	month low	month high	month low
april, 2008	83.00*	54.15	82.80*	54.35
may, 2008	81.60	67.00	81.50	66.90
june, 2008	69.00	51.00	69.45	52.10
july, 2008	62.00	46.30	61.65	46.20
august, 2008	61.90	53.00	61.50	53.00
september, 2008	58.70	35.00	58.60	34.00
october, 2008	40.00	20.40	39.85	20.80
november, 2008	30.00	19.25	29.50	19.25
december, 2008	25.90	19.65	25.60	19.50
january, 2009	26.40	17.95	26.50	17.65
february, 2009	28.85	18.40	28.80	17.55*
march, 2009	22.70	17.85*	21.75	17.85
april, 2009	27.90	20.20	28.35	19.85
may, 2009	37.20	23.10	37.50	23.00
june, 2009	41.00	29.50	40.90	29.35
july, 2009	34.70	25.75	34.90	24.30
august, 2009	41.70	30.80	41.90	31.05
september, 2009	41.00	36.10	40.90	36.00

* represents the yearly high and low of equity shares.

12. share price performance in comparison to broad based indices-bse sensx

helios and matheson share price performance relative to bse sensx based on share price on september 30, 2009



13. distribution of shareholding

shareholding pattern of the members of the company as on september 30 2009 is given below according to category

category	no. of shareholders	voting strength (%)	no. of shares held
promoters	4	38.31	88,55,680
corporate bodies	620	10.15	23,45,732
Institutions/banks	4	00.61	1,40,063
public	26021	50.93	1,17,70,854
total	26649	100.00	2,31,12,329

distribution of shares by size of shareholders as on september 30 2009

number of equity shares	no. of shareholders	% of shareholders	no. of shares	% of shareholding
1 to 500	22640	84.96	37,80,263	16.36
501- 1000	2264	8.50	18,12,364	7.84
1001- 5000	1463	5.49	32,15,077	13.91
5001- 10000	158	0.59	11,41,879	4.94
10001 and above	124	0.46	1,31,62,746	56.95
total	26649	100.00	2,31,12,329	100.00

14. dematerialization of shares

about 97.45 % of the company's paid up equity shares has been dematerialized upto september 30, 2009. trading in equity shares of the company is allowed only in dematerialized form as per notification issued by the securities and exchange board of india (sebi).

demat no in nsdl and cdsl for equity shares

: ISIN No. INE674B01012

15.liquidity

the company's shares are actively traded on the bse and nse. the data for the total no of shares traded in and the volume thereof is given below for the period from april 1, 2008 to 30th september 2009.

month	bse		nse	
	no of shares traded	volume (in rs. lakhs)	no of shares traded	volume (in rs. lakhs)
april 2008	69,17,340	4731.08	62,53,383	4280.51
may 2008	27,61,701	2072.54	23,28,796	1749.56
june 2008	6,69,230	409.75	7,19,342	439.53
july 2008	8,29,666	460.21	8,62,683	475.85
august 2008	12,92,097	745.40	11,44,849	657.04
sept 2008	4,81,781	241.48	5,96,670	294.25
october 2008	7,20,816	200.65	6,34,321	180.49
nov 2008	2,19,723	51.73	2,55,244	61.55
dec 2008	2,40,948	54.35	2,33,877	52.93
jan 2009	2,88,370	64.58	3,02,835	66.26
febr 2009	9,09,278	227.52	12,38,794	310.64
march 2009	2,88,540	57.73	2,37,730	47.25
april 2009	4,17,150	102.95	2,95,044	73.02
may 2009	3,96,858	119.33	3,18,849	95.71
june 2009	4,08,553	147.96	3,60,334	127.99
july 2009	4,86,348	154.93	4,56,191	145.91
august 2009	17,87,028	661.28	19,22,845	715.71
sept 2009	5,86,601	228.48	7,43,408	289.05
total	1,97,02,028	10731.95	1,89,05,195	10063.25
average volume per month/ average price per share	10,94,557 54.47		10,50,288 53.23	

16.outstanding gdrs/adrs/warrants or any convertible instruments, conversion date and likely impact on equity.

your company had placed US \$ 25mn unsecured foreign currency convertible bonds in july 2006 (due 2011) with an option to convert into equity shares of the company. the bonds are listed on luxembourg stock exchange. as on date a total of US \$ 8 million stand converted into equity shares leaving US \$ 17 million outstanding.

17.address for correspondence
for queries relating to :

financial statements

s chandramoulieswaran
vice president (finance & accounts)
helios and matheson information technology ltd
9d, ganga griha, nungambakkam high road
chennai 600 034
tel: +91 44 4391 00 00
mouli.c@heliosmatheson.com

investor related matters

k.m.kumar
company secretary
helios and matheson information technology ltd
9d, ganga griha, nungambakkam high road
chennai 600 034
tel: +91 44 4391 00 00
kumar.km@heliosmatheson.com

investor faq's

1. where and in which year was helios and matheson incorporated?
ans : helios and matheson was incorporated in chennai, in the state of tamil nadu, in India on march 8, 1991
2. when did helios and matheson have its initial public offer (ipo) and what was the initial listing price?
ans : helios and matheson made an initial public offer in october 1999 and was listed on the madras stock exchange ltd. bombay stock exchange ltd and national stock exchange of india ltd in december 1999, august 2000 and february 2005 respectively. trading opened at rs.209 per share ar mse compared to the ipo price of rs.50 per share.
3. which are the stock exchanges where helios and matheson shares are listed and traded?
ans: shares of helios and matheson are listed and traded on bombay stock exchange ltd, national stock exchange of India ltd and madras stock exchange ltd,
4. what is the history of dividend issue at helios and matheson during the last five years?

year	2004	2005	2006	2007	2008
dividend:	rs 1,50,07,500	1,50,07,500	3,00,15,000 15%(tax free)	7,17,46,422 35%(tax free)	3,46,68,493 15%(tax free)

5. what has been the cagr in revenues, net income and eps in the last five years?

ans:	5-year cagr
revenues	47.40 %
pat	24.60 %

6. how do i transfer my shares in india or change my address with the transfer agent?
ans: to transfer shares held in physical form, you may write to the company's registrars integrated enterprises (india) ltd., 2nd floor, kences towers, 1, ramakrishna street, north usman road, t.nagar, chennai 600 017 or else, you can correspond directly with the company secretary at the corporate office at 9d, ganga griha, nungambakkam high road, chennai 600 034. transfer of shares in electronic form is effected through your depository participant.

general correspondence regarding shares may be addressed to the company's registrars, integrated enterprises (india) ltd, at the above address or to the company secretary at the corporate office.

7. how do i get to know of the latest updates / information regarding the company?
ans: in addition to the information given to the stock exchanges and sebi, company's financial results are regularly updated on the company's website www.heliosmatheson.com. you can also subscribe for the news alerts via the link <http://heliosmatheson.com/investors/invest.asp>
8. how do i contact helios and matheson by telephone, mail or in person?
ans: financial analysts and members of the press/media can contact the following members of helios and matheson management during business hours for any information.

v.ramachandiran chairperson	tel: +91 44 4391 0000
g.k.muralikrishna managing director	tel: + 91 44 4391 01 01

helios and matheson corporate mailing address is:
helios and matheson information technology limited, 9d, ganga griha, nungambakkam high road, chennai 600 034.
tel: +91 44 4391 00 00, fax: +91 44 4391 00 99

risk management report

today we face an ever increasing pace of change in market dynamics. hence the need to adapt to this dynamic situation. we need to keep pace as demanded and ensure that risk identification is a continuous process. the need to comprehensively adapt and take care of this process now involve the following steps.

- . learning from the experience and making improvements
- . identifying the risks inherent in the growth strategy
- . implementing control to manage the remaining risks
- . monitoring the effectiveness of risk management approaches and controls
- . capability development

the information technology business is witnessing unparalleled growth with the global delivery model gaining mainstream momentum. concurrently, changes in the macro economic environment the outcry against off shoring, shifts in competitive landscape with the expansion of overseas based competitors in India, stringent immigration laws, predatory pricing, and a strong rupee have brought new challenges and new risks that need to be managed.

helios and matheson comprehensively assesses these risks and this report details the prudent risk management practices of your company. the management cautions the readers that the risks outlined below are not exhaustive and are for information purposes only. further, this report contains statements, which are forward-looking in nature. such statements are subject to uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements.

external risk factors

macro economic factors

the credit crisis in the usa turned into a global slowdown, this resulted in loss of jobs of enormous proportions, not witnessed for many decades. customers started cutting costs to overcome the recession in their businesses. as a result of such changing economic and business conditions, an increasingly competitive market environment is driving corporations to transform the manner in which they operate.

exchange rate risk

the exchange rate between the Indian rupee and the US dollar has changed substantially in recent years and may fluctuate in the future. we expect a significant proportion of our revenues to be generated in US dollars for the foreseeable future and that a significant portion of our expenses, including personnel costs, as well as capital and operating expenditures, will continue to be denominated in Indian rupee. your company faces the risks associated with exchange rate fluctuations and translation effect, wherein the appreciation of the rupee against foreign currency impacts its profitability and operating results. helios and matheson risk management policy ensures that expenses in local currency are met through receipts in the same currency. increase in revenues from non-dollar geographies such as europe help mitigate this risk. the company uses forward contracts and options to hedge its exposure in foreign exchange. this reduces the risk or cost to the company and this cover is not used for speculation or trading purpose.


margin-pressure

as international players expand their delivery capability from India, their cost patterns are undergoing change. at the same time, the intensified competition for human resources in India is resulting in higher wage levels. due to the above, margins are under pressure.

the company is using a multi-pronged approach to address the margin pressure it faces. in order to mitigate this risk, the company is focusing on creating greater value for its customers and hence for itself. three different strategies have been used by the company in this effort.

increasing offshore leverage: the company is increasing its effort to enhance revenues from offshore and global delivery centers. this helps the company to increase its margins.

focusing on cost management: the company is monitoring and steadily bringing down its operating expenses as a percentage of revenues by ensuring that growth in these expenses is minimized in line with company requirements. our large accounts are getting larger which



helps us drive down sales costs through cross selling. the trends in repeat business as a percentage of total business are very positive indicating the satisfaction and value creation the company is achieving for its customers.

focusing on rate increases: the company is looking at rate increases for newer business and also for existing businesses which are up for renewal. the company's rates are competitive and in line with client expectations. in view of its track record, the company is seen as a credible global consulting organization, with end to end servicing capability.

political environment

while helios and matheson operates in multiple countries across the globe, the US constitutes a major market for your company. recently, many organizations and public figures have expressed concerns about a perceived association between offshore IT service providers and the loss of jobs in the united states. in addition, certain US states have enacted legislation that restricts governmental agencies from outsourcing their IT work to companies outside the united states. we have however not witnessed any material effect of this outcry in our clients' dealing with us and we strongly believe that the economics and competitive advantage offered by off shoring will tip the scales in its favor. further, we do not have any major contract with governmental entities in the united states.

currently, we benefit from the tax holidays the government of India gives to the export of it services from specially designated software technology parks in India. as all major political parties concur on the importance of the IT industry for the Indian economy, it is likely that future policies relating to the industry will continue to be favorable. we have also set up a development centre in the special economic zone near chennai, India.

competitive environment

the market in which we compete is experiencing rapid changes in its competitive landscape. some of our competitors are large consulting firms or offshore IT service providers who have significant resources and financial capabilities combined with much larger numbers of IT professionals. with the global delivery model gaining mainstream momentum, overseas-based competitors are expanding their base in India and are engaging in predatory pricing.

your company was among the first to foresee this trend and has worked continuously to convert a potential threat into a great opportunity. as a result today helios and matheson has partnerships and collaborative associations with these mncs. instead of competing with one another we have developed a win win relationship that is working smoothly and successfully.

high-end services combined with proven execution excellence are our competitive advantage and help counter pricing pressure. your company continues to focus on rapidly increasing its market share and is undertaking marketing initiatives that would help clients and prospects make better-informed decisions based on our competitive strengths.

client concentration risk

we have historically earned, and believe that in the future we will continue to earn, a sizable portion of our revenues from limited number of clients. your company's profitability and revenues would not be affected in case of loss of some of the top 10 clients or a significant downsizing of projects given to the company by them. the uniform distribution of business over these clients has mitigated the client concentration risk.

business concentration risk by vertical

helios and matheson derives 43% of its revenues from clients in the healthcare vertical. a downturn in the fortunes of these clients or reduction in their IT spending/budgets could affect helios and matheson's own profitability. your company's domain knowledge and competence make helios and matheson an invaluable partner to the client. being a high-end vertical, which is growing faster than the rest of the industry, the risk of downsizing is minimal. the company continues to pursue and win clients in manufacturing and technology verticals besides healthcare to provide more balanced opportunities for growth.

geographic concentration risk

the US constitutes important market for your company. this makes helios and matheson susceptible to adverse market conditions and events that might exist in the US and thus affect your company's revenues. to counter this, management is actively pursuing clients in europe and asia-pacific.

changes in immigration regulations

the majority of our IT professionals are Indian nationals. the ability of our IT professionals to work in the united states, europe and in other countries depends on our ability to obtain the necessary work visas and work permits.

helios and matheson reliance on appropriate visas make it sensitive to such changes and variations. to limit the risks posed due to visa related regulations of any one country, helios and matheson is focusing on diversifying its operations in europe and asia-pacific. in line with its business needs, helios and matheson also focuses on increasing local hires and works closely with its client to increase the offshore content in their various engagements.

inflation & cost structure

our cost structure consists of salary and other compensation expenses, depreciation, overseas travel and other general costs. fast track development of the economy and increasing demand for global delivery may have a significant impact on these costs and the rate of inflation as relevant to the IT services industry. further competitions may treat India as a “cost center” and develop the same regardless of the increasing cost and its impact on their profitability. to derisk we continue to reinforce the variable compensation program. we have taken steps to opt for cost optimization, cost reduction, and assess the risk of changes in cost of each operational activity.

disaster recovery and business continuity

your company has implemented comprehensive disaster recovery and business continuity plans. backups are taken daily and stored in secure locations. helios and matheson can replicate any project within a development center in a short timeframe using these backups. redundancy has been built into data communication links. each development center is connected to other centers using multiple links. last fiscal, helios and matheson further invested in establishing several links to overseas destinations, using different routes, and provided by multiple service providers.

further, helios and matheson adheres to stringent physical security procedures at all its development centers across the world. we adhere to strict procedures to control the access to server rooms and other critical installations. firewalls are in place on all external connections from our network.

technology risks

management continues efforts to develop and implement business and technology solutions that anticipate rapid and continuing changes in technology, industry standards and client preferences. the successful implementation of these systems will be critical to the effective delivery of our services to our clients.

internal risk factors

contractual commitments

this risk pertains to liquidate damages and other penalties associated with the non-fulfillment of contractual obligations (such as adherence to deliverables and service level agreements) either with clients or with other parties.

the management has clearly chartered out a review and documentation process for contracts. the management calls on the legal advisors of the company to evaluate the legal risks involved in a contract, ascertain legal responsibilities of the company under the applicable law of the contract, restrict its liabilities under the contract, and cover the risks involved. all operational teams are briefed on compliance related issues so that they can ensure adherence to all contractual commitments.

to date, helios and matheson has no material litigation in relation to contractual obligations pending against it in any court, in India or overseas.

regulatory risks

helios and matheson operates out of multiple countries across the world. accordingly, we must comply with a wide variety of national and local laws, and we are subject to restrictions on the import and export of certain technologies and multiple and overlapping tax structures.

helios and matheson has appointed legal counsels and consultants in various countries where it operates to ensure compliance with their respective regulations. currently, all the operational policies of helios and matheson are compliant with the local laws of the countries that it operates in.

liquidity risk

our company could face a liquidity crunch due to long payment cycles, delay in recoveries, bad debts etc. to mitigate such a risk helios and matheson maintains a significant portion of its assets as liquid assets.

engagement execution

as explained in the preceding paragraph, a portion of the company's revenues is derived from fixed price projects. in some cases, the specifications may not be completely defined at the inception of the project, where for competitive reasons, the company still needs to accept the project. this could lead to differences in opinion with client at the time of delivery of the project. helios and matheson client relationships are sufficiently strong whereby such disputes can be resolved to the mutual satisfaction of the client and the company.

human resource management

continued ability to hire and retain qualified personnel is key to success. your company strives to provide excellent staff welfare measures to promote employee satisfaction and thereby attract and retain efficient manpower. further, to ensure that employees grow with technology helios and matheson conducts regular training programs.

termination of contracts by clients

sometimes the contracts are awarded to us on project-by-project basis. these projects do not carry a commitment of future volume of business. some of the actions that could affect the business are

- . financial difficulties for client
- . a demand for reduction in prices
- . a change in outsourcing technology
- . by shifting to in house it departments or to the competitors.

by close interaction with clients, helios and matheson engagement managers keep track of changes at the client's end thereby mitigating this risk.

customer retention

this is an important factor in the amount and predictability of revenue and profits. our ability to retain existing customers depends on a number of factors

- . customer satisfaction
- . service offerings by competitors
- . customer service levels
- . price

helios and matheson has an exemplary record of client retention with 90% of the business being repeated.

mergers and acquisitions

one of the company's growth strategies is to make acquisitions and investments in complementary businesses, technologies that will enable the company to add services for its core customer base and to expand geographically. helios and matheson ability to make these acquisitions and investments depends on the availability of suitable candidates and investments of acceptable costs, the ability to compete effectively for these candidates and investments, and the availability of capital to complete these acquisitions and investments. risk management is an on-going process based on the dynamics of risk environment. we at helios and matheson continually seek to improve and enhance our ability to identify risks and plan responses thereto.

conclusion

the company has adequate systems of internal control commensurate with the size and nature of its operations. these have been designed to provide reasonable assurance with regard to recording and providing reliable financial and operational information, complying with statute, safeguarding assets from unauthorized use or losses, executing transactions with proper authorization and ensuring compliance of corporate policies.

certificate
auditors' certificate on compliance with the conditions of corporate governance
under clause 49 of the listing agreement

to

the members of helios and matheson information technology limited

1. we have reviewed the records concerning the company's compliance of conditions of corporate governance as stipulated in clause 49 of the listing agreement entered into, with the stock exchanges of india, for the financial year ended september 30, 2009.
2. the compliance of conditions of corporate governance is the responsibility of the management. our review was limited to procedures and implementation thereof, adopted by the company for ensuring the compliance of the conditions of corporate governance. it is neither an audit nor an expression of opinion on the financial statements of the company.
3. we have conducted our review on the basis of the relevant records and documents maintained by the company and furnished to us for the review and the information and explanations given to us by the company.
4. based on such a review , in our opinion and to the best of our information and according to the explanations given to us, the company has complied with the conditions of corporate governance, as stipulated in clause 49 of the said listing agreement.
5. we further state that , such compliance is neither an assurance as to the future viability of the company, nor as to the efficiency or effectiveness with which the management has conducted the affairs of the company.

for and on behalf of
venkatesh & co
chartered accountants

place: chennai
date : january 30 , 2010

sd/-
ca. v. dasaraty
partner
m.no.26336

auditors' report to the members of helios and matheson information technology limited

1. we have audited the attached balance sheet of helios and matheson information technology limited as at september 30, 2009, the profit & loss account and also the cashflow statement for the eighteen month period ended on that date annexed thereto. these financial statements are the responsibility of the company's management. our responsibility is to express an opinion on these financial statements based on our audit.
2. we conducted our audit in accordance with auditing standards generally accepted in india. those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. an audit includes examining, on a test basis, evidence to support the financial statement amounts and disclosures in the financial statements, assessing the accounting principles used in the preparation of financial statements, assessing significant estimates made by management in the preparation of financial statements and evaluating overall financial statement presentation. we believe that our audit provides a reasonable basis for our opinion.
3. as required by the companies (auditor's report) order, 2003 issued by the central government of india in terms of sub- section (4A) of section 227 of the companies act, 1956, we enclose in the annexure a statement on the matters specified in paragraphs 4 & 5 of the said order.

further to our comments in the annexure referred to in paragraph 3 above, we report that

- a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.
- b. in our opinion, proper books of account as required by law, have been kept by the company, so far as appears from our examination of such books.
- c. the balance sheet , profit and loss account and cash flow statement dealt with by this report are in agreement with the books of accounts.
- d. in our opinion, the profit and loss account ,balance sheet and cash flow statement comply with accounting standards referred to in sub section (3c) of section 211 of the companies act, 1956.
- f. in our opinion and to the best of our information and according to the explanations given to us, the said balance sheet and profit and loss account read together with the other notes and accounting policies give the information required by the companies act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in india:
 - i. in the case of the balance sheet of the state of affairs of the company as at 30th september , 2009
 - li. in the case of the profit and loss account, of the profit of the eighteen month period ended on that date and
 - lii. in the case of the cash flow statement, of the cash flows of the eighteen month period ended on that date.
 - lv. on the basis of written representation received from the directors as at 30th september 2009, and taken on record by the board of directors, we report that none of the directors is disqualified from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the companies act, 1956.

place : chennai
date : january 30, 2010

for venkatesh & co
chartered accountants
sd/-
ca.v.dasaraty
partner
M.no.26336

annexure to auditors' report

(referred to in paragraph 3 of our report of even date)

in terms of the information and explanation given to us and the books and records examined by us in the normal course of audit and to the best of our knowledge and belief, we state as under :-

1.
 - a. the company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
 - b. the fixed assets of the company have been physically verified by the management at reasonable intervals. no material discrepancies were noticed on such verification.
 - c. no fixed assets have been disposed off during the year.
2. the company's nature of operations does not require it hold inventories. accordingly, clause 4(ii) of the companies auditors report (order), 2003 is not applicable.
3. the company has not granted loans, secured or unsecured to and from companies, firms or other parties covered in the register maintained under section 301 of the companies act, 1956 and hence, clauses (iii)(b), (iii)(c),(iii)(d),(iii)(f) and (iii)(g) of paragraph 4 of the said order are not applicable to the company.
4. the company has taken unsecured loan from the company covered in the register maintained under section 301 of the companies act, 1956. the terms & conditions of the loan are not prejudicial to the interest of the company
5. in our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business with regard to purchases of fixed assets and the sale of services. no instances of continuing failure to correct major weaknesses in internal control were noticed by us during the course of audit.
6.
 - a. in respect of contractual arrangements entered in the register maintained in pursuance of section 301 of the companies act, 1956 and to the best of our knowledge and belief and according to the information and explanations given to us, where each of such transactions made in pursuance of contracts or arrangements, is in excess of rs.5 lacs in respect of each party, the transactions have been made at prices which are prima facie reasonable having regard to the prevailing market prices at the relevant time.
 - b. in respect of sale of services to parties listed in the register maintained under section 301 of the companies act, 1956, these transactions have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
7. the company has accepted deposits from the public. the provisions of sections 58A & 58AA of the companies act, 1956, and the rules made there under are complied with.
8. in our opinion, the company has an adequate internal audit system commensurate with the size of the company and the nature of its business.
9. the central government has not prescribed the maintenance of cost records under section 209 (1) (d) of the companies act, 1956.
10.
 - a. according to the information and explanations given to us, and according to the books and record as produced and examined by us, in our opinion, the undisputed statutory dues including provident fund, income-tax, sales tax, wealth tax, service tax, value added tax customs duty, excise duty, cess and other material statutory dues as applicable, have generally been regularly deposited by the company during the year with the appropriate authorities. according the the information and explanations given to us, there are no arrears of outstanding statutory dues as mentioned above as at 30th september, 2009 for a period of more than six months from the date they became payable.

- b. according to the information and explanations produced to us, there are no dues in respect of sales tax, customs duty, excise duty and cess that have not been deposited with the appropriate authorities on account of any dispute. according to the information and explanations given to us, the income tax demand of rs.2,38,53,150 relating to the assessment year 1997-98, is being contested by the company in the madras high court. the company has paid rs.57,77,990 towards the demand. the company has filed an appeal before the commissioner of central excise (appeals). disputing the service tax levy/ demand of rs.3,93,720.
11. the company has no accumulated losses at the end of 30th september 2009. the company has not incurred cash losses during the financial year ended on that date and in the immediately preceding financial year.
12. the company has not defaulted in the repayment of dues to financial institutions or banks or debenture holders.
13. the company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
14. the company has not given any guarantee for loans taken by others from banks or financial institutions except in the case of guarantee given to its subsidiary company, the terms and conditions, whereof, in our opinion, are not prejudicial to the interest of the company.
15. the company has obtained term loans during the year and as per records of the company, the term loans were applied for the purpose for which they were raised.
16. as per the records of the company, funds raised on short-term basis were not used for long term investment and vice-versa.
17. the company has issued convertible warrants on a preferential basis to the promoters and non promoter group and In terms of the issue and as per preferential guidelines of SEBI, 10 % of the conversion price amounting Rs. 3,70,27,200 was received by the company during the year.
18. the company has not issued any debentures and hence, creation of securities in respect of debentures does not arise.
19. the company has not raised money by way of public issues.
20. during the course of our examination of the books and records of the company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of significant fraud on or by the company, noticed or reported during the year nor have we been informed of such case by the management.

place : chennai
date : january 30, 2010

for venkatesh & co
chartered accountants
sd/-
ca. v.dasaraty
partner
M.no.26336

balance sheet as at september 30, 2009

	schedule	september 30, 2009 rs.	march 31, 2008 rs.
i. sources of funds			
1. shareholders' funds			
share capital	a	23,11,23,290	23,11,23,290
reserves and surplus	b	182,17,82,247	158,80,21,488
advance received towards subscription of redeemable preference shares		63,04,14,007	63,04,14,007
preferential convertible warrants -application money		3,70,27,200	-
2. loan funds			
secured loans	c	52,63,24,097	24,01,15,902
unsecured loans	d	103,66,07,068	96,73,85,035
3. deferred tax			
		16,68,81,295	13,64,16,135
		445,01,59,204	379,34,75,857
ii. application of funds			
1. fixed assets			
gross block	e	221,98,21,098	161,27,15,714
less : depreciation		84,36,91,344	54,45,44,419
net block		137,61,29,754	106,81,71,295
capital work in progress at cost		19,95,55,314	15,91,23,769
		157,56,85,068	122,72,95,064
2. investments			
	f	75,23,53,177	75,23,53,177
3. advance			
	g	65,02,50,007	65,02,50,007
4. current assets, loans and advances			
sundry debtors	h	75,27,47,295	70,49,12,653
cash and bank balances	i	37,51,25,122	39,59,14,442
unbilled revenue		19,92,81,317	12,28,87,378
loans and advances	j	25,16,07,955	13,52,84,947
		157,87,61,688	135,89,99,420
5. less: current liabilities & provisions			
	k	12,17,37,034	22,51,15,091
net current assets		145,70,24,654	113,38,84,329
6. miscellaneous expenditure			
deferred revenue expenditure to be written off		1,48,46,298	2,96,93,280
		445,01,59,204	379,34,75,857
notes forming part of the accounts	o	-	-

as per our report of even date

for and on behalf of the board

for venkatesh & co
chartered accountantsplace: chennai
date : january 30, 2010sd/-
v.ramachandiran
chairpersonsd/-
g.k.muralikrishna
managing directorsd/-
k.m.kumar
cfo & company secretarysd/-
ca. v.dasaraty
partner

schedules forming part of the accounts

	september 30, 2009 rs.	march 31, 2008 rs.
schedule - a : share capital		
authorised		
4,00,00,000 equity shares of rs.10 each	40,00,00,000	40,00,00,000
1,00,00,000 redeemable preference shares of rs.10 each	10,00,00,000	10,00,00,000
	<hr/>	<hr/>
	50,00,00,000	50,00,00,000
Issued		
2,31,16,429 equity shares of rs 10 each	23,11,64,290	23,11,64,290
subscribed and paid up		
2,31,12,329 equity shares of rs 10 each fully paid up (of the above, 1,59,53,100 nos were allotted as fully paid bonus shares by capitalization of reserves)	<hr/>	<hr/>
	23,11,23,290	23,11,23,290
schedule-b : reserves and surplus		
general reserve	103,38,50,000	78,38,50,000
capital reserve	1,02,500	1,02,500
share premium	34,21,30,710	34,21,30,710
profit & loss account	44,56,99,037	46,19,38,278
	<hr/>	<hr/>
	182,17,82,247	158,80,21,488
schedule - c : secured loans		
from banks	52,63,24,097	24,01,15,902
	<hr/>	<hr/>
	52,63,24,097	24,01,15,902
schedule - d : unsecured loans		
foreign currency convertible bonds	78,31,90,000	78,31,90,000
Others	25,34,17,068	18,41,95,035
	<hr/>	<hr/>
	103,66,07,068	96,73,85,035
schedule - f : investments (non-trade at cost)		
i. 2589429 equity shares of rs.10/-each in helios and matheson IT (bangalore) limited (unquoted) (face value rs.17894290/-) (formerly systemlogic solutions ltd)	9,58,24,475	9,58,24,475
ii. 2941 shares in helios and matheson inc., usa (unquoted)	7,23,87,951	7,23,87,951
iii. 2 shares of s\$1 each in helios and matheson (singapore) pte ltd, singapore (unquoted)	49	49
iv. 100000 equity shares of jayamaruthi software systems pvt.ltd. (unquoted)	2,43,07,500	2,43,07,500
v. 10000 shares of maruthi consulting inc, usa (unquoted)	9,16,49,794	9,16,49,794
vi. 1278213 shares of common stock in helios and matheson north america inc., ny usa (formerly the a consulting team inc.,) (Quoted)	46,81,83,408	46,81,83,408
	<hr/>	<hr/>
	75,23,53,177	75,23,53,177
schedule - g : advance		
advance for investment in shares of vmoksha entities 3,31,165 equity shares of 100 each - (unquoted)	65,02,50,007	65,02,50,007
	<hr/>	<hr/>
	65,02,50,007	65,02,50,007
schedule -h : sundry debtors (unsecured,considered good)		
a. debts outstanding for a period exceeding six months	1,91,56,486	1,76,20,729
b. other debts	73,35,90,809	68,72,91,924
	<hr/>	<hr/>
	75,27,47,295	70,49,12,653