

Protean eGov Technologies Limited

Dividend Declaration Policy

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1. Background

A dividend is a payment made by a company to its shareholders, usually as a distribution of profits. When a company earns a profit or surplus, it can either re-invest it in the business (called retained earnings), or it can distribute it to shareholders. A company may retain a portion of its earnings and pay the remainder as a dividend. The word "dividend" comes from the Latin word "dividendum" means a sum which is to be divided. Most profitable, secure and stable companies offer dividends to their stockholders. Dividends provide an incentive to own stock in stable companies even if they are not experiencing much growth. The Companies that offer dividends are most often companies that have progressed beyond the growth phase, and no longer benefit sufficiently by reinvesting their profits, so they usually choose to pay them out to their shareholders; also called payout. It is a reward to the shareholders for having taken risk in investing in the Company.

Protean eGov Technologies Limited operates in the high potential and fast growing IT enabled services industry. This offers huge investment opportunities. Therefore, the retention of surplus funds for future growth over-rides considerations of returning cash to the shareholders. However, considering the consistent and impressive generation of profits year on year, there is a need to provide greater clarity on the dividend pay-out philosophy of the Company.

A Dividend Policy is a comprehensive review of the current state of corporate Payout Policy. A carefully planned and executed Dividend Policy is critical for maximizing shareholders' wealth. The objective of this policy is to ensure a regular dividend income and long term capital appreciation for the shareholders of the Company. The Company would ensure to strike the right balance between the quantum of dividend paid and amount of profits retained in the business for various purposes. The Board of Directors will refer to the policy while declaring/recommending dividends to the Shareholders on behalf of the Company. Through this policy, the Company would endeavor to maintain a consistent approach to dividend pay-out plans.

2. Definitions

‘Act’ means Companies Act, 2013.

‘Section’ means section of the Act.

‘Dividend’ means a distribution of a portion of Company’s earnings, decided by its Board of Directors to its shareholders. Under the Companies Act, 2013, ‘dividend’ is defined as “dividend includes any interim dividend”.

‘Interim/Special dividend’ means dividend declared the Board of Directors during any financial year out of the surplus in the profit and loss account and out of profits of the current financial year.

‘Free Reserves’ means such reserves which are created out by transfer of profits and are not earmarked for any specific purpose and can be utilized for various purposes including distribution of dividend. Under Companies Act, 2013 ‘Free Reserves are defined to mean “such reserves which as per the latest audited balance sheet of a company, are available for distribution as dividend.

Provided that—

- any amount representing unrealised gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise, or
- any change in carrying amount of an asset or of a liability recognised in equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value,

Shall not be treated as free reserves.

‘Unpaid Dividend Account’ means a special account opened by the Company with any scheduled bank for transfer of the total amount of dividend which remains unpaid or unclaimed within thirty days from the date of the declaration of dividend.

‘Investor Education and Protection Fund’ is a fund established by the Central Government under section 125 of the Act.

3. Types of Dividend

➤ Final Dividend

The Final dividend is paid once for the financial year after the annual accounts are prepared and audited. The Board of Directors of the Company has the power to recommend the payment of Final Dividend to the shareholders in a general meeting. Final dividend is declared by the members of a company at its annual general meeting if and only if the same has been recommended by the Board of directors of the Company. The declaration of Final dividend shall be included in the ordinary business items that are required to be transacted at the Annual General Meeting and shall require approval of the shareholders through Ordinary Resolution.

➤ Interim Dividend

This form of dividend can be declared by the Board of Directors one or more times during a financial year as may be deemed fit by it. The Board of Directors of the Company would declare an interim dividend, as and when considered appropriate, in line with this policy. Normally, the Board could consider declaring an interim dividend after finalization of quarterly (or half yearly) financial accounts. This would be in order to supplement the annual dividend or in exceptional circumstances.

4. Factors to be considered for Dividend Decision

Following factors shall be considered by the Board of Directors while taking any decision with regard to declaration of dividend:

External Factors:

State of Economy- in case of uncertain or recessionary economic and business conditions, Board will endeavor to retain larger part of profits to build up reserves to absorb future shocks.

Statutory Restrictions- The Board will keep in mind the restrictions imposed by Companies Act, 2013 and Rules notified thereunder with regard to declaration of dividend.

Capital availability - when the alternate source of capital availability are favourable, dividend pay-out can be liberal. However, in case of unfavourable market conditions, Board may resort to a conservative dividend pay-out policy in order to conserve cash outflows.

Internal Factors:- Apart from the various external factors aforementioned, the Board will take into account various internal factors while declaring Dividend, which inter alia will include-

- i) Profits earned during the year;
- ii) Present & future Capital requirements of the existing businesses;
- iii) Expansion/ Modernization of existing businesses;
- iv) New Projects Plans;
- v) Fresh investments into external businesses;
- vi) Major Repairs & Maintenance;
- vii) Likelihood of crystalization of contingent liabilities;
- viii) Contingency or any similar Fund; &
- ix) Any other factor, as deemed fit by the Board.

5. Pay-out Ratio

Payout ratio is calculated by dividing the company's dividend by the earnings per share. The higher the pay-out ratio the lesser the retained earnings with the company and vice-versa.

The Board shall endeavor to maintain the Dividend Payout Ratio (Dividend including Tax on Dividend)/ Net Profit for the year) upto the maximum of ~~40%~~ 60% subject to

a. Company's need for Capital for its growth plan; &

b. Positive Cash Flows.

6. Interim / Special Dividend

The term 'dividend' includes any interim dividend. The Board of Directors of a company may declare interim dividend during any financial year out of the surplus in the profit and loss account or/and out of profits of the financial year. Following conditions shall be observed for declaring interim dividend:

- i) Interim financial statements for the period for which interim dividend is to be declared has to be prepared and the profit as shown in the financial statements is to be reduced by the following amounts:
 - Depreciation; &
 - Tax including deferred tax and other anticipated losses for the year and
 - Proper provision has to be made in respect of transfer to reserves, if required.
- ii) While final dividend may be paid out of free reserves, no interim dividend

should be paid out of reserves in the event of a loss or inadequacy of profits;

- iii) In case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim/special dividend shall not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years.
- iv) Interim dividend declared shall be confirmed in the next Annual General Meeting.

7. Transfer of Profit to Reserves

Subject to the provisions of the Companies Act, 2013 and Rules notified thereunder, out of the Net Profit (PAT), the Board shall in such amount in Surplus Account as may be sufficient for dividend payment for two years (including tax on dividend) at the rate at which the dividend is being proposed in the given year and the remaining amount, if any, shall be transferred to General Reserves Account.

8. Declaration of Dividend Out of Reserves

The Board shall generally not resort to the practice of Declaration of Dividend out of Reserves. In exceptional circumstances, the payment of dividend out of reserves may be made after complying with the relevant provisions of the Companies Act, 2013 and Companies (Declaration and Payment of Dividend) Rules, 2014.

9. Declaration and Payment of Dividend under Companies Act, 2013

No dividend shall be declared or paid by a company for any financial year except—

- out of the profits of the company for that year arrived at after providing for depreciation or out of the profits of the company for any previous financial year or years arrived at after providing for depreciation in accordance with the provisions of that sub-section and remaining undistributed, or out of both; or
- out of money provided by the Central Government or a State Government for the payment of dividend by the company in pursuance of a guarantee given by that Government:

The Board of Directors of a company may declare interim/special dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared. In case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend shall not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years.

No dividend shall be declared or paid by a company from its reserves other than free reserves.

10. Provisions laid down under the Act

- The amount of the dividend declared, including interim dividend, shall be deposited in a scheduled bank in a separate account within five days from the date of declaration of such dividend.
- No dividend shall be paid by a company in respect of any share therein except to the registered shareholder of such share or to his order or to his banker and shall not be payable except in cash.
- Any dividend payable in cash may be paid by cheque or warrant or in any electronic mode to the shareholder entitled to the payment of the dividend.
- Any company which fails to comply with the provisions of sections 73 (Prohibition on acceptance deposits fr public) of and 74 (Repayment of deposits etc. accepted under the old act) shall not, so long as such failure continues, declare any dividend on its equity shares.
- The Board of directors must state in the Directors' Report the amount of dividend, if any, which it recommends to be paid.
- Where a dividend has been declared by a company but has not been paid or claimed within thirty days from the date of the declaration to any shareholder entitled to the payment of the dividend, the company shall, within seven days from the date of expiry of the said period of thirty days, transfer the total amount of dividend which remains unpaid or unclaimed to a special account to be opened by the company in that behalf in any scheduled bank to be called by the name Unpaid Dividend Account.
- The company shall, within a period of ninety days of making any transfer of an amount to the Unpaid Dividend Account, prepare a statement containing the names, their last known addresses and the unpaid dividend to be paid to each

person and place it on the website of the company, if any, and also on any other website approved by the Central Government for this purpose

- If any default is made in transferring the total unpaid amount or any part thereof to the Unpaid Dividend Account of the company, the Company shall pay, from the date of such default, interest on so much of the amount, at the rate of twelve per cent per annum and the interest accruing on such amount shall enure to the benefit of the members of the company in proportion to the amount remaining unpaid to them.
- Any money transferred to the Unpaid Dividend Account of a company which remains unpaid or unclaimed for a period of seven years from the date of such transfer shall be transferred by the company along with interest accrued, if any, thereon to the Fund established under sub-section (1) of section 125 called by name Investor Education and Protection Fund.

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11. Internal Procedure

- The Company Secretarial Department shall intimate Finance & Accounts Department by way of certified true copy of the Board Resolution, the recommendation of dividend by the Board along with the amount to be transferred to general reserve account and opening of a bank account for the purpose of payment of dividend.
- Matter regarding declaration of Final Dividend will be placed before the shareholders for approval at the Annual General Meeting whereas matter regarding approval of Interim Dividend shall require approval of the Board of Directors.
- The Company Secretarial Department shall intimate the approval given by the Board (for interim dividend) / Members at Annual General Meeting (for final dividend) to the Finance & Accounts Department.
- The amount of the dividend declared, including interim dividend if any, shall be deposited by Finance & Accounts Department in a scheduled bank in a separate account within five days from the date of declaration of such dividend.
- Finance & Accounts Department shall make payment of Dividend Distribution Tax within fourteen days of declaration of Dividend.
- The Finance & Accounts Department shall make payment of dividend amount preferably within 15 days either by cheque or warrant or in any electronic mode to the shareholders entitled to the payment of the dividend as per the details provided by the Company Secretarial Department.

- Where dividend remains unpaid or unclaimed within thirty days from the date of the declaration the within seven days from the date of expiry of the said period of thirty days, the Finance & Accounts Department shall transfer total amount of dividend which remains unpaid or unclaimed to a special account to be opened by the company in that behalf in any scheduled bank to be called by the name Unpaid Dividend Account and shall intimate such details to the Company Secretarial Department.
- The Company Secretarial Department shall make necessary compliances as required under the Companies Act, 2013 and Rules framed thereunder.

12. Review

This Policy shall be reviewed by the Board once in every five years or earlier, if so deemed fit by the Board.

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