

Virinchi
Technologies Limited
www.virinchi.com

Virinchi Technologies Limited
(Formerly Virinchi Consultants Limited)

n minds, n! Knowledge

16th
Annual Report
2004-2005

Board of Directors

Sri. Viswanath Kompella- Chairman & Managing Director
Datuk Santha Kumar S.
Datuk Kunasingam Sittampalam
Sri. K.VSN.Kumar
Sri. Jagadish K.Rao
Sri. K. Jagan Mohan Rao
Sri K.S.K. Prasad
Sri. Premchand Krishna Rao*
(Resigned With effect from: 14.08.2005)

Shareholders' Information

Registered Office and Development Centre:
10, SRK Colony,
West Marredpally,
Secunderabad - 500 026
Ph Nos.27803608, 27803610
Fax No.27803612

Company Secretary

K. Ravindranath Tagore

Chief Operating Officer

Sreenivasa Sreekanth Uppuluri
Anil Kumar Pinapala- Sr.Vice President (Marketing)

Corporate Office:

A-1, 3rd Floor, Surabhi Plaza,
Vikrampuri Colony,
Secunderabad - 500 009
Ph Nos.27890662-65
Fax No.27890669

Bankers

Canara Bank, Overseas Branch, Hyderabad
Oriental Bank of Commerce
(Previously Global Trust Bank Limited, Secunderabad)
ICICI Bank Limited, Hyderabad
Indian Overseas Bank, Secunderabad
Bank of Baroda, Hyderabad

Listing

The Hyderabad Stock Exchange Limited
Bombay Stock Exchange Limited

Auditors

M/s. P. Murali & Co.,
Chartered Accountants
6-3-655/2/3,
Somajiguda,
Hyderabad - 500 082.
Phone#23326666, 23312554

Book Closure

19.09.2005 to 23.09.2005 (both days
inclusive)

Registrars & Share Transfer Agents

M/s. Aarathi Consultants Pvt. Ltd.,
1-2-285, Domalguda,
Hyderabad - 500 029
Ph Nos.27634445, 27638111
Fax No.27632184

Date, Time and Venue of AGM

23.09.2005, 11.00 A.M.
at Padmashali Kalyana Mandapam,
2-12-66, Nehru Nagar,
West Marredpally, Secunderabad - 26

NOTICE

NOTICE is hereby given that the 16th Annual General Meeting of the Members of the Company will be held on Friday, the 23rd day of September, 2005 at 11.00 A.M. at Padmashali Kalyana Mandapam, 2-12-66, Nehru Nagar, West Marredpally, Secunderabad - 500 026 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Profit & Loss Account for the year ended March 31, 2005; Balance Sheet as on that date along with the Schedules forming part of it, notes to accounts and the Reports of the Directors' and Auditors' thereon.
2. To declare dividend for the financial year 2004-05.
3. To appoint a Director in place of Sri Jagadish K.Rao, who retires by rotation, and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Sri K.S.K.Prasad, who retires by rotation, and being eligible, offers himself for re-appointment.
5. To appoint M/s. P. Murali & Co., Chartered Accountants, Hyderabad as Auditors of the Company to hold office from the conclusion of this meeting till the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS

- 6. To Consider, and if thought fit, to pass, with or without modification(s), the following Resolution as a Special Resolution**

"RESOLVED THAT Pursuant to the provisions of Section 94(1)(a) and 16 and other applicable provisions, if any, of the Companies Act, 1956 the Authorised Share Capital of the Company be and is hereby increased from Rs. 13,00,00,000(Rupees Thirteen Crores) divided into 1,30,00,000(One Crore Thirty Lacs) Equity Shares of Rs.10/- each to Rs.18,00,00,000(Rupees Eighteen Crores) divided into 1,80,00,000(One Crore Eighty Lacs Only) Equity shares of Rs.10/- each, ranking pari passu with the existing Equity Shares".

RESOLVED FURTHER THAT the existing Clause V of the Memorandum of Association of the Company is replaced by the following.

- V.** The Authorised Share capital of the company is Rs.18,00,00,000(Rupees Eighteen Crores Only) divided into 1,80,00,000 (One Crore Eighty Lacs Only) Equity Shares of Rs.10/- (Rupees Ten Only) each with power to increase and reduce the capital of the Company and to divide the shares in the capital for the time being into several classes and attach thereto respectively such preferential, qualified or special rights, privilege or conditions as may be determined by or in accordance with the articles of the company for the time being and to vary, modify or abrogate such rights, privileges or conditions in such manner as be permitted by the Act or provided by the Articles of the Company for the time being.

RESOLVED THAT pursuant to the provisions of Section 31(1) of the Companies Act, 1956 the existing Clause No. 3 of the Articles of Association of the company be and is hereby deleted and in its place the following Article be substituted therefor.

- 3.** "The Authorised Share Capital of the Company shall be as specified under Clause V of the Memorandum of Association of the Company."

7. To Consider, and if thought fit, to pass, with or without modification(s), the following Resolution as a Special Resolution:

“RESOLVED THAT Pursuant to the provisions of Section 198,269 and 309 read with Schedule XIII and all other applicable provisions of the Companies Act, 1956(hereinafter referred to as the “Act” which includes any statutory modification(s) or re-enactment thereof, for the time being in force), the consent of the company be and is hereby accorded to the reappointment of Mr. Viswanath Kompella, as Managing Director of the Company, for a further period of 5(Five) years with effect from 1st April, 2005 to 31st March 2010 on the terms and conditions as mentioned in the explanatory statement”.

“RESOLVED FURTHER THAT in the event of loss or inadequacy of profits in any financial year(s) during the tenure of his service as Managing Director, Mr. Viswanath Kompella shall be paid the remuneration as set out in the Explanatory Statement as Minimum remuneration”.

8. To Consider, and if thought fit, to pass, with or without modification(s), the following Resolution as a Special Resolution:

“RESOLVED THAT Pursuant to the provisions of Clause 49 of the Listing Agreement with the Stock Exchanges, the consent of the Company be and is hereby accorded for payment of Rs.2500/- (Rupees Two Thousand Five Hundred Only) or such other amount as may be approved by the Board of Directors from time to time subject to the ceiling prescribed under the Companies Act, 1956 (including any statutory modifications or re-enactment for the time being in force) or under Rules framed there under, as amended from time to time, as sitting fees for each meeting of the Board of Directors and/or any Committee(s) thereof, attended by the Non-Executive Directors of the Company”.

9. To Consider, and if thought fit ,to pass, with or without modification(s), the following Resolution as a Special Resolution.

Raising of Funds through Equity and Equity Linked Securities

“RESOLVED THAT pursuant to Section 81(1A) and all other applicable provisions of the Companies Act, 1956(including any statutory modification or re-enactment thereof, for the time being in force) and enabling provisions of the Memorandum and Articles of Association of the Company and the Listing Agreements entered into by the Company with the Stock Exchanges where the shares of the company are listed and subject to any approval, consent, permission and /or sanction of the Central Government, Reserve Bank of India and any other appropriate authorities, institutions, Bodies(hereinafter collectively referred to as ‘the appropriate authorities’) and subject to such conditions as may be prescribed by any of them while granting any such approval, consent, permission, and/or sanction(hereinafter referred to as the requisite approvals.) and which may be agreed to by the Board of Directors of the Company (hereinafter called ‘The Board’ which term shall be deemed to include any committee which the Board may have constituted or hereinafter constitute to exercise its powers including the power conferred by this resolution) the Board be and is hereby authorized to create, offer, issue and allot, from time to time in one or more tranches 22,00,000 Equity shares of which 9,50,000 (Nine Lacs Fifty Thousand) equity shares are to be allotted to Mr. Praveen Kondai, for consideration other than cash, towards part payment of the Purchase consideration for acquiring his 100% stake in KSoft Systems Inc., USA and 12,00,000 (Twelve Lacs) warrants to Mr. Viswanath Kompella, entitling to apply for equity shares or other securities convertible into or exchangeable with equity shares(hereinafter referred to as the ‘Securities’) to promoters or any other individual, domestic /foreign institutions, institutional investors, banks, mutual funds, companies, bodies corporate or other entities, whether or not such investors are members of the Company, under a preferential issue through offer letter and /or circular and /or information memorandum and/or such other documents /writings, in such a manner and on such terms and conditions as may be determined by the Board in its absolute discretion; provided that the price of the equity shares so issued, shall not be less than Rs.67/- (including a premium of Rs.57) per equity share of Rs.10 each being the price with respect to the Relevant date i.e August 24, 2005, (as prescribed under guidelines for preferential issues contained in Chapter XIII of the Securities and Exchange Board of India (Disclosure and investor Protection) Guidelines, 2000”.

“RESOLVED FURTHER THAT the equity shares allotted in terms of this resolution shall rank paripassu in all respects with the then existing equity shares of the Company”.

“RESOLVED FURTHER THAT for the purpose of giving effect to the above, the Board be and is hereby authorized to take all actions and do all such deeds, matters and things as it may, in its absolute discretion, deem necessary, desirable or expedient to effect to the issue or allotment of aforesaid securities and listing thereof with the stock exchange(s) as appropriate and to resolve and settle all questions and difficulties that may arise in the proposed issue and allotment of any of said securities and to do all acts, deeds and things in connection therewith and incidental thereto as the Board in its absolute discretion deem fit, without being required to seek any further consent or approval of the Members or otherwise to the end and intent that they shall be deemed to have given their approval thereto expressly by the authority of this resolution. The Warrants shall be issued subject to the following conditions;

- i. In Consideration of the warrants being offered to the offerees, the offerees shall be required to pay 10% of the amount of Warrants allotted to them, which amount shall be adjusted against the issue price at the time of allotment of the equity shares. The amount paid by them shall not bear any interest and the Board shall forfeit such deposit in the event the offerees do not exercise their option.
- ii. The holder of each warrant shall be entitled to apply for and obtain at his sole discretion one equity share of Rs.10/- each at a premium of Rs.57/- Per share which option shall be exercised by the holder on a date or dates during the period commencing from six months after the date of issue of Warrants and ending on the expiry of 18 months of such issue as may be mutually agreed by the Board and the holder.
- iii. The offeree is entitled to exercise its option in full or in part or may decline to exercise the option in which case offer shall be deemed to have lapsed.
- iv. The new equity shares issued on conversion of the warrants shall be subject to the Memorandum and Articles of Association of the Company and shall rank pari passu in all respects with the existing issued and subscribed equity shares of the Company, save and except that they shall qualify for dividends, if any, that may be declared for the financial year in which such equity shares are issued, and allotted pro rata for the period during which such capital is paid up”.

“RESOLVED FURTHER THAT the Board be and is hereby authorized to delegate all or any of the powers herein conferred to any Committee of Directors, or the Chairman & Managing Director or officers of the Company to give effect to the aforesaid resolution”.

10. To Consider, and if thought fit, to pass, with or without modification(s), the following Resolution as a Special Resolution.

“RESOLVED THAT Pursuant to the provisions of Section 372A and other applicable provisions if any, of the Companies Act, 1956 (hereinafter referred to as the “Act” which includes any statutory modification(s) or re-enactment thereof, for the time being in force) the consent of the Company be and is hereby given to the Board of Directors to acquire by way of subscription, purchase or otherwise the securities of any other body corporate upto a limit of Rs. 100 Crores”.

BY ORDER OF THE BOARD
For **VIRINCHI TECHNOLOGIES LIMITED**

PLACE : HYDERABAD
DATE : 27.08.2005

VISWANATH KOMPPELLA
CHAIRMAN & MANAGING DIRECTOR

NOTES:

- a) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself/herself and the proxy need not be a member of the company. The instrument of proxy in order to be effective, must be deposited at the registered office of the Company, duly completed and signed not less than 48 hours before the meeting.
- b) The relevant Explanatory Statement in respect of the Special Business set out above, as required by Sec.173 (2) of the Companies Act, 1956 is annexed hereto.
- c) The Register of Members / Register of Beneficiaries and Share Transfer books of the Company will remain closed from September 19, 2005 to September 23, 2005 (both days inclusive) in connection with the payment of dividend for the financial year 2004-05.
- d) Dividend, if declared, at the Annual General Meeting, will be payable to those members whose names appear on the Company's Register of Members as on 23rd September, 2005. Dividend Warrants are scheduled to be posted on or after 28th September, 2005. Dividend Warrant is valid for payment by the Company's Bankers for Three Months from the date of issue. Thereafter, please contact our Registrars and Share Transfer Agents, M/s. Aarathi Consultants Pvt Ltd, 1-2-285, Domalguda, Hyderabad -500029 for revalidation of the warrants.

You are advised to encash your dividend warrants immediately as the dividend amount remaining unclaimed / unpaid at the expiry of 7 years from the date that becomes due for payment are required to be transferred by the company to the Investor Education and Protection Fund established under section 205C in terms of section 205A of the Companies Act, 1956.

It may be noted that no claim will lie against the company or the investor education and protection fund in respect of the said unclaimed dividend amount transferred to the fund.

e) Payment of Dividend through Electronic Clearing Service (ECS)

The Securities and Exchange Board of India (SEBI) has advised the Companies to mandatorily use ECS facility, wherever available, for distributing dividends or other cash benefits etc, to the investors. This facility provides instant credit of dividend amount to your Bank account electronically at no extra cost. ECS also eliminates the delay in postal transit and fraudulent encashment of warrants.

Under this facility the amount of dividend payable to you would be directly credited to your bank account. Your bank's branch will credit your account and indicate the credit entry as 'ECS' in your pass book/statement account. We would be issuing an advice to you directly after the transaction is effected.

In case you wish to have your dividends paid through ECS and are holding the Company's shares in electronic form, you may kindly fill in the enclosed ECS mandate form and submit it to your Depository Participant. However, in case you are holding the company's shares in physical form and wish to have your future dividends paid through ECS, you may kindly return the said ECS mandate form duly completed and signed by you at our registered office mentioned elsewhere in this report.

If you do not wish to opt for ECS facility, we strongly recommend that you provide the details of your Bank's Name, Branch, type of Account and Account Number to your depository participant in cases where shares are held in electronic form and to us in cases where shares are held in physical form for printing the same on the dividend warrants which will be dispatched to you. In the event of any change or correction in the details that might have been provided by you earlier, kindly send revised particulars to your depository participant or to us, as the case may be, at an early date.

We request you to kindly submit the ECS/Bank details latest by 19th September, 2005 to enable us to include the same for the payment of the current year's dividend.

- f) Members holding shares in physical form are requested to notify/send any change in their address to the Company's Registrars and Share Transfer Agents.
- g) For the Convenience of members and for proper conduct of the meeting, entry to the place of meeting will be regulated by attendance slip, which is appended in this annual report. Members are requested to sign at the place provided on the attendance slip and hand over the first part of it at the entrance to the venue.
- h) Section 109A of the Companies Act, 1956 extends the nomination facility to individual shareholders of the Company. Therefore, the shareholders willing to avail this facility may make nomination in Form 2B.

ANNEXURE TO THE NOTICE

EXPLANATORY STATEMENT

(Pursuant to Section 173(2) of The Companies Act, 1956)

Item#6

In order to provide cushioning in respect of total paid up capital of the company it is proposed to increase the Authorised share capital of the Company. The present Authorised Share Capital of the Company i.e. Rs. 13,00,00,000/- (Rupees Thirteen Crores Only) and the Paid up Capital is Rs.11,82,48,756 (Rupees Eleven Crores Eighty Two Lakhs Forty Eight Thousand Seven Hundred and Fifty Six Only). To facilitate issue of further shares, the Authorised Share capital is to be increased to Rs.18,00,00,000(Rupees Eighteen Crores Only) by creation of 50,00,000(Fifty Lakh) further equity shares of Rs. 10/- each which will rank paripassu in all respects with the existing shares of the Company. The proposed increase requires approval of the Members in general meeting. Consequent to the increase in the Authorised Share Capital, the Company's Memorandum of Association will also require alteration so as to reflect the increase. Consequent to the increase in the Authorised Share Capital the Company's Memorandum and Articles of Association will also require alteration so as to reflect the increase.

The Board recommends passing of the Special Resolution.

None of the Director is interested or concerned in the Resolution except to the extent of their shareholding in the Company.

Item# 7

The Term of appointment of Sri. Viswanath Kompella as Chairman & Managing Director of the Company completed on 31st March, 2005. The Board of Directors in their meeting held on 12th February, 2005, reappointed Mr. Viswanath Kompella as Managing Director for a period of 5 years with effect from 1st April, 2005 at a revised remuneration and as per the terms and conditions mentioned below subject to the approval of members.

Considering his competence, experience and also the envisaged growth in the activities of the company and as compared to remuneration presently being paid to persons in similar situations in the country, the terms of his reappointment and remuneration as set out below are viewed to be just, fair and reasonable.

As per the provisions of Schedule XIII of the Companies Act, 1956 reappointment of Mr. Viswanath Kompella, Managing Director requires the approval of the members in General Meeting. Hence, the above resolution at item# 7 is submitted to the meeting for ratification by the members of the company by passing a Special Resolution.

The Board of Directors commends the above resolution at Item# 7 for your approval.

None of the Director of the Company except Mr. Viswanath Kompella to the extent of his appointment as director is concerned or interested in this resolution.

The Particulars of remuneration payable to Mr. Viswanath Kompella

a) **Salary:**

Rs. 2,00,000/- p.m. which is inclusive of Dearness Allowance and all other allowances not otherwise specified herein.

b) **Commission;**

Such percentage of the net profits of the Company or such amount as may be decided by the Board of Directors (which includes any Committee thereof) for each Financial Year or part thereof within overall ceiling of 5% of the net profits of the Company.

c) **Perquisites:**

i) Housing

1) Residential accommodation or house rent allowance not exceeding 60% of the Salary. The appointee shall be allowed free use of the company owned furniture and other consumer durables, if required.

2) Expenses pertaining to electricity will be borne/ reimbursed by the Company.

ii) Medical Expenses

Domiciliary Treatment- At actuals subject to a ceiling of Rs. 15,000 p.a for Mr. Viswanath Kompella and his family

Hospitalisation- Mr. Viswanath Kompella and his dependents will be covered by the Company's Medical Insurance Scheme.

iii) Club Fees

Reimbursement of membership fee for upto 2 Clubs in India including admission and life membership fee

iv) Personal Accident Insurance

Personal Accident Insurance Policy of such amount, the premium of which shall not exceed Rs. 10,000/- per annum.

v) Phone rental and call charges will be paid by the Company at actuals for telephone at the residence/ mobile phone. Charges for personal STD/Trunk Calls would be borne by Mr. Viswanath Kompella

vi) Company's contribution to Provident Fund, Gratuity and encashment of leave at the end of his tenure, payable as per rules of the Company. These shall not be included in the Computation of limits for the remuneration or perquisites aforesaid.

vii) Leave with full pay or encashment thereof as per the Rules of the Company.

viii) He will be covered with the Key man Insurance Policy, the premium of which will be borne by the Company.

viii) Mr. Viswanath Kompella will further be entitled to reimbursement of actual entertainment and traveling expenses incurred by him for business purposes.

Item# 8

One of the requirements of the revised Clause 49 of the Listing Agreement with the stock exchanges on Corporate Governance is that all fees/compensation paid to the Non- Executive Directors shall be fixed by the Board of Directors and require prior approval of shareholders at the General Meeting.

Presently, the Company is paying Rs.2500/- (Rupees Two thousand Five Hundred Only) as Sitting Fees to the Non- Executive Directors for each Board Meeting attended by them.

The approval of the members is therefore sought for the payment of sitting fees to the Non-Executive Directors of the Company. The Board recommends passing of the Resolution as set out at item No.8 of the accompanying Notice.

All the Non- Executive directors are considered to be interested in the aforesaid Resolution.

Item#9

The Shareholders are aware that the company came for public issue in the year of 2000 for about Rs. 5.70 Crores to provide part of the finance required to meet the cost of Project.

Your directors found that it will be cheaper for the company to arrange for the additional amount required privately by allotting shares of the company to promoters of the company and body corporates, who are willing to extend financial assistance against allotment of the shares/warrants of the company. The said allotment of shares/warrants proposed would be deemed to be preferential allotment and therefore the price at which the shares would be allotted will be fixed in accordance with the SEBI (Disclosure and Investor Protection) Guidelines, 2000.

The information as required in terms of Clause 13.1B of the SEBI Disclosure and Investor Protection Guidelines issued by the Securities and Exchange Board of India (SEBI) on preferential issues are as under;

a) Reasons & Purpose of the issue:

To further strengthen the company's financial position and to generate resources, interalia for investing in the business of the company the Board of Directors proposed to issue the shares on preferential allotment in accordance with the guidelines issued by SEBI.

b) Intention of the Promoters to subscribe to the equity shares:

The intention and primary objective of the Promoters to subscribe to the equity shares through this Preferential Issue is to make available scarce funds readily to finance the expansion of the Company's operations.

There is no change in control of the company subsequent to the issue of shares by way of preferential issue.

c) Proposed time within which the allotment shall be completed:

The allotment shall be completed within 15 days from the date of passing of the resolutions in the AGM.

d) Issue Price:

The price of the shares shall be fixed as on the relevant date as per the Preferential Issue guidelines issued by the Securities and Exchange Board of India.

e) Shareholding pattern before and after the issue:

The information on shareholding pattern before and after the preferential issue is given hereunder.

| CATEGORY | Pre-Issue | | Post-Issue | |
|--|------------------|-------------------|------------------------|-------------------|
| | No. of Shares | % of Shareholding | No. of shares/warrants | % of Shareholding |
| 1. Promoters Holding | | | | |
| A. Indian Promoters | 27,05,188 | 22.54 | 39,05,188 | 25.36 |
| B. Foreign Promoters | 28,43,700 | 23.69 | 28,73,700 | 18.66 |
| SUB TOTAL | 55,48,888 | 46.23 | 6778888 | 44.01 |
| 2. Non Promoters Holding | | | | |
| A. Institutional Investors | | | | |
| a. Mutual Funds | — | — | — | — |
| b. Indian Financial Institutions / Banks | — | — | — | — |
| c. FIs | — | — | — | — |
| B. Others | | | | |
| a. Private Corporate Bodies | 13,94,293 | 11.62 | 16,14,293 | 10.48 |
| a. NRIs / OCB's | 1,13,134 | 0.94 | 20,63,134 | 13.40 |
| b. Indian Public | 49,42,885 | 41.18 | 49,42,885 | 32.09 |
| c. any other - Trust | 2,800 | 0.02 | 2,800 | 0.0002 |
| SUB TOTAL (A+B) | 64,53,112 | 53.77 | 86,23,112 | 55.99 |
| GRAND TOTAL | 12002000 | 100.00 | 15402000 | 100.00 |

f) Identity of the proposed allottees and percentage of pre and post preferential issue is as under:

| Name of the Allottee | Pre Issue | | Further Allotment | Post Issue | |
|--------------------------|------------------|--------------------|----------------------|-----------------------|--------------------|
| | No Of Shares | % of share-holding | | No Of Shares/warrants | % of share-holding |
| Viswanath Kompella | 14,74,900 | 12.29% | 12,00,000 (warrants) | 26,74,900* | 17.37 |
| Rite Equity Sdn Bhd | Nil | - | 5,00,000 | 5,00,000 | 3.25 |
| Praveen Kondai | Nil | - | 9,50,000 | 9,50,000 | 6.17 |
| SN Techno Value Holdings | | | | | |
| Private Ltd | Nil | - | 2,20,000 | 2,20,000 | 1.43 |
| Swift Optimum Sdn. Bhd | Nil | - | 5,00,000 | 5,00,000 | 3.25 |
| A. Siva Shanmugham | 1,73,200 | 1.44% | 30,000 | 2,03,200 | 1.32 |
| Total | 16,48,100 | 13.73% | 34,00,000 | 50,48,100 | 32.79 |

* Includes 12,00,000 Warrants with an option to convert into equity shares at a later date.

g) Change in the control or composition of the Board;

There will be no change in the control or composition of the Board after the preferential allotment of shares.

The consent of the members is being sought by a Special Resolution pursuant to the provisions of Section 81 (1A) and other applicable provisions of the Companies Act, 1956, for preferential allotment of shares. The Special Resolution as set out at the item no.9 of the Notice, if passed will have the effect of allowing the Board to issue and allot shares and warrants to the persons on the terms and conditions as may be decided by the Board. The Board may be authorized to take all steps necessary for implementing this Resolution.

A certificate from the Auditors of the Company certifying that the proposed preferential issue conforms to the subsisting guidelines issued by the SEBI will be available for inspection by the members of the Company during business hours i.e. from 10.00 A.M. to 5.00 P.M. on all working days at the Registered Office of the Company and also at the Meeting.

The Directors recommend the passing of the above resolution as a Special Resolution.

None of the director is interested or concerned except to the extent of shares that may be allotted to them under this preferential issue.

Item#10

The Company has aggressive growth plans and inorganic growth through acquisitions of IT companies with specific strengths would be an essential part of the strategy. In pursuance of the strategy your company proposed to acquire 100% stake in an “ERP implementation and Business Intelligence Practice” IT Company in USA, KSoft Systems Inc.,(www.ksoftgolbal.com) for a total purchase consideration of USD 2,660,000 Million (Two Million Six hundred sixty thousand United States Dollars) in a structured deal with cash portion at USD 1,200,000 and shares worth USD 1,466,000 payable as follows:

- First payment of Six Hundred Thousand US Dollars (\$ 600,000) in cash and preferential allotment of shares worth \$1,460,000(US Dollars One Million Four Hundred and sixty thousand only) priced as per SEBI Norms for preferential allotment, not exceeding 950,000 Equity shares.
- Second payment of Three Hundred Thousand US Dollars (\$300,000) with in one hundred eighty (180) days from the Acquisition date.
- Third payment of Three Hundred thousand US Dollars (\$300,000) within five hundred and forty (540) days, from the Acquisition date.

As the investment is in excess of 60% of Paid up capital and free reserves, as per Section 372A of the Companies Act, 1956, we recommend the above resolution for your approval.

None of the Director is interested or concerned in the above resolution.

Additional Information required to be furnished under the Listing Agreement

The particulars of directors who are proposed to be re-appointed are given below:

| | |
|---------------------|--|
| 1. Name | Sri Jagadish K. Rao |
| Age | 43 Years |
| Qualifications | Electrical Engineer from university of North Carolina, USA |
| Expertise | He is having overall 17 years of experience in high technology industry covers both business and project management experience. He founded Future integrated Systems (FIS) in June, 1994 located in San Jose, CA, USA. He served as director of FIS. He was managing a group involved in the architecture and development of 'PC on Chip'. |
| Other Directorships | 1 (One) |
| 2. Name | Sri Viswanath Kompella |
| Age | 38 |
| Qualifications | Mechanical Engineer from IIT, Chennai |
| Expertise | He is heading the company since its inception and has experience of over 13 years in providing consultancy services. He has developed the conceptual design for the E-watt and the B2B E-Commerce portal |
| Other Directorships | 1 (One) |
| 3. Name | Sri K.S.K. Prasad |
| Age | 59 years |
| Qualifications | M.Tech from JNTU, Hyderabad |
| Expertise | 25 years of work experience with A.P. Dairy Development Corporation Ltd. |
| Other Directorships | NIL |

DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in presenting you the Sixteenth Annual Report of your company together with the Audited Accounts for the year ended 31st March, 2005.

Financial Results

| Particulars | (Amount in Rs. Lakhs) | |
|--|-----------------------|-----------|
| | 2004-2005 | 2003-2004 |
| Total Income | 1830.56 | 1064.71 |
| Profit before interest, depreciation and tax | 813.93 | 468.67 |
| Interest | 4.23 | 1.87 |
| Depreciation | 215.76 | 93.08 |
| Provision for Taxation | — | 14.04 |
| Profit after interest, Tax and depreciation | 593.93 | 359.68 |
| Deferred Tax Provision | 52.93 | 63.58 |
| Dividend | 60.01 | 60.01 |
| Provision for Dividend Tax | 8.41 | 6.60 |
| Balance brought forward | 343.87 | 114.39 |
| Balance Carried to Balance Sheet | 816.44 | 343.88 |

Financial Highlights

The total income of your company for the year 2004-05 was Rs.1830.56 Lakhs as against Rs. 1064.71 Lakhs in 2003-04, showing growth of 172%. The Profit before tax (PBT) increased by 159% to 593.93 Lakhs in 2004-05 from Rs.373.72 Lakhs in 2003-04. Profit after tax (PAT) increased by 165% to Rs.593.93 Lakhs in 2004-05 from Rs.359.68 Lakhs in 2003-04.

Reserves and Surplus

During the year the Company has transferred Rs.4,72,56,629/- to Reserves and Surplus compared to last year transfer of Rs.2,29,49,178

Dividend

The Board of Directors of your company has recommended a dividend of 5% (i.e. Rs 0.50 per equity share of Rs. 10/- each) for the year ended 31st March, 2005 amounting to Rs. 60,01,000/-.

Directors

In accordance with the provisions of the Companies Act, 1956 Sri Jagadish K. Rao and Sri. K.S.K.Prasad. retire by rotation at the forthcoming Annual General Meeting, and being eligible offer themselves for re-appointment.

Sri Viswanath Kompella, Chairman & Managing Director of the Company whose term is expired on 31st March, 2005 and being eligible offers himself for re-appointment.

Sri Premchand Krishna Rao resigned from the Board with effect from 14th August, 2005. The Board places on record its sincere appreciation for the invaluable contribution made by him during his tenure.

Directors' Responsibility Statement:

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956 with respect to the Directors' Responsibility Statement, it is hereby confirmed that:

- i) In the preparation of the annual accounts for the year ended 31st March, 2005, the applicable accounting standards had been followed and there are no material departures.
- ii) We have selected appropriate accounting policies and applied them consistently and have made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as on 31st March 2005 and of the profit of the company for the financial year ended 31st March 2005.
- iii) We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- iv) We have prepared the annual accounts for the financial year ended 31st March, 2005 on a going concern basis.

Auditors

M/s. P. Murali & Co., Chartered Accountants, Statutory Auditors of the Company retire at the conclusion of the ensuing Annual General Meeting and being eligible, offer themselves for reappointment.

Deposits

The Company has not accepted fixed deposits as on 31st March, 2005 so as to attract the provisions of Section 58A and 58AA of the Companies Act, 1956 read with Companies (Acceptance of the Deposits) Rules, 1975 as amended from time to time.

Information required under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the report of Board of Directors) Rules, 1988.

a) Conservation of Energy:

Company's operations require electrical energy for its use in air conditioning the premises, for power supply to computer systems and lighting which are not energy intensive. However, adequate measures have been taken to reduce energy consumption, wherever possible.

b) Research and Development and Technology Absorption:

Your company will continue to focus and invest in its R & D activities in software engineering, technologies and products. Your company leverages its excellence in technology for producing World Class Products and solutions. The continual exposure to new technologies has helped maintain high motivation levels in employees and to generate higher levels of productivity, efficiency and quality. Your company continues to give due importance to research and development to maintain its leadership in the field of leading edge technologies.

c) Foreign Exchange Earnings and Outgo:

Earnings : Rs. 603.68 Lakhs towards Export of Software.

Outgo : Rs. 53.53 Lakhs towards Foreign Travel and Rs 57.56 Lakhs towards other expenses.

Particulars of Employees

In pursuance of the provisions of section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975, the Directors are to report that no employee was in receipt of remuneration of Rs.24,00,000/- or more per annum or Rs.2,00,000/- or more per month where employed for a part of the year.

Report on Corporate Governance

Corporate Governance Report is set out as separate Annexure to this Report.

Management Discussion and Analysis Report

This has been dealt with in the separate Annexure to this Report.

Acknowledgements

Your directors would like to place on record their appreciation of support, co-operation and assistance received from the company's clients, Central Government authorities, bankers, shareholders and suppliers. The board wishes to convey its appreciation of hard work, solidarity, cooperation and support put in by the company's employees at all levels in enabling such growth.

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS
For **VIRINCHI TECHNOLOGIES LIMITED**

PLACE : HYDERABAD
DATE : 27.08.2005

VISWANATH KOMPPELLA
CHAIRMAN & MANAGING DIRECTOR

**Annexure to Directors' Report
Report on Corporate Governance**

1. Company's Philosophy:

Virinchi is committed to the adoption of best governance practices and its adherence in the true spirit, at all times. Our Corporate Philosophy envisages complete transparency and adequate disclosure with an ultimate aim of value creation for all players i.e. stakeholders, creditors, Employees.

2. Board of Directors:

a) Composition

To have a more professional outlook your company is having 7 Members comprising of 1 Chairman & Managing Director, 5 Independent and Non-Executive Directors and 1 Non-Executive Director.

b) Attendance of each Director at the Board Meetings and the last AGM and their Category

During the Financial Year 2004-05 the Board of Directors met 6 times on the following dates:

26-04-2004, 22-07-2004, 25-08-2004, 19-10-2004, 12-01-2005, 12-02-2005

The attendance of each Director is given below:

| Name of the Director | Category | No. of other Director ships | No. of committees in which Member | No. of Board Meetings attended | Whether attended last AGM |
|------------------------------|-------------------------------------|-----------------------------|-----------------------------------|--------------------------------|---------------------------|
| Mr.Viswanath Kompella | Promoter and Managing Director | 1 | — | 6 | Yes |
| Mr.A.P.Srinivas * | Director | — | — | 1 | No |
| Datuk Santha Kumar S | Independent Non-Executive Director | 4 | — | — | No |
| Datuk Kunasingam Sittampalam | Independent Non- Executive Director | 6 | — | — | No |
| Mr.KVSN.Kumar | Independent Non- Executive Director | 4 | — | — | No |
| Mr.K.S.K.Prasad | Independent Non Executive Director | — | 3 | 6 | Yes |
| Mr.Jagadish K. Rao | Non Executive Director | 1 | 3 | 3 | No |
| Mr. K.Jagan Mohan Rao | Independent Executive Director | — | 3 | 5 | Yes |
| Mr.V.Premchand Krishna Rao* | Independent Non Executive Director | 3 | — | — | No |

- Mr. A.P.Srinivas has resigned from Directorship w.e.f 22nd July, 2004
- Mr. Premchand Krishna Rao resigned from Directorship w.e.f. 14th August, 2005

AUDIT COMMITTEE:

During the year under review Four (4) meetings were held for approval of Unaudited Financial Results.

The constitution of the Committee and the attendance of each member of the Committee is given below:

| Name of the Director | Designation | Nature of Directorship | Profession | Committee meetings attended |
|-------------------------|---------------------------|------------------------|------------|-----------------------------|
| Sri.K.S.K.Prasad | Chairman of the Committee | Independent | Business | 4 |
| Sri.Jagadish K .Rao | Member | Non Executive | Business | 4 |
| Sri. K. Jagan Mohan Rao | Member | Independent | Business | 4 |

The meetings of Audit committee were also attended by the Statutory Auditor as Invitees. The un-audited financial results for each quarter are approved by the audit committee before passed on to the Board of Directors for approval and adoption.

Terms and reference of the Audit Committee include a review of;

- Financial reporting process
- Draft financial statements and auditor's report (before submission to the Board)
- Accounting policies and practices
- Internal controls and internal audit systems
- Risk management policies and practices
- Related party transactions
- Internal audit reports and adequacy of internal audit function

The role of the audit committee includes recommending the appointment and removal of the external auditor, discussion of the audit, plan and fixation of audit fee and also approval of payment of fees for any other services.

4. Remuneration Committee

The Remuneration Committee is constituted as follows:

During the year the Committee met 2 times

| Name of the Director | Designation | Nature of Directorship | Attendance |
|-----------------------|---------------------------|------------------------|------------|
| Sri.K.S.K.Prasad | Chairman of the Committee | Independent | 2 |
| Sri.Jagadish K Rao | Member | Non Executive | 2 |
| Sri K.Jagan Mohan Rao | Member | Independent | 2 |

Details of remuneration to the directors for the Year:

Details of remuneration paid to Directors are given below:

| Name of the Director | Relation ship with other Directors | Business relationship with company if any | Loans and advances from company | Remune-ration | Paid During the year 2004-05 | | |
|------------------------|------------------------------------|---|---------------------------------|---------------|------------------------------|------------|-----------------|
| | | | | | Sitting fees Rs. | Salary Rs. | Comm-ission Rs. |
| Mr. Viswanath Kompella | None | None | None | 15,000 | 6,53,404 | — | 6,68,404 |
| Mr. K. Jaganmohan Rao | None | None | None | 12,500 | — | — | 12,500 |
| Mr. K.S.K. Prasad | None | None | None | 15,000 | — | — | 15,000 |
| Mr. A.P.Srinivas* | None | None | None | 2,500 | 1,66,518 | — | 1,69,018 |

*Mr. A.P Srinivas resigned on 22nd July, 2005

The Broad terms of reference of Remuneration Committee are to determine on behalf of the Board and on behalf of Shareholders with agreed terms of reference, the Company's policy on specific remuneration package for executive directors.

The Non- Executive Directors are paid remuneration by way of sitting fees of Rs.2500/- for each meeting of the Board attended by them. The Company does not pay any sitting fees for the committee meetings attended by the members.

5. INVESTORS' GRIEVANCE COMMITTEE:

The Board constituted an investors' grievance committee which looks into shareholders and investors grievances under the chairmanship of Sri. K.S.K.Prasad who is an Independent and Non- Executive director.

Composition of the Committee:

| | |
|-----------------------|--------------------------------------|
| Sri K.S.K.Prasad | Member and Chairman of the Committee |
| Sri Jagadish K.Rao | Member |
| Sri K.Jagan Mohan Rao | Member |

Name & Designation of the Compliance officer: **Mr. K.S.K.Prasad**, Director

The total No. of Complaints received and complied during the year were; 74

The Complaints had been attended to within seven days from the date of receipt of the complaint, as communicated by our Registrars and Share Transfer Agents M/s. Aarthi Consultants Pvt. Ltd.

The outstanding complaints as on 31st March, 2005 were: 1

6. Details of Annual General Meetings: Location and time of the last Three AGMs.

| Financial Year | Date | Time | Venue | Nature of special resolutions, if any passed |
|----------------|------------|------------|---|---|
| 2003-2004 | 29.09.2004 | 11.00 A.M. | Padmashali Kalyana Mandapam, 2-12-66, Nehru Nagar, West Marredapally, Secunderabad - 26 | 1. Alteration of Articles of Association 2. Introduction of ESOP Scheme. |
| 2002 - 2003 | 26.09.2003 | 11.00 A.M | Padmashali Kalyana Mandapam, 2-12-66, Nehru Nagar, West Marredapally, Secunderabad - 26 | 1. Alteration of objects clause of Memorandum of Association. 2. Change of Name. |
| 2001 - 2002 | 30.09.2002 | 11.00 A.M | Padmashali Kalyana Mandapam, 2-12-66, Nehru Nagar, West Marredapally, Secunderabad - 26 | 1. Alteration of Articles of Association |

None of the Resolutions were put through postal ballot in the last year.

7. Disclosures

- A. Disclosure on materially significant related party transactions i.e. transactions of the company of material nature with its promoters, the directors or the management's, their subsidiaries or relatives etc. that may have potential conflict with the interests of the company at large.

None

- 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

8. Means of Communications:

As per the listing requirements, the company published periodical financial results in The Economic Times, Vaartha and leading English and regional newspapers. The Company has also posted its Quarterly results, shareholding pattern etc on the website of the company at www.virinchi.com and also in the EDIFAR site in terms of Clause 51 of the Listing Agreement.

9. General Shareholder information

- a) AGM: Date, Time and Venue : 23rd September, 2005 at 11.A.M.
At Padmashali Kalyana Mandapam,
2-12-66, Nehru Nagar, West Marredpally,
Secunderabad - 500 026 A.P.
- b) Financial Year : 1st April to 31st March
Financial Reporting for:
Quarter ending June 30, 2004 Before end of July, 04
Quarter ending September 30, 2004 Before end of October, 04
Quarter ending December 31, 2004 Before end of January, 05
Quarter ending March 31, 2005 Before end of April, 05
- c) Date of Book Closure : 19th September 2005 to 23rd
September, 2005(both days inclusive)
- d) Dividend Payment date(s) : 28th September, 2005 to
19th October, 2005
- e) Listing on Stock Exchanges : The Company's Equity Shares are listed
in the Hyderabad Stock Exchange Limited
and The Stock Exchange, Mumbai (BSE).
The Company has paid the listing fees to
the stock exchanges for the financial year
2005-06.
- f) Stock Code : i) Stock Code - Physical
Hyderabad : Not Allotted
Mumbai : 532372
ii) Demat ISIN in NSDL and CDSL
INE593B01017

Market Price Data:

The Monthly high and low quotation and the volume of shares traded on The Stock exchange, Mumbai are as under:

| Month | Highest(Rs.) | Lowest(Rs.) | Volume of Shares traded |
|-----------------|--------------|-------------|-------------------------|
| April, 2004 | 12.95 | 7.50 | 78727 |
| May, 2004 | 12.50 | 8.10 | 44202 |
| June, 2004 | 12.30 | 8.11 | 51115 |
| July, 2004 | 13.50 | 7.64 | 42599 |
| August, 2004 | 12.70 | 7.75 | 96011 |
| September, 2004 | 12.90 | 10.40 | 130674 |
| October, 2004 | 25.50 | 11.00 | 923036 |
| November, 2004 | 23.80 | 18.50 | 960713 |
| December, 2004 | 21.00 | 15.30 | 1095099 |
| January, 2005 | 25.75 | 18.80 | 1744592 |
| February, 2005 | 32.00 | 20.50 | 2007438 |
| March, 2005 | 30.90 | 22.00 | 1740920 |

Note : During the year shares of the company were not traded in Hyderabad Stock Exchange. Hence, the monthly High and Low of the stock quotations in respect of the same are not furnished.

- g) Stock Performance in Comparison : The Share Price of the Company has been to Broad-based indices such as BSE moving with the trend of the indices Sensex, BZX 200,Nifty
- h) Registrar and share transfer agents : Aarthi Consultants Pvt Ltd. 1-2-285, Domalguda, Hyderabad -500 029. Ph:27634445, 27638111 Fax: 27632184
- i) Share Transfer System : The Share transfers are being effected physically by the Company's share transfer agents, M/s. Aarthi Consultants Pvt. Ltd, Hyderabad.

i) Distribution Shareholding as on 31st March, 2005

| | Share Holding of Nominal Value | | Share Holders | | Share Amount | |
|--------------------|--------------------------------|-------------|---------------|---------------------|---------------|--|
| | Rs. | Numbers | % of Total | In Rs. | % of Total | |
| | (1) | (2) | (3) | (4) | (5) | |
| Upto 5,000 | 5,000 | 2129 | 64.44 | 5658370.00 | 4.71 | |
| 5,001 to 10,000 | 10,000 | 554 | 16.77 | 4871790.00 | 4.06 | |
| 10,001 to 20,000 | 20,000 | 232 | 7.02 | 3751270.00 | 3.13 | |
| 20,001 to 30,000 | 30,000 | 108 | 3.27 | 2820510.00 | 2.35 | |
| 30,001 to 40,000 | 40,000 | 40 | 1.21 | 1471610.00 | 1.23 | |
| 40,001 to 50,000 | 50,000 | 64 | 1.94 | 3067940.00 | 2.56 | |
| 50,001 to 1,00,000 | 1,00,000 | 72 | 2.18 | 5234180.00 | 4.36 | |
| 1,00,001 and above | And above | 105 | 3.18 | 93144330.00 | 77.61 | |
| TOTAL | | 3304 | 100.00 | 120020000.00 | 100.00 | |

J) Share holding pattern as on 31st March 2005.

| | CATEGORY | No. of Shares held | % of shareholding |
|-----------|--|--------------------|-------------------|
| A | PROMOTER'S HOLDING: | | |
| 1. | Promoters* | | |
| | - Indian Promoters | 42,18,592 | 35.15 |
| | - Foreign Promoters | 28,43,700 | 23.69 |
| 2. | Persons acting in Concert # | Nil | Nil |
| B. | NON-PROMOTERS HOLDING | | |
| 3. | Institutional Investors | | |
| a. | Mutual Funds | Nil | Nil |
| b. | Banks, Financial Institutions, Insurance Companies (Central/ State Govt. Institutions / Non-government Institutions) | Nil | Nil |
| c. | FII's | Nil | Nil |
| 4. | OTHERS | | |
| a. | Private Corporate Bodies | 10,22,981 | 8.52 |
| b. | Indian Public | 38,29,803 | 31.91 |
| c. | NRIs / OCBs | 86,924 | 0.72 |
| d. | Any other (please specify) | Nil | Nil |
| | TOTAL | 1,20,02,000 | 100.00 |

- k) Dematerialization of Shares and liquidity : Since the Company has entered into an arrangement with both the depositories namely NSDL and CDSL for dematerialisation of its shares, the shareholders of the company are more free to Dematerialise their shares and keep them in Dematerialised form with any depository participant. The Company shares are regularly traded on The Stock Exchange, Mumbai. 64.22% of the Company's share capital is dematerialised as on 31.03.2005
- l) Outstanding GDRs./ADRs./Warrants or any Convertible instruments
Conversion date and likely Impact
On equity. : 1The Company has not issued any GDRs./ADRs./ Warrants or any convertible instruments.
- m) Address for Correspondence : Virinchi Technologies Limited
10, SRK Colony, West Marredpally,
Secunderabad - 500 026

Non -Mandatory Requirements:

The Chairman is entitled to reimbursement of expenses incurred in performance of his duties. The Company has already set up a Remuneration Committee. The Company shall adopt postal ballot system, where compulsory, under the Companies Act, 1956. The other suggestions have not yet been adopted.

BY ORDER OF THE BOARD OF DIRECTORS

For **VIRINCHI TECHNOLOGIES LIMITED**

PLACE : HYDERABAD

VISWANATH KOMPILLA

DATE : 27.08.2005

CHAIRMAN & MANAGING DIRECTOR

ANNEXURE TO THE DIRECTORS' REPORT

Pursuant to Clause 49 of the Listing Agreement, a report on Management Discussion and Analysis Report is given below:

MANAGEMENT DISCUSSION AND ANALYSIS REPORT:

Industry Structure and developments

One of the most fascinating aspects of the information technology sector is the very complex market structure that has evolved during the past decade. Information technology has changed from standalone hardware and software to integrated systems, consequently, the IT industry landscape has changed over recent years from fragmented product vendors to integrated solution providers.

India's IT industry ranks among the fastest growing sectors within the country's economy. Driven primarily by software exports, the industry has been logging in extremely impressive year on year growth. The software industry has been growing well over the 50 percent mark, and only in the last year, impacted by the worldwide economic downturn, has the momentum reduced marginally.

India's vibrant IT software and services industry, represents around 2% of the overall global software market. The Government and software industry have set an ambitious goal for the software sector amounting to around USD 50 billion of software exports by 2008. This implies a share of 6% of the relevant global market and would be 35% of India's total export.

According to a Nasscom report, India's IT market reached a turnover of USD 16.2 billion in 2004-05. IT Companies are expected to account for 8-10% of GDP by 2008 from 1.4% in 2001. India has emerged as a global player in Information Technology with software exports of USD 12 billion in 2003-04 and \$17.2 billion in 2004-05. The revenue from exports of IT and related services is expected to reach US \$ 57 billion by 2008 according McKinsey Report.

Your company's focus has been in the market for e-Business solutions for large and medium enterprises. The eBusiness market according to a recent report by Gartner Group research firm will grow to US\$ 7 trillion in 2008. North America still remains at the vanguard with 39% of the market and revenues worth more than US\$ 2.84 trillion. *Source: Nasscom

Competitive Strengths of your company

Your company has several wholly owned enterprise-wide software products providing solutions to over 10 industry domains with more than 40 clients located across 12 countries. This strength of your company, IT Product Development and Implementation experience, is only matched by few other companies operating in the Indian IT landscape.

Your company's vast domain expertise across industries coupled with Product development & implementation experience, in an onsite-offshore model and pure offshore model to global clientele act as the key differentiators and mark the competitive strengths of the company.

The strong Product Development practice coupled with best of breed documentation and packaging of enterprise solutions on par with the global standards are the strengths of your company which are expected to take it to the next league.

Your company's strong processes are ISO 9001:2000 certified and would be assessed at CMMi Level 5 in due course, are the Unique Value Proposition to any outsourcing client. The processes supplemented by effective tools like "Virinchi Capture" - a comprehensive tool for Project Planning, Project Execution and Project Delivery ensure transparency and bi-directional traceability through out the life cycle of the software development, which we believe are most critical to the success of any outsourcing initiative.

Further, your company's personnel, sketching a very promising future, are from the finest management & technology institutions who have associated themselves with a large number of projects addressing the needs of various industry domains, spanning across timelines & meticulous observations made have armored them with finest knowledge in various domains.

Your Company's Growth Strategies

Your company has been posting better than Industry average growth rates on CAGR for the last 3 years and has now embarked on aggressive Organic and Inorganic growth strategy.

Organically the company is expected to grow along with the industry average and this can happen with enhanced Business Development in matured markets and with high efficiency marketing. However we believe that Inorganic growth could contribute to growth much faster and also adds to new service areas, expertise and skills and more importantly add clients. These Acquisition targets will essentially be of US and European IT companies that will enable your company add a new practices in the Domains of Packaged Application Implementations (ERP, CRM etc), Main Frame services, Telecom, Validation Services, Core Banking, Core Insurance, Retail etc.

These acquisitions would also help your company:

- Acquire new clients to whom your company can “cross- sell” its products and services;
- Enhance the services already being offered by the acquired company by adding relevant skills off shore
- Cause a quantum Jump in the Top line
- Potentially improve bottom line as the cost structure of these companies to some extent can be eventually moved to off shore
- Enhanced Branding
- Attract talents

Infrastructure Addition and Upgradation

To meet the challenges of Organic and In-Organic growth your company proposes to develop the required infrastructure facilities in Hyderabad. M/s. Canara bank agreed to fund Rs.5.44 Crores by way of Term Loan.

Opportunities, Risks & Concerns

The software industry is characterized by rapid-technological changes and uncertain success of the new products. Companies are committed to adopting new technologies quickly by redefining their investment priorities and rapidly enabling their staff to meet the changes.

As a result of the fierce global competition, eroding profit margins and emerging new tools and technologies, world-wide user organizations are re-engineering their IT systems. This has created a backlog for the software development projects. Consequently, a part of the work force is moving from maintenance to the new development projects.

Your company has clearly etched out the practice areas and has dedicated teams to manage requirements of such practice areas. Your Company can now confidently handle projects of large size and deliver in defined timelines. General inflation which is higher in India than the other countries may squeeze company's profits. The foreign exchange fluctuations also affect the software industry in general

Your company has a sound knowledge about the risks that are prevailing in the market and knows how to tackle them effectively. The company is also trying to explore and find other opportunities that might prove to be beneficial in increasing our revenues and gain market share.

Internal Control Systems & Their Adequacy

The Management Information Systems is the back bone of our internal control mechanism. The Company has adequate internal control systems and procedures in all operational areas and at all levels equipment procurement, finance and administration marketing and personnel departments. The Company also has internal Audit system commensurate with its size and nature of business. The Audit Committee reviews the internal audit reports and the adequacy of internal controls from time to time.

Discussion on Financial Performance with respect to Operational Performance

The total income of your company for the year 2004-05 was 1830.56 lacs as against Rs. 1064.71 Lakhs in 2003-04, showing a growth of 172% . The Profit before tax (PBT) increased by 159% to 593.93 Lakhs in 2004-05 from Rs.373.72 Lakhs in 2003-04. Profit after tax (PAT) increased by 165% to Rs.593.93 Lakhs in 2004-05 from Rs.359.68 Lakhs in 2003-04.

Material Developments in Human Resources / Industrial Relations front, including number of people employed.

The Indian IT Sector employs 697,000 people and this likely to reach 2 million by 2014. Virinchi believes that successful organizations emanate from successful people who achieve that success from within the organization. Hence it's the organization's responsibility to define the growth & success blue print of every member working for it. Based on some of the successful industry practices, a comprehensive career management model has been devised for your company, primarily driven by parameters such as group and individual performance, to determine the growth & success path for each employee.

Further, the company recruited senior level and other functional & technical specialists during the year. The Human relations in the organization have been cordial and well-managed. The total number of human resources employed in the company as on 31st March 2005 stood at 155, adding 43 new knowledge workers from the previous year into various technology streams thereby increasing your company's ability to promise and enhancing delivery capabilities.

Your company works continuously towards adopting the best human resource practices in the industry and firmly believes in coming out with creative ideas for promoting customer satisfaction of the highest order. To ensure that employees grow with technology, training programs are conducted by your company at regular intervals to enable all technical & functional resources be abreast with the latest technologies.

Chief Executive officer and Financial Officer Certification as required under Revised Clause 49 of the Listing Agreement

We, Viswanath Kompella, Chief Executive Officer and Managing Director, K.S.K. Prasad, Director of Virinchi Technologies Limited to the best of our knowledge and belief, certify that :

1. We have reviewed the balance sheet and profit and loss account, and its schedules and notes on accounts, as well as the Cash Flow statement and the Directors report.
2. Based on our knowledge and information, these statements do not contain any un true statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the statements made.
3. Based on our knowledge and information, the financial statements, and other financial information included in this report, fairly present in all material respects, the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report, and are in compliance with the existing accounting standards and/or applicable laws and regulations.
4. To the best of our knowledge and belief, no transactions entered into by the company during the year are fraudulent, illegal or violative of the Company's code of conduct.
5. The Company's other certifying officers and we, are responsible for establishing and maintaining disclosure controls and procedures for the company, and we have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the company is made known to us particularly during the period in which this report is being prepared. and
 - b) Evaluated the effectiveness of the Company's disclosure, controls and procedures.
6. We have disclosed to the Company's auditors and the audit committee
 - a) all significant changes in internal control during the year;
 - b) Significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements and
 - c) any fraud, whether or not material, that involves management or other employees who have significant role in the company's internal controls.

Place: Hyderabad
Date:27.08.2005

Viswanath Kompella
Chief Executive Officer,
Chairman and Managing Director

K.S.K. Prasad
Director
Chairman- Audit Committee

COMPLIANCE CERTIFICATE ON CORPORATE GOVERNANCE

To

The Members,

VIRINCHI TECHNOLOGIES LIMITED

(Formerly, Virinchi Consultants Limited)

We have read the report of the Board of Directors on Corporate Governance and have examined the relevant records relating to compliance condition of corporate governance of M/s. Virinchi Technologies Limited, ("The Company") for the year ended 31st March, 2005 as stipulated in clause 49 of the listing agreement of the said company with the Stock Exchanges.

The compliance of the conditions of the Corporate Governance is the responsibility of the management. Our examination, conducted in the manner described in the Guidance note on "Certification of Corporate Governance" issued by the Institute of Chartered Accountants of India was limited to procedures and implementation thereof adopted by the company for ensuring compliance with the conditions of Corporate Governance. Our examination was neither an audit nor was it conducted to express an opinion on the financial statements of the company.

In our opinion and to the best of our information and explanations given to us and on the basis of our examination described above, the company has complied with the conditions of Corporate Governance as stipulated in clause 49 the above mentioned Listing Agreement.

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 P. MURALI & CO.,
CHARTERED ACCOUNTANTS

PLACE : HYDERABAD
DATE : 27.08.2005

P.MURALI MOHANA RAO
PARTNER.

AUDITORS' REPORT

To
The Members,
VIRINCHI TECHNOLOGIES LIMITED

1. We have audited the attached Balance Sheet of M/s VIRINCHI TECHNOLOGIES LIMITED as at 31st March, 2005 and also the Profit and Loss Account for the period ended on the date annexed thereto and the cash flow statement for the period ended on that date. 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
 3. As required by the Companies (Auditor's Report) Order, 2003 and as amended by the Companies (Auditor's Report) (Amendment) Order 2004, 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 and 5 of the said Order.
 4. Further to our comments in the Annexure referred to 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 those books.
 - c) The Balance Sheet & Profit and Loss Account dealt with by this report are in agreement with the books of account.
 - d) In our opinion, the Balance Sheet & Profit and Loss Account dealt with by this report comply with the Accounting Standards referred to in Sub Section (3C) of Section 211 of the Companies Act, 1956;
 - e) On the basis of written representations received from the Directors, as on 31st March, 2005 and taken on record by the Board of Directors, we report that, none of the Directors is disqualified as on 31st March, 2005 from being appointed as a Director in terms of clause (g) of sub-Section (i) of Section 274 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 Accounts give the information required by the Companies Act, 1956 in the manner so required 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 31st March, 2005.
 - ii) In the case of the Profit and Loss Account, of the Profit for the year ended on that date;
- And**
- iii) In the case of cash flow statement of the cash flows for the year ended on that date.

For P. MURALI & CO.,
CHARTERED ACCOUNTANTS

PLACE : Hyderabad
DATE : 27-08-2005

P.MURALI MOHANA RAO
PARTNER

ANNEXURE TO THE AUDITOR'S REPORT:

1. a) The company has maintained proper records showing full particulars including quantitative details and situation of its Fixed assets.
b) As explained to us the fixed assets have been physically verified by the management reasonable intervals and no material discrepancies between the book records and the physical inventory have been noticed on such verification.
c) The company has not disposed off substantial part of Fixed assets during the year.
2. The Company has no Inventory. Hence this clause is not applicable.
3. a) The Company has not granted or taken any loans, Secured or unsecured to Companies, Firms or other Parties covered in the register maintained under Section 301 of the Companies Act, 1956.
b) As the Company has not granted any loans, the clause of whether the rate of interest & other terms and conditions on which loans have been granted to parties listed in the register maintained under section 301 is prejudicial to the interest of company, is not applicable.
c) As no loans are granted by company, the clause of receipt of interest & principal amount from parties, is not applicable to the company.
d) No loans have been granted to Companies, Firms & other parties listed in the register U/s. 301 of the Companies Act, 1956, hence overdue amount of more than rupees one Lac does not arise and the clause is not applicable.
4. In our opinion and according to the information and explanation given to us, there are generally adequate internal control commensurate with the size of the company and the nature of its business with regard to purchases of fixed assets and for sale of goods and services. There is no continuing failure by the company to correct any major weaknesses in internal control.
5. a) In our opinion and according to the information and explanations given to us, since no contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been made by the Company in respect of any party in the financial year, the entry in the register U/s. 301 of the Companies Act, 1956 does not arise.
b) According to the information and explanations given to us, as no such contracts or arrangements made by the company, the applicability of the clause of charging the reasonable price having regard to the prevailing market prices at the relevant time does not arise.
6. The company has not accepted any deposits from the public and hence the applicability of the clause of directives issued by the Reserve Bank of India and provisions of section 58A, 58AA or any other relevant provisions of the Companies Act, 1956 and the rules framed there under does not arise. As per information and explanations given to us the order from the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal has not been received by the Company.
7. In our opinion, the company is having internal audit system, commensurate with its size and nature of its business.
8. In respect of the Company, the Central Government has not prescribed maintenance of cost records under clause (d) of Sub Section (1) of Section 209 of the Companies Act, 1956.
9. a) The company is regular in depositing statutory dues including PF, ESI, Income Tax, and any other statutory dues with the appropriate authorities and at the last of the financial year there were no amounts outstanding which were due for more than 6 months from the date they became payable.
b) According to the information and explanations given to us, no undisputed amounts are payable in respect of PF, ESI, Income Tax, and any other statutory dues as at the end of the period, for a period more than six months from the date they became payable.
10. The company has been registered for a period of not less than 5 years, and the company has no accumulated losses at the end of the financial year and the company has not incurred cash losses in this financial year and in the immediately preceding financial year.

11. According to information and explanations given to us, the Company has not defaulted in repayment of dues to financial Institutions of banks.
12. According to the information and explanations given to us, the Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures and other securities and hence the applicability of the clause regarding maintenance of adequate documents in respect of loans does not arise.
13. This clause is not applicable to this Company as the Company is not covered by the provision of special statute applicable to Chit Fund in respect of Nidhi/Mutual Benefit Fund/Societies.
14. According to the information and explanations given to us, the company is not dealing or trading in shares securities, Debentures and other investments and hence the provisions of clause 4 (xiv) of the Companies (Auditor's Report) Order 2003, are not applicable to the Company.
15. According to the information explanations given to us, the Company has not given any guarantee for loans taken by others from Banks or Financial Institutions, and hence the applicability of this clause regarding terms and conditions which are prejudicial to the interest of the company does not arise. In our opinion, the terms and conditions on which the company has given guarantees for loans taken by others from banks or financial institutions are not prejudicial to the interest of the company.
16. According to the information and explanations given to us the company has not obtained any Term Loans, hence this clause is not applicable.
17. According to the information and explanations given to us, no funds are raised by the Company on short-term basis. Hence the clause of short term funds being used for long-term investment does not arise.
18. According to the information and explanation given to us, the company has not made any preferential allotment of shares to parties and Companies covered in the Register maintained Under Section 301 of the Companies Act, 1956 and hence the applicability of the clause regarding the price at which shares have been issued and whether the same is prejudicial to the interest of the Company does not arise.
19. According to the information and explanations given to us, the company does not have any debentures and hence the applicability of the clause regarding the creation of security or charge in respect of debentures issued does not arise.
20. According to information and explanations given to us, the company has not raised any money by way of public issues during the year, hence the clause regarding the disclosure by the management on the end use of money raised by Public Issue is not applicable.
21. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year under audit.

For P. MURALI & CO.,
CHARTERED ACCOUNTANTS

PLACE : Hyderabad
DATE : 27-08-2005

P. MURALI MOHANA RAO
PARTNER

BALANCE SHEET AS ON 31st MARCH, 2005

| PARTICULARS | SCHEDULE Nos. | AS AT 31-03-2005 (Rupees) | AS AT 31-03-2004 (Rupees) |
|---|------------------|---------------------------------|---------------------------------|
| I SOURCES OF FUNDS | | | |
| 1. SHAREHOLDERS FUNDS | | | |
| a) Share Capital | 1 | 118,248,756 | 116,763,367 |
| b) Reserves & Surplus | 2 | 81,644,102 | 34,387,473 |
| c) Share Premium | | 88,083,899 | 86,895,588 |
| 2. LOAN FUNDS | | | |
| a) Secured Loans | 3 | 7,732,530 | 2,064,471 |
| 3. DEFERRED INCOME TAX LIABILITY | | 30,840,488 | 25,546,587 |
| TOTAL | | <u>326,549,775</u> | <u>265,657,486</u> |
| II APPLICATION OF FUNDS | | | |
| 1. FIXED ASSETS | | | |
| a) Gross Block | 4 | 184,118,780 | 133,609,972 |
| b) Less: Depreciation | | 55,543,263 | 33,966,396 |
| c) Net Block | | 128,575,517 | 99,643,576 |
| d) Product Development | | 124,743,792 | 108,528,083 |
| 2. INVESTMENTS | 5 | 14,000 | 14,000 |
| 3. CURRENT ASSETS, LOANS AND ADVANCES | | | |
| a) Sundry Debtors | 6 | 51,572,729 | 41,957,703 |
| b) Cash and Bank Balances | 7 | 511,293 | 755,661 |
| c) Advances and Deposits | 8 | 29,642,381 | 25,798,645 |
| Less: Current Liabilities, Provisions and Advances | 9 | 8,509,937 | 11,681,741 |
| NET CURRENT ASSETS | | 73,216,466 | 56,830,268 |
| 4. MISCELLANEOUS EXPENDITURE (To the extent not written off or adjusted) | 10 | - | 641,559 |
| TOTAL | | <u>326,549,775</u> | <u>265,657,486</u> |
| Notes to Accounts | 12 | | - |

Schedules 1 to 11, Notes to Accounts and the Cash Flow Statement annexed here to form part of these Accounts.

AS PER OUR REPORT OF EVEN DATE
for P MURALI & CO.,
CHARTERED ACCOUNTANTS

FOR AND ON BEHALF OF THE BOARD
for VIRINCHI TECHNOLOGIES LIMITED

P.MURALI MOHANA RAO
PARTNER

VISWANATH KOMPELLA
CHAIRMAN & MANAGING DIRECTOR

K.S.K.PRASAD
DIRECTOR

PLACE : HYDERABAD
DATE : 27.08.2005

K. RAVINDRANATH TAGORE
COMPANY SECRETARY

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2005

| PARTICULARS | SCHEDULE NO'S | YEAR ENDED | YEAR ENDED |
|---|------------------|------------------------|------------------------|
| | | 31-03-2005 (Rupees) | 31-03-2004 (Rupees) |
| 1 INCOME | | | |
| Income from Operations | | 183,056,803 | 106,471,177 |
| TOTAL | | 183,056,803 | 106,471,177 |
| 2 EXPENDITURE | | | |
| Salaries and Other benefits to Employees | | 22,398,356 | 15,788,947 |
| Business and Administrative Expenses | 11 | 78,623,225 | 43,173,681 |
| Interest and Financial Expenses | | 423,627 | 186,816 |
| Depreciation | | 21,576,867 | 9,307,903 |
| Misc. Expenses written off | | 641,559 | 641,560 |
| TOTAL | | 123,663,634 | 69,098,907 |
| 3 PROFIT BEFORE TAX | | 59,393,169 | 37,372,270 |
| 4 PROVISION FOR TAX | | — | 1,404,240 |
| 5 PROFIT AFTER TAX | | 59,393,169 | 35,968,030 |
| 6 DEFERRED INCOME TAX PROVISION FOR CURRENT YEAR | | 5,293,900 | 6,357,742 |
| 7 PROVISION FOR DIVIDEND | | 6,001,000 | 6,001,000 |
| 8 PROVISION FOR DIVIDEND TAX | | 841,640 | 660,110 |
| 9 BALANCE BROUGHT FORWARD | | 34,387,473 | 11,438,295 |
| 10 BALANCE CARRIED FORWARD TO BALANCE SHEET | | 81,644,102 | 34,387,473 |
| 11 BASIC EARNINGS PER SHARE (PAT) | | 4.51 | 2.47 |
| Notes to Accounts | 12 | - | - |

Schedules 1 to 11, Notes to Accounts and the Cash Flow Statement annexed here to form part of these Accounts.

AS PER OUR REPORT OF EVEN DATE
for **P MURALI & CO.,**
CHARTERED ACCOUNTANTS

FOR AND ON BEHALF OF THE BOARD
for **VIRINCHI TECHNOLOGIES LIMITED**

P.MURALI MOHANA RAO
PARTNER

VISWANATH KOMPELLA
CHAIRMAN & MANAGING DIRECTOR

K.S.K.PRASAD
DIRECTOR

PLACE : HYDERABAD
DATE : 27.08.2005

K. RAVINDRANATH TAGORE
COMPANY SECRETARY

| PARTICULARS | AS AT 31-03-2005 (Rupees) | AS AT 31-03-2004 (Rupees) |
|---|---------------------------------|---------------------------------|
| SCHEDULE 1 | | |
| SHARE CAPITAL | | |
| AUTHORISED : | | |
| 13000000 Equity Share of Rs.10/- each | <u>130,000,000</u> | <u>130,000,000</u> |
| ISSUED, SUBSCRIBED & PAID UP : | | |
| 1,20,02,000 Equity shares of Rs.10/- each | 120,020,000 | 120,020,000 |
| LESS: Calls in Arrears | 1,771,244 | 3,256,633 |
| | <u>118,248,756</u> | <u>116,763,367</u> |
| SCHEDULE 2 | | |
| RESERVES AND SURPLUS | | |
| Balance Upto Previous year | 34,387,473 | 11,438,295 |
| Surplus in Profit and Loss Account | 47,256,629 | 22,949,178 |
| | <u>81,644,102</u> | <u>34,387,473</u> |
| SCHEDULE 3 | | |
| SECURED LOANS | | |
| Overdraft from Canara Bank (Hypothecation of Machinery such as Computers, Furniture and Fixtures, Office Equipment and Airconditioners and personal guarantee of the Director of the Company) | 992,911 | 2,064,471 |
| Bills Discounting from Canara Bank | 5,987,433 | - |
| Vehicle Finance from ICICI Bank | 752,186 | - |
| | <u>7,732,530</u> | <u>2,064,471</u> |

**SCHEDULE 4
FIXED ASSETS** (Rupees)

| PARITCULARS | GROSS BLOCK AS ON 01-04-2004 | ADDITIONS DURING THE YEAR | GROSS BLOCK AS ON 31-03-2005 | DEPRECIATION UPTO 31-03-2004 | DEPRECIATION DURING THE YEAR | TOTAL DEPRECIATION 31-03-2005 | NET BLOCK AS AT 31-03-2005 | NET BLOCK AS AT 31-03-2004 |
|------------------------|------------------------------|---------------------------|------------------------------|------------------------------|------------------------------|-------------------------------|----------------------------|----------------------------|
| Computer Hardware | 64,120,869 | 13,252,076 | 77,372,945 | 21,141,405 | 11,284,647 | 32,426,052 | 44,946,893 | 42,979,464 |
| Computer Software | 34,894,993 | 30,821,254 | 65,716,247 | 5,386,726 | 7,987,655 | 13,374,381 | 52,341,866 | 29,508,267 |
| Furniture and Fixtures | 8,413,194 | 1,123,900 | 9,537,094 | 1,742,156 | 545,428 | 2,287,584 | 7,249,510 | 6,671,038 |
| Interior Decoration | 14,899,874 | 2,514,347 | 17,414,221 | 2,246,395 | 961,221 | 3,207,616 | 14,206,605 | 12,653,479 |
| Office Equipments | 3,613,036 | 1,532,356 | 5,145,392 | 371,287 | 190,308 | 561,595 | 4,583,797 | 3,241,749 |
| Air Conditioners | 1,867,503 | 41,000 | 1,908,503 | 241,629 | 89,720 | 331,349 | 1,577,154 | 1,625,874 |
| Vehicles | 4,798,425 | 1,113,875 | 5,912,300 | 2,701,160 | 465,500 | 3,166,660 | 2,745,640 | 2,097,265 |
| Electrical Equipment | 1,002,078 | 110,000 | 1,112,078 | 135,638 | 52,388 | 188,026 | 924,052 | 866,440 |
| | 133,609,972 | 50,508,808 | 184,118,780 | 33,966,396 | 21,576,867 | 55,543,263 | 128,575,517 | 99,643,576 |

| PARTICULARS | AS AT 31-03-2005 (Rupees) | AS AT 31-03-2004 (Rupees) |
|-------------|---------------------------------|---------------------------------|
|-------------|---------------------------------|---------------------------------|

**SCHEDULE 5
INVESTMENTS**

| | | |
|---|---------------|---------------|
| Canara Bank Shares (Cost price of 400 Shares @ Rs.35/- per share) (Market Price of share as on 31st March,2005 is Rs.144.60 per share) | 14,000 | 14,000 |
| | <u>14,000</u> | <u>14,000</u> |

**SCHEDULE 6
SUNDRY DEBTORS**

| | | |
|----------------------------------|-------------------|-------------------|
| Debtors not exceeding six months | 51,572,729 | 41,957,703 |
| Other Debtors | - | - |
| | <u>51,572,729</u> | <u>41,957,703</u> |

**SCHEDULE 7
CASH AND BANK BALANCES**

| | | |
|--------------------------|----------------|----------------|
| Cash in Hand | 118,872 | 14,643 |
| Cash with Schedule Banks | 392,421 | 741,018 |
| | <u>511,293</u> | <u>755,661</u> |

| PARTICULARS | AS AT 31-03-2005 (Rupees) | AS AT 31-03-2004 (Rupees) |
|----------------------------------|---------------------------------|---------------------------------|
| SCHEDULE 8 | | |
| ADVANCES AND DEPOSITS | | |
| ADVANCES | | |
| Advances | 8,601,066 | 3,759,488 |
| Virinchi Employees Welfare Trust | 18,960,000 | 20,020,000 |
| Other Advances | 276,967 | 275,309 |
| DEPOSITS | | |
| Rent Deposits | 616,800 | 774,828 |
| Other Deposits | 1,187,548 | 969,020 |
| | 29,642,381 | 25,798,645 |

SCHEDULE 9
CURRENT LIABILITIES,
ADVANCES AND PROVISIONS

| | | |
|-------------------------------------|------------------|-------------------|
| Sundry Creditors | 245,051 | 180,202 |
| Creditors for Expenses | 877,430 | 1,478,409 |
| Outstanding Expenses and Provisions | 544,816 | 1,957,780 |
| Provision for Taxation | - | 1,404,240 |
| Provision for Dividend | 6,001,000 | 6,001,000 |
| Provision for Dividend Tax | 841,640 | 660,110 |
| | 8,509,937 | 11,681,741 |

| PARTICULARS | AS AT 31-03-2005 (Rupees) | AS AT 31-03-2004 (Rupees) |
|----------------------------------|---------------------------------|---------------------------------|
| SCHEDULE 10 | | |
| MISCELLANEOUS EXPENDITURE | | |
| Public Issue Expenses | – | 641,559 |
| | – | 641,559 |

SCHEDULE 11
BUSINESS AND ADMINISTRATIVE EXPENSES

| PARTICULARS | YEAR ENDED 31-03-2005 (Rupees) | YEAR ENDED 31-03-2004 (Rupees) |
|------------------------------------|--------------------------------------|--------------------------------------|
| Postage, Telephone and Telegrams | 1,958,628 | 1,677,497 |
| Repairs and Other Maint. Charges | 2,162,934 | 2,513,684 |
| Rent, Rates and Taxes | 6,033,796 | 5,284,570 |
| Auditors Remuneration | 110,200 | 49,950 |
| Directors Remuneration | 819,922 | 1,306,816 |
| Printing and Stationery | 516,775 | 319,585 |
| Travelling and Conveyance | 6,357,056 | 9,060,982 |
| Marketing and Development Expenses | 57,467,574 | 20,077,164 |
| Other Administrative Expenses | 3,196,340 | 2,883,433 |
| | 78,623,225 | 43,173,681 |

SCHEDULE-12

NOTES FORMING PART OF THE ACCOUNTS

A. SIGNIFICANT ACCOUNTING POLICIES.

General:

- (i) These accounts are prepared on the historical cost basis and on the accounting principles of a going concern.
- (ii) Accounting policies not specifically referred to otherwise are consistent and in consonance with generally accepted accounting principles.

Revenue Recognition:

- (i) Income from Software development is accounted for on the basis of Software developed and billed to clients on acceptance and/or on the basis of man days/man hours as per the terms of contract.
- (ii) Revenue from professional services consist primarily of revenue earned from services performed on a 'time and material' basis. The related revenue is recognized as and when the services are performed.
- (iii) Revenue from Software development services includes revenue from time and material and fixed price control recognized as related services are performed.
- (iv) Revenue on Fixed price contracts is recognized in accordance with percentage of completion and method of account.
- (v) Revenue is not recognized on the grounds of prudence, until realized in respect of liquidated damages, delayed payments as recovery of the amounts are not certain.

Foreign Exchange Transactions:

- (i) Realised gains & loss in foreign exchange transactions are recognized in Profit & loss Account.
- (ii) Transactions in Foreign currency will be recorded at the rates of exchange prevailing on the date of transaction. Current assets and liabilities denominated in foreign currency will be translated at the rate of exchange as at Balance Sheet date.

Investments:

Investments are stated at cost i.e. cost of acquisition, inclusive of expenses incidental to acquisition wherever applicable.

Fixed Assets:

Fixed Assets are stated at cost less accumulated depreciation. Cost of acquisition of fixed assets is inclusive of freight duties, taxes and incidental expenses thereto.

Depreciation and Amortisation:

- (i) Depreciation is provided on straight line method on pro-rata basis and at the rates and manner specified in the Schedule XIV of the Companies Act, 1956.
- (ii) Preliminary expenses are amortized over the period of 5 years.

Taxation:

During the year there is no tax liability on the Company pursuant to the Notification issued by the Central Board of Direct Taxes under Section 10B of the Income Tax Act, 1961. Hence, no provision for tax is made during this financial year. Deferred tax asset and liability is recognized for future tax consequences attributable to the timing differences that result between profit offered for Income tax and the profit as per the financial statements. Deferred tax asset & liability are measured as per the tax rates/laws that have been enacted or substantively enacted by the Balance Sheet date.

Earning per Share:

The earning considered in ascertaining the companies earning per share comprise net profit after tax. The number of shares used in computing basic earning per share is the weighed average number of shares outstanding during the year.

Gratuity

The Company has made provision for the gratuity to its employees

B. Notes on Accounts

- Particulars of Employees in accordance with Sub-section (2A) of Section 217 of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975

NIL

| | | |
|---------------------------|--------------------------|---------------------------|
| 2. Directors Remuneration | <u>Current Year(Rs.)</u> | <u>Previous Year(Rs.)</u> |
| | 819,922 | 1,306,816/- |

| | | |
|--------------------------|---------------------------|--------------------------|
| 3. Auditors Remuneration | <u>Current Year.(Rs.)</u> | <u>Previous Year(Rs)</u> |
| | 1,10,200/- | 45,000/- |

- The Company is engaged in the development of Computer Software and Services. The Production and sale of such software and services cannot be expressed in any generic unit. Hence, it is not possible to give the quantitative details of sales and the information as required under Paragraphs 3 and 4C of Part II of Schedule VI to the Companies Act, 1956

- The Overdraft secured by hypothecation of machinery such as Computers, Furniture & Fixtures, Office Equipments and Air conditioners and personal guarantee of the Director of the Company. Vehicle loans are secured by hypothecation of vehicles.

| | | |
|------------------------------------|--------------------------|---------------------------|
| 6. Expenditure in Foreign Currency | <u>Current Year(Rs.)</u> | <u>Previous Year(Rs.)</u> |
| Foreign Traveling | 5,353,383/- | 4,380,000/- |
| Other Expenses | 5,756,936/- | 5,906,000/- |

- Earnings in Foreign Exchange as reported by the Company to Government of India and as certified by Management.

Current Year(Rs.) Previous Year(Rs.)

| | | |
|-------------------------|-------------|--------------|
| Foreign Exchange Inflow | 6,03,68,274 | 50,914,000/- |
|-------------------------|-------------|--------------|

- There are not dues to SSI Units outstanding for more than 30 days.
- No Confirmations were obtained from debtors/creditors as to the balances receivable from/payable to them as at year end.
- In accordance with Accounting Standard 22(AS 22) issued by the ICAI, the Company has accounted for deferred income tax during the year. The deferred income tax provision for the current year amounts to Rs. 52,93,900 /-towards deferred income tax liability. (Previous year Rs. 63, 57,742/- towards deferred Income tax liability).
- Previous years figures have been regrouped wherever necessary.
- The figures have been rounded off to the nearest rupee.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH, 2005

| | Ended 31-03-2005 Rs.in Lacs | Year Ended 31-03-2004 Rs.in Lacs |
|--|-----------------------------------|--|
| A. CASH FLOW FROM OPERATING ACTIVITIES: | | |
| Net Profit/ (Loss) before taxation and extraordinary items | 593.93 | 373.72 |
| Adjustments for: | | |
| Depreciation | 215.77 | 93.08 |
| W/o expenses | 6.41 | 6.42 |
| Interest expenses | 4.24 | 1.87 |
| Operating Profit before working capital changes | 820.35 | 475.09 |
| Working Capital Changes | | |
| Trade and other receivables | -134.57 | -173.23 |
| Trade payables | -31.71 | 31.43 |
| Cash generated from operations | 654.07 | 333.29 |
| Interest paid | -4.24 | -1.87 |
| Taxation for the year | 0.00 | -14.04 |
| Dividend for the year | -60.01 | -60.01 |
| Dividend Tax for the year | -8.42 | -6.60 |
| Cash flow before extraordinary items | 581.40 | 250.77 |
| Extraordinary items | - | - |
| Net Cash from Operating Activities | 581.40 | 250.77 |
| B. CASH FLOW FROM INVESTING ACTIVITIES: | | |
| Purchase of Fixed Assets | -667.27 | -320.20 |
| Investment | 0.00 | 0.00 |
| Public Issue Expenses | 0.00 | 0.00 |
| Capital work-in-progress | 0.00 | 0.00 |
| Net Cash used in Investing Activities | -667.27 | -320.20 |
| C. CASH FLOW FROM FINANCING ACTIVITIES: | | |
| Proceeds from Equity Shares | 14.85 | 18.07 |
| Share Premium | 11.88 | 14.45 |
| Net Proceeds from Long Term Borrowings | 56.69 | 16.52 |
| Net Cash used in Financing Activities | 83.42 | 49.04 |
| Net increase in cash and cash equivalents | -2.45 | -20.39 |
| Cash and Cash equivalents as at 01.04.2004 | 7.56 | 27.95 |
| Cash and Cash equivalents as at 31.03.2005 | 5.11 | 7.56 |

FOR AND ON BEHALF OF THE COMPANY
For VIRINCHI TECHNOLOGIES LIMITED

K.VISWANATH
CHAIRMAN & MANAGING DIRECTOR

K.S.K.PRASAD
DIRECTOR

PLACE : HYDERABAD
DATE : 27.08.2005

K. RAVINDRANATH TAGORE
COMPANY SECRETARY

Auditors' Certificate

To
THE BOARD OF DIRECTORS
VIRINCHI TECHNOLOGIES LIMITED

We have examined the attached cash flow statement of M/s. Virinchi Technologies Limited, for the year ended 31st March, 2005. The statement has been prepared by the company in accordance with the requirements of Clause 32 of listing agreement with stock exchange and is based on and in agreement with the corresponding profit and loss Account and Balance Sheet of the Company covered by our report of 27th August, 2005 to the Members of the Company.

For P. MURALI & CO.
CHARTERED ACCOUNTANTS

PLACE : HYDERABAD
DATE : 27th August, 2005

P. MURALI MOHANA RAO
PARTNER

**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL
BUSINESS PROFILE**

1. REGISTRATION DETAILS

Registration No.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 0 | 1 | - | 1 | 1 | 1 | 0 | 4 |
|---|---|---|---|---|---|---|---|

 State Code

| | |
|---|---|
| 0 | 1 |
|---|---|

Balance Sheet Date

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 3 | 1 | - | 0 | 3 | - | 2 | 0 | 0 | 5 |
|---|---|---|---|---|---|---|---|---|---|

2. CAPITAL RAISED DURING THE YEAR (Amount Rs. in Thousands)

Public Issue

| | | |
|---|---|---|
| N | I | L |
|---|---|---|

 Rights Issue

| | | |
|---|---|---|
| N | I | L |
|---|---|---|

Bonus Issue

| | | |
|---|---|---|
| N | I | L |
|---|---|---|

 Private Placement

| | | |
|---|---|---|
| N | I | L |
|---|---|---|

3. POSITION OF MOBILISATION / DEPLOYMENT OF FUNDS (Amount Rs. in Thousands)

Total Liabilities

| | | | | | |
|---|---|---|---|---|---|
| 3 | 2 | 6 | 5 | 4 | 9 |
|---|---|---|---|---|---|

 Total Assets

| | | | | | |
|---|---|---|---|---|---|
| 3 | 2 | 6 | 5 | 4 | 9 |
|---|---|---|---|---|---|

Paid up Capital

| | | | | | |
|---|---|---|---|---|---|
| 1 | 1 | 8 | 2 | 4 | 8 |
|---|---|---|---|---|---|

 Reserves & Surplus

| | | | | |
|---|---|---|---|---|
| 8 | 1 | 6 | 4 | 4 |
|---|---|---|---|---|

Secured Loans

| | | | |
|---|---|---|---|
| 7 | 7 | 3 | 2 |
|---|---|---|---|

 Share Premium

| | | | | |
|---|---|---|---|---|
| 8 | 8 | 0 | 8 | 3 |
|---|---|---|---|---|

Unsecured Loans

| | | |
|---|---|---|
| N | I | L |
|---|---|---|

 Deferred Tax :

| | | | | |
|---|---|---|---|---|
| 3 | 0 | 8 | 4 | 0 |
|---|---|---|---|---|

Application of Funds

Net Fixed Assets

| | | | | | |
|---|---|---|---|---|---|
| 2 | 5 | 3 | 3 | 1 | 9 |
|---|---|---|---|---|---|

 Investments :

| | |
|---|---|
| 1 | 4 |
|---|---|

Net Current Assets

| | | | | |
|---|---|---|---|---|
| 7 | 3 | 2 | 1 | 6 |
|---|---|---|---|---|

 Misc. Expenditure :

| | | |
|---|---|---|
| N | I | L |
|---|---|---|

Accumulated Losses

| | | |
|---|---|---|
| N | I | L |
|---|---|---|

4. PERFORMANCE OF THE COMPANY (Amount Rs. in Thousands)

Turnover including

| | | | | | |
|---|---|---|---|---|---|
| 1 | 8 | 3 | 0 | 5 | 6 |
|---|---|---|---|---|---|

 Earnings per Share

| | | | |
|---|---|---|---|
| 4 | - | 5 | 1 |
|---|---|---|---|

Other Income (in Rs.)

Total Expenditure

| | | | | | |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 6 | 6 | 3 |
|---|---|---|---|---|---|

 Dividend Rate (%)

+/- Profit/Loss Before Tax

| | | | | |
|---|---|---|---|---|
| 5 | 9 | 3 | 9 | 3 |
|---|---|---|---|---|

 On Preference Capital

| | | |
|---|---|---|
| N | I | L |
|---|---|---|

+/- Profit/Loss After Tax

| | | | | |
|---|---|---|---|---|
| 5 | 9 | 3 | 9 | 3 |
|---|---|---|---|---|

 On Equity Capital

| | | |
|---|---|---|
| - | - | 5 |
|---|---|---|

VIRINCHI TECHNOLOGIES LIMITED

Regd. Office: 10, SRK Colony, West Maredpally, Secunderabad - 500 026

Dear Shareholder,

Re: Payment of Dividend through Electronic Clearing Services (ECS)

In case you have not already sent the ECS particulars to the company or to your Depository Participant (in case of demat holdings), we would request you to provide the particulars in the format given below to facilitate prompt and safe payment of future dividend. If you maintain more than one bank account, payment can be received at any one of your existing accounts.

Please ensure that the details submitted are correct, as any error therein could result in the dividend amount being credited to wrong account.

Kindly help us in our endeavor to serve you better.

Yours faithfully

For **VIRINCHI TECHNOLOGIES LIMITED**

Chairman & Managing Director

In case you are holding shares in demat form, please also advise your Depository Participant to take note of your ECS mandate.



FORM FOR ELECTRONIC CLEARING SERVICE (ECS) FOR PAYMENT OF DIVIDEND

Please fill-in information in **CAPITAL LETTERS** in English Only.

For Shares held in physical Form:

Folio No:

For Shares held in Demat Form :

DP ID:

Client ID:

Name of First / Sole Share holder.....

Bank Name:.....

Branch Address:.....

Branch Code

| | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|
| | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|

(9 Digit MICR Code Number appearing on the Cheque supplied by the Bank)

Account

| | |
|--|--------|
| | Saving |
|--|--------|

| | |
|--|---------|
| | Current |
|--|---------|

| | |
|--|-------------|
| | Cash Credit |
|--|-------------|

Please (_ /)

A/c.No. (As appearing
In the Cheque Book)

| | | | | | | | | | | | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|
| | | | | | | | | | | | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|

I/We hereby declare that the particulars given above are correct and complete. If any transaction is delayed or not effected at all for reasons of incompleteness or incorrectness of information supplied above, the Company will not be held responsible. I/We agree to inform the Company any change in my/our Bank/branch and account number.

Date:

Place:

(Signature of Shareholder)

(Please attach photocopy of a blank cheque of your bank, duly cancelled, for ensuring accuracy of the Bank's name, branch and 9 digit MICR Code)

VIRINCHI TECHNOLOGIES LIMITED

Regd. Office: 10, SRK Colony, West Marredpally, Secunderabad - 500 026

ATTENDANCE SLIP

I hereby record my presence at the 16th Annual General Meeting of the Company being held on Friday, the 23rd day of September, 2005 at 11.00 A.M. at Padmashali Kalyana Mandapam, 2-12-66, Nehru Nagar, West Marredpally, Secunderabad - 500 026

Name of the Shareholder :

Name of Proxy :

Signature of Member / Proxy :

Regd. Folio No. / *Client id :

* Applicable for members holding shares in Electronic Form.

Note: To be signed and handed over at the entrance of the Meeting Venue.

VIRINCHI TECHNOLOGIES LIMITED

Regd. Office: 10, SRK Colony, West Marredpally, Secunderabad - 500 026

PROXY FORM

Regd. Folio No. Sl .No.
No. of Shares held

I/We
of in the district of
..... being a member(s) of the above named
company hereby appoint of
..... in the district of or failing
him..... of in the district of
..... as my/our proxy to vote for me/us on my/our behalf at the 16th Annual General Meeting of the Company to be held on Friday, the 23rd September 2005 at 11.00 A.M. or at any adjournment thereof.

Signed this day of2005

Signature

Affix
Re.1/-
Revenue
Stamp

Note: The proxy form duly completed should be deposited at the Registered Office of the Company not less than Forty Eight Hours before the time fixed for holding the meeting.

THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY

**BOOK POST
PRINTED MATTER**

If undelivered, please return to :

Virinchi
Technologies Limited

10, SRK Colony,
West Marredpally,
Secunderabad-500 026