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Virinchi
Technologies Limited

17th
Annual Report
2005 - 2006
5002 - 500e

Causing Systems perform Business

CONTENTS

Board of Directors	02
Message from the CEO	04
Notice	05
Directors Report	12
Corporate Governance Report	16
Management Discussion and Analysis Report	23
Auditors Report	26
Balance Sheet	29
Profit and Loss Account	30
Schedules forming part of the Balance Sheet	31
Schedules forming part of the Profit and Loss Account	33
Notes on Balance Sheet and Profit and Loss Account	34
Cash Flow Statement	37
Balance Sheet Abstract and Company's General Business profile	38

Annual General meeting on Friday, September 29, 2006 at Padmashali Kalyana Mandapam, 2-12-66, Nehru Nagar, West Marredpally, Secunderabad – 500 026. As a measure of economy, copies of the Annual Report will not be distributed at the Annual General Meeting. Shareholders are requested to bring their copies to the Meeting.

Board of Directors

Viswanath Kompella	- Chairman & Managing Director
Datuk Santha Kumar S.	- Director
Datuk Kunasingam Sittampalam	- Director
KVSN.Kumar	- Director
Jagadish K.Rao	- Director
K. Jagan Mohan Rao	- Director
K.S.K. Prasad	- Director
Sreenivasa Sreekanth Uppuluri	- Additional Director
Anil Kumar Pinapala	- Additional Director
Dr. Venugopal	- Additional Director
Steve Clevenger	- Additional Director
Samad A.Momin	- Additional Director

Company Secretary

Ravindranath Tagore Kolli

Bankers:

Canara Bank
Overseas Branch, Hyderabad

Auditors:

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

Registered Office and Development Centre:

10, SRK Colony,
West Marredpally
Secunderabad-500026
Ph Nos: 27803608, 27803610
Fax No: 27803612
Website: www.virinchi.com

Corporate Office:

A-1, 3rd Floor, Surabhi Plaza
Vikrampuri Colony, Kharkana
Secunderbad-500009
Ph Nos: 27890662-65
Fax No: 27890669

Registrar and Share transfer Agents:

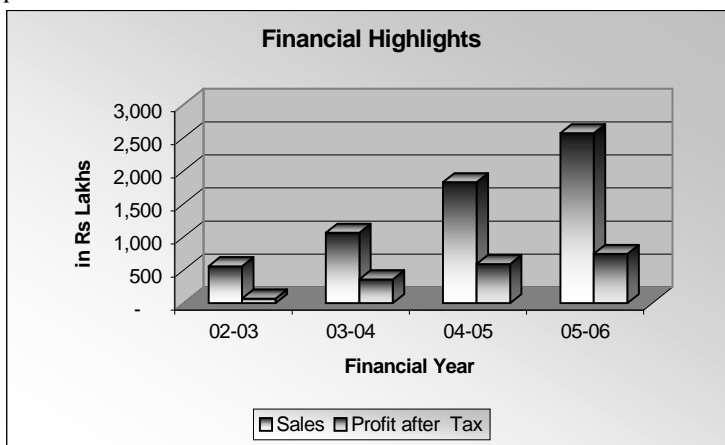
M/s. Aarthi Consultants Private Ltd
1-2-285, Domalguda,
Hyderabad-500029
Ph Nos: 27634445, 27638111
Fax No: 27632184

LETTER TO SHAREHOLDERS:

Dear Investor,

It gives me great pleasure to share with you the highlights of our company's performance in the financial year 2005-06 by stating that **Virinchi is now one of the largest providers of IT Solutions to the Retail Micro Lending Industry in the world.**

Your company has made great strides in the past year and is positioned for a quantum leap over the next few years. We have achieved 53.27% growth recording a net profit of Rs.8.29 Crores for the year 2005-06 as against Rs5.40 Crores in the previous financial year 2004-05. The company's revenue stood at Rs. 25.70 Crores in 2005-06 showing a growth of 40.43% compared to previous year 2004-05. Once the K-Soft acquisition is completed the revenues will increase substantially your company has now built a slew of products that can provide sustainable revenues both from Licensing and Service. In the Retail Micro Lending Industry your company has evolved an annuity-based ASP delivery model that provides our customers immense value and ensures continuous and sustainable revenue.



The company's North American sales have strengthened substantially, entrenching our presence in the world's largest software market.

Your Company has strengthened its market position in the Retail Micro Lending domain and now caters to 3 of the top 5 players in this industry firmly establishing itself as the global leader for providing IT and Business solutions. The micro lending industry is classified as unsecured loans under USD 1000, provided as one-time loan advanced for a period of 45 days or an installment loan for a period less than 12 months, primarily aimed at sub-prime borrowers. The US Retail Micro Lending Industry, with more than 25,000 retail outlets, offers a business potential for IT services in excess of \$60 million per annum. The industry is growing annually at 25 per cent on YoY terms in North America. With a firm objective of maintaining leadership, your company is building a suite of new products catering to this domain as well as expanding its market reach into UK, Europe and Canada for this industry.

Your company offers out-of-the-box software solutions in the domains of Supply Chain, Micro-Lending, and Market Research. Your company has added new products in the Domains of Service Level Management, Insurance Investigation, to the existing product portfolio. The new products have good potential in the US and the European markets.

Your company places even focus on both products and services. In order to de-risk dependence on product revenues, your company has evolved matured service practices in Custom Application Development, Product Support and Maintenance, Customization Services, Data Warehousing, Data Migration, among others. Your company is expanding its domain knowledge in further service domains. After the completion of K-Soft acquisition, your company will further expand its service offerings and domain expertise giving it even more breadth to offer more value to its customers.

Marketing

Your company's success in marketing is evident from the new and large customers we have acquired this year. Further, we have expanded our marketing initiatives from a primarily Network or Channel-based to more active and direct marketing. As part of the marketing initiative your company continuously attends relevant trade exhibitions in North American region to promote our products and undertaking some mass communication in the niche industry media. Your company is also reaching out to new geographical areas and industry domains.

People and Process

Your company has now entered a rapid growth phase and the same can be seen in addition of over 50 new employees in the last fiscal year. The total human resource strength has crossed 200 as on March 31, 2006. We will be continuing this rapid growth phase and add more resources to match our requirements for delivery. As the company grows, employees who have grown with the company will play a more important and critical role in shaping the organizations' future. We will be implementing organizational changes and other management reforms to make the company rapid-growth capable and dynamic.

To keep pace with the growth, your company is strengthening its infrastructure and started developing its own campus. The campus that will accommodate about 1,000 employees will be ready in the next 24 months.

Your company has been on a continuous path of process innovation that ensures consistency and repeatability in delivery. I am pleased to inform that we have renewed our ISO 9001: 2000 certification for another 3 years and the process maturity will be further underlined with the CMMi certification that should be achieved in the next fiscal year.

Value

Your company is focused on providing Customer Delight, Continuous Product & Process Innovation, Employee Welfare and Shareholder Wealth Maximization. The company has tremendous potential for growth and with Intellectual Property of various products there is already a lot of value to be unlocked in the company. The strong sales team and the efficient delivery team should ensure sustenance of the current revenue and profit growth.

It's your company's stated objective to look at both organic and in-organic growth strategies and is actively evaluating various acquisition targets operating in complementary technology and industry domains. This will further enhance the value of your organization. I certainly hope 2007 will be a far more exciting year and we indeed take that quantum leap to reach the next level.

I thank you for all the support you have given and assure you that your company will continue to march ahead with the objective of attaining new levels of achievement putting us on par or above the best in the industry.

**Viswanath Kompella**

Chairman and Managing Director
Virinchi Technologies Limited

NOTICE

NOTICE is hereby given that the 17th Annual General Meeting of the Members of the Company will be held on Friday, the 29th day of September, 2006, 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, 2006; 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 2005-06
3. To appoint a Director in place of K. Jagan Mohan Rao, who retires by rotation, and being eligible, offers him self for re-appointment.
4. To appoint a Director in place of KVSN Kumar, who retires by rotation.
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 an Ordinary resolution:
"RESOLVED THAT Sreenivasa Sreekanth Uppuluri, Who was appointed as an Additional Director of the company with effect from 30th August, 2006, who holds office under Section 260 of the Companies Act, 1956, up to the date of the ensuing Annual General Meeting and in respect of whom the Company has received notice in writing proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, not liable to retire by rotation."
7. To Consider and if thought fit, to pass,, with or without modification(s), the following resolution as an Ordinary resolution:
"RESOLVED THAT Anil Kumar Pinapala, Who was appointed as an Additional Director of the company with effect from 30th August, 2006, who holds office under Section 260 of the Companies Act, 1956, up to the date of the ensuing Annual General Meeting and in respect of whom the Company has received notice in writing proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, not liable to retire by rotation."
8. To Consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary resolution:
"RESOLVED THAT Samad. A. Momin, Who was appointed as an Additional Director of the company with effect from 30th August, 2006, who holds office under Section 260 of the Companies Act, 1956, up to the date of the ensuing Annual General Meeting and in respect of whom the Company has received notice in writing proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, not liable to retire by rotation."
9. To Consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary resolution:
"RESOLVED THAT Steve Clevenger, Who was appointed as an Additional Director of the company with effect from 30th August, 2006, who holds office under Section 260 of the Companies Act, 1956, up to the date of the ensuing Annual General Meeting and in respect of whom the Company has received notice in writing proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."
10. To Consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary resolution:
"RESOLVED THAT Dr. Venugopal, Who was appointed as an Additional Director of the company with effect from 6th October, 2005, who holds office under Section 260 of the Companies Act, 1956, up to the date of the ensuing Annual General Meeting and in respect of whom the Company has received notice in writing proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."
11. Issue and allotment of warrants on preferential basis to Strategic Investors
To Consider and if thought fit, to pass, with or without modifications, the following resolution as a Special resolution:

“RESOLVED THAT pursuant to the provisions of Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956(Act) (including any statutory modification or re-enactment thereof for the time being in force) and in accordance with the provisions of Articles of Association of the Company, the Listing Agreement entered into between the Company and the Various stock exchanges, the Guidelines for Preferential Issues contained in the Securities and Exchange Board of India(Disclosure and Investor Protection) Guidelines,2000 (SEBI Guidelines), rules and regulations framed by Reserve Bank of India(RBI) and other statutory/regulatory authorities, and subject to all applicable norms, guidelines, regulations in force, and statutory approvals, consents, permissions or sanctions as may be necessary, of appropriate authorities, institutions or bodies and subject to such conditions as the authorities may impose at the time grating their approvals/consents/permissions/sanctions and which may be agreed to by the Board of Directors of the Company (the “Board”, which expression shall include any committee thereof constituted/to be constituted by the Board for exercising the powers conferred on the Board by this Resolution) if it thinks fit in the interest of the Company, consent of the Company be and is hereby accorded to the Board to create, offer, issue and allot 40,00,000 (Forty Lacs) warrants(“warrants for brevity) to the strategic investors at a price of Rs. 40/- (Rupees Forty Only) per warrant, the details of which are mentioned in the Explanatory Statement annexed hereto, on preferential allotment basis, in one or more tranches, on such terms and conditions and in such manner as the Board may think fit, whether or not they are members of the Company each warrant entitling the holder thereof to apply for and be allotted one equity share per warrant of Rs40/- each and which conversion shall be made within a period not exceeding 18(Eighteen) months from the date of allotment of the warrants in accordance with the SEBI(Disclosure & Investor Protection)Guidelines, 2000 and other applicable guidelines.

“RESOLVED FURTHER THAT

- a) The relevant date for the purpose of pricing of the warrants as above, in accordance with the SEBI Guidelines is 30th August, 2006 being the 30th day prior to 29th September, 2006 (i.e. the 30th days prior to the date on which the meeting of the general body of shareholders is held, in terms of Section 81(1A) of the Companies Act, 1956 to consider the proposed issue.)
- b) The equity shares to be issued on conversion of the warrants in pursuance of this resolution shall rank *pari passu* with the then existing equity shares of he company in all respects.
- c) The warrants to be offered and allotted shall be subject to the provisions of the Memorandum and Articles of association of the Company.
- d) For the purpose of giving effect to this resolution, the Board is hereby authorized to issue and allot such number of equity shares as may be required to be issued and allotted upon conversion of Warrants, as may be necessary in accordance with the terms of the offer and subject to the provisions of the Company’s Articles of Association”

“RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board be and is hereby authorized to do all such acts, deeds and things as the Board may, in its absolute discretion, consider necessary, expedient, usual, proper or incidental and to settle any question, remove any difficulty or doubt that may arise from time to time in relation to the offer, issue and allotment of the warrants and the utilization of the issue proceeds thereof, to effect any modification (s) to the foregoing (including any modifications to the terms of the issue) in the best interests of the Company and its shareholders and to execute all such writings and instrument(s) as the Board may in its absolute discretion deem necessary or desirable.

“RESOLVED FURTHER THAT the Board be and is hereby authorized to delegate all or any of its powers to any committee of Directors of the Company to give effect to the aforesaid resolution”.

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

“RESOLVED THAT the exercise price and/or pricing formula for the stock options granted or to be granted by the company to the employees and directors of the company under Virinchi Employees Stock Option Scheme, 2004 (“VESOS, 2004) approved by the shareholders at the 15th Annual General Meeting of the Company held on 29th September, 2004 be and is hereby amended to issue them at free of cost.

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

PLACE : HYDERABAD
DATE : 30.08.2006

K. Ravindranath Tagore
Company Secretary

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 25th September, 2006 to 29th September 2006 (both days inclusive) in connection with the payment of dividend for the financial year 2005-06.
- 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 29th September, 2006. Dividend Warrants are scheduled to be posted on or after 4th October, 2006. Dividend Warrant is valid for payment by the Company's Bankers for three months from the date of issue. Thereafter, please contact our share registrars, M/s. Aarthi 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 25th September, 2006 to enable us to include the same for the payment of the current year's dividend.

Annexure to the Notice
Explanatory statement pursuant to Section 173(2) of The Companies Act, 1956

Item#6

Mr. Sreenivasa Sreekanth Uppuluri was appointed as an Additional Director of the company as per the provisions of Section 260 of the Companies Act, 1956("the Act") in the Board Meeting held on 30th August, 2006. Pursuant to Section 260 of the Companies Act, 1956 Mr. Sreenivasa Sreekanth Uppuluri holds office of Director up to the date of the ensuing Annual General Meeting. The Company has received a notice in writing under section 257 of the Companies Act, 1956, along with a deposit of Rs.500/- from a member signifying his intention to propose the name of Mr. Sreenivasa Sreekanth Uppuluri as a candidate for the office of Director. The profile of the Director is given hereto under the head 'Additional Information'

The Board recommends the resolution for the members' approval in the Annual General Meeting.
None of the Directors except Mr. Sreenivasa Sreekanth Uppuluri is concerned or interested in the resolution.

Item# 7

Mr. Anil Kumar Pinapala was appointed as an Additional Director of the company as per the provisions of Section 260 of the Companies Act, 1956("the Act") in the Board Meeting held on 30th August, 2006. Pursuant to Section 260 of the Companies Act, 1956 Mr. Anil Kumar Pinapala holds office of Director up to the date of the ensuing Annual General Meeting. The Company has received a notice in writing under section 257 of the Companies Act, 1956, along with a deposit of Rs.500/- from a member signifying his intention to propose the name of Mr. Anil Kumar Pinapala as a candidate for the office of Director. The profile of the Director is given hereto under the head 'Additional Information'

The Board recommends the resolution for the members' approval in the Annual General Meeting.
None of the Directors except Mr. Anil Kumar Pinapala is concerned or interested in the resolution.

Item# 8

Mr. Samad A. Momin was appointed as an Additional Director of the company as per the provisions of Section 260 of the Companies Act, 1956("the Act") in the Board Meeting held on 30th August, 2006. Pursuant to Section 260 of the Companies Act, 1956 Mr. Samad A.Momin holds office of Director up to the date of the ensuing Annual General Meeting. The Company has received a notice in writing under section 257 of the Companies Act, 1956, along with a deposit of Rs.500/- from a member signifying his intention to propose the name of Mr. Samad A.Momin as a candidate for the office of Director. The profile of the Director is given hereto under the head 'Additional Information'

The Board recommends the resolution for the members' approval in the Annual General Meeting.
None of the Directors except Mr. Samad A.Momin is concerned or interested in the resolution.

Item# 9

Mr. Steve Clevenger was appointed as an Additional Director of the company as per the provisions of Section 260 of the Companies Act, 1956("the Act") in the Board Meeting held on 30th August, 2006. Pursuant to Section 260 of the Companies Act, 1956 Mr. Steve Clevenger holds office of Director up to the date of the ensuing Annual General Meeting. The Company has received a notice in writing under section 257 of the Companies Act, 1956, along with a deposit of Rs.500/- from a member signifying his intention to propose the name of Mr. Steve Clevenger as a candidate for the office of Director. The profile of the Director is given hereto under the head 'Additional Information'

The Board recommends the resolution for the members' approval in the Annual General Meeting.
None of the Directors except Mr. Steve Clevenger is concerned or interested in the resolution.

Item# 10

Dr. Venugopal was appointed as an Additional Director of the company as per the provisions of Section 260 of the Companies Act, 1956("the Act") in the Board Meeting held on 6th October, 2005. Pursuant to Section 260 of the Companies Act, 1956 Dr. Venugopal holds office of Director up to the date of the ensuing Annual General Meeting. The Company has received a notice in writing under section 257 of the Companies Act, 1956, along with a deposit of Rs.500/- from a member signifying his intention to propose the name of Dr. Venugopal as a candidate for the office of Director. The profile of the Director is given hereto under the head 'Additional Information'

The Board recommends the resolution for the members' approval in the Annual General Meeting.
None of the Directors except Dr.Venugopal is concerned or interested in the resolution.

Item# 11

The company proposes to issue 4,000,000 (Four millions Only) Warrants of Rs40/- each to strategic investors as detailed hereunder;

The warrant recipients shall have right to convert each warrant into one Equity Share of Rs.10/-each. A sum of Rs 4/- (Rupees Four) per warrant is payable at the time of allotment and the balance of Rs36 (Rupees Thirty Six Only) is payable with in 18 months from the date of allotment. The issue price of Rs40/- per Warrant has been determined as per the guidelines framed by SEBI in this regard.

The warrants to be issued pursuant to the above will be subject to lock-in as stipulated under the applicable SEBI guidelines.

The proposed allotment of Warrants on preferential basis as envisaged above will not result in change in Control/ Management of the Company. The Company is in the process of developing new campus, developing new software products in addition to its line of existing products and proposes to intensify marketing in North America and Europe. The funds raised through the issue of preferential allotment of warrants will be used towards part funding of the above

Disclosures, which are required to be made pursuant to Clause 13.1A of the Securities and Exchange Board of India(Disclosure & Investor Protection) Guidelines, 2000.

(i) The objects of the issue through preferential offer

To part fund campus development, new product development, intensify marketing in North America and augment working capital source

(ii) The intention of the promoters/directors/key management persons to subscribe to the offer.

The promoters are not making any subscription to the present offer. Mr. Anil Kumar Pinapala who is now a director on the Board is only subscribing to this present offer in order to show his commitment towards the company and make available funds to the company's proposed growth plans.

(iii) Share holding pattern of the Company before and after conversion of proposed issue of Warrants pursuant to the resolution at item # 11

Sl.No	Category	Pre – issue		Post Issue	
		No. of Equity Shares	Percentage(%)	No. of Equity Shares	Percentage(%)
1	Promoters Holding	3201453	22.95	3201453	17.83
2	Institutional Investors a)Mutual Funds & UTI b)Banks, FI, FIIs,	-	-	-	-
3	Private Corporate Bodies	1179600	8.45	1179600	6.57
4	Indian Public	9570947	68.60	9570947	53.32
5	(*)Select Investors	NIL	NIL	4000000	22.28
		13952000	100.00	17952000	100.00

(*) After taking into account the conversion of 40,00,000 (Forty Lacs) warrants being proposed to issue to the other investors under the present preferential issue.

iv) Proposed time within which allotment will be completed

The allotment of the Warrants being issued on preferential basis is proposed to be made within 15 days from the date of passing of the resolution by the Members, provided that when the allotment on preferential basis is pending on account of pendency of any approval for such allotment by any regulatory authority or the Central Government, the allotment shall be completed with in 15 days from the date of receipt of such approval.

v) Identity of proposed allottees and the percentage of post preferential issued capital that may be held by them

Sl. No	Identity of proposed allottees	No. of Equity Shares to be allotted	Percentage of post issue equity capital
01	Anil Kumar Pinapala	250,000	1.39
02	Elite Class Assets Holdings Ltd	1,250,000	6.96
03	Premiere Ventures Ltd	1,250,000	6.96
04	Clay bridge International Ltd	1,250,000	6.96

Item#12

The Shareholders of the company at the 15th Annual General Meeting of the company held on September 29th 2004 approved the proposal of issue of stock options to eligible employees and directors of the company by earmarking 11,67,000 shares (being 10% of the paid up capital on 31st March, 2004) for the purpose of Virinchi Employees Stock Options Scheme, 2004(VESOS, 2004 plan")

Variation:

it is proposed to amend the this VESOS, 2004 plan pursuant to clause 7.5 of the Securities and Exchange Board of India(Employee Stock Option Scheme and Employee Stock purchase Scheme) Guidelines,1999 to provide for the options granted and to be granted at Free of cost.

Rationale:

Its common knowledge that software Industry has huge growth potential as per several industry reports. At the same time, there is severe pressure on the Company's management to retain talent. The compensation package and the benefits provided by the companies to their employees in order to attract and retain talent in the organization for certain key positions and high performers in various levels also increased in the same proportion. As a transitory step it is proposed to amend VESOS, 2004 plan to provide for the options granted or to be granted at free of cost.

Beneficiaries:

The Employees and directors of the company are eligible for the grant of stock options in future as per the ESOS, 2004 plan will derive benefit from this amendment.

Your Directors recommend the resolution for your approval.

None of the directors are deemed to be concerned or interested in the above resolution except the Directors who are eligible for grant of options under the VESOS, 2004 Plan and may get options in future.

Additional Information required to be furnished under the Listing Agreement**The particulars of directors who are proposed to be re-appointed are given below:**

- Name : K. Jagan Mohan Rao
 Age : 48 Years
 Qualifications : M.Sc. M.B.A.
 Expertise : He has more than 22 years of experience in the industry with focus on Marketing and Finance. He was into General Finance Business for about 10 years. He served in the Senior positions in various companies

Other Directorships : NIL
- Name : Sreenivasa Sreekanth Uppuluri
 Date of Birth : 28.05.1976
 Qualifications : B.Tech from NIT, Jamshedpur
 Expertise : He has 11 years of experience in the information technology industry in both operational and management roles. In his role as COO, he has responsibility for Virinchi's global delivery, client services, and internal support to business development, process implementation and Human Resources development. He joined Virinchi in 2000 when the Company began developing solutions

- for B2B eCommerce domain. Prior to his current position, he was playing key role in the Company's European operations. Earlier in his career, Sreekanth spent more than three years at various locations of Cognizant Technologies (formerly known as Dun & Bradstreet Satyam Software).
- Other Directorships : NIL
3. Name : Anil Kumar Pinapala
Date of Birth : 20.06.1976
Qualifications : B.Tech (Chemical), MBA from Indian Institute of Foreign Trade
Expertise : He has 6 years of international IT Marketing Experience. Presently he is heading Virinchi North America sales and Marketing.
- Other Directorships : NIL
4. Name : Steve Clevenger
Age : 60 years
Qualifications : Master Degree in computer science from University of villanova
Expertise : He has 30 years of experience working with fortune 500 Companies including GE financial Assurance services, AT& T, IBM meryll Lynch, and Citi Corp.
- Other Directorships : One
5. Name : Samad A. Momin
Age : 39 years
Qualifications : B.Tech form IIT, Madras, MS & MBA from Ohio State University, Columbus, USA
Expertise : He has 14 years of experience with GE includes key roles spanning general management, sales & marketing, e-business, Strategy & Change Management, Joint Ventures. Also, he was based in Hong Kong to help set up the JV with GE Toshiba Silicones for 2 years and in Tokyo for another 2 years as the General Manager for e-business/Distribution. He is also a certified Master black belt in Six Sigma.
- Other Directorships : One
6. Name : Dr.VenuGopal
Age : 61
Qualifications : Graduation in medicine
Expertise : He has vast experience as a medical doctor since 30 years; during this time he happened to work in different capacities in several countries like Algeria, Libya, Maldives and U.K etc. Toured extensively in Europe (East & West). After graduating in Medicine, he submitted a paper in "Pulmonary amboesis" for which he was awarded FCCP [Fellow of College of Chest Physicians, India]. He was awarded Visishit Chikischa Seva Medal along with citation for his meritorious services rendered to the rural people of India. He was involved in surveys and preventive programs concerning Blindness eradication, Vitamin A deficiencies, Guinea worm eradication, Nutritional surveys, Family Welfare programs, HIV and AIDS awareness programs for the rural people in and around the borders of Andhra and Karnataka.
- Other Directorships : NIL

DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in presenting you the Seventeenth **Annual Report** of your company together with the Audited Accounts for the year ended 31st March, 2006.

Financial Results

Particulars	(Amount in Rs. Lakhs)	
	2005-2006	2004-2005
Total Income	2570	1830
Profit before interest, depreciation and tax	1228	814
Interest	42.28	4.23
Depreciation	344	215.76
Provision for Taxation	—	—
Profit after interest, Tax and depreciation	829	593.93
Deferred Tax Provision	12.46	52.93
Dividend	69.76	60.01
Provision for Dividend Tax	9.78	8.41
Balance brought forward	816.44	343.88
Balance Carried to Balance Sheet	1566	816.44

Operations & Financial Highlights:

The Company's performance in 2005-06 was dominated by strong, profitable growth in key markets around the world. Virinchi now have become the world leader in providing IT solutions to the micro retail lending industry. The total income of your company for the year 2005-06 was Rs2570 Lakhs as against Rs. 1830 Lakhs in 2004-05, showing growth of 40%. The Profit After tax (PAT) increased by 53.27% to Rs.829 Lakhs in 2005-06 from Rs540 Lakhs in 2004-05.

Reserves and Surplus

During the year the Company has transferred Rs.7,49,64,718 to Reserves and Surplus compared to last year transfer of Rs. 4,72,56,629/-

Dividend

The Board of Directors of your company are pleased to recommend a dividend of 5% (i.e. Rs 0.50 per equity share of Rs. 10/- each) for the year ended 31st March, 2006

Directors

In accordance with the provisions of the Companies Act, 1956 K. Jagannathan Rao and K.V.S.N.Kumar retire by rotation at the forthcoming Annual General Meeting. Sreenivasa Sreekanth Uppuluri, Anil Kumar Pinapala, Steve Clevenger, Samad Momin are appointed as Additional Directors on the Board on 30.08.2006.

Issue of Equity Shares and Warrants:

The Company has passed a special resolution in the 16th Annual General meeting of the Company to allot Equity shares and warrants to other investors and promoter under preferential allotment guidelines. . The Company has allotted 10,00,000 Equity Shares to two foreign companies and 9,50,000 Equity Shares to Mr. Praveen Kondai for the part payment of consideration for the acquisition of KSoft Systems Inc., and 12,00,000 Warrants to Mr. Viswanath Kompella.

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, 2006, 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 2006 and of the profit of the company for the financial year ended 31st March 2006.
- 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, 2006 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, 2006 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: Rs1547 Lacs towards Export of Software.

Outgo : Rs. 34.79 Lacs towards Foreign Travel and Rs.681 Lakhs towards 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.

Sl.No	Name of the employee	Gross Salary received in 2005-06
01	K. Viswanath	14,20,000

Details about Virinchi Employees Stock Option Scheme, 2004 (VESOS, 2004)

Pursuant to the provisions of Guideline 12 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee stock purchase Scheme), Guidelines, 1999, the details of stock options as on 31st March, 2006 under the Virinchi Employee Stock Options Scheme, 2004 are as under:

Sl.No	Description	Details
1	Options Granted	322750
2	Pricing formula	The Exercise price for the grant of options is calculated at a discount of 75% on the average closing prices for the company's Equity Shares quoted on the Stock Exchange having the maximum volume of transaction during the two week preceding the date of the Grant i.e 3 rd October, 2005 Rs. 16.30
3	Options Vested	Nil
4	Options exercised	Nil
5	The total number of shares arising as a result of exercise of option	Nil
6	Options lapsed	Nil
7	Variation of terms of options	The terms of options were not varied in the Financial year 2005-06
8	Money realized by exercise of options	Nil
9	Total number of options in force (Total options available for grant: 11,67,000 and Total Options granted is 3,22,750)	3,22,750
10	Employee wise details of options granted to i) Senior Management personnel ii) Any other employee who receives a grant in any one year of option amounting to 5% of or more of option granted during that year iii) Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant.	NIL NIL Nil
11	Diluted Earning Per share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) 20 Earning Per share	5.57
12	The difference between the employee compensation costs computed under intrinsic value method and the employee compensation cost that shall have been recognized if the Company had used the Fair Value methods and its impact on profits and EPS of the Company.	The employee compensation cost on account of ESOP in the financial year 2005-06 based on Intrinsic value method is Rs. 2.1 Crore . Had the company used the Fair value method, the ESOP cost in the financial year 2005-06 would have been Rs, 2.03 Crores There would not have been any adverse effect on the profit and EPS of the Company, if Fair

		Market value method of accounting was adopted instead of intrinsic value.
13	Weighted Average exercise prices and weighted average fair values of options for options whose exercise price either equals or exceeds or is less than the market price of the stock	NIL
14	Description of the method and significant assumptions used during the year to estimate the fair value of options.i. Risk-free interest rateii. Expected lifeiii. Expected Volatilityiv Expected dividendsv. The price of the underlying share in market at the time of option grant	The Company has opted intrinsic Value method for accounting of Compensation Cost arising out of ESOP. The Company has not made any assumptions

Report on Corporate Governance

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

Management Discussion and Analysis

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 : 30.08.2006

VISWANATH KOMPELLA
CHAIRMAN & MANAGING DIRECTOR

Annexure to Directors' Report

Report on Corporate Governance

1. Company's Philosophy:

Virinchi believes that best corporate governance practices should be enshrined in all activities of the company. This will help the company in conducting the affairs of the company in an efficient manner and also helps in achieving its goal of maximizing value for all its stakeholders. Our Corporate Philosophy envisages complete transparency and adequate disclosure with an ultimate aim of value creation for all players i.e stakeholders, creditors, Employees.

The Company is in compliance with the requirements of revised guidelines on Corporate Governance stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges, and with the adoption this year, of a code of conduct for Non- Executive Directors also, which has been put on in the website of the company at www.virinchi.com

2. Board of Directors:

a) Composition

The Company has a Executive Chairman and to have a more professional outlook your company is having 7 Independent directors and 4 other directors which is in compliance with the clause 49 of the Listing Agreement

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

During the Financial Year 2005-06 the Board of Directors met 7 times on the following dates:

25.04.2005, 03.06.2005, 19.07.2005, 27.08.2005, 06.10.2005, 22.10.2005, 19.01.2006

The attendance of each Director is given below:

Name of the Director	Category	No. of Other Director ships	No. of committees in which members	No. of Board Meeting attended	whether attended last AGM
Mr.Viswanath Kompella	Promoter and Managing Director	2	3	7	Yes
Datuk Santha Kumar S	Independent Non - Executive Director	4	—	—	No
Datuk Kunasingam Sittampalam	Independent Non - Executive Director	7	—	—	No
Mr.KVSN.Kumar	Independent Non - Executive Director	4	—	—	No
Mr.K.S.K.Prasad	Independent Non - Executive Director	—	3	7	Yes
Mr.Jagadish K. Rao	Non Executive Director	1	—	—	No
Mr. K.Jagan Mohan Rao	Non Executive Director	—	3	7	Yes
Mr. Premchand Krishna Rao*	Independent Non - Executive Director	1	—	3	No
Dr. Venugopal**	Independent Non - Executive Director	—	3	2	No

*Resigned with effect from 14-08-2005

** Appointed as Additional director in the Board meeting held on 06.10.2005

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
K.S.K.Prasad	Chairman	Independent Non Executive Director	Business	4
K. Jagan Mohan Rao*	Member	Non Executive Director	Business	4
Jagadish K. Rao*	Member	Non Executive Director	Business	-
Dr. Venugopal**	Member	Independent Non Executive Director	Business	3
Viwanath Kompella**	Member	Executive Director	Business	4

* K. Jagan Mohan Rao resigned to the committee with effect from 01.04.2005

*Jagadish K. Rao resigned to the committee with effect from 06.10.2005

**Dr. Venugopal Appointed in the committee with effect from 06.10.2005

**Viswanath Kompella appointed in the committee with effect from 01.04.2005

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
K.S.K.Prasad	Chairman	Independent Non Executive Director	2
Jagadish K.Rao*	Member	Non Executive Director	-
K.Jagan Mohan Rao*	Member	Non Executive Director	2
Dr. Venugopal**	Member	Independent Non Executive Director	2
Viswanath Kompella	Member	Executive Director	2

*Jagadish K.Rao resigned to the committee with effect from 06.10.2005

*Jagan mohan Rao resigned to the committee with effect from 01.04.2005

**Dr.Venugopal Appointed in the committee with effect from 06.10.2005

**Viswanath Kompella appointed in the Committee with effect from 01.04.2005

Details of remuneration to the directors for the Year:

Details of remuneration paid to Directors are given below:

Name of the Director	Relationship relationship Directors	Business relationship with company if any	Loans and advances from company	Remuneration	Paid during the year 2005-06		
					Sitting fees Rs.	Salary Rs.	Commission Rs.
Mr. Viswanath Kompella	Brother-in law of Mr. Jagadish K. Rao	None	None	—	14,20,000	—	14,20,000
Mr. Jaganmohan Rao	Brother of Mr. Jagadish K. Rao	None	None	17,500	—	—	17,500
Mr. K.S.K. Prasad	None	None	None	17,500	—	—	17,500
Dr. Venugopal	None	None	None	7,500	—	—	7,500

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 K.S.K.Prasad who is an Independent and Non- Executive director.

Composition of the Committee:

K.S.K.Prasad	Chairman & Member of the Committee
* Jagadish K.Rao	Member
*K.Jagan Mohan Rao	Member
**Dr. Venugopal	Member
**Viswanath Kompella	Member

*Jagadish K. Rao resigned from the committee with effect from 06.10.2005

*Jagan Mohan Rao resigned from the committee with effect from 01.04.2005

**Dr.Venugopal appointed in the Committee with effect from 06.10.2005

**Viswanath Kompella appointed in the committee with effect from 01.04.2005

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

The total No. of Complaints received and complied during the year were; 75

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, 2006 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
2004-05	23.09.2005 11.00 A.M.	Padmashali Kalyana Mandapam, 2-12-66, Nehru Nagar, West Maredapally, Secunderabad -26	<ol style="list-style-type: none"> 1. increase of Authorised capital and amendment of Articles of Association 2. Re-appointment of Managing Director 3. Approval of payment of sitting fees to Non-Executive Directors as per clause 49 of the Listing Agreement 4. Preferential allotment of shares and warrants to strategic investors and promoters 5. Resolution U/S 372A for purchase or subscription of shares, securities upto a limit of Rs.100 Crores.
2003-2004	29.09.2004 11.00 A.M.	-Do-	<ol style="list-style-type: none"> 1. Alteration of Articles of Association 2. Introduction of ESOP Scheme.
2002 - 2003	26.09.2003 11.00 A.M.	-Do-	<ol style="list-style-type: none"> 1. Alteration of objects clause of memorandum of Association. 2. Change of Name.

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, Code of Conduct 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 : 29th September, 2006 at 11.A.M.
At Padmashali Kalyana Mandapam,
2-12-66, Nehru Nagar, West Maredpally,
Secunderabad - 500 026 A.P.
- b) Financial Year : 1st April to 31st March
- Financial Reporting for:
- | | |
|-------------------------------------|---------------------------|
| Quarter ending June 30, 2006 | Before end of July 06 |
| Half year ending September 30, 2006 | Before end of October 06 |
| Quarter ending December 31, 2006 | Before end of January, 07 |
| Quarter ending March 31, 2007 | Before end of April, 07 |
- c) Date of Book Closure : 25th September 2006 to 29th September 2006(both days Inclusive)
- d) Dividend Payment date(s) : Dividend if declared paid/credited on or after 30th September, 2006

- e) Listing on Stock Exchanges : The Company's Equity Shares are listed in the Hyderabad Stock Exchange Limited and Bombay Stock Exchange Ltd., Mumbai (BSE). The Company has paid the listing fees to the stock exchanges for the financial year 2006-07.
- f) Stock Code :
- i) Stock Code – Physical
Hyderabad: Not Allotted
Mumbai : 532372
 - ii) Demat ISIN in NSDL and CDSL
INE539B01017

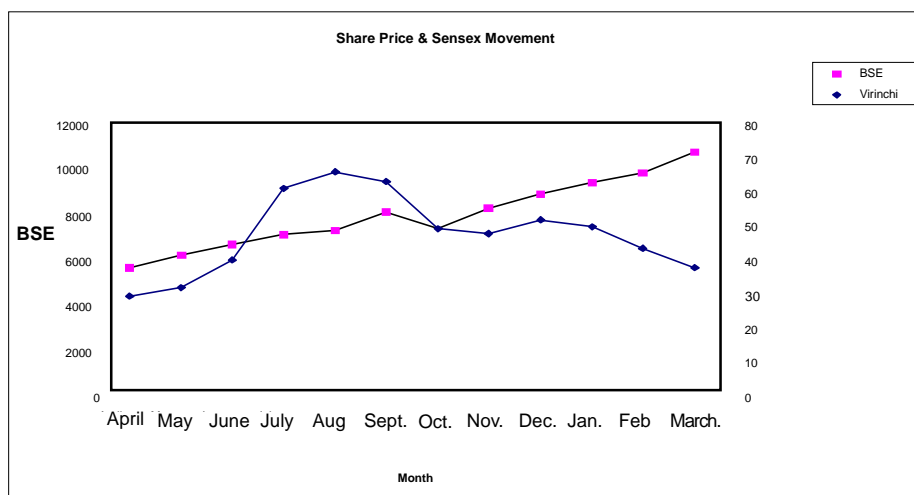
g) Market Price Data:

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, 2005	40.00	25.85	2896998
May, 2005	41.30	29.50	4148725
June, 2005	49.00	38.05	6336340
July, 2005	84.55	44.25	11165870
August, 2005	76.70	62.05	7303862
September, 2005	77.00	56.05	7868705
October, 2005	65.65	39.50	3091467
November, 2005	60.80	41.70	4269420
December, 2005	62.50	48.10	3326547
January, 2006	59.90	46.65	2630839
February, 2006	53.20	40.60	1608387
March, 2006	46.95	35.25	1713487

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.

h) Performance of share price of the company in comparison to the BSE Sensex



Virinchi

Technologies Limited

17th Annual Report

- i) Registrar and share transfer agents : Aarathi Consultants Pvt Ltd.
1-2-285, Domalguda,
Hyderabad -500 029.
Ph: 27634445, 27 638111 Fax: 27632184
- j) Share Transfer System : The Share transfers are being effected physically by
the Company's share transfer agents, M/s. Aarathi
Consultants Pvt. Ltd, Hyderabad.
- k) Distribution Shareholding as on 31st March, 2006

Share Holding of Nominal Value		Share Holders		Share Amount	
	Rs. (1)	Numbers (2)	% of Total (3)	In Rs. (4)	% of Total (5)
Upto	5,000	8745	76.32	18565080.00	13.31
5,001	10,000	1441	12.58	12356620.00	8.86
10,001	20,000	597	5.21	9456020.00	6.78
20,001	30,000	237	2.07	6138970.00	4.40
30,001	40,000	94	0.82	3407410.00	2.44
40,001	50,000	87	0.76	4133260.00	2.96
50,001	1,00,000	126	1.10	9778700.00	7.01
1,00,001	And above	131	1.14	75683940.00	54.25
TOTAL		11458	100.00	139520000.00	100.00

- 1) Share holding pattern as on 31st March 2006.

	CATEGORY	No. of Shares held	% age of Shareholding
A	PROMOTER'S HOLDING:		
1.	Promoters* -		
	Indian Promoters -	24,69,360	17.70
	Foreign Promoters	7,72,263	5.54
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.	FILs	Nil	Nil
4.	OTHERS		
a.	Private Corporate Bodies	12,94,186	9.28
b.	Indian Public	70,54,544	50.56
c.	NRIs / OCBs	22,92,792	16.43
d.	Clearing Members	68,855	0.49
	TOTAL	1,39,52,000	100.00

- m) Dematerialization of Shares and liquidity : Since the Company has entered into an arrangement with both the depositories namely NSDL and CSDL 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. 89.23the Company's share capital is dematerialized as on 31.03.2006
- n) Outstanding GDRs./ADRs./Warrants or any Convertible instruments
Conversion date and likely Impact on equity : The Company has issued 12,00,000 Warrants to Mr. Viswanath Kompella,. It is pending for exercise. The warrants are allotted on 06.10.2005 and is valid for 18 months. If the warrants are exercised, the paid up capital of the company will be Rs.15.15 Crores
- o) Address for Correspondence : Virinchi Technologies Limited 10, SRK Colony, West Maredpally, 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
DATE : 30.08.2006

VISWANATH KOMPELLA
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:

Software Industry Trend Overview

Indian IT industry continued its growth run in FY 2005-06. Even on a huge base the domestic market grew by 28% and total exports went up by 36%. While packaged software sales going up by 78% is a sign of a maturing Indian user, solid growth in software and services exports proved India's capability at global levels.

The Indian IT industry is witnessing rapid growth as leading Indian IT companies globalize their operations, IT multinationals enhance their offshore presence and as players move up the value chain, offering services like design conceptualization and implementation, product co-development and IT infrastructure management.

A three-year Compounded Annual Growth Rate (CAGR) analysis of Market Cap of Mid-Cap companies, post the IT industry slowdown, indicates that companies with a clear differentiated strategy have performed extremely well. The strategies include one or a combination of the following - focusing on intellectual property related products and services, developing leadership along fast-growing niche markets, focusing on under-served markets and acquiring strategically.

Indian companies face stiff competition from global IT vendors (Accenture, IBM, EDS, Cap Gemini) who are aggressively developing and enhancing their offshore delivery capability. They are doing this through both organic growth in headcount and selective strategic acquisitions.

The year 2005 has seen leading Indian IT companies breaking the glass ceiling and competing successfully with IT multinational companies for large global projects. Two factors have made this possible:

- a. Offshore outsourcing of IT requirements has assumed strategic importance for large global corporations owing to its compelling cost-quality equation.
- b. Leading Indian IT companies have developed an excellent track record and assumed a leadership position for offshore delivery, making them 'go-to' players for a company's offshore outsourcing requirements. In addition, they have attained a level of scale that enables them to compete effectively for large multi-year IT contracts, business that was previously ring-fenced by large IT multinational companies.

Today, India as an offshore destination for IT services offers more than just a cost proposition. Its demonstrated track record of delivering global quality at low cost has enabled the Indian IT industry to transition from being a lower-end application development and maintenance services provider to offering higher-end critical services like design conceptualization and implementation, product co-development and IT infrastructure management. This validates the maturing of the Indian IT industry as a provider of high-productivity, quality-driven services.

Your company captures the market trend

Your company had a very successful year in 2005-06. The key challenge in the coming year is to build on this foundation and take the company to new levels of achievement and success.

Your company is amongst the few Indian companies which offer out-of-the-box web-based solutions to customers seeking enterprise-wide solutions towards automating range of processes and improving productivity substantially. Your company today offers ready-to-deploy software solutions in the domains of Supply chain, Micro-lending, Insurance Investigations, Project Management, Online Reporting and Market Research to customers across the globe. Your company has presently added the few products to the existing portfolio that includes SLA Management Solution, Vendor Relationship Management Solution, Computer Aided Market Research), and will focus on potential market existing in the USA and Europe.

Your company's focus is evenly placed on both products and services. Your company's strong product portfolio is supplemented and supported by its service areas. The company has evolved matured service practice areas such as: Custom Application Development, Product Support and Maintenance, product customization services, data warehousing, data migration, among others. Your company will continue to focus on providing both products and services offerings in its major markets of USA and Europe.

During the coming year your company aims to increase business from the current clientele and extend its product portfolio to new clients across geographies. The key markets will continue to be the United States and Europe. However, your company is strengthening its sales and marketing presence in other potential geographies. Your company has built the foundation for a predictable and scalable sales model where we can plan for the expansion of the products and service portfolio with greater visibility.

While previously your company shifts typically added new layers of software atop the existing stack, this quiet revolution that your company is picking up is a more fundamental transformation. Your company is reshaping the entire prospects of acquiring clients to deliver more value, in more manageable pieces, over time. Ongoing restructuring will lead to more established, broadly shared sales channels that deliver new products and services more efficiently to enterprise customers.

Tacit interaction is the next frontier in business automation value and your company will make full use of modern collaboration and data sharing platforms. Taken together, these changes will have profound implications for both your company and its customers.

Opportunities, Risks & Concerns

Today, the more pressing issues for other businesses are whether the software provider can maintain service levels and meet predefined quality metrics at offshore. But it's not always a crisis that turns an offshore outsourcing engagement sour. When things don't go well, analysts say, poor communication between the customer and the offshore service provider is often to blame. Researchers at Gartner say that, in general, companies that have outsourced major business operations need to do more to ensure that operations will run smoothly. The following concerns are to be addressed by the organizations to be focused on delivering quality services on time to meet their requirements

- The promise of cost savings is leading more companies to accept the greater risk of outsourcing revenue-generating processes offshore
- Concerns include everything from whether the provider's IT infrastructure is sound to what an exit strategy might be if the region experiences turmoil

Comparatively, your company has a flexible and sustainable business model that differentiates from the conventional model deployed by other off-shore outsourcing firms. A key factor for success is making sure to dedicate resources for managing the relationship. Developed on the experience of the management team in many previous outsourcing engagements, your company's model is uniquely suited for cost efficient outsourcing solutions. In order to mitigate some of the pitfalls of outsourcing, your company takes a pragmatic approach.

Your company has clearly etched out the practice areas and has dedicated teams to manage requirements of such practice areas onsite as well as offshore. Your Company can now confidently handle projects of large size and deliver in defined timelines.

The increasing success of your company's products and services is putting pressure on its infrastructure. Your company is currently utilizing its total capacity. However, keeping pace with the expected growth, your company is adding capacity to meet the future growth requirements. Your company is also getting the necessary approvals to set up its campus.

Your company has perfect understanding of the amount of risks and extent of risks involved while delivering the project to client and knows well how to tackle them effectively. Your 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 2005-06 was Rs2570 Lakhs as against Rs. 1830 Lakhs in 2004-05, showing growth of 40%. The Profit After tax (PAT) increased by 53% to Rs.829Lakhs in 2005-06 from Rs593 Lakhs in 2004-05.

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

The Indian IT Sector employs 697,000 people and this is likely to reach 2 million by 2014. Your company 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.

Your company is building on these three aspects with particular emphasis on Human Resources. Your company has about 225 employees on the rolls and keeping abreast with the envisaged growth, your company aims to increase its headcount to about 300 by the end of year 2006-07. Your company is taking several initiatives to retain its employees in a very competitive environment.

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.

Declaration by the Chairman and Managing Director under Clause 49 of the Listing Agreement

I, Viswanath Kompella, Chairman & Managing Director of the of Virinchi Technologies Ltd, declare that all the members of the Board of Directors and senior management personal have affirmed compliance with the codes of conduct.

Place : Hyderabad
Date : 30-08-2006

Viswanath Kompella
Chairman & Managing Director

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, formerly, Virinchi Consultants Limited, ("the company") for the year ended 31st March, 2006 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 : 30.08.2006

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, 2006 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, 2006 and taken on record by the Board of Directors, we report that, none of the Directors is disqualified as on 31st March, 2006 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, 2006.
 - 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

P.MURALI MOHANA RAO
PARTNER

PLACE : Hyderabad

DATE : 30-08-2006

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 discrepancies between the book records and the physical inventory have been noticed on such verification.
c) The company has not disposed off any of the 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 controls 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 obtained Term Loan and utilized the funds for the purpose it was sanctioned.
17. According to the information and explanations given to us, the Company has not used short term funds for long term Investment.
18. According to the information and explanation given to us, the company has made preferential allotment to parties covered in the Register maintained Under Section 301 of the Companies Act, 1956. However, as per the information provided for our verification, the terms and conditions of the same are not prejudicial to the interest of the Company.
19. According to the information and explanations given to us, the company has not issued 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 : 30-08-2006

P. MURALI MOHANA RAO
PARTNER

BALANCE SHEET AS ON 31st MARCH, 2006

PARTICULARS	SCHEDULE NO's	YEAR ENDED 31-03-2006 (Rupees)	YEAR ENDED 31-03-2005 (Rupees)
I SOURCES OF FUNDS			
1. SHAREHOLDERS FUNDS			
a) Share Capital	1	139,057,000	118,248,756
b) Share Warrants		8,040,000	-
c) Reserves & Surplus	2	360,140,019	169,728,001
2. LOAN FUNDS			
a) Secured Loans	3	38,830,272	7,732,530
3. DEFERRED TAX LIABILITY		32,086,819	30,840,488
TOTAL		578,154,110	326,549,775
II APPLICATION OF FUNDS			
1. FIXED ASSETS			
a) Gross Block	4	258,828,541	184,118,780
b) Less: Depreciation		90,018,270	55,543,263
c) Net Block		168,810,271	128,575,517
d) Product Development		178,225,846	124,743,792
2. INVESTMENTS	5	14,000	14,000
3. CURRENT ASSETS, LOANS AND ADVANCES			
a) Sundry Debtors	6	50,774,920	51,572,729
b) Cash and Bank Balances	7	116,816,713	511,293
c) Advances and Deposits	8	121,663,456	29,642,381
Less: Current Liabilities, Provisions and Advances	9	58,151,097	8,509,937
NET CURRENT ASSETS		231,103,992	73,216,466
TOTAL		578,154,110	326,549,775
Notes to Accounts	10		

Schedules 1 to 9, 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 KOMPPELLA
CHAIRMAN & MANAGING DIRECTOR

K.S.K.PRASAD
DIRECTOR

PLACE : HYDERABAD
DATE : 30.08.2006

K. RAVINDRANATH TAGORE
COMPANY SECRETARY

VIRINCHI TECHNOLOGIES LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2006

PARTICULARS	SCHEDULE NO'S	YEAR ENDED 31-03-2006 (Rupees)	YEAR ENDED 31-03-2005 (Rupees)
1 INCOME			
Income from Operations		257,072,583	183,056,803
Interest on FDR		1,488,759	-
Other income		1,751,632	-
TOTAL		260,312,974	183,056,803
2 EXPENDITURE			
Salaries and Other benefits to Employees		32,097,472	22,398,356
Business and Administrative Expenses	10	105,346,555	78,623,225
Interest and Financial Expenses		4,228,508	423,627
Depreciation		34,475,007	21,576,867
Misc. Expenses written off		-	641,559
TOTAL		176,147,541	123,663,634
3 PROFIT BEFORE TAX		84,165,433	59,393,169
4 PROVISION FOR TAX			
Current Tax		-	-
Deferred Tax		1,246,331	5,293,900
5 PROFIT AFTER TAX		82,919,102	54,099,269
6 PROVISION FOR DIVIDEND		6,976,000	6,001,000
7 PROVISION FOR DIVIDEND TAX		978,384	841,640
8 PROFIT AFTER DIVIDEND		74,964,718	47,256,629
9 BALANCE BROUGHT FORWARD		81,644,102	34,387,473
10 BALANCE CARRIED FORWARD TO BALANCE SHEET		156,608,820	81,644,102
11 BASIC EARNINGS PER SHARE (PAT)		5.94	4.51
Notes to Accounts	11	-	-

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 KOMPPELLA
CHAIRMAN & MANAGING DIRECTOR

K.S.K.PRASAD
DIRECTOR

PLACE : HYDERABAD
DATE : 30.08.2006

K. RAVINDRANATH TAGORE
COMPANY SECRETARY

PARTICULARS	AS AT 31-03-2006 (Rupees)	AS AT 31-03-2005 (Rupees)
SCHEDULE 1		
SHARE CAPITAL		
AUTHORISED : 18000000 Equity Share of Rs.10/- each	180,000,000	130,000,000
ISSUED, SUBSCRIBED & PAID UP : 1,39,52,000 Equity shares of Rs.10/- each (Previous year 1,20,02,000 Shares of Rs. 10/- each)	139,520,000	120,020,000
LESS: Calls in Arrears	463,000	1,771,244
	139,057,000	118,248,756
Share Warrants (12,00,000 share warrants @ 67/- , paid up 6.7 paid up)	8,040,000	-
SCHEDULE 2		
RESERVES AND SURPLUS		
Balance Upto Previous year	81,644,102	34,387,473
Surplus in Profit and Loss Account	74,964,718	47,256,629
	156,608,820	81,644,102
Employee Stock Option Scheme	14,981,237	-
Less:Deferred Employee Compensation	11,235,928	-
	3,745,309	-
Securities Premium (Share Premium)	199,785,890	88,083,899
	360,140,019	169,728,001
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)	21,062,722	992,911
Bills Discounting from Canara Bank	3,772,900	5,987,433
Vehicle Finance from ICICI Bank	472,650	752,186
Canara Bank Term Loan (Hypothecation of Fixed Assets - Land, Building, Computers & Interiors etc. of the proposed campus at Shamirpet and personal guarantee of the Directors)	13,522,000	-
	38,830,272	7,732,530

**SCHEDULE 4
FIXED ASSETS**

PARITCULARS	GROSS BLOCK AS ON 01-04-2005	ADDITIONS DURING THE YEAR	GROSS BLOCK AS ON 31-03-2006	DEPRECIATION UPTO 31-03-2005	DEPRECIATION DURING THE YEAR	TOTAL DEPRECIATION 31-03-2006	NET BLOCK AS AT 31-03-2006	NET BLOCK AS AT 31-03-2005
Computer Hardware	77,372,945	27,607,145	104,980,090	32,426,052	16,484,529	48,910,581	56,069,509	44,946,893
Computer Software	65,716,247	28,652,450	94,368,697	13,374,381	15,254,944	28,629,325	65,739,372	52,341,866
Furniture and Fixtures	9,537,094	-	9,537,094	2,287,584	603,698	2,891,282	6,645,812	7,249,510
Interior Decoration	17,414,221	75,000	17,489,221	3,207,616	1,103,111	4,310,727	13,178,494	14,206,605
Office Equipments	5,145,392	2,179,700	7,325,092	561,595	321,544	883,139	6,441,954	4,583,797
Air Conditioners	1,908,503	66,200	1,974,703	331,349	91,735	423,084	1,551,619	1,577,154
Vehicles	5,912,300	-	5,912,300	3,166,660	561,669	3,728,329	2,183,972	2,745,640
Electrical Equipment	1,112,078	64,266	1,176,344	188,026	53,776	241,802	934,542	924,052
Land	-	16,065,000	16,065,000	-	-	-	16,065,000	-
	184,118,780	74,709,761	258,828,541	55,543,263	34,475,007	90,018,270	168,810,272	128,575,517

PARTICULARS	AS AT 31-03-2006	AS AT 31-03-2005
SCHEDULE 5 INVESTMENTS		
Canara Bank Shares (Cost price of 400 Shares @ Rs.35/- per share) (Market Price of share as on 31st March,2006 is Rs.270.43 per share)	14,000	14,000
	14,000	14,000
SCHEDULE 6 SUNDRY DEBTORS		
Debtors not exceeding six months	50,774,920	51,572,729
	50,774,920	51,572,729
SCHEDULE 7 CASH AND BANK BALANCES		
Cash in Hand	92,145	118,872
Cash with Schedule Banks		
In Current Accounts	56,252,866	392,421
In Deposit Accounts	60,471,702	-
	116,816,713	511,293
SCHEDULE 8 ADVANCES AND DEPOSITS		
ADVANCES		
Advances	7,109,046	8,601,066
Advances - K Soft	91,568,000	-
Virinchi Employees Welfare Trust	18,960,000	18,960,000
Other Advances	1,811,969	276,967
DEPOSITS		
Rent Deposits	820,328	616,800
Other Deposits	1,394,113	1,187,548
	121,663,456	29,642,381
SCHEDULE 9 CURRENT LIABILITIES, ADVANCES AND PROVISIONS		
Sundry Creditors	3,043,014	245,051
Advances & Creditors for Expenses	10,325,208	877,430
Advances Others	27,918,000	-
Outstanding Expenses and Provisions	8,910,491	544,816
Provision for Taxation	-	-
Provision for Dividend	6,976,000	6,001,000
Provision for Dividend Tax	978,384	841,640
	58,151,097	8,509,937
SCHEDULE 10 BUSINESS AND ADMINISTRATIVE EXPENSES		
Postage, Telephone and Telegrams	3,874,107	1,958,628
Repairs and Other Maint. Charges	534,780	2,162,934
Rent, Rates and Taxes	6,923,906	6,033,796
Auditors Remuneration	112,750	110,200
Directors Remuneration	1,364,560	819,922
Printing and Stationery	299,343	516,775
Travelling and Conveyance	13,860,959	6,357,056
Marketing and Development Expenses	72,116,024	57,467,574
Other Administrative Expenses	6,260,126	3,196,340
	105,346,555	78,623,225

SCHEDULE-11

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.

Stock Option Policy:

Stock Option Grants to the employees who accepted the grant under the Company's Stock Option Plan are accounted in accordance with Securities and Exchange Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999. Accordingly the excess, if any of the market Price of the underlying Equity Shares as of the date of the grant of the option over the exercise price of the option, is recognized as employee compensation cost and amortised over the vesting period on Straight Line basis.

Impairment of Assets:

At each balance sheet date, the Company reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. Recoverable amount is the higher of an asset's net selling price and value in use. In assessing value in use, the estimated future cash flows expected from the continuing use of the asset and from its disposal are discounted to their present value using a pre-discount rate that reflects the current market assessments of time value of money and the risks specific to the asset. Reversal of impairment loss is recognised as income in the profit and loss account.

B. Notes on Accounts

1. 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

Sl.No	Name of the employee	Gross Salary received in 2005-06
01	K. Viswanath	14,20,000

2. Directors Remuneration

Current Year(Rs.)	Previous Year(Rs.)
1,420,000	819,922 /-
3. Auditors Remuneration

Current Year.(Rs.)	Previous Year(Rs)
1,12,750/-	1,10,200/-
4. 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.
5. The Company has entered into agreement with K Soft Systems Inc. for 100% acquisition for an amount of \$26,60,000/- . As part of the agreement, the Company allotted 9,50,000 shares @ 67/- per Share. The balance consideration is payable in cash in three installments. Till the completion of the process acquisition, the amounts are treated as advances.
6. The Cash Credit is 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. Term Loans are secured against the Fixed Assets - Land, Building, Computers & Interiors etc. of the proposed campus at Shamirpet and personal guarantee of the Directors
7. Expenditure in Foreign Currency Current Year(Rs.)

Foreign Traveling	34.79 Lacs
Other Expenses	681 Lacs
8. Earnings in Foreign Exchange as reported by the Company to Government of India and as certified by Management.

Current Year(Rs.)	
Foreign Exchange Inflow	1547 Lacs
9. There are not dues to SSI Units outstanding for more than 30 days.

10. No Confirmations were obtained from debtors/creditors as to the balances receivable from/payable to them as at year end.
11. During the year 2005-06 the company has allotted equity shares and warrants on preferential basis totaling to Rs. 13.87 crores. An amount of Rs. 7.5 crores is collected in the form of cash and the balance of Rs. 6.37 crores were allotted to K Soft Inc as part of the Investment. Rs. 6 crores is held as Term Deposit with Scheduled Banks and the balance is held in EEFC A/c.
12. In accordance with Accounting Standard 22(AS 22) issued by the ICAI, the Company has accounted ro deferred income tax during the year. The deferred income tax provision for the current year amounts to Rs. 12,46,331 /-towards deferred income tax liability. (Previous year Rs. 52,93,900/- towards deferred Income tax liability).
13. Previous years figures have been regrouped wherever necessary.
14. The figures have been rounded off to the nearest rupee.

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 KOMPPELLA
CHAIRMAN & MANAGING DIRECTOR

K.S.K.PRASAD
DIRECTOR

PLACE : HYDERABAD
DATE : 30.08.2006

K. RAVINDRANATH TAGORE
COMPANY SECRETARY

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH, 2006

	Year Ended 31-03-2006 Rs.in Lacs	Year Ended 31-03-2005 Rs.in Lacs
A. CASH FLOW FROM OPERATING ACTIVITIES:		
Net Profit/ (Loss) before taxation and extraordinary items	841.65	593.93
Adjustments for:		
Depreciation	344.75	215.77
W/o expenses	-	6.41
Interest expenses	42.29	4.24
Operating Profit before working capital changes	1228.69	820.35
Working Capital Changes		
Trade and other receivables	-912.23	-134.57
Trade payables	496.41	-31.71
Cash generated from operations	812.87	654.05
Interest paid	-42.29	-4.24
Taxation for the year	0.00	0.00
Dividend for the year	-69.76	-60.01
Dividend Tax for the year	-9.78	-8.42
Deferred Employee Compensation	37.45	0.00
Cash flow before extraordinary items	728.49	581.40
Extraordinary items	-	-
Net Cash from Operating Activities	728.49	581.40
B. CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of Fixed Assets	-1281.92	-667.27
Investment	0.00	0.00
Public Issue Expenses	0.00	0.00
Net Cash used in Investing Activities	-1281.92	-667.27
C. CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from Equity Shares	208.08	14.85
Issue of Share Warrants	80.40	0.00
Share Premium	1117.02	11.88
Net Proceeds from Long Term Borrowings	310.98	56.69
Net Cash used in Financing Activities	1716.48	83.42
Net increase in cash and cash equivalents	1163.05	-2.45
Cash and Cash equivalents as at 01.04.2005	5.11	7.56
Cash and Cash equivalents as at 31.03.2006	1168.17	5.11

FOR AND ON BEHALF OF THE COMPANY
For **VIRINCHI TECHNOLOGIES LIMITED**

PLACE : HYDERABAD
DATE : 30-08-2006

K.VISWANATH
CHAIRMAN & MANAGING DIRECTOR

K.S.K.PRASAD
DIRECTOR

K. RAVINDRANATH TAGORE
COMPANY SECRETARY

Auditors' Certificate

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, 2006. 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 30th August, 2006 to the Members of the Company.

For P. MURALI & CO.
CHARTERED ACCOUNTANTS

PLACE : HYDERABAD
DATE : 30th August, 2006

P.MURALIMOHANARAO
PARTNER

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL

BUSINESS PROFILE

I. I. Registration Details

Registration No.

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

 State Code

0	1
---	---

Balance Sheet

3	1
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0	3
---	---

2	0	0	6
---	---	---	---

Date Month Year

II. Capital Raised during the Year (Amount in Rs. Thousands)

Public Issue

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

 Rights Issue

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

Bonus issue

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

 Private placement

7	5	0	4	0
---	---	---	---	---

III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities	<table border="1" style="display: inline-table;"><tr><td>5</td><td>7</td><td>8</td><td>1</td><td>5</td><td>4</td></tr></table>	5	7	8	1	5	4	Total Assets	<table border="1" style="display: inline-table;"><tr><td>5</td><td>7</td><td>8</td><td>1</td><td>5</td><td>4</td></tr></table>	5	7	8	1	5	4
5	7	8	1	5	4										
5	7	8	1	5	4										
Paid - Up Capital	<table border="1" style="display: inline-table;"><tr><td>1</td><td>3</td><td>9</td><td>0</td><td>5</td><td>7</td></tr></table>	1	3	9	0	5	7	Reserves & Surplus	<table border="1" style="display: inline-table;"><tr><td>1</td><td>6</td><td>0</td><td>3</td><td>5</td><td>4</td></tr></table>	1	6	0	3	5	4
1	3	9	0	5	7										
1	6	0	3	5	4										
Secured Loans	<table border="1" style="display: inline-table;"><tr><td>3</td><td>8</td><td>8</td><td>3</td><td>0</td></tr></table>	3	8	8	3	0	Share Premium	<table border="1" style="display: inline-table;"><tr><td>1</td><td>9</td><td>9</td><td>7</td><td>8</td><td>6</td></tr></table>	1	9	9	7	8	6	
3	8	8	3	0											
1	9	9	7	8	6										
Unsecured Loans	<table border="1" style="display: inline-table;"><tr><td>N</td><td>I</td><td>L</td></tr></table>	N	I	L	Deferred Tax	<table border="1" style="display: inline-table;"><tr><td>3</td><td>2</td><td>0</td><td>8</td><td>7</td></tr></table>	3	2	0	8	7				
N	I	L													
3	2	0	8	7											

Application of Funds

Net Fixed Assets	<table border="1" style="display: inline-table;"><tr><td>3</td><td>4</td><td>7</td><td>0</td><td>3</td><td>6</td></tr></table>	3	4	7	0	3	6	Investments	<table border="1" style="display: inline-table;"><tr><td>1</td><td>4</td></tr></table>	1	4	
3	4	7	0	3	6							
1	4											
Net Current Assets	<table border="1" style="display: inline-table;"><tr><td>2</td><td>3</td><td>1</td><td>1</td><td>0</td><td>4</td></tr></table>	2	3	1	1	0	4	Misc. Expenditure	<table border="1" style="display: inline-table;"><tr><td>N</td><td>I</td><td>L</td></tr></table>	N	I	L
2	3	1	1	0	4							
N	I	L										
Accumulated Losses	<table border="1" style="display: inline-table;"><tr><td>N</td><td>I</td><td>L</td></tr></table>	N	I	L								
N	I	L										

IV Performance of Company (Amount in Rs. Thousands)

Turnover including other income	<table border="1" style="display: inline-table;"><tr><td>2</td><td>6</td><td>0</td><td>3</td><td>1</td><td>3</td></tr></table>	2	6	0	3	1	3	Earning Per Share in Rs.	<table border="1" style="display: inline-table;"><tr><td>5</td><td>.</td><td>9</td><td>4</td></tr></table>	5	.	9	4
2	6	0	3	1	3								
5	.	9	4										
Other Income		(in Rs.)											
Total Expenditure	<table border="1" style="display: inline-table;"><tr><td>1</td><td>7</td><td>6</td><td>1</td><td>4</td><td>8</td></tr></table>	1	7	6	1	4	8	Dividend Rate %	<table border="1" style="display: inline-table;"><tr><td>5</td></tr></table>	5			
1	7	6	1	4	8								
5													
+/- Profit/ Loss Before Tax	<table border="1" style="display: inline-table;"><tr><td>8</td><td>4</td><td>1</td><td>6</td><td>5</td></tr></table>	8	4	1	6	5	On Preference Capital	<table border="1" style="display: inline-table;"><tr><td>N</td><td>I</td><td>L</td></tr></table>	N	I	L		
8	4	1	6	5									
N	I	L											
+/- Profit/ Loss After Tax	<table border="1" style="display: inline-table;"><tr><td>8</td><td>2</td><td>9</td><td>1</td><td>9</td></tr></table>	8	2	9	1	9	On Equity Capital	<table border="1" style="display: inline-table;"><tr><td>-</td><td>-</td><td>5</td></tr></table>	-	-	5		
8	2	9	1	9									
-	-	5											

VIRINCHI TECHNOLOGIES LIMITED
Regd. Office: 10, SRK Colony, West Marredpally, 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

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(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 Maredpally, Secunderabad – 500 026

ATTENDANCE SLIP

I hereby record my presence at the 17th Annual General Meeting of the Company being held on Friday, the 29th day of September, 2006 at 11.00 A.M. at Padmashali Kalyana Mandapam, 2-12-66, Nehru Nagar, West Maredpally, 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: PLEASE FILL ATTEDANCE SLIP AND HAND IT OVER AT THE ENTRANCE OF THE MEETINGVENUE

VIRINCHI TECHNOLOGIES LIMITED

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

PROXY FORM

Regd. Folio No/
Client ID

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

failinghim.....Of..... in the district

of..... as my/our proxy to vote for me/us on my/our behalf at the 17th Annual General Meeting of the Company to be held on Friday, the 29th September 2006 at 11.00 A.M. or at any adjournment thereof.

Stamp

Signed this day of2006

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.

**BOOK POST
PRINTED MATTER**

if undelivered, please return to :

Virinchi
Technologies Limited

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