

# Virinchi

Technologies Limited

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# 2011

## 22nd Annual Report

CAUSING SYSTEMS PERFORM BUSINESS

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Annual General meeting on Thursday, September 29, 2011 at 12.00 noon 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.

**Registered office:**

10, SRK Colony, West Marredpally  
Secunderabad-500 026  
Andhra Pradesh  
Phone# 040-27083608/10

**Corporate Office:**

A-1 3<sup>rd</sup> Floor, Surabhi Plaza  
Vikrampuri, Karkhana  
Secunderabad-500 009  
Phone# 040-27890664/5

**Auditors**

M/s. P. Murali & Co.,  
6-3-655/2/3, Somajiguda  
Hyderabad-500 082  
Phone# 040-2332 6666

**Main Bankers**

M/s. Canara Bank  
Overseas branch  
Adarsh Nagar  
Hyderabad

**Registrar & Share Transfer Agents**

M/s. Aarthi Consultants Private Ltd  
1-2-285, Domalguda,  
Hyderabad-500029  
Phone# 91-40-27634445, 27638111  
Fax: 91-40-27632184

**Wholly Owned Subsidiary Company in USA**

M/s. KSoft Systems Inc.,  
1000, Route# 34 Ste# 203  
Matawan, NJ-07747  
Phone# 1-732- 696-2555  
www.ksoftglobal.com

**G. Santi Priya**

Chairperson & Whole Time Director

**Viswanath Kompella**

Executive Director

**K. Srinath**

Executive Director & COO

**Datuk Kunasingam Sittampalam**

Independent and Non Executive Director

**Dr. Samad A. Momin**

Independent and Non Executive Director

**K. Krishna**

Independent and Non Executive Director

**M. Ramam**

Independent and Non Executive Director

**K. Ravindranath Tagore**

Company Secretary

## *Message From Chairperson*

Dear Shareholders,

I am happy to present to you the performance of your company for FY 2011.

Recovering from the challenges of recession & downturns, the year that went by brought back the promise of growth for your company. The initiatives of your management team over the past couple of years to cope with the hardships of failing economic conditions in key markets of USA and UK are paying off dividends.

Your company has continued to grow both in terms of overall business and profits. Your company has achieved a total consolidated income of Rs 637 million during the year 2010-11 as against Rs 561.90 million during the same period last year showing a growth of 11% per cent. The net profit also continued to grow at about 4.60% per cent to Rs. 44.59 million as against Rs 42.54 million in the same period the previous year.

I am happy to inform you that in the previous financial year 2010-11, your company added some new clients for your flagship product, QFund, including the largest company in the industry in USA amongst others. All engagements are multi-year contracts with a unique annuity model for sustained revenues. Your company is one of the only Indian Point-of-Sale software products companies that charges for services in an annuity model called "Application Service Provisioning". In this model, clients engage your company to host & maintain its software that is used by the client resources who access and connect the software over the Internet. In this model your company charges the client an access & usage fee per store location each month or a per-transaction fee while owing the complete IT infrastructure including Software and the Hardware servers at IDC. To protect your company's interests, we insist our clients on minimum guaranteed commitment for each year of engagement. This ensures that your company is protected on the downside but has the provision to gain with the client, in a favorable business environment.

Considering the robust nature of the products that your company has built over the last decade and the concentric software services offered to clients for continuous enhancements and upgrades that are made available to the product and owing to the unique engagement model, your company has been and continues to be acknowledged as the "Premium software for deferred presentment financial services Industry in United States". This is further substantiated by the fact that your company is serving the top 10 of the 15 companies in this Industry.

To be active in the industry and stay ahead of the game continuously, your company makes all efforts to participate & be active in all industry events, major conferences and trade shows organized semi-annually. Some of the main events where your company showcases its products include: The Community Financial Services Association of America, Financial Service Centers of America, Online Lenders Association, and National Pawn Brokers' Association, among others. This enables your company to have high visibility in the industries it operates.

Your company organizes "QFund User Group" meetings annually in United States to bring together all of its clients under one roof to build customer loyalty and understand their needs and challenges better. This helps build a significant competitive advantage and provides an understanding of the needs to better service the current and potential clients.

With growth on mind and in step with our vision to build products operating in niche verticals where robust solutions are critical but unavailable, during 2010-11 your company invested significant time & effort aimed at expanding product portfolio where your management foresees significant growth in the near future. These new product initiatives will help establish your company's footprint in these niche areas where we believe these solutions will add significant value and help us thrive in these niche markets. We will shortly be ready to unveil these products.

Investment in human capital has been the one of the most critical factors of your company's success over the years. During the past year, your company has continued this investment and the employee strength has grown by about 10 percent. As a result of this human capital, your company remains well-positioned

to capitalize on growth that we have been witnessing with the addition of new clients and will continue to benefit from the broad business trends that hold promise for the future. Owing in large part to the dedication and hard work of talented Virinchi team, your company is confident about the prospects and ability to deliver significant value to customers and investors in the years ahead.

At a moment when the global economy is looking at a turnaround from recession, the S&P downgrade of US debt has cast significant shadows uncertainty about the near-term prospects of the US economy. Your company is well positioned to navigate through such difficult times and is geared up to face any challenge that may come out of these uncertain times.

In addition to the uncertain economic conditions, your company operates in a highly regulated & closely scrutinized financial services sector in North America & UK. We are constantly on the watch of the changing regulatory and macro-economic environment and are working to align ourselves to manage the change with low impact.

To all who share our commitment and our passion for providing reliable, scalable, available and robust solutions for mission critical needs, we on behalf of our board of directors, say thanks for your continuing support.

On behalf of the Virinchi Team

**G.Santi Priya**  
**Chairperson & Whole Time Director**  
**Virinchi Technologies Limited**

## NOTICE

NOTICE is hereby given that the 22<sup>nd</sup> Annual General Meeting of the Members of the Company will be held on Thursday, the 29<sup>th</sup> day of September, 2011, at 12.00 noon 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, 2011; 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 2010-11
3. To appoint a Director in place of Mr. K. Krishna, who retires by rotation, and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of G. Santi Priya who retires by rotation, and being eligible, offers herself for re-appointment.
5. To appoint M/s. P. Murali & Co., Chartered Accountants, (ICAI Reg.No 007257S) 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 Shri M.Ramam, Who was appointed as an Additional Director of the company with effect from 11<sup>th</sup> May, 2011, 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."

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

PLACE : HYDERABAD  
DATE : 02-09-2011

**K. Ravindranath Tagore**  
Company Secretary

### **Important Communiqué to Members - Green Initiative in Corporate Governance**

The Ministry of Corporate Affairs (MCA) has taken a Green Initiative in Corporate Governance by allowing paperless compliances by the companies and has issued a Circular stating that service of all documents including Annual Reports can be sent by e-mail to its Members. Your Company believes that this is a remarkable and environment friendly initiative by MCA and requests all Members to support in this noble cause.

The Company has already embarked on this initiative and proposes to send documents including Annual Reports in electronic form to the Members on the email address provided by them to the R&T Agent/the Depositories.

The Members who hold shares in physical form are requested to intimate/update their email address to the Company/R&T Agent while Members holding shares in demat form can intimate/update their email address to their respective Depository Participants.

Members are requested to further note that they will be entitled to be furnished, free of cost, the physical copy of the documents sent by e-mail, upon receipt of a requisition from them, any time, as a Member of the Company.

#### **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 23<sup>rd</sup> September, 2011 to 29<sup>th</sup> September 2011 (both days inclusive)
- 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 29<sup>th</sup> September, 2011. Dividend Warrants are scheduled to be posted on or after 3<sup>rd</sup> October, 2011. Dividend Warrant is valid for payment by the Company's Bankers for six months from the date of issue. Thereafter, please contact our share registrars, M/s. Aarathi Consultants Pvt Ltd, 1-2-285, Domalguda, Hyderabad -500029 for revalidation of the warrants.
- e) Members are encouraged to utilize the Electronic Clearing System (ECS) for receiving dividends.
- f) Members holding shares in physical form may write to the Company/Company's R&T agents for any change in their address and bank mandates. Members whose shareholding is in the electronic mode are requested to direct change of address notifications and updates of savings bank account details to their respective depository participants.
- g) Members are requested to send all communication relating to shares to the Company's R&T Agents (Physical and Electronic) at the following address:  
  
M/s. Aarathi Consultants Private Ltd, Unit: Virinchi Technologies Ltd, 1-2-285, Domalguda, Hyderabad-500 029
- h) Members who wish to claim dividends, which remain unclaimed, are requested to correspond with the

Company Secretary at the Company's registered office. Members are requested to note that dividends not encashed or claimed within 7 years from the date of transfer to the Company's Unpaid Dividend Account, will as per the provisions of Section 205A of the Companies Act, 1956, be transferred to the IEPF.

- i) The Certificate from the Auditors of the Company certifying that the Company's Stock Option Schemes are being implemented in accordance with the SEBI (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999, as amended, and in accordance with the resolutions of the members passed at the general meetings will be available for inspection by the members at the AGM.
- j) SEBI has made it mandatory for every participant in the securities/capital market to furnish details of Income Tax Permanent Account Number (PAN). Accordingly, all members holding shares in physical form are requested to submit their details of PAN, along with a photocopy of the PAN Card, to the R&T Agent of the Company, M/s. Aarthi Consultants Private Limited.

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### **Annexure to the Notice**

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

#### Item #6

Shri. M. Ramam 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 11<sup>th</sup> May, 2011. Pursuant to Section 260 of the Companies Act, 1956 Shri M.Ramam 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 Shri. M.Ramam 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 Shri M.Ramam is concerned or interested in the resolution.

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

PLACE : HYDERABAD  
DATE : 02-09-2011

K. Ravindranath Tagore  
Company Secretary



### Additional Information required to be furnished under the Listing Agreement

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

1. Name : M. Ramam  
Age : 50 years  
Qualifications : B.com, LLB  
Expertise : He has around 25 years of experience in the administration field . He is a practicing lawyer registered with bar council of High Court of Andhra Pradesh.  
  
Other Directorships : NIL  
Membership of Committee : NIL  
Shareholding : 250 Shares
2. Name : Krishna Kanaparthu  
Age : 44 years  
Qualifications : B.A,B.L  
Expertise : Mr. Kanaparthu has over 16 years of experience in the Corporate Law, Taxation, Civil Matters. He is presently working as a partner in M/s. Sunder & Krishna, Advocates, Hyderabad. He is presently practising in civil courts and High Court of Andhra Pradesh.  
  
Membership of committee : NIL  
Shareholding : NIL  
Other Directorships : NIL
3. Name : G. Santi Priya  
Age : 37 years  
Qualifications : B.com, ACA, Grad CWA, DISA  
Expertise : She has 14 years of experience in the areas of auditing, corporate finance and taxation  
  
Membership of committee : NIL  
Shareholding : NIL  
Other Directorships : NIL

## DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in presenting you the 22<sup>nd</sup> Directors' Report on the **business and operations** of your company on **standalone basis**, for the financial year ended 31<sup>st</sup> March, 2011.

### Financial Highlights on standalone basis

Particulars	Consolidated		Standalone	
	2010-11	2009-10	2010-11	2009-10
Total Income	6469.94	5744.24	3808.15	4333.17
Profit before interest, Depreciation and Tax	1644.12	1463.41	1308.76	1374.40
Interest	230.87	161.20	187.30	131.05
Depreciation	839.31	841.72	819.04	825.78
Provision for Taxation	171.61	78.67	82.32	68.18
Profit after interest, Tax and depreciation	402.33	373.83	220.10	349.38
Deferred Tax provision	(43.64)	(51.61)	(50.19)	(51.61)
Balance brought forward	2038.71	1700.17	3541.04	3226.96
Balance Carried to Balance Sheet	2397.31	2038.71	3723.95	3541.04

### RESULTS OF OPERATIONS:

Following are the results of operations for the financial year 2010-11

#### BUSINESS PERFORMANCE

**Consolidated Revenues:** The total Consolidated income of the Company for the FY 2010-11 comprises operating revenues of Rs. 6370 Lacs as against Rs. 5619.08 Lacs in FY 2009-10 and other income of Rs. 99.80 Lacs for the current year as against Rs.125.15 lacs in the previous year.

**Standalone Revenues:** The total income of the Company for the FY 2010-11 comprises operating revenues of Rs. 3708 Lacs as against Rs.4208 Lacs in FY 2009-10 and other income of Rs.99.80 Lacs for the current year as against Rs.125.07 lacs in the previous year.

**Consolidated Profits:** Profit before Tax (PBT) stood at Rs.573.94 Lacs as against Rs.452.50 Lacs for the previous year. Profit after Tax (PAT) stood at Rs.445.97 lacs as against Rs.425.44Lacs for the previous year.

**Standalone Profits:** Profit before Tax (PBT) stood at Rs.302.42 Lacs as against Rs.417.56 for the previous year. Profit after Tax (PAT) stood at Rs.270.29 Lacs as against Rs.400.98 Lacs for the previous year.

Your Company is primarily engaged in the business of providing IT Products & Services to its customers in US, Europe, and Middle East. The financial results of the Company on consolidated basis have been encouraging despite the challenges faced in terms of unfavorable currency movements and depressed business conditions in our primary markets of US and Europe.

#### Reserves and Surplus

During the year the Company has not transferred any amount to Reserves and Surplus.

## **Dividend**

Your directors are pleased to recommend payment of a dividend of Rs.0.50/-per equity share (at the rate of 5% on the par value of Rs.10/-each) subject to the approval of share holders.

## **Allotment of Shares**

During the year the company has allotted 80,250 Equity shares of Rs.10/- each to the employees of the company under VESOS, 2004 who have exercised their options allotted to them.

The company in their board meeting held on 28<sup>th</sup> March, 2011 allotted 30,00,000 warrants to the promoters and other strategic investors at Rs.20/- per warrant( Face value of Rs.10/-each and premium of Rs.10/- each) as per the Guidelines for Preferential Issues contained in Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009

## **Material changes and commitments;**

There are no material changes and commitments occurred between the end of the financial year of the company and the date of the report affecting the financial position of the company

## **Directors**

In accordance with the provisions of the Companies Act, 1956 K. Krishna and G. Santi Priya retires by rotation at the Annual General Meeting and being eligible offer themselves for reappointment at the ensuing Annual General Meeting.

Brief resume of the Directors proposed to be reappointed, nature of their expertise in specific functional areas, directorships in other companies as stipulated under clause 49 of the listing agreement with the stock exchanges in India are provided in the report on corporate governance.

During the year Dr. Ravi Chand Resigned to the office of Director w.e.f 11<sup>th</sup> May, 2010 , Mr. Anil Pinapala Resigned to the office of director w.e.f 21<sup>st</sup> July, 2010 , M. Srinivas and M. Ramam Resigned to the office of Director w.e.f 10<sup>th</sup> February, 2011 .

The Board places on record its appreciation and gratitude to the said directors for their valuable contributions.

## **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 31<sup>st</sup> March, 2011, 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 31<sup>st</sup> March 2011 and of the profit of the company for the financial year ended 31<sup>st</sup> March 2011
- 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 31<sup>st</sup> March, 2011 on a going concern basis.

## **Auditors and Audit Report**

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.

The company has received letter from the Statutory auditors to this effect that their reappointment, if made would be within the prescribed limits under section 224 (1B) of the Companies Act, 1956 and they are not disqualified for such reappointment within the meaning of section 226 of the said act.

## **PARTICULARS PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956**

Pursuant to the provisions of Section 212 of the Companies Act, 1956 (Act), documents in respect of the various subsidiaries Viz., Directors' Report, Auditor's Report, Balance Sheet and Profit and Loss Account, are required to be attached to the Balance Sheet of the holding company. However, in terms of the provisions of Section 212(8) of the Act, the Government of India, Ministry of Corporate Affairs, has vide letter No. 47/15/ 2011-CL-III dated 27 January 2011 granted exemption from the provisions of Section 212(1) of the Act. Accordingly, the Annual Report does not contain the financial statements of the subsidiaries of the Company. However, the Company will make available the audited annual accounts and related detailed information of the subsidiaries to the shareholders upon request in accordance with the applicable law. These documents are also available for inspection at the Registered Office of the Company during business hours.

A statement pursuant to the provisions of Section 212(1)(e) of the Act appears elsewhere in the Annual Report.

## **Fixed Deposits**

The Company has not accepted any fixed deposits as on 31st March, 2011 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.

## **Subsidiary Companies**

During the financial year the company has completed the incorporation of the Three Wholly owned subsidiaries namely, **M/s. Qfund Technologies Private Ltd, Virinchi Media and Entertainment Private Ltd, Virinchi Learning Private Ltd.** QFund Technologies Pvt. Ltd., has started its operations in leased premises of Lanco Hills Technologies Park Pvt. Ltd., SEZ, Hyderabad.

**Virinchi Media and Entertainment Pvt. Ltd.**, in due course of time would launch internet portals to serve the growing demands of the Indian Entertainment industry to enable Creation, Buying, Selling and Delivery of high definition entertainment through internet to customers across globe.

**Virinchi Learning Pvt. Ltd.**, formed to promote technology based, for profit, quality education services to the different student categories in India, both by creation of new content and infra structure and also by partnering with existing content providers by leveraging the strength of information technology.

The 90,000 Sft. building being developed in about 4 acres area in Hakimpet, Secunderabad will be used by the 100% subsidiaries Viz., M/S Virinchi Learning Pvt. Ltd., and Virinchi Media and Entertainment Pvt. Ltd., to develop their respective business plans, while the other subsidiary M/S Qfund Technologies Pvt. Ltd., will continue at the leased premises at Lanco Hills Technologies Park Pvt. Ltd., Special Economic Zone in Gachibowli, Hyderabad.

## **Consolidated Financial Statements**

In accordance with the Accounting Standards AS-21 and AS-27 on Consolidated financial Statements read with the Accounting Standard AS-23 on Accounting for investments in Associates, the Audited consolidated financial statements are provided in the annual report.

## **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 there are no employees who are in receipt of remuneration of Rs.60,00,000/- or more per annum or Rs.5,00,000/- or more per month where employed for a part of the year.

### 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 31<sup>st</sup> March, 2011 under the Virinchi Employee Stock Options Scheme, 2004 are as under:

Sl.No	Description	Details
1	Options Granted during 2010-11	NIL
2	Pricing formula	The Company is issuing the shares at Face Value of Rs.10/- each as per the resolution passed in the 17 <sup>th</sup> Annual General Meeting of the Company.
3	Options Vested	3,48,200
4	Options exercised	80,250
5	The total number of shares arising as a result of exercise of option	80,250
6	Options lapsed	Nil
7	Variation of terms of options	There is no variation of terms in this financial year
8	Money realized by exercise of options	Rs.8,02,500
9	Total number of options in force	Total options reserved under the scheme:11,67,000 and Total options granted: 9,00,000
10	Employee wise details of options granted to) Senior Management personnel) 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.	N.A.
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	Rs. 2.026 Per Share
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.	ESOP Compensation cost will be higher by Rs. 35,24,766 if the value is considered on intrinsic value instead of market 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	<p>Description of the method and significant assumptions used during the year to estimate the fair value of options.</p> <ul style="list-style-type: none"> <li>i. Risk-free interest rate</li> <li>ii. Expected life</li> <li>iii. Expected Volatility</li> <li>iv. Expected dividends</li> <li>v. The price of the underlying share in market at the time of option grant</li> </ul>	<p>The Company has opted intrinsic Value method for accounting of Compensation Cost arising out of ESOP. The Company has not made any assumptions.</p>
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**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:**

Most of your Company's earnings are from the export of Computer Software and Services. In order to promote product sales and services, your Company participated in various exhibitions and carried product promotion activities.

Earnings: Rs 3273.07 Lacs    Outgo    :    Rs. 72.69 Lacs

**d) The company has not made any technology absorption during the year.**

**Report on Corporate Governance**

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

**Management Discussion and Analysis**

Management's Discussion and Analysis report for the year under review as stipulated under Clause 49 of the Listing Agreement with the stock exchanges, is presented in a separate section forming part of the Annual report.

**Acknowledgments**

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 : 02-09-2011

**G. Santi Priya**  
Chairperson & Whole Time Director

## Annexure to Directors' Report

### Report on Corporate Governance

#### 1. Company's Philosophy:

The Company believes that corporate governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for the effective management and distribution of wealth and discharge of social responsibility for the sustainable development of all stakeholders. Through its processes and independence of functioning, the Board of Directors of the Company provides effective leadership to the Company and its management for achieving sustained prosperity for all the stakeholders.

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](http://www.virinchi.com)

#### 2. Board of Directors:

##### a) Composition and Category of Directors:

The Company has a Executive Chairman and Director and to have a more professional outlook your company is having 4 Independent Non- Executive directors and 3 Executive 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 2010-11 the Board of Directors met 7 times on the following dates:

30<sup>th</sup> April, 2010, 21<sup>st</sup> July, 2010, 31<sup>st</sup> July, 2010, 31<sup>st</sup> August, 2010, 9<sup>th</sup> November, 2010, 10<sup>th</sup> February, 2011, 28<sup>th</sup> March, 2011

Name of the Director	Category	No. of Board Meetings attended	Whether attended last AGM	No. of other Directorships #	Committee Member-ships	committee Chair-manship
Viswanath Kompella	Executive director	7	Yes	-	-	-
G. Santi Priya	Chairperson and Whole Time Director	5	Yes	-	-	-
K. Srinath	Executive Director	3	Yes	-	-	-
Srinivas Mahankali	Managing Director	6	Yes	-	-	-
Anil Kumar Pinapala*	Whole Time Director & CEO	1	Yes	-	-	-
K. Krishna	Independent Non Executive Director	5	Yes	-	-	-
M. Ramam*	Independent Non Executive Director	6	Yes	-	-	-
Datuk Kunasingam Sittampalam	Independent Non- Executive Director	-	No	1	-	-
Mr. Samad A. Momin	Independent Non-Executive Director	-	No	-	-	-
Dr. Ravi Chand*	Independent Non-Executive Director	1	No	-	-	-

\*All are resigned

# The Directorships held by Directors as mentioned above do not include alternative directorships and directorships of foreign companies , section 25 companies and private limited companies.

- In accordance with clause 49, memberships/ chairmanships of only the Audit Committee and shareholders/ investors grievance committees all Public Limited companies (Excluding Virinchi Technologies Ltd) have been considered.
- Apart from receiving sitting fee for attending meetings, the independent directors do not have any material pecuniary relationships or transactions with the company, promoters, directors, senior management or its holding company, subsidiaries and associates which may affect independence of the director;
- The Independent director is not related to promoters or persons occupying management positions at the board level or at one level below the board;
- The independent directors have not been executives of the company in the immediately preceding three financial years;
- They are not partners or executives or were not so during the preceding three years of the
  - statutory audit firm or the internal audit firm that is associated with the company
  - Legal Firm(s) and consulting firm(s) that have a material association with the company
- The Independent Directors are not material suppliers, service providers or customer or a lessors or lessee of the company, which may affect their independence
- They are not substantial shareholders of the company i.e. don't own 2 percent or more of the block of voting shares. .

### 3. AUDIT COMMITTEE:

During the year under review Five (5) meetings were held for approval of Unaudited Financial Results and audited 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	Committee meetings attended
Dr.Ravi Chand*	Chairman	Independent Non Executive Director	1
M. Ramam	Chairman	Independent Non Executive Director	5
Viswanath Kompella	Member	Executive Director	5
K. Krishna	Member	Independent non Executive Director	4

\*Resigned



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

Mr. Ravindranath Tagore Kolli is the secretary of the committee

**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 one time.

Name of the Director	Designation	Nature of Directorship	Participation
Dr.Ravi Chand*	Chairman	Independent	-
Datuk Kunasingam V. Sittampalam	Member	Independent	-
M. Ramam	Chairman	Independent	1
Krishna Kanaparthi	Member	Independent	1

\*Resigned

The terms of reference of the remuneration committee are as follows:

- The Remuneration committee recommends to the board the compensation terms of the executive Directors
- Framing and implementing on behalf of the Board and on behalf of the shareholders, a credible and transparent policy on remuneration of executive directors including ESOPS, pension Rights and any compensation payment.
- Considering approving and recommending to the board the changes in the designation and increase in salary of the executive directors
- Ensuring the remuneration policy is good enough to attract, retain and motivate directors.

- Bringing about objectivity in deeming the remuneration package while striking a balance between the interest of our company and the shareholders.

**Details of remuneration to the directors for the Year:**

Name of the Director	Remuneration Paid During the year 2010-11			
	Sitting fees Rs.	Salary Rs.	Perquisites.	Total Rs. (in Rs.)
Mr. Viswanath Kompella	-	24,00,000	-	24,00,000
G. Santi Priya	-	10,23,333	-	10,23,333
Mr. Srinivas Mahankali	-	20,60,000		20,60,000
Dr. Ravi Chand	5,000	-	-	5,000
M. Ramam	30,000	-	-	30,000
K. Krishna	25,000	-	-	25,000

Shares held by Non-Executive Directors as on 31<sup>st</sup> March, 2011 are as follows:

Sl.No	Name of the Non-Executive Director	No. of shares held as on the Date
1	Datuk Kunasingam V. Sittampalam	NIL
2	Ramam Madu	250
3	Samad A Momin	NIL

**5. INVESTORS' GRIEVANCE & SHARE TRANSFER COMMITTEE:**

The Board constituted an investors' grievance committee which looks into shareholders and investors grievances under the chairmanship of M. Ramam who is an Independent and Non- Executive director. The committee inter alia approves issue of duplicate certificates and oversees and reviews all matters connected with the transfer of securities. The committee looks into shareholders complaints like transfer of shares, non receipt of balance sheet, non receipt of declared dividends etc., The committee oversees the performance of the Registrar and Transfer Agents and recommends measures for overall improvement in the quality of investor services. The Board of Directors has delegated the power of approving transfer of securities to M/s. Aarthi Consultants Private Limited.

**Composition of the Committee:**

Name	Designation	Category
M. Ramam	Chairman	Independent Non-Executive Director
Srinivas Mahankali*	Member	Executive and Non-independent Director
Viswanath Kompella	Member	Executive and Non-Independent Director
K. Krishna	Member	Independent Non-Executive Director

\*Resigned

Name & Designation of the Compliance officer: **Mr.K.Ravindranath Tagore, Company Secretary**

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

Opening 1      Complaints Received- 17      Complied- 17      Pending-1

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 31<sup>st</sup> March, 2011 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
2009-10	29.09.2010 11.00 A.M.	Padmashali Kalyana Mandapam,2-12- 66, Nehru Nagar, West Marredapilly, Secunderabad - 500 026	1. Appointment of Ms. G.Santi Priya as Chairperson & Whole Time Director 2. Reappointment of Mr. Viswanath Kompella as Executive Director 3. Issue of Warrants to Promoters and Stra- tegic Investors
2008-09	30.09.2009 11.00 A.M.	Padmashali Kalyana Mandapam,2-12- 66, Nehru Nagar, West Marredapilly, Secunderabad - 500 026	1. Appointment of Jaganmohan Rao Karpey as Whole Time Director & CRO 2. Appointment of Srinath Kompella as Whole Time Director & COO 3. Payment of commission to Non-Execu- tive Directors.
2007-08	30.09.2008 11.00 A.M.	Padmashali Kalyana Mandapam,2-12- 66, Nehru Nagar, West Marredapilly, Secunderabad - 500 026	1. Appointment of Srinivas Mahankali as Managing Director

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.

Details are given else where in this report.

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

None

#### 8. Means of Communications:

As per the listing requirements, the company published periodical financial results in Business Standard, Andhra Bhoomi, Financial Express and leading English and regional newspapers. The Com-

pany has also posted its Quarterly results, shareholding pattern, Code of Conduct etc on the website of the company at [www.virinchi.com](http://www.virinchi.com)

## 9. General Shareholder information :

a) AGM: Date, Time and Venue : 29<sup>th</sup> September, 2011 at 12 : 00 Noon. At Padmashali Kalyana Mandapam,  
2-12-66, Nehru Nagar, West Maredpally, Secunderabad – 500 026 A.P.

b) Financial Year : 1<sup>st</sup> April to 31<sup>st</sup> March

### Financial reporting for :

Quarter ending June 30, 2011 Before end of August 2011  
Quarter ending September 30, 2011 Before end of November 2011  
Quarter ending December 31, 2011 Before end of February 2012  
Quarter ending March 31, 2011 Before end of May 2012

c) Date of Book Closure : 23<sup>rd</sup> September 2011 to 29<sup>th</sup> September 2011 (both days Inclusive)

d) (i) Listing on Stock Exchanges : The Company's Equity Shares are listed in The Bombay Stock Exchange Ltd (BSE)

(ii) Payment of Listing Fee : The Company has paid the listing fees to the BSE for the financial year 2011-12

e) (i) Stock Code BSE: VIRINCHIQ code#532372

(ii) Demat ISIN in NSDL and CDSL INE539B01017

f) Market Price Data:

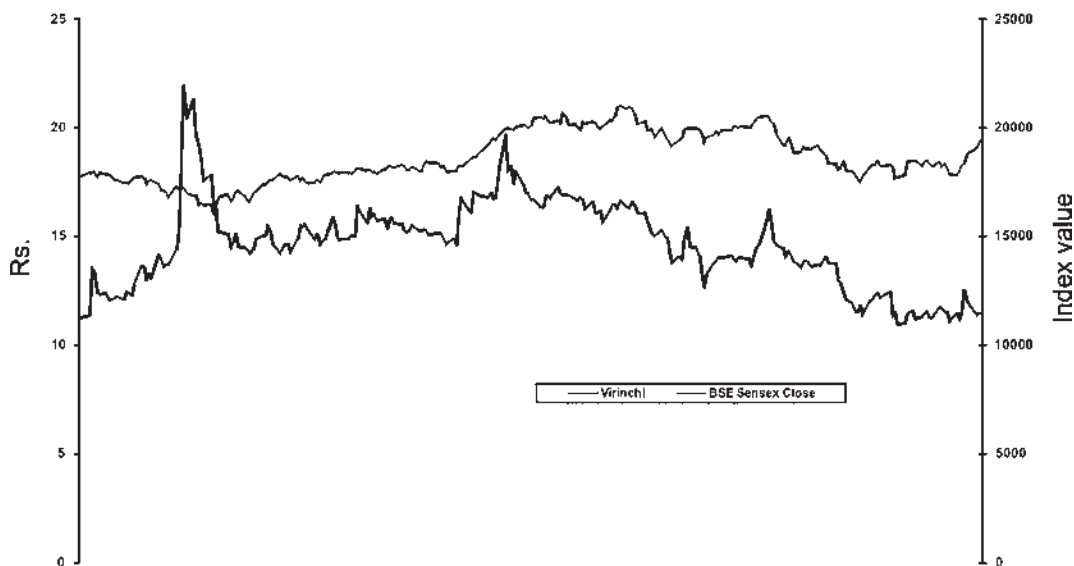
The Monthly high and low quotation and the volume of shares traded on The Stock exchange, Mumbai are as under:

Month	Highest (Rs.)	Lowest (Rs.)	Volume of Shares traded
April, 2010	14.89	10.65	371348
May, 2010	24.12	13.00	2550918
June, 2010	15.85	13.60	278852
July, 2010	18.00	14.00	378435
August, 2010	16.85	14.40	252012
September, 2010	21.15	14.85	704333
October, 2010	18.45	15.60	218897
November, 2010	17.50	12.60	279029
December, 2010	15.40	12.40	154621
January, 2011	16.80	13.00	125326
February, 2011	14.21	10.52	95460
March, 2011	13.78	10.61	324256

Source: [www.bseindia.com](http://www.bseindia.com)

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

VirinchiL - BSE Sensex Price Chart



h) Registrar and share transfer agents : Aarthi Consultants Pvt Ltd.  
1-2-285, Domalguda, Hyderabad -500 029.  
Ph: 27634445, 27638111 Fax: 27632184

i) Share Transfer System : The Share transfers are being effected physically by the Company's share transfer agents, M/s. Aarthi Consultants Pvt. Ltd, Hyderabad.

j) Distribution Shareholding as on 31<sup>st</sup> March, 2011

	Share Holding of Nominal Value	Share Holders		Shares Held	
	Rs.	Numbers	% of Total	No.	% of Total
	(1)	(2)	(3)	(4)	(5)
1	5,000	6800	73	1428094	9.53
5,001	10,000	1193	13	1016586	6.78
10,001	20,000	580	6	928516	6.20
20,001	30,000	233	3	607169	4.05
30,001	40,000	97	1	351100	2.34
40,001	50,000	84	1	399516	2.67
50,001	1,00,000	126	1	957312	6.39
1,00,001	And above	155	2	9297757	62.04
	<b>TOTAL</b>	<b>9268</b>	<b>100</b>	<b>14986050</b>	<b>100.00</b>

k) Share holding pattern as on 31<sup>st</sup> March 2011

CATEGORY	No. of Shares held	% age of shareholding
<b>A PROMOTER'S HOLDING:</b>		
1. Promoters*		
- Indian Promoters	3302774	22.04
- Foreign Promoters	926658	6.18
2. Persons acting in Concert #	Nil	Nil
<b>B. NON-PROMOTERS HOLDING</b>		
3. Institutional Investors	Nil	Nil
a. Mutual Funds	Nil	Nil
b. Banks, Financial Institutions, Insurance Companies (Central/ State Govt. Institutions / Non-government Institutions)	Nil	Nil
c. FIIs	Nil	Nil
<b>4. OTHERS</b>		
a. Private Corporate Bodies	1147504	7.66
b. Indian Public	8556600	57.10
c. NRIs / OCBs	1044271	6.96
d. Employees	2825	0.02
d. Clearing Members	5418	0.04
<b>TOTAL</b>	<b>14986050</b>	<b>100.00</b>

- l) 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. 89.27% of the Company's share capital is dematerialized as on 31.03.2011
- m) Outstanding GDRs./ADRs./Warrants : The Board has allotted 30 lacs warrants to promoters and or any Convertible instruments other strategic investors at Rs.20/- per warrant on 28<sup>th</sup>, Conversion date and likely Impact on equity March, 2011 (Rs.10/-Face value and Rs.10/- Premium). If The 30 lacs warrants are exercised the Share capital of the company will be Rs.17,98,60,500
- n) 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 : 02-09-2011

**G. SANTI PRIYA**  
Chairperson & Whole Time Director

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**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:**

The Changing economic and business environment and rapid information technology innovation are creating an increasingly competitive market environment that is driving companies to transform their operations. The role of technology had evolved from supporting corporations to transforming their business. There is an increasing need for highly skilled technology professionals in the markets in which we operate. At the same time, corporations are reluctant to expand their internal IT departments and increase costs.

**Global economy Outlook:**

The global economy post the unprecedented economic downturn in 2008-09 has seen signs of steady recovery. While the world output had declined by 0.6% in 2008, it grew by 5% in 2010 and is estimated to expand by 4.4% in 2011. While the economy is not yet stable, there is a lot more reason for optimism. We are increasingly seeing bipolar worlds with subdued growth in developed markets and developing markets growing at healthy pace. Coupled with this change, we are also seeing ecological sustainability gaining more prominence.

Virinchi is well positioned to profitably grow in this evolving landscape. Our IT business addresses the needs of the both the developed and developing markets, as the customers look to transform their cost and revenue in addressing their client needs.

**Information Technology Industry Overview & Opportunities**

NASSCOM strategic review Report 2011 refers to IDC forecast of 5.7% CAGR in worldwide IT spending for the period 2010-2014. IDC forecasts worldwide IT Services spending of approximately \$684 billion by 2014 reflecting a CAGR of 4.5% from 2010-14. However, Forrester US and Global IT market outlook Q1 2011 predicts that US IT market will grow by 8% in 2011 following a growth of 8.9% in 2010.

However, offshore IT spending is expected to grow faster. Key factors supporting this projection are the growing impact of technology-led innovation and the increasing demand for global sourcing. India is a major component of the offshore IT outsourcing.

Companies are increasingly turning to offshore technology service providers in order to meet their need for high quality cost-competitive solutions. Technology companies have been outsourcing software research and development and related support functions to offshore technology service providers to reduce

cycle time for introducing new products and services.

**Opportunities:** The Information technology market globally is proving to be opportunistic for IT companies in India. Following are some of the broader opportunities

### 1. Increasing trend toward offshore outsourcing

Outsourcing the IT development, management and ongoing maintenance of Information technology platform and solutions has become increasingly important to companies. The effective use of offshore technology services offers a variety of benefits to them, including lower cost of ownership of IT infrastructure, lower labor costs, improved quality and innovation, faster delivery of solutions and more flexibility in scheduling. In addition, technology companies are also recognizing the benefits of offshore service providers in software research and development and related support functions, and are outsourcing a greater portion of these activities. This has also resulted in more and more diversification in the range of services delivered offshore.

### 2. The India advantage

India is widely recognized as the premier destination for offshore technology services. According to the NASSCOM Strategic Review 2011, IT services exports (exploding exports relating to Business Process Outsourcing (BPO), hardware, engineering design and product development) from India are estimated to grow by 22.7% in fiscal 2011, to record revenue of US \$14.1 billion. There are several key factors contributing

to the growth of IT and IT-enabled services (ITES) in India and by Indian companies. Some of these factors are high-quality delivery, significant cost benefits and abundant skilled resources.

IT Spends by category	2010	2011	2012	2013	2014	CAGR
IT Services	574	594	621	652	684	4.5%
BPO	158	167	177	189	201	6.2%
<b>IT Services + BPO</b>	<b>732</b>	<b>761</b>	<b>798</b>	<b>841</b>	<b>885</b>	<b>4.9%</b>
Software	282	297	316	337	362	6.4%
Hardware	599	643	686	727	767	6.4%
<b>Total Spend</b>	<b>1,614</b>	<b>1,702</b>	<b>1,800</b>	<b>1,904</b>	<b>2,014</b>	<b>5.7%</b>
<b>Engineering Spend*</b>	<b>1,125</b>	<b>1,150</b>	<b>NA</b>	<b>NA</b>	<b>1,200-1,250</b>	<b>1.6-2.7%</b>

Source: Nasscom Strategic Review 2011 IDC, \* Booz & Company

### 3. Evolution of technology outsourcing

The realm of technology outsourcing is changing. In an environment of rapid technological advancement, globalization and regulatory changes, companies are looking at outsourcing approaches that require their technology service providers to develop specialized systems, processes and solutions along with cost-effective delivery capabilities.

## Our Strengths:

### 1. End-to-end solutions

Virinchi complements industry expertise with specialized support for clients. We also leverage the expertise of our software engineers to create customized solutions for our clients. In addition, we continually evaluate and train our professionals in new technologies and methodologies. We generally assume full project management responsibility in each of our solution offerings. We strictly adhere to our SEI-CMMi Level 3 & ISO 9001:2008 internal quality and project management processes. Our project delivery focus is supplemented by a robust knowledge management system that enables us to leverage existing solutions across our Company. We use in-house tools for project management and software lifecycle support.

### 2. Global Delivery Model

Our GDM allows us to offer services in the most cost effective way and to sell services where it is most



profitable. The GDM makes the best use of our large pool of highly skilled technology professionals and our 24 hour execution capabilities across multiple time zones. Other factors that make it one of the best delivery models in the world are its ability to accelerate delivery times of large projects by simultaneously processing project components; cost competitiveness across geographic regions; built-in redundancy to ensure uninterrupted services; and a knowledge management system that enables us to re-use solutions where appropriate.

### 3. Credential and Prospects

Virinchi is focused on creating the right kind of growth framework in order to be competitive in the market by being:

- ✓ Trusted partner of choice to clients
- ✓ Employer of choice to employees and prospects
- ✓ Recognized as an organization that delivers sustainable and profitable growth to our investors

### 4. Client-centricity

With the client being our central focus, we have re-designed our proposition and capabilities to address the needs of our clients. Our endeavor is to deepen penetration of these accounts through a consulting-led domain approach to business. Further, we are pursuing the Client Engagement Manager model, which enables swift and impeccable execution with single point accountability with support from rest of the organization.

### 5. People

We believe that people are the backbone of our organization; hence a large part of the management focus is towards building and developing employees. We are focused on diversity with 28% of our employees being women and 38% of our onsite employees being local. We have a young employee base with 66% of our employees aged less than 30 years and an average age of the employee base at 29.

### 6. Co-creation

We believe that the fundamental business practice in this new millennium will be multiple entities working together as one value chain in order to create superior flexibility, productivity and financial performance. Keeping in line with macro and micro changes taking place, we have developed a research-backed consulting-led approach involving all stakeholders – employees, clients and partners to meet the needs of the increasingly global enterprise.

## Discussion on Financial Performance with respect to Operational Performance

### Financial Highlights:

**Consolidated Revenues:** The total Consolidated income of the Company for the FY 2010-11 comprises operating revenues of Rs. 6370 Lacs as against Rs.5619.08 Lacs in FY 2009-10 and other income of Rs. 99.80 Lacs for the current year as against Rs.125.15 lacs in the previous year.

**Standalone Revenues:** The total income of the Company for the FY 2010-11 comprises operating revenues of Rs. 3708 Lacs as against Rs.4208 Lacs in FY 2009-10 and other income of Rs.99.80 Lacs for the current year as against Rs.124.06 lacs in the previous year.

**Consolidated Profits:** Profit before Tax (PBT) stood at Rs.573.94 Lacs as against Rs.452.50 Lacs for the previous year. Profit after Tax (PAT) stood at Rs.445.97 lacs as against Rs.425.44Lacs for the previous year.

**Standalone Profits:** Profit before Tax (PBT) stood at Rs.301.19 Lacs as against Rs.417.56 for the previous year. Profit after Tax (PAT) stood at Rs.294.39 Lacs as against Rs.400.98 Lacs for the previous year.

**Risks and concerns:**

Our revenues from this business are derived in major currencies of the world while a significant portion of its costs are in Indian rupees. The exchange rate between the rupee and major currencies of the world has fluctuated significantly in recent years and may continue to fluctuate in the future. Currency fluctuations can adversely affect our revenues and gross margins.

We derive approximately 55% of our IT Services revenues from United States and 27% of our IT Services revenues from Europe. In an economic slowdown, our clients located in these geographies may reduce or postpone in spending on IT services may lower the demand for our services and negatively affect our revenues and profitability.

**Internal Control Systems**

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.

**GDM**

Our GDM mitigates risks associated with providing offshore technology services to our clients. Speedy and effective communication being the key, we use multiple service providers and a mix o terrestrial and optical fiber links with alternate routing. Our significant investment in redundant infrastructure enables us to provide uninterrupted service to our clients

**Material Developments in Human Resources**

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 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 regarding compliance with the code of conduct and ethics policy of the company by Board Members and senior management personnel**

This is to confirm that the company has adopted code of conduct and Ethics policy for the Board of Directors and Associates of the Company, which is available at [www.virinchi.com](http://www.virinchi.com)

I **G. Santi Priya, Chairperson & Whole Time Director** declare that the Board of directors and senior management personnel have affirmed compliance with the Code of Conduct and Ethics Policy of the Company.

Date: 02-09-2011  
Place: Hyderabad

**G. Santi Priya**  
**Chairperson & Whole Time Director**

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**Compliance Certificate on Corporate Governance**

To

The Members,

VIRINCHI TECHNOLOGIES LIMITED

We have read the report of the Board of Directors on Corporate Governance and have examined the relevant records relating to compliance condition of corporate governance of M/s. Virinchi Technologies limited, (“the company”) for the year ended 31<sup>st</sup> March, 2011 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**  
**FRN: 002757S**

PLACE : HYDERABAD  
DATE : 02-09-2011

**P.MURALI MOHANA RAO**  
**PARTNER.**  
**M.No:23412**

### **Certification as required under Revised Clause 49 of the Listing Agreement**

We, G.Santi Priya, Chairperson & Whole Time Director, Viswanath Kompella, Executive Director of Virinchi Technologies Limited to the best of our knowledge and belief, certify that :

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

**G. Santi Priya**  
Chairperson & Whole Time Director

**Viswanath Kompella**  
Executive Director

Place: Hyderabad

Date: 02-09-2011

## 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, 2011 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 31<sup>st</sup> March, 2011 and taken on record by the Board of Directors, we report that, none of the Directors is disqualified as on 31<sup>st</sup> March, 2011 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, 2011.
    - 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**  
**FRN: 002757S**

PLACE : Hyderabad

DATE: 02-09-2011

**P.MURALI MOHANA RAO**  
PARTNER  
M.No.23412

## 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) During the year, the Company has not disposed off major fixed assets.
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 to any parties to be listed in the register maintained U/s 301 of the Companies Act, 1956, hence 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 to parties as per sec 301, the clause of receipt of interest & principal amount from parties is not applicable.
  - 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, necessary entries are made in their register referred to in section 301 of the Companies Act, 1956 in respect of lease agreement for an area of 12,500 Sft. at Hakimpet, Secunderabad, to M/S Vivo Biotech Ltd.
  - 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 regards 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 are disputed.

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 or 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 explanation given to us the company has obtained Term Loan and utilized the funds for the purpose of 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 not made preferential allotment to parties covered in the Register maintained Under Section 301 of the Companies Act, 1956. Hence this clause is not applicable.
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  
FRN: 002757S**

PLACE : Hyderabad  
DATE : 02-09-2011

**P. MURALI MOHANA RAO  
PARTNER  
M.No.23412**

**M/s. VIRINCHI TECHNOLOGIES LIMITED**  
**BALANCE SHEET AS AT 31st March, 2011**

Particulars	SCH No.	AS AT 31-03-11 (Rupees)	AS AT 31-03-10 (Rupees)
<b>I Source of Funds</b>			
<b>1. SHAREHOLDERS FUNDS</b>			
a) Share Capital	1	149,405,197	148,602,697
b) Share Warrants Application Money		1,50,00,000	-
c) Reserves & Surplus	2	636,785,751	618,494,407
<b>2. LOAN FUNDS</b>			
Secured Loans	3	149,155,832	127,440,252
<b>3. DEFERRED TAX LIABILITY</b>		26,719,827	31,738,878
<b>TOTAL</b>		<b>977,066,606</b>	<b>926,276,234</b>
<b>II Application of Funds</b>			
<b>i) FIXED ASSETS</b>			
1) Gross Block	4	738,141,489	656,674,673
2) Less: Depreciation		226,310,761	208,575,111
3) Net Block		511,830,727	448,099,562
<b>ii) Capital work in progress</b>		17,121,752	71,215,395
<b>2. INVESTMENTS</b>	5	86,927,249	45,295,853
<b>3. CURRENT ASSETS, LOANS AND ADVANCES</b>			
a) Sundry Debtors	6	168,897,523	153,910,668
b) Cash and Bank Balances	7	81,295,026	95,701,071
c) Advances and Deposits	8	139,794,940	140,892,092
Less : Current Liabilities, Provisions and Advances	9	28,800,611	28,838,406
<b>NET CURRENT ASSETS</b>		<b>36,11,86,878</b>	<b>361,665,425</b>
<b>TOTAL</b>		<b>977,066,606</b>	<b>926,276,235</b>

Notes to Accounts 12

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

AS PER OUR REPORT OF EVEN DATE  
for **P MURALI & CO.,**  
CHARTERED ACCOUNTANTS  
FRN: 002757S

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

**P. MURALI MOHANA RAO**  
PARTNER  
M.No:23412

**K. VISWANATH**  
EXECUTIVE  
DIRECTOR

**G.SANTIPRIYA**  
CHAIRPERSON&  
WHOLE TIME DIRECTOR

PLACE : HYDERABAD  
DATE : 02-09-2011

**K. RAVINDRANATH TAGORE**  
COMPANY SECRETARY



**M/s. VIRINCHI TECHNOLOGIES LIMITED**  
**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31-03-2011**

PARTICULARS	NO'S	2010-11 (Rupees)	2009-10 (Rupees)
<b>1 INCOME</b>			
Income from Operations		370,834,891	420,809,899
Other Income	10	9,980,068	12,506,957
<b>TOTAL</b>		<b>380,814,959</b>	<b>433,316,856</b>
<b>2 EXPENDITURE</b>			
Salaries and Other Benefits to Employees		65,247,019	68,328,874
Business and Administrative Expenses	11	184,692,083	227,547,705
Interest and Financial Expenses		18,729,661	13,105,977
Depreciation		61,808,980	62,482,360
Goodwill Written Off		20,095,383	20,095,383
<b>TOTAL</b>		<b>350,573,126</b>	<b>391,560,299</b>
<b>3 PROFIT BEFORE TAX</b>		30,241,834	41,756,557
<b>4 PROVISION FOR TAX</b>			
Provision for Income Tax		8,231,925	6,818,846
Deferred Tax Asset		<b>(5,019,051)</b>	<b>(5,161,123)</b>
<b>5 PROFIT AFTER TAX</b>		27,028,960	40,098,834
<b>6 PROVISION FOR DIVIDEND</b>		7,493,025	7,452,900
<b>7 PROVISION FOR DIVIDEND TAX</b>		1,244,591	1,237,927
<b>8 PROFIT AFTER DIVIDEND</b>		18,291,344	31,408,008
<b>9 BALANCE BROUGHT FORWARD</b>		354,104,144	322,696,136
<b>10 BALANCE CARRIED FORWARD TO BALANCE SHEET</b>		372,395,487	354,104,144
<b>11 BASIC EARNINGS PER SHARE (PAT)</b>		1.80	2.69
<b>12 DILUTED EARNING PER SHARE</b>		1.50	2.69

Notes to Accounts 12

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

AS PER OUR REPORT OF EVEN DATE  
**for P MURALI & CO.,**  
 CHARTERED ACCOUNTANTS  
**FRN: 002757S**

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

**P. MURALI MOHANA RAO**  
 PARTNER  
 M.No:23412

**K. VISWANATH**  
 EXECUTIVE  
 DIRECTOR

**G.SANTIPRIYA**  
 CHAIRPERSON &  
 WHOLE TIME DIRECTOR

PLACE : HYDERABAD  
 DATE : 02-09-2011

**K. RAVINDRANATH TAGORE**  
 COMPANY SECRETARY

**M/s. VIRINCHI TECHNOLOGIES LIMITED**

<b>SCHEDULE 1</b>	<b>AS AT 2010-11 (Rupees)</b>	<b>AS AT 2009-10 (Rupees)</b>
<b>SHARE CAPITAL</b>		
<b>AUTHORISED :</b>		
25,000,000 Equity Share of Rs.10/- each	<b>250,000,000</b>	<b>250,000,000</b>
<b>ISSUED, SUBSCRIBED &amp; PAID UP SHARE CAPITAL :</b>		
1,49,86,050 Equity shares of Rs.10/- each (Previous year 1,49,05,800 Shares of Rs. 10/- each)	149,860,500	149,058,000
LESS: Calls in Arrears	(455,303)	(455,303)
	149,405,197	148,602,697
Share Warrants Application Money (30,00,000 Warrants Issued at Rs. 20/- of which Rs. 5/- paid on application)	15,000,000	-
	<b>164,405,197</b>	<b>148,602,697</b>
<b>SCHEDULE 2</b>		
<b>RESERVES AND SURPLUS</b>		
Balance Upto Previous Year	385,664,144	354,256,136
Surplus in Profit and Loss Account	18,291,344	31,408,008
	403,955,488	385,664,144
Employee Stock Option Scheme	21,388,917	21,388,917
Less: Deferred Employee Compensation	12,277,631	12,277,631
	9,111,286	9,111,286
Securities Premium (Share Premium)	223,718,978	223,718,978
	<b>636,785,751</b>	<b>618,494,407</b>
<b>SCHEDULE 3</b>		
<b>SECURED LOANS</b>		
Overdraft from Canara Bank	40,225,510	34,769,607
Canara Bank Term Loan (Hypothecation of Machinery such as Computers, Furniture and Fixtures, Office Equipment and Air-conditioners and personal guarantee of the Director of the Company)	71,829,483	56,060,300
Canara Bank - Bill Discounting	34,043,991	30,782,029
Vehicle Finance (Secured against Vehicles)	3,056,848	5,828,317
	<b>149,155,832</b>	<b>127,440,252</b>

PARTICULARS	AS AT 2010-11 (Rupees)	AS AT 2009-10 (Rupees)
<b>SCHEDULE 5</b>		
<b>INVESTMENTS</b>		
Shares of Canara Bank (Cost price of 400 Shares @ Rs.35/- per share) (Market Price of share as on 31st March, 2011 @ 626.15/-per share)	14,000	14,000
Investments in Indian Subsidiaries	61,726,779	-
Investments in Foreign Subsidiaries K Soft Systems Inc, wholly owned subsidiary (Acquisition effective from 1st October 2006)		
Share Capital	4,591,087	4,591,087
Goodwill	20,095,383	40,190,766
Investments in Mutual Funds Mutual Funds (Canara Robeco) (NAV as on 31st March 2011 is Rs.6,61,125/-)	500,000	500,000
	<b>86,927,249</b>	<b>45,295,853</b>
<b>SCHEDULE 6</b>		
<b>SUNDRY DEBTORS</b> (Unsecured, considered good)		
Debtors not exceeding six Months	149,134,388	153,910,668
Debtors exceeding Six Months	19,763,135	-
	<b>168,897,523</b>	<b>153,910,668</b>
<b>SCHEDULE 7</b>		
Cash on Hand	923,717	602,651
Balance with Banks		
In Current Accounts	7,489,971	28,886,063
In Deposit Accounts	72,881,338	66,212,357
	<b>81,295,026</b>	<b>95,701,071</b>
<b>SCHEDULE 8</b> (Unsecured, considered good)		
Advances	68,467,338	95,255,811
Virinchi Employees Welfare Trust (Unsecured, considered good)	14,420,000	14,420,000
Loans and Advances to Subsidiaries	48,583,593	26,413,002
Other Current Assets	5,167,829	1,184,063
<b>DEPOSITS</b>		
Rent Deposits	1,198,692	1,661,728
Other Deposits	1,957,487	1,957,487
	<b>139,794,940</b>	<b>140,892,092</b>

PARTICULARS	AS AT 2010-11 (Rupees)	AS AT 2009-10 (Rupees)
<b>SCHEDULE 9</b>		
Short term Provisions	10,082,964	8,676,100
Provision for Taxation	5,987,509	6,818,846
Provision for Dividend	7,493,025	7,452,900
Provision for Dividend tax	1,244,591	1,237,927
Trade payables	2,170,200	3,206,022
Other Current Liabilities	1,822,321	1,446,611
	<b>28,80,061</b>	<b>28,838,406</b>
<b>SCHEDULE 10</b>		
Other Income		
Dividend Received	-	993
Income from Hosting Services	750,962	348,604
Interest Income	6,229,106	6,347,003
Rental Income	3,000,000	1,375,000
Short Term Capital Gain/ Loss	-	4,435,357
Other Income		-
	<b>9,980,068</b>	<b>12,506,957</b>
<b>SCHEDULE 11</b>		
<b>BUSINESS AND ADMINISTRATIVE EXPENSES</b>		
Postage, Telephone and Telegrams	3,816,310	3,882,231
Repairs and Other Maint. Charges	4,583,519	9,435,992
Rent, Rates and Taxes	3,001,885	4,278,629
Auditors Remuneration	234,180	206,850
Directors Remuneration	5,543,333	9,398,500
Printing and Stationery	1,103,955	1,655,226
Travelling and Conveyance	20,518,199	45,828,791
Marketing, Hosting and Other Business Expenses	118,931,628	126,327,940
Other Administrative Expenses	27,832,008	15,713,892
Forex Gain/( Loss)	(872,934)	10,819,655
	<b>184,692,083</b>	<b>227,547,706</b>

SCHEDULE 4										
PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	AS ON 31-03-2010	ADDITIONS DURING THE YEAR	* DELETIONS DURING THE YEAR	AS ON 31-03-2011	AS ON 31-03-2010	DURING the year	DELETIONS	AS ON 31.03.11	AS ON 31-03-2011	AS ON 31-03-2010
Land & Land Development Charges	29,583,756			29,583,756		-		-	29,583,756	29,583,756
Building	69,220,871	79,450,773		148,671,644	15,41,318	23,11,977	-	38,53,295	144,818,349	67,679,553
Office Equipments	16,154,754	3,324,997		19,479,751	3,042,838	842,292	-	3,885,130	15,594,621	13,111,916
Air Conditioners	10,807,436	986,565		11,794,001	1,394,664	552,460	-	1,947,124	98,46,877	9,412,772
Electrical Equipment	16,274,796	8,465,707		24,740,503	1,096,919	799,789	-	1,896,708	22,843,795	15,177,877
Furniture and Fixtures	13,848,846	250,000		14,098,846	5,252,917	877,239	-	6,130,156	7,968,690	8,595,929
Interior Decoration	57,224,227	2,310,991		59,535,218	14,059,342	3,695,436	-	17,754,779	41,780,439	43,164,885
Vehicles	21,332,889	-	-	21,332,889	8,031,872	2,026,624	-	10,058,497	11,274,392	13,301,017
Computer Hardware	61,495,686	299,688	13,252,076	48,543,298	30,668,693	7,853,131	13,252,076	25,269,748	23,273,550	30,826,993
Computer Software	112,985,773	2,131,800	30,821,254	84,296,319	48,300,708	15,951,496	30,821,254	33,430,950	50,865,369	64,685,065
Product Development Expenses	247,745,638	28,319,625	-	276,065,263	95,185,838	26,878,536	-	122,084,374	153,980,890	152,559,800
	<b>656,674,673</b>	<b>125,540,146</b>	<b>44,073,330</b>	<b>738,141,489</b>	<b>208,575,111</b>	<b>61,808,980</b>	<b>44,073,330</b>	<b>226,310,761</b>	<b>511,830,727</b>	<b>448,099,562</b>

\* Assets fully depreciated (depreciation 100% Available) deducted from gross value of fixed assets and accumulated depreciation.

**SCHEDULE - 12**  
**NOTES FORMING PART OF THE ACCOUNTS**

**A. SIGNIFICANT ACCOUNTING POLICIES.**

**General:**

- (i) The financial statements are prepared in accordance with Indian Generally Accepted Accounting Principles ("GAAP") under the historical cost convention on accrual basis. GAAP comprises mandatory accounting standards as specified in the Companies (Accounting Standards) Rules, 2006 and the relevant provisions of the Indian Companies Act, 1956. Accounting policies have been consistently applied except where a newly issued accounting standard is initially adopted or a revision to an existing accounting adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use. The management evaluates all recently issued or revised accounting standards on an ongoing basis
- (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 contracts 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) Realized 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.

**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.

The cost and the accumulated depreciation for fixed assets retired from active use are removed from the stated values. Assets fully depreciated are removed from the Gross Block and accumulated depreciation.

Product development Expenditure is written off over a period of 10 years. Products which are considered as redundant due to Technological advancement would be written off immediately.

During the year, building is capitalized to the extent completed and usable for business operations. Balance laying in capital work in progress denotes part of the Building is under construction.

### Depreciation and Amortization:

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

### Taxation:

Sec 10A of Income Tax Act, 1961 exemption is not available from this accounting year onwards, Tax provision created for current financial year after adjustment of taxes paid under section 115JB of incometax act 1961 during the last 3 accounting years.

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. Deferred tax assets are not recognised unless there is a virtual certainty that there will be sufficient future taxable income to realise such assets.

### Gratuity

The Company has made a provision for gratuity to its employees. Company has created separate Gratuity Trust for employees. Gratuity is a defined benefit retirement plan covering eligible employees, based on actuarial valuation made by an independent actuary as at the balance sheet date. In accordance with the Payment of Gratuity Act, 1972, the gratuity plan provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employees' salary and the tenure of employment.

### Employee 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 recognized 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

NIL

2. Directors Remuneration	<b>Current Year (Rs.)</b> 55,43,333 /-	<b>Previous Year (Rs.)</b> 93,98,500/-
3. Auditors Remuneration (Incl. Service Tax for Statutory and Tax matters)	<b>Current Year (Rs.)</b> 1,65,450/-	<b>Previous Year (Rs)</b> 1,65,450/-

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. Increase in Share Capital:

During the year company has allotted 80,250 shares to employees of the company who have exercised their options under VESOS 2004 at Rs. 10/-.

#### 6. Issue of Share Warrants:

During the period the company has allotted 30,00,000 fully convertible warrants (Convertible into equal number of equity shares with in a period of 18 months from the date of allotment) at a price of Rs. 20/- per warrant (Comprising nominal value of Rs. 10/- and Premium of Rs. 10/- each) to promoters and other strategic investors.

#### 7. Investments:

Investments are stated at cost i.e. cost of acquisition, inclusive of expenses incidental to acquisition wherever applicable. Provision for diminution in the value of investments is not created as it is not a permanent decline.

During the year company has promoted the following wholly owned subsidiaries:

S No.	Name of the Subsidiary	Amount (Rs)
1	Qfund Technologies Pvt. Ltd.	4,31,76,808
2	KSoft Systems Inc	2,46,86,470
3	Virinchi Media & Entertainment Pvt. Ltd	1,08,66,201
4	Virinchi Learning Pvt. Ltd.	72,83,770

#### 8. 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.

Particulars	2010-11	2009-2010
Profit available for the equity share holders	2,70,28,960	4,00,98,834
No. of equity shares outstanding for EPS-Basic	1,49,86,050	1,49,05,800
No. of equity shares outstanding of EPS-Diluted	1,79,86,050	1,49,05,800
Basic	1.80	2.69
Diluted	1.50	2.69

9. 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
10. Of the total built up area of 90,000 Sft. available at the Company's Hakimpet facility, the company has given an area of 12,500 Sft. on short term lease to M/s Vivo Biotech Ltd., in which one of the director is interested, at lease rate of Rs. 20/- Sft. aggregating to Rs. 2,50,000/- per month at lease rents.



7. Expenditure in Foreign Currency **Current Year (Rs.)**  
72.69 Lacs
8. Earnings in Foreign Exchange as reported by the Company to Government of India and as certified by Management. **Current Year (Rs.)**  
3273.07 Lacs
- Foreign Exchange Inflow
9. There are no dues to SSI Units outstanding for more than 30 days.
10. Confirmations were not obtained from debtors/creditors as to the balances receivable from/payable to them as at year end.
11. In accordance with Accounting Standard 22(AS 22) issued by the ICAI, the Company has accounted for deferred income tax during the year. The deferred income tax Provision for the current year amounts to Rs. (50,19,051) /- towards deferred income tax Asset. (Previous year Rs. 51,61,123 /-)
12. Previous years figures have been regrouped wherever necessary.
13. The figures have been rounded off to the nearest rupee.

**M/s. VIRINCHI TECHNOLOGIES LIMITED**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH, 2011**

Particulars	Year Ended 31-03-2011 Rs. in Lakhs	Year Ended 31-03-2010 Rs. in Lakhs
A.		
Net Profit/ (Loss) before taxation and extraordinary items	302.42	417.57
<b>Adjustments for:</b>		
Depreciation	618.09	624.82
W/o expenses	200.95	200.95
Interest expenses	187.30	131.06
Operating Profit before working capital changes	<b>1308.76</b>	<b>1374.40</b>
<b>Working Capital Changes</b>		
Trade and other receivables	-138.90	-650.33
Trade payables	-0.38	-51.07
<b>Cash generated from operations</b>	<b>1169.48</b>	<b>673.01</b>
Interest paid	-187.30	-131.06
Taxation for the year	-82.32	-68.19
Dividend for the year	-74.93	-74.53
Dividend Tax for the year	-12.45	-12.38
<b>Cash flow before extraordinary items</b>	<b>812.49</b>	<b>386.85</b>
Extraordinary items	-	-
<b>Net Cash from Operating Activities</b>	<b>812.49</b>	<b>386.85</b>
B. CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of Fixed Assets	-714.47	-1258.84
Investment	-617.27	7.71
<b>Net Cash used in Investing Activities</b>	<b>-1331.73</b>	<b>-1251.13</b>
C. CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from Equity Shares & Warrants	158.03	0.00
Net Proceeds from Long Term Borrowings	217.16	850.27
<b>Net Cash used in Financing Activities</b>	<b>375.18</b>	<b>850.27</b>
Net increase in cash and cash equivalents	-144.06	-14.01
Cash and Cash equivalents as at 01.04.2010	957.01	971.02
Cash and Cash equivalents as at 31.03.2011	812.95	957.01

AS PER OUR REPORT OF EVEN DATE  
**for P MURALI & CO.,**  
 CHARTERED ACCOUNTANTS  
 FRN: 002757S

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

**P. MURALI MOHANA RAO**  
 PARTNER  
 M.No:23412

**K. VISWANATH**  
 EXECUTIVE  
 DIRECTOR

**G.SANTIPRIYA**  
 CHAIRPERSON&  
 WHOLE TIME DIRECTOR

PLACE : HYDERABAD  
 DATE : 02-09-2011

**K. RAVINDRANATH TAGORE**  
 COMPANY SECRETARY

(Amount in Rs. Thousands)

<b>1 Registration details</b>	
Registration number	L72200AP1990PLC011104
State Code	01
Balance Sheet Date	31.03.2011
<b>2 Capital raised during the year (Rs in Lakhs)</b>	
Public issue	NIL
Rights issue	NIL
Bonus issue	NIL
Conversion of bonds	NIL
Private placement	15000
ESOPS	805
<b>3 Position of mobilisation and deployment of funds (Rs. in Lakhs)</b>	
Total Liabilities	977066.61
Total Assets	977066.61
<b>Source of funds</b>	
Paid-up Capital	149405.20
Share warrants Application money	15000.00
Reserves & Surpluses	636785.75
Secured Loans	149155.83
Unsecured Loans	NIL
Deffered Tax liability	26719.83
<b>Application of Funds</b>	
Net fixed assets	528952.48
Investments	86927.25
Net Current Assets	361186.88
<b>4 Performance of Company (Rs. in Lakhs)</b>	
Total Income	380814.96
Total Expenditure	350573.13
Profit before tax	30241.83
Profit after tax	27028.96
Earning per share (Rs)	1.8
Dividend Rate %	5%
<b>5 Generic names of three principal products/services of company</b>	
Item code no	85249009.1
Product Description	Computer Software

**Auditors' Certificate**

To

THE BOARD OF DIRECTORS

VIRINCHI TECHNOLOGIES LIMITED

HYDERABAD

We have examined the attached cash flow statement of M/s. Virinchi Technologies Limited, for the year ended 31<sup>st</sup> March, 2011. 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 2<sup>nd</sup> September, 2011 to the Members of the Company.

**For P. MURALI & CO.**

**CHARTERED ACCOUNTANTS**

**PRN: 002757S**

PLACE: HYDERABAD

DATE : 02-09-2011

**P.MURALI MOHANA RAO**

**PARTNER**

**M.No: 23412**

**STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956 RELATING TO  
COMPANY'S INTEREST IN SUBSIDIARY COMPANY**

1	Name of the Subsidiary	Ksoft Systems Inc	Virinchi Learning Pvt. Ltd.,	Virinchi Media and Entertainment Pvt. Ltd.,	Qfund Technologies Pvt. Ltd.,
2	Financial year end	31 <sup>st</sup> March, 2011	31 <sup>st</sup> March, 2011	31 <sup>st</sup> March, 2011	31 <sup>st</sup> March, 2011
3	Holding Company's Interest	100% in Equity Share Capital	100% in Equity Share Capital	100% in Equity Share Capital	100% in Equity Share Capital
4	Share held by the holding company in the subsidiary	100,100 Shares of USD 1 each	10,000 equity Shares of Rs. 10/- each	10,000 equity Shares of Rs. 10/- each	10,000 equity Shares of Rs. 10/- each
5	The net aggregate of profits or losses for the above financial year of the subsidiary so far as it concerns the members of the holding company a. dealt with or provided for in the accounts of the holding Company not dealt with or provided for in the accounts of the holding Company b. not dealt with or provided for in the accounts of the holding company	Rs. 173.41 Lacs  N.A	Rs. 8.83 Lacs  N.A	NIL  N.A	NIL  N.A
6	The net aggregate of profits or losses for the previous financial years of the subsidiary so far as it concerns the members of the holding company a. dealt with or provided for in the accounts of the holding Company b. not dealt with or provided for in the accounts of the holding Company	24.45 Lacs  N.A	N.A  N.A	N.A  N.A	N.A  N.A

## AUDITORS' REPORT

To

The Board of Directors,

VIRINCHI TECHNOLOGIES LIMITED

1. We have audited the attached Consolidated Balance Sheet of **M/s VIRINCHI TECHNOLOGIES LIMITED Group** as at 31st March 2011, and also the Consolidated Profit and Loss Account and the consolidated Cash Flow statement for the period ended on that date annexure thereto. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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. We report that the consolidated Financial Statements have been prepared by the Company's management in accordance with the requirements of Accounting Standard 21 "Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of the company and its subsidiaries included in the Consolidated Financial statements.
4. Based on our audit and on consideration of separate audit reports on individual audited financial statements of the company and its consolidated subsidiaries, in our opinion, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:
  - i) In the case of the Consolidated Balance Sheet, of the State of affairs of the Group as at 31st March, 2011.
  - ii) In the case of the Consolidated Profit and Loss Account, of the **Profit** for the year ended on that date; **And**
  - iii) In the case of Consolidated Cash Flow statement of the cash flows for the year ended on that date.

**For P. MURALI & CO.,  
CHARTERED ACCOUNTANTS  
PRN: 002757S**

PLACE : Hyderabad  
DATE : 02-09-2011

**P.MURALI MOHANA RAO  
PARTNER  
M.No. 23412**

**M/s. VIRINCHI TECHNOLOGIES LIMITED**  
**CONSOLIDATED BALANCE SHEET AS AT 31st March, 2011**

Particulars	SCH No.	AS AT 31-03-11 (Rupees)	AS AT 31-03-10 (Rupees)
<b>I Source of Funds</b>			
<b>1. SHAREHOLDERS FUNDS</b>			
a) Share Capital	1	164,405,197	148,602,697
b) Reserves & Surplus	2	662,148,503	624,631,240
			-
<b>2. LOAN FUNDS</b>			
Secured Loans	3	197,818,719	179,505,060
<b>3. DEFERRED TAX LIABILITY</b>		27,374,613	31,738,878
		<b>1,051,747,033</b>	<b>984,477,875</b>
<b>II Application of Funds</b>			
<b>i) FIXED ASSETS</b>			
1) Gross Block	4	819,258,106	703,803,460
2) Less: Depreciation		230,964,794	211,148,072
3) Net Block		588,293,313	492,655,388
<b>ii) Capital work in progress</b>		17,121,752	71,215,395
<b>2. INVESTMENTS</b>	5	514,000	514,000
<b>3. CURRENT ASSETS, LOANS AND ADVANCES</b>			
a) Sundry Debtors	6	248,189,908	202,652,213
b) Cash and Bank Balances	7	83,727,504	99,790,873
c) Advances and Deposits	8	144,711,335	133,489,143
Less : Current Liabilities, Provisions and Advances	9	51,175,148	56,119,494
<b>NET CURRENT ASSETS</b>		425,453,599	379,812,735
Goodwill & Preliminary expenses		20,364,369	40,280,356
<b>TOTAL</b>		<b>1,051,747,033</b>	<b>984,477,875</b>

Notes to Accounts 12

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

AS PER OUR REPORT OF EVEN DATE  
**for P MURALI & CO.,**  
 CHARTERED ACCOUNTANTS  
**FRN: 002757S**

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

**P. MURALI MOHANA RAO**  
 PARTNER  
 M.No:23412

**K. VISWANATH**  
 EXECUTIVE  
 DIRECTOR

**G.SANTIPRIYA**  
 CHAIRPERSON &  
 WHOLE TIME DIRECTOR

PLACE : HYDERABAD  
 DATE : 02-09-2011

**K. RAVINDRANATH TAGORE**  
 COMPANY SECRETARY

**M/s. VIRINCHI TECHNOLOGIES LIMITED**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31-03-2011**

PARTICULARS	NO'S	2010-11 (Rupees)	2009-10 (Rupees)
<b>1 INCOME</b>			
Income from Operations		637,014,366	561,908,496
Other Income	10	9,980,068	12,515,750
<b>TOTAL</b>		<b>646,994,434</b>	<b>574,424,246</b>
<b>2 EXPENDITURE</b>			
Salaries and Other Benefits to Employees		229,119,589	185,034,915
Business and Administrative Expenses	11	253,462,665	243,048,193
Interest and Financial Expenses		23,087,065	16,919,600
Depreciation		63,835,464	64,076,145
Goodwill Written Off		20,095,383	20,095,383
<b>TOTAL</b>		<b>589,600,167</b>	<b>529,174,237</b>
<b>3 PROFIT BEFORE TAX</b>		57,394,267	45,250,009
<b>4 PROVISION FOR TAX</b>			
Provision for Income Tax		17,161,052	7,866,881
Deferred Tax Asset		<b>(4,364,265)</b>	<b>(5,161,123)</b>
<b>5 PROFIT AFTER TAX</b>		44,597,480	42,544,251
<b>6 PROVISION FOR DIVIDEND</b>		7,493,025	7,452,900
<b>7 PROVISION FOR DIVIDEND TAX</b>		1,244,591	1,237,927
<b>8 PROFIT AFTER DIVIDEND</b>		35,859,864	33,853,424
<b>9 BALANCE BROUGHT FORWARD</b>		203,871,036	170,017,612
<b>10 BALANCE CARRIED FORWARD TO BALANCE SHEET</b>		239,730,900	203,871,036
<b>11 BASIC EARNINGS PER SHARE (PAT)</b>		2.98	2.85
<b>12 DILUTED EARNING PER SHARE</b>		2.48	2.85
Notes to Accounts	12		

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

AS PER OUR REPORT OF EVEN DATE  
**for P MURALI & CO.,**  
 CHARTERED ACCOUNTANTS  
**FRN: 002757S**

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

**P. MURALI MOHANA RAO**  
 PARTNER  
 M.No:23412

**K. VISWANATH**  
 EXECUTIVE  
 DIRECTOR

**G.SANTIPRIYA**  
 CHAIRPERSON &  
 WHOLE TIME DIRECTOR

PLACE : HYDERABAD  
 DATE : 02-09-2011

**K. RAVINDRANATH TAGORE**  
 COMPANY SECRETARY



**M/s. VIRINCHI TECHNOLOGIES LIMITED**

PARTICULARS	AS AT 2010-11 (Rupees)	AS AT 2009-10 (Rupees)
<b>SCHEDULE 1</b>		
<b>SHARE CAPITAL</b>		
<b>AUTHORISED :</b>		
25,000,000 Equity Share of Rs.10/- each	250,000,000	250,000,000
<b>ISSUED, SUBSCRIBED &amp; PAID UP SHARE CAPITAL :</b>		
1,49,86,050 Equity shares of Rs.10/- each (Previous year 1,49,05,800 Shares of Rs. 10/- each)	149,860,500	149,058,000
LESS: Calls in Arrears	(455,303)	(455,303)
Warrants application Money Being 25% of 30,00,000 warrants of Rs.10/- (At a premium of Rs.10/-)	15,000,000	-
	164,405,197	148,602,697
<b>SCHEDULE 2</b>		
<b>RESERVES AND SURPLUS</b>		
Balance Upto Previous Year	392,363,840	358,510,416
Surplus in Profit and Loss Account	35,859,864	33,853,424
	428,223,704	392,363,840
Employee Stock Option Scheme	21,388,917	21,388,917
Less:Deferred Employee Compensation	12,277,631	12,277,631
	9,111,286	9,111,286
Securities Premium (Share Premium)	223,718,978	223,718,978
Foreign Exchange Gain or Loss	1,094,537	(562,863)
	662,148,504	624,631,240
<b>SCHEDULE 3</b>		
<b>SECURED LOANS</b>		
Overdraft from Canara Bank	40,225,510	34,769,607
Canara Bank Term Loan	71,829,483	56,060,300
(Hypothecation of Machinery such as Computers, Furniture and Fixtures, Office Equipment and Airconditioners and personal guarantee of the Director of the Company)		
Canara Bank - Bill Discounting	34,043,991	30,782,029
Vehicle Finance (Secured against Vehicles)	3,056,848	5,828,317
Columbia - OD Credit	13,320,000	13,491,000
Building Finance	35,342,887	38,573,808
	197,818,719	179,505,060

PARTICULARS	AS AT 2010-11 (Rupees)	AS AT 2009-10 (Rupees)
<b>SCHEDULE 5</b>		
INVESTMENTS		
Shares of Canara Bank (Cost price of 400 Shares @ Rs.35/- per share) (Market Price of share as on 31st March, 2011 @626.15/-per share)	14,000	14,000
Investments in Mutual Funds Mutual Funds (Canara Robeco)	500,000	500,000
(NAV as on 31st March 2011 is Rs.6,61,125/- )	514,000	514,000
<b>SCHEDULE 6</b>		
SUNDRY DEBTORS		
(Unsecured , considered good) Debtors not exceeding six Months	228,426,773	202,652,213
(Unsecured , considered doubtful) Debtors exceeding Six Months	19,763,135	-
	248,189,908	202,652,213
<b>SCHEDULE 7</b>		
Cash on Hand	1,063,719	651,537
Balance with Banks In Current Accounts In Deposit Accounts	9,782,447 72,881,338	32,926,978 66,212,357
	83,727,504	99,790,873
<b>SCHEDULE 8</b>		
(Unsecured, Considered good) Advances Virinchi Employees Welfare Trust Other Current Assets	119,456,006 14,420,000 5,264,342	111,389,932 14,420,000 4,059,995
DEPOSITS Rent Deposits Other Deposits	3,613,500 1,957,487	1,661,728 1,957,487
	144,711,335	133,489,143

PARTICULARS	AS AT 2010-11 (Rupees)	AS AT 2009-10 (Rupees)
<b>SCHEDULE 9</b>		
Short term Provisions	10,110,539	28,148,479
Provision for Taxation	14,916,636	7,866,881
Provision for Dividend	7,493,025	7,452,900
Provision for Dividend tax	1,244,591	1,237,927
Trade payables	9,161,488	9,966,696
Other Current Liabilities	8,248,869	1,446,611
	<b>51,175,148</b>	<b>56,119,494</b>
<b>SCHEDULE 10</b>		
Other Income		
Dividend Received	-	993
Income from Hosting Services	750,962	348,604
Interest Income	6,229,106	6,347,003
Rental Income including Service Tax)	3,000,000	1,375,000
Short Term Capital Gain/Loss	-	4,435,357
Other Income		8,793
	<b>9,980,068</b>	<b>12,515,750</b>
<b>SCHEDULE 11</b>		
<b>BUSINESS AND ADMINISTRATIVE EXPENSES</b>		
Postage, Telephone and Telegrams	6,709,823	5,021,461
Repairs and Other Maint. Charges	4,585,999	9,435,992
Rent, Rates and Taxes	9,106,265	6,371,903
Auditors Remuneration	261,755	206,850
Directors Remuneration	55,43,333	9,398,500
Printing and Stationery	1,106,177	1,655,226
Travelling and Conveyance	20,643,828	45,828,791
Marketing, Hosting and Other Business Expenses	164,728,679	130,414,133
Other Administrative Expenses	40,776,807	34,715,338
	<b>253,462,665</b>	<b>243,048,193</b>

SCHEDULE 4											
PARTICULARS	GROSS BLOCK					DEPRECIATION				NET BLOCK	
	AS ON 31-03-2010	ADDITIONS DURING THE YEAR	*DELETIONS DURING THE YEAR	AS ON 31-03-2011	AS ON 31-03-2010	DURING the year	DELETIONS	TOTAL 31.03.11	AS ON 31-03-2011	AS ON 31-03-2010	
Land & Land Development Charges	29,583,756			29,583,756	-				29,583,756	29,583,756	
Building	114,806,553	78,853,394		193,659,947	3,509,732	3,814,586	-	7,378,905	186,281,041	111,296,821	
Office Equipments	16,775,466	3,481,946		20,257,412	3,528,067	878,322	-	4,406,389	15,851,023	13,247,399	
Air Conditioners	10,807,436	986,565		11,794,001	1,394,664	552,460	-	1,947,124	9,846,877	9,412,772	
Electrical Equipment	16,274,796	8,465,707		24,740,503	1,096,919	799,789	-	1,896,708	22,843,795	15,177,877	
Furniture and Fixtures	14,692,357	258,230		14,950,587	5,348,493	931,154	-	6,279,647	8,670,940	93,43,865	
Interior Decoration	57,224,227	2,340,373		59,564,600	14,059,342	3,696,573	-	17,755,915	41,808,685	43,164,885	
Vehicles	21,332,889	-		21,332,889	8,031,872	2,026,624	-	10,058,497	11,274,392	13,301,017	
Computer Hardware	61,567,130	2,510,366	13,252,076	50,825,419	30,690,198	7,928,968	13,252,076	25,367,090	25,458,330	30,826,993	
Computer Software	112,993,212	2,131,800	30,821,254	84,303,758	48,302,947	15,952,702	30,821,254	33,434,395	50,869,363	64,690,265	
Product Development Expenses	247,745,638	60,499,596	-	308,245,234	95,185,838	27,254,286	-	122,440,124	185,805,110	152,559,800	
	703,803,460	159,527,976	44,073,330	819,258,106	211,148,072	63,835,464	44,073,330	230,964,794	588,293,313	492,655,388	

\* Assets fully depreciated (depreciation 100% Availed) deducted from gross value of fixed assets and accumulated depreciation.

**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH, 2011**

A. Particulars	31-03-2011	Rs. in Lacs 31-03-2010
Net Profit/ (Loss) before taxation and extraordinary items	573.94	452.50
<b>Adjustments for:</b>		
Depreciation	638.35	640.76
W/o expenses	200.95	200.95
Interest expenses	230.87	169.20
Operating Profit before working capital changes	<b>1644.12</b>	<b>1463.41</b>
<b>Working Capital Changes</b>		
Trade and other receivables	-567.60	-108.67
Trade payables	-49.44	-831.45
<b>Cash generated from operations</b>	<b>1027.08</b>	<b>523.29</b>
Interest paid	-230.87	-169.20
Taxation for the year	-171.61	-78.67
Dividend for the year	-74.93	-74.53
Dividend Tax for the year	-12.45	-12.38
Foreign exchange diff	10.95	-4.31
<b>Cash flow before extraordinary items</b>	<b>548.17</b>	<b>184.21</b>
Extraordinary items		-
<b>Net Cash from Operating Activities</b>	<b>548.17</b>	<b>184.21</b>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Purchase of Fixed Assets	-1048.37	-1308.31
Investment	-1.59	7.71
Public Issue Expenses	0.00	0.00
<b>Net Cash used in Investing Activities</b>	<b>-1049.96</b>	<b>-1300.60</b>
<b>C. CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Proceeds from Equity Shares & Warrants	158.03	0.00
Net Proceeds from Long Term Borrowings	183.14	993.28
<b>Net Cash used in Financing Activities</b>	<b>341.16</b>	<b>993.28</b>
Net increase in cash and cash equivalents	-160.63	-123.11
Cash and Cash equivalents as at 01.04.2010	997.91	1121.02
Cash and Cash equivalents as at 31.03.2011	837.27	997.91

AS PER OUR REPORT OF EVEN DATE  
for P MURALI & CO.,  
CHARTERED ACCOUNTANTS  
FRN: 002757S

FOR AND ON BEHALF OF THE BOARD  
for VIRINCHI TECHNOLOGIES LIMITED

**P. MURALI MOHANA RAO**  
PARTNER  
M.No:23412

**K. VISWANATH**  
EXECUTIVE  
DIRECTOR

**G.SANTIPRIYA**  
CHAIRPERSON &  
WHOLE TIME DIRECTOR

PLACE : HYDERABAD  
DATE : 02-09-2011

**K. RAVINDRANATH TAGORE**  
COMPANY SECRETARY

## CONSOLIDATED NOTES TO ACCOUNTS

### SIGNIFICANT ACCOUNTING POLICIES AND NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Description of the Business

- a. Virinchi Technologies Ltd has made a strategic investment in the company engaged in the business of software consultancy /IT Solution providers through wholly owned subsidiary **K SOFT SYSTEMS Inc.**
- b. Qfund Technologies Private Limited, a 100% Subsidiary of Virinchi Technologies Ltd., is registered under SEZ Act, 2005 for getting tax benefits for a period of 5 years from the date of commencement of Commercial Production, which is wholly owned Indian subsidiary to M/s. Virinchi Technologies Limited.
- c. M/s. Virinchi Learning Private Limited is also wholly owned Indian subsidiary to M/s Virinchi Technologies Limited which is formed to promote technology based, for profit, quality education services to the different student categories in India, both by creation of new content and infra structure and also by partnering with existing content providers by leveraging the strength of information technology.
- d. M/s. Virinchi Media and Entertainment Private Limited which is wholly owned subsidiary to M/s. Virinchi Technologies Limited which is formed to launch internet portals to serve the growing demands of the Indian Entertainment industry to enable Creation, Buying, Selling and Delivery of high definition entertainment through internet to customers across globe.

#### 2. Principles of Consolidation :

The consolidated financial statements have been prepared on the basis of going concern, under the historical cost convention on accrual basis, to comply in all material aspects with the applicable accounting principles in India, the Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act,1956.

These financial statements have been prepared in accordance with Accounting Standard 21 issued by the Institute of Chartered Accountants of India.

All inter company transactions, balances and unrealized surpluses and deficits are eliminated.

The exchange rates adopted for converting 1 USD into Indian rupees of the foreign subsidiaries with respect to:

**March 31, 2011**

Balance Sheet items	44.40
Revenue items	45.48

### 3. 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.

#### **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.

All the fixed assets are assessed for any indication of impairment, at the end of each financial year. On such indication, the impairment loss, being excess of carrying value over the recoverable value of the assets, is charged to Profit and Loss account in the respective financial years. The impairment loss recognized in the prior years is reversed in cases where recoverable value exceeds the carrying value, upon reassessment in the subsequent years.

#### **Goodwill:**

Good will represents the difference between the purchase price and the fair value of the assets and liabilities acquired after considering reserves transferred. Goodwill is being amortized on Straight Line Method over a period of 5 years.

The excess of cost to the Parent company of its investment in the subsidiary company is recognized in the consolidated financial statements as goodwill.

#### **Taxation:**

Section 10A of Income Tax Act 1961, exemption is not available from this accounting year onwards, Tax provision created for current financial year after adjustment of taxes paid under section 115JB of Income Tax Act 1961 during the last 3 accounting years.

Incase of subsidiary company current tax is determined on the amount of tax payable in respect of taxable income for the year as per their laws.

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. Deferred tax assets are not recognised unless there is a virtual certainty that there will be sufficient future taxable income to realise such assets.

### 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.

Particulars	2010-11	2009-2010
Profit available for the equity share holders	2,70,28,960	4,00,98,834
No. of equity shares outstanding for EPS-Basic	1,49,86,050	1,49,05,800
No. of equity shares outstanding of EPS-Diluted	1,79,86,050	1,49,05,800
Basic	1.80	2.69
Diluted	1.5	2.69

### Gratuity:

The Company has made provision for the gratuity to its employees. Company has created Separate Gratuity Trust for employees and amount invested with Aviva Life Insurance Company India Ltd and India First Life Insurance Company Limited.

### Foreign Currency Transaction:

**K SOFT SYSTEMS Inc** is in the nature of non-integral operations in terms of Companies Accounting Standard 11, "The Effects of changes in foreign Exchange Rates", All monetary and non-monetary assets and liabilities are translated at the rate prevailing on the balance sheet date. All revenue and expenditure transactions during the year are reported at average rate. The resultant transaction adjustment is reflected as a separate component of shareholders' funds as a "Foreign Currency Translation Reserve".

Details pertaining to Subsidiary companies as per the requirement of Para (IV) of the directions under Section 212(8) of the Companies Act, 1956, issued by the Ministry of Corporate affairs vide General Circular No. 2/2011 Dated February 8, 2011

(Amount in Rs.)

S.No.	Particulars	Ksoft Systems Inc	Qfund Technologies Pvt Ltd	Virinchi Media and Entertainment Pvt. Ltd.	Virinchi Learning Pvt. Ltd.
1	Share Capital	4,444,440	100,000	100,000	100,000
2	Reserves and Surplus (Including Debit balance of P&L)	25,134,970	195,323	(36,719)	(53,160)
3	Total Assets	143,763,785	49,863,561	10,829,482	7,230,610
4	Total Liabilities	114,184,375	49,568,238	10,766,201	7,183,770
5	Investments (Excluding subsidiaries)	-	-	-	-
6	Turnover	254,904,627	11,274,848	NIL	NIL
7	Profit/Loss before tax	26,269,864	882,570	NIL	NIL
8	Provision for tax (Including deferred Tax)	8,929,127	654,787	NIL	NIL
9	Profit/Loss after tax	17,340,737	227,783	N.A	N.A
10	Proposed Dividend	NIL	NIL	NIL	NIL



**VIRINCHI TECHNOLOGIES LIMITED**

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

**ATTENDANCE SLIP**

I hereby record my presence at the 22<sup>nd</sup> Annual General Meeting of the Company being held on Thursday, the 29<sup>th</sup> day of September, 2011 at 12.00 noon 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 ATTENDANCE SLIP AND HAND IT OVER AT THE ENTRANCE OF THE MEETING VENUE

**VIRINCHI TECHNOLOGIES LIMITED**

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

**PROXY FORM**

Regd. Folio No/

No. of Shares held

Client ID

I/We ..... of .....  
..... in the district of ..... being a  
member(s) of the above named company hereby appoint ..... of  
.....in the district of .....or failing  
him..... Of ..... in the district  
of..... as my/our proxy to vote for me/us on my/our behalf at the 22<sup>nd</sup> Annual General Meeting of the Company to be held on Thursday, the 29<sup>th</sup> September 2011 at 12.00 noon or at any adjournment thereof.

Signed this ..... day of .....2011

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

*If undelivered, please return to*

**To,**

Virinchi Technologies Ltd.

10, SRK Colony,

West Marredpally,

Secunderabad - 500 026