# Strong signal

MEGASOFT

Megasoft Limited | Annual Report 2010

## Disclaimer

In this annual report, we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words like 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove to be inaccurate, actual results could vary materially from those anticipated, estimated or projected.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

# Decisive initiatives.
# Robust turnaround.
# Optimistic outlook.
# Are you getting our signal?

## Here is what you will find inside

## The challenge

Mobile network operators must continuously reduce operating costs while improving the quality of their services (next generation, anywhere connectivity, personalised content, social networking and mobile commerce).

## The reality

These mobile network operators can enter into partnerships with technology companies like Megasoft to succeed in a challenging environment.

Across the past decade, Megasoft partnered with a number of the world's largest mobile network operators, offering innovative real time mobile solutions (prepaid billing, roaming, mobile payments, access management and network management) to improve network efficiency and revenues.

## Background

Megasoft, a publicly-listed company was listed on BSE in 2000. The Company operates out of offices in Asia, the Americas and Europe.

## Business

In the previous decade, Megasoft partnered with a number of the world's largest mobile network operators, offering innovative real-time mobile solutions (prepaid billing, roaming, mobile payments, access management and network management) to improve network efficiency and revenues.

## Mission

Our corporate mission is to be the technology engine that ignites fundamental and innovative changes in the delivery of telecommunication services to subscribers. We achieve this by dedicating our organisation to innovation and operational excellence.

## Philosophy

**Innovation:** Fostering an environment for the identification, nurturing, testing and delivery of new solutions to the markets

**Entrepreneurship:** Business-focused technology orchestration, building long term value

**Partnership approach:** Co-creation of values while protecting the intellectual capital

## Location

The Company has a registered office in Chennai, Tamil Nadu (India), a global delivery centre at Hyderabad, Andhra Pradesh (India), marketing headquarters at Woburn (MA, USA), and regional offices in Singapore and Kuala Lumpur (Malaysia).

## Listing

The Company's shares are listed on the Bombay Stock Exchange (BSE), National Stock Exchange (NSE) and Madras Stock Exchange.

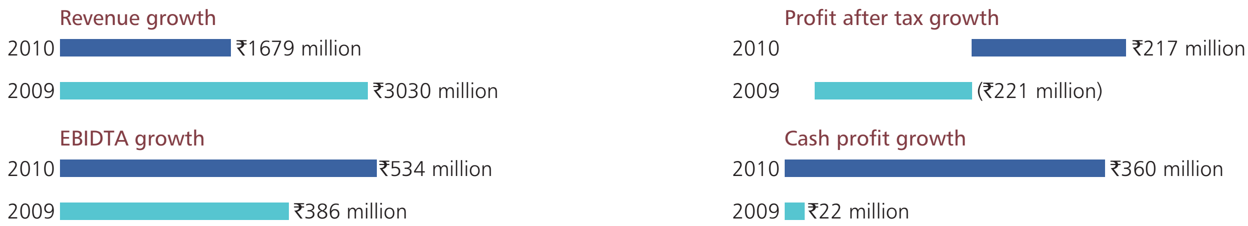
## Presence

The Company enjoys a proven track record in delivering solutions to the telecom industry across the USA, India, Latin America and APAC. The Company has built strong partnerships with global leaders like HP, Tata Telecommunication Services, TNZI and others, leading to more than hundred global installations.

## Telecom division

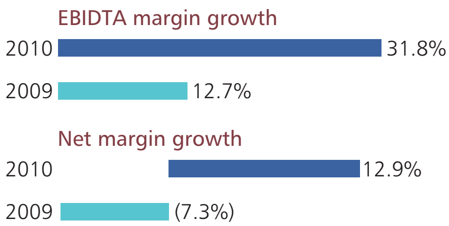
XIUS, the telecom division of Megasoft, is a market leader in delivering innovative, revenue-generating solutions to mobile operators worldwide. The XIUS brand is respected as a leading global provider of prepaid technologies, real-time session control, mobile commerce and advanced OSS infrastructure solutions to wireless carriers and service providers. Their combination makes it possible to deliver differentiated services leading to a first-mover advantage and subscriber loyalty.

# Key financials, 2010




## Product offerings

| | |
|---|---|
| Infrastructure and prepaid | • Infinite prepaid<br>• Mobile Service Platform (MSP)<br>• XIUS INergy (Real-Time Service Control)<br>• Roaming Management |
| Retail mobile commerce | • Mobile Touch Transaction (Active Poster Device)<br>• Retail Channel Management<br>• Mobile Money Transfer and Recharge<br>• Mobile Banking |
| Mobile advertising | • XIUS Ad Value |




| EBIDTA growth | Profit after tax growth | Cash profit growth |
|---|---|---|
| 38.6% | 198.2% | 1559.6% |

| Revenue growth | EBIDTA margin growth | Net margin growth |
|---|---|---|
| (44.6)% * | 150.1 bps | 277.2 bps |

*The decline in revenues is due to divestment of the IT Services division (BlueAlly) with effect from 1st October, 2009

## Milestones

### 1994
Incorporated as Megasoft Consultants Inc (MCI) in Fairfax, Virginia, USA

### 1999
Incorporated as Megasoft Limited in Chennai, India

### 2000
Merged with Indus e-solutions Limited, a public-listed company; listed on Bombay, Chennai, Hyderabad and Ahmedabad Stock Exchanges

### 2003
Acquired MCI; makes it a wholly-owned subsidiary

### 2004
Merged XIUS India Limited

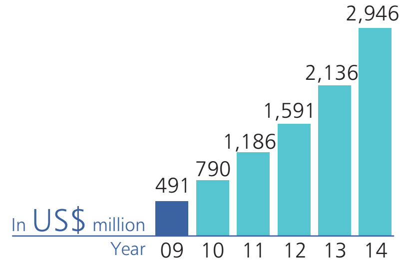
### 2006
Merged VisualSoft Technologies Limited, resulting in the ownership of valuable real estate and development infrastructure

### 2007
Bought BCGI, a US NASDAQ-listed company, creating a strong US presence

### 2009
Divested the IT services division (BlueAlly)

### 2010
Created innovation centres to focus on solutions, identification, nurturing, testing and delivery

US mobile advertising growth




(Source: BIA/Kelsey research)

# CEO's statement

In 2010, even as most industries across the world continued to feel the after-effects of the global financial slowdown, the global mobile services industry surprised analysts and experts – it continued to grow.

Interestingly, the growth was not only linear as expected; there was a deeper penetration of smartphones, growth in mobile internet usage and the progressive evolution of the mobile handset into a multi-functional, multi-tasking communications support system.

What makes this 'mobilisation' interesting is that it extended to serious multi-industry applications across the banking and payments industry, health care, transportation, entertainment and content distribution.

With most global wireless markets fully liberalised, operators are facing stiff competition, investing in technology and constantly launching innovative services to stay ahead.

Megasoft is well positioned, as it offers cutting-edge technology services to a number of wireless telephony companies, helping them enhance their viability in a competitive marketplace.

## Opportunities

What excites us at Megasoft are the vast opportunities in front of us and our readiness for it.

- **Mobile commerce:** With the growth of money transfers and consumer mobile payments, mobile commerce represents the future. The

## Highlights, 2010

- Reported a financial turnaround with a profit after tax of ₹217 million compared to a loss of ₹221 million in 2009
- Reduced debt from ₹1,971 million as on December 31, 2009 to ₹872 million as on December 31, 2010
- Two new products launched – Active Poster Product (APP) and mobile advertising product (ad value)
- Strong customer base established and five new customers added
- Sale of Hyderabad property in a tough real estate market

global money transfer business is estimated to grow from US$350 billion in 2007 to US$1 trillion in 2014 (source: GSMA Mobile Money Transfer 2009). Money transfers through mobile handsets are expected to account for a significant slice of this market. Besides, mobile banking is being increasingly seen by many countries as the best way to expand banking services to un-banked population clusters in their respective countries, circumventing the conventional brick and mortar approach completely.

- **Mobile advertising:** The explosive growth in mobile subscribers is leading to a tremendous scope in advertising. The global mobile advertising market is expected to grow to around US$13 billion by the end of 2011; Asia-Pacific is expected to account for the majority of revenues (Source: smarte-commerce.com, January 10, 2011). Mobile advertising is also poised to leverage the diffusion of advanced smartphone devices and the rapid expansion of 3G networks across countries.

- **Mobile banking:** The electronic payments industry is growing rapidly in developing countries as mobile services address a service gap critical to their development. The advantages of mobile payments comprise transaction speed, no credit card reading, no paper slips and enhanced security. The 'electronic wallet' will make purchases convenient all the time. Users of m-banking and related services (including money transfers) doubled between 2008 and 2009 to 55 million and are expected to reach 894 million by 2015 (Source: mobithinking.com)

- **Smartphone penetration:** By the end of the FY 2011, the global smartphone market is expected to grow to 49.2% as more consumers and enterprise users turn to smartphones with advanced features. According to the International Data Corporation, smartphone vendors will ship more than 450 million smartphones in 2011 compared to the 303.4 million units shipped in 2010; the smartphone market is expected to grow more than four times faster than the overall mobile phone market.

As a mobile technology specialist, focused on real-time transaction processing in network infrastructure and prepaid, mobile commerce and mobile advertising, Megasoft is well prepared for the opportunities identified above. Our guiding principles of innovation, agility, and execution excellence, while always maintaining a customer-centric mindset, contributing to timely development and delivery of market-leading solutions, while building strong customer relationships and continually reinforcing our ability to deliver and support quality solutions and services. Additionally, as new market trends and opportunities emerge, we see Megasoft poised to capitalise on these, given our existing solution portfolio and experience, growing patent portfolio, strong telecom R&D, successful commercial launch and long-term support experiences.

Additionally, Megasoft intends to emerge as a zero debt company, grow revenues through the launch of additional new products and solutions; strengthen our managed services model for new products and platforms enhancing revenue predictability; expand and upgrade our US data centre and infrastructure; strengthen the Indian R&D centre and back office infrastructure, as well as expand offerings and presence in Latin America and India, key emerging mobile commerce markets.

We are optimistic of achieving these goals, resulting in the enhancement of values for the stakeholders in our Company.

**GV Kumar**
CEO

Strong signal

# The greeting of income quality

In a rapidly changing industry environment, where we market products and services, business sustainability is derived from an ability to not only grow one's revenues but to secure these sources leading to predictability and organisational sustainability.

At Megasoft, we reported a decline in revenues following the divestment of IT services division (BlueAlly) but made up with an improved income quality. Besides, we successfully evolved our income source from a high dependence on product sale (80% in 2006) to a point where 80% of our revenues were derived from managed services (based on the carrier's subscriber revenues) in 2010.

This transition has created the following scenario:

- Revenues have become more predictable, making planned business growth possible.
- The Company remains viable even during periods when product sale is low
- The Company reported a profit in every successive quarter in 2010

The result: Even as the Company's revenues declined by 44.6% in 2010, EBIDTA margin improved 150.1 bps to 31.8%.

The Company reported a profit in every successive quarter in

# 2010

Strong signal

# Clarity from stability

In a business where a part of our revenues are derived from the chunky (as opposed to predictable) sale of products and where the entire business model addresses a rapidly transforming customer environment, business sustainability is principally derived from balance sheet security.

At Megasoft, one of our most decisive initiatives to secure our prospects was through the right-sizing of our balance sheet. We liquidated ₹1099 million of debt in 2010, using proceeds from the sale of our Hyderabad property, free operational cash flow and residual collection from the divestment of the IT Services division. The result is that the Company's outstanding debt of ₹872 million comprises only ₹313 million of term loans, which is expected to be liquidated speedily.

This transition has created the following scenario:

- Improved investor and customer perception following stronger gearing (0.89 to 0.42)
- Decline in interest outflow from ₹228 million (at peak) in 2009 to ₹151 million in 2011; interest cover improved to 1.41 in 2010

We liquidated ₹1099 million of debt in

# 2010

Strong signal

# The echo of liquidity

In a business where a rapidly changing external environment generates attractive acquisition opportunities, it is necessary to stay liquid to be able to respond with speed and certainty.

At Megasoft, we strengthened our liquidity for the following reasons: we reported an increment in revenues from new clients to the extent of around 17% of our total revenue. We reduced our receivables cycle, helping bring in revenues faster – from over 240 days of turnover equivalent in FY 2008 to around 108 days in FY 2010. We graduated from product licensing to a monthly revenue-based (pay-per-use) revenue model – 80% of our revenues in 2010 - leading to revenue predictability. We achieved a high EBIDTA margin of 31.8% with a declining interest outflow.

This transition helped strengthen the business in the following manner:

- Reduced debt and strengthened gearing
- Kick started business re-investment
- Strengthened terms of trade

Result: EBIDTA increased from ₹386 million in 2009 to ₹534 million in 2010.

We reduced our receivables cycle, helping bring in revenues faster – from over 240 days of turnover equivalent in FY 2008 to around 108 days in

# FY 2010

Strong signal

# Call of launches

In a business where change is the only constant, companies need to create a business model that is always slightly ahead of the times.

The mobile commerce industry (including mobile payments for digital and physical goods, NFC mobile payments, mobile money transfer and remittances, mobile ticketing, mobile coupons and mobile banking) is US$162 billion (2010) and expected to grow significantly to US$984 billion (2014). -Yankee Group research

At Megasoft, we developed and launched two products with considerable potential during the year under review:

- **Active Poster Product (APP):** Mobile Touch Transaction offers anytime, anywhere electronic talk time recharge, bill payment, and other value-added services in a self-service mode using near-field communications technology. This revolutionary concept was launched by Megasoft to extend carrier and mobile commerce services to the retail storefront in an integrated form. The innovative end-to-end purchase, delivery and payment solution is the first of its kind in India. The number of NFC-enabled phones is expected to increase from 0.83 million (2010) to 151 million (2014), growing NFC-based transactions from US$27 million (2010) to an estimated US$40 billion (2014), according to Cellular-news.com

- **Mobile advertising product (Ad value):** Our new patent-pending mobile advertising platform 'Xius AdValue' allows carriers to send video and voice advertisements, SMS, video, push and pop-ups and text inserts to subscribers. Mobile advertising is estimated at 4.5-5 times in terms of ROI effectiveness over online advertising. This unique carrier-centric, end-to-end mobile advertising solution provides targeted advertising, customer-opted advertising with integrated couponing and store discounting. The Indian advertising industry is estimated at ₹30,000 crore, of which the internet online marketing is around ₹1,000 crore and mobile advertising a mere ₹25-30 crore (Source: Indian Express, 24 April 2011), a skew that is likely to correct with the advent of 3G. We commercialised this unique mobile advertising platform in Malaysia, adding around a million subscribers within a year of launch, increasing anticipation of similar successes in India, Africa and Latin America.

The implications of these launches are significant:

- The launch of 3G network services and the projected rollout of 4G/LTE in the next few years will facilitate 'data heavy' mobile services, a ready market for our launches

- They will counter declining average revenue per user (ARPU) as well as falling voice and texting revenues

- They will leverage mobile commerce and mobile advertising in India, the Americas and other emerging markets; the US is expected to spend around US$30 billion on mobile advertising in the next five years

- Global smartphone shipment increased from 173.5 million in 2009 to 302.6 million in FY 2010 (Source: IDC Worldwide Quarterly Mobile Phone Tracker, January 27, 2011)

Result: With both products being commercialised during 2011, they are likely to grow exponentially in the coming years, rejuvenating the Company's revenue mix.

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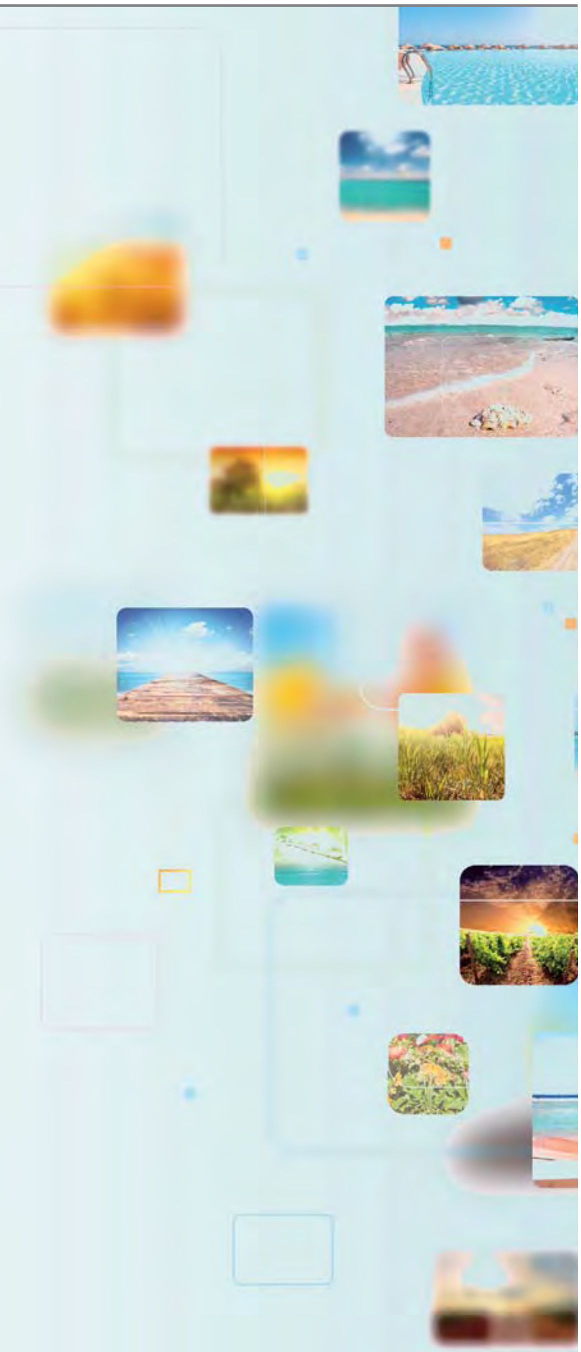
# Sound knowledge

In a business that demands technology upgradation and service differentiation, the role of knowledge cannot be understated.

At Megasoft, we have consistently invested in our intellectual capital to emerge as a distinctive service and product provider in a competitive market place. Some of the initiatives comprise the following:

- A global leadership in providing telecom solutions to wireless carriers and service providers in segments like Prepaid Technologies, Real-Time Session Control, Mobile Commerce and Advertising as well as advanced OSS infrastructure solutions
- An offering of revolutionary products - Mobile Touch Transaction (Active Poster Device) and Mobile advertising platform–Ad value - for the first time in the world
- A positioning of being an IP-driven technology solution company, providing solutions that reduce software development cycles while retaining the benefits of custom-developed applications, leading to enhanced customer value
- An application for 105 global patents filed globally over the last decade, of which 26 were granted by the USPTO
- A recruitment of technology professionals with skills in cutting-edge industry spaces; nearly 79% of the Company comprised technology professionals at the end of 2010
- A presence in nine countries resulting in an understanding of their terrains and consumer responses; the location of our state-of-the-art research and development centers in India

The result is that in a competitive business, the Company sustained its EBIDTA margin in excess of 30% in 2010. Over 83% of the revenues were generated from repeat clients in 2010. A majority of the Company's revenues were derived from global Tier 1 carriers.



An application for 105 global patents filed globally over the last decade, of which 26 were granted by the USPTO

Strong signal

Proposed positioning as a global leader in one or two mobile commerce segments through specialised and niche services to customers with an increasing footprint in Latin America and Asia.

# Ring of optimism

In a business where realities change rapidly, it is critical to create a business model that is relatively derisked at one end and responsive to opportunities at the other.

Megasoft has consciously reinforced organisational derisking through the following initiatives:

- Predictable revenues from long-term contracts with large carriers (50 active clients)
- Prospect of zero debt
- Strengthening the balance sheet to respond to synergic inorganic growth opportunities whenever they arise
- Proposed positioning as a global leader in one or two mobile commerce segments through specialised and niche services to customers with an increasing footprint in Latin America and Asia.
- Marginal increase in EBIDTA margins from the level achieved in 2010

Result: Megasoft expects to grow its revenues without compromising margins, leading to enhanced value in the hands of our stakeholders.

# Our strengths

## Intellectual property

The Company possesses rich intellectual property in hosting operations 24x7 through an integrated backing gateway.

## Pioneer

The Company continues to be a thought leader and pioneer in emerging mobile technologies

## Research

The Company is recognised for its high-quality service bureau delivery model and operational support with over 105 global patents filed and 26 granted.

## Culture

Megasoft is an Indo-American trans-national company, that combines the best practices of both cultures, leveraging respective competitive advantages and creating a quality and cost-effective entity that focuses on the global telecommunications domain.

## Proven track record

Megasoft enjoys a proven track record as a provider of quality, technology and innovation, demonstrated by a comprehensive suite of innovative offerings (products, applications and technology platforms), providing reliable services to telecom carriers.

## Partnerships

The Company builds and nurtures long-term partnerships for the co-creation of business value, faster understanding and speedier implementation of mobile solutions, helping clients unlock revenue. Over 60% of the Company's revenues were derived from business engagements of five years or more.

## Expertise

Megasoft enjoys over a decade of deep domain expertise, respected for its ability to 'invent the future' and positioned around specialised technologies.

## Brand

The Company enjoys a distinctive brand across the US and Latin American markets for cutting-edge technologies and solutions to the wireless industry. Its brand XIUS is recognised for cutting-edge prepaid technologies, real-time service control platforms, mobile payments, mobile commerce, advanced roaming and core network infrastructure solutions.

## Locations

The Company has segregated its presence across locations ideally suited to those functions. For instance, it selected the US for corporate management, marketing, strategy, product management, client relations and hosted services for US clients; it selected India for Asian sales, software development and engineering, operations and back office functions.

Nearly 43% of the Company comprises engineers; nearly 57% comprises industry related professionals.

## Clientele

The Company serves Tier I US clients like Sprint Nextel Corporation, US Cellular, Telefonica, Tata Communications, Telecom New Zealand, Celcom-Tune Talk, Cellular South and Loop Telecom, among others.

## Intellectual capital

Nearly 43% of the Company comprises engineers; nearly 57% comprises industry-related professionals. The Company provides employees with a professionally-rewarding environment that enriches their presence through development, training, remuneration and overall job satisfaction.

# Risk management

Risk is an inherent feature of mobile commerce. As an organisation whose products are sold to a number of customers and used in diverse applications and geographies, the Company is impacted by a number of variables. The major risks encountered by the business and their mitigation are given below:

## Market risks

Any slowdown in the wireless telecom industry can affect profitability.

Mitigation

- There has been a shipment growth for smartphones: 302.6 million smartphones in FY 2010 against 173.5 million smartphones in 2009, increasing the use of data and data-centric applications
- The launch of 3G network services in several markets and the expected roll out of 4G/LTE in the next few years will catalyse the growth of 'data heavy' mobile services
- Prepaid services constituted about 10% of the US market compared to 70-80% in India, but a slowdown in that country is expected to increase the relevance of prepaid services leading to higher revenues

## Intellectual property rights risks

In a knowledge-driven business, the primary responsibility is to safeguard intellectual property.

Mitigation

- The Company encourages employees to ideate and file patents to protect intellectual property
- The Company applied for 105 patents, of which 26 were granted by the USPTO

## Litigation risks

There is an increasing trend towards litigation regarding intellectual property rights, patents and trademarks in the software and telecom industry.

Mitigation

- The Company has not engaged in any material litigation pending against it in any court in India or abroad
- The Company has an insurance policy in place to mitigate against this risk

## Foreign exchange fluctuation risks

Changes in currency exchange rates can affect earnings from the export of software, products and solutions

Mitigation

- A majority of the Company's expenditure is in US dollars, which the Company attempts to hedge by keeping a lean inventory of unconverted currency
- The Company did not enter into any derivative transactions during the year under review

## Client concentration risks

The Company's top five clients accounted for more than 75% of revenues in 2010, which could impact profitability in the event of client attrition

Mitigation

- The Company expanded its sales focus on new geographies and market segments
- The Company is widening its revenues across more geographies

## Receivables risks

A long debtors' cycle could affect cash flow, while sales to suspect customers could translate into bad debt

Mitigation

- The Company reduced its receivables cycle from a peak of 240 days of turnover equivalent in 2008 to around 108 days in 2010
- The Company serves a large number of credible customers with negligible default possibility
- The Company's provision for doubtful debts was 2.3% of gross sales in 2010

> “Imagination is more important than knowledge. Knowledge is limited. Imagination encircles the world.”
>
> – Albert Einstein

# Megasoft Limited
11$^{th}$ Annual Report 2010

## Corporate information

### Board of Directors
S Ravindra Babu, *Chairman*
G V Kumar, *Managing Director*
D Sudhakar Reddy, *Executive Director*
P Mukunda Reddy
Anil Kumar Sood
Anish Mathew
R Janardhana

### VP (Finance) and Secretary
G P Srinath

### Auditors
Srikanth & Shanthi Associates
Chartered Accountants
Chennai, India

TN Rajendran & Co.
Chartered Accountants
Chennai, India

### Bank
Axis Bank Limited

### Registered office
85, Kutchery Road
Mylapore
Chennai-600004, India

### Registrars and Share Transfer Agents
Cameo Corporate Services Limited
Subramanian Building
1, Club House Road
Chennai-600002, India

# directors' report

## Dear members

Your Directors are pleased to present their report on the business and operations of your company for the financial year ended 31 December 2010.

### Financial Results

₹ million

| | Standalone | | Consolidated | |
|---|---|---|---|---|
| for the year ended 31 December | 2010 | 2009 | 2010 | 2009 |
| Revenues | 624 | 887 | 1679 | 3030 |
| Total Expenditure | 383 | 460 | 1145 | 2644 |
| Finance Cost | 70 | 134 | 151 | 228 |
| Depreciation | 57 | 143 | 143 | 243 |
| Operating Profit / (Loss) | 114 | 150 | 240 | (85) |
| Profit / (Loss) before tax | 50 | (5) | 214 | (250) |
| Less: Taxes | (3) | (29) | (3) | (29) |
| Profit / (Loss) after tax | 53 | 24 | 217 | (221) |
| Earnings per share (equity shares, par value ₹ 10 each) | | | | |
| Basic (₹) | 1.20 | 0.55 | 4.90 | (4.99) |
| Diluted (₹) | 1.20 | 0.54 | 4.90 | (4.89) |

### Overview

During the financial year ended 31 December 2010, even as your company recorded consolidated revenues of ₹ 1679 million compared to ₹ 3030 million in the previous financial year, net profit was ₹ 217 million compared to a net loss of ₹ 221 million in 2009. The turnaround was achieved partly through the sale of a business, enhanced focus on core business areas and a decline in interest outflow.

### Dividend

Your Directors do not consider it prudent to recommend any dividend on equity shares for the year under review. Conservation of cash at this juncture and corresponding reinvestment in the company's business will translate into stronger returns over the foreseeable future.

### Outlook

A detailed discussion on the performance of the company, industry structure, threats, opportunities, risks, future outlook and strategy has been provided separately in the Management Discussion and Analysis (MDA) section, which forms a part of this Annual Report.

### Disposal Of Property at Hyderabad

Your company felt that the surest way of enhancing corporate value would be from exiting unsynergic assets and the proceeds from this invested either in the company's core business or debt liquidation. In this regard, the company obtained the consent of shareholders through a postal ballot process for the sale of the land and building (including furnishings & fittings) at Hyderabad and land at Vishakhapatnam. The result of this ballot was announced on 15 October 2010. In line with this consent, the company sold / disposed the Hyderabad property. As the said property was acquired through the amalgamation of VisualSoft the company, set the loss off to the amalgamation reserve (grouped under general reserve) created in terms of the scheme of amalgamation.

### Subsidiary Companies

In accordance with the provisions laid down in Section 212 of the Companies Act, 1956, your company is required to attach the Directors' Report, Balance Sheet and Profit and Loss Account of the subsidiary companies to its Balance Sheet. As per the requirements under Section 212(8) of the Companies Act, 1956, your company made necessary application to the Central Government, which was conferred the power to grant exemption from this requirement. In this regard, your company received approval from the Government of India, Ministry of Corporate Affairs, vide their letter no.47/715/2010-CL-III dated 9 December 2010, granting exemption from attaching the audited accounts of the subsidiary companies to the Annual Report for the financial year ended 31 December 2010. A statement, as directed by the Ministry, furnishing particulars of the subsidiary companies, forms part of this Annual report. Audited accounts of all the subsidiary companies are available at the registered office of the company for inspection by the members. The company will make these documents available upon request by any member of the company.

### Corporate Governance

In accordance with clause 49 of the Listing Agreement with the Stock Exchanges, a separate report on Corporate Governance and Management's Discussion & Analysis, together with a certificate from the company's Auditors, are provided as a part of this Annual Report.

### Disclosure as per the companies (Disclosure of particulars in the report of board of directors) Rules, 1988

In terms of 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, your Directors furnish the required details below:

(a) Conservation of Energy:

The nature of your company's operations is not energy-intensive. Your company considers its duty to conserve energy through relevant and modern asset investments like computer terminals, air conditioning systems, lighting and utilities to optimize energy use.

(b) Research and Development (R&D):

Your company is actively engaged in software research and development. The company's management team mentors R&D activity leading to market launch. The R&D team focuses on unique approaches that strengthen positioning with a blend of tools, frameworks and methodologies leading to value-added services.

(c) Technology absorption:

Your company believes that in addition to strategy, it is imperative to invest in business-strengthening research and development. In this regard, your company entered into alliances / tie-ups with major global players to access or deploy cutting-edge technologies wherever appropriate. Your company also invested in captive technology development through its extensive Research and Development, strengthening service quality.

(d) Foreign Exchange Earnings and Outgo:

The details of foreign exchange earnings (₹ 623 million) and outgo (₹ 79 million) are given in note no.10 & 9 of Schedule 17 - Notes to Accounts, forming a part of the Balance Sheet and Profit & Loss Account of your company.

### Particulars of Employees

In terms of the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended, the names and other particulars of the employees are set out in the annexure to the Directors' Report. Having regard to the provisions of Section 219(1)(b)(iv) of the said Act, the Annual Report excluding the aforesaid information is being sent to all the members of the company and others entitled thereto. Any member interested in obtaining such particulars may write to the Company Secretary at the registered office of the company.

### Fixed Deposits

Your company has not accepted any fixed deposits and as such no amount of principal or interest was outstanding as on the date of the Balance Sheet.

### Explanation to observation by auditors in their report

In respect of the auditors' observation on delays in repayment of dues to a bank in their annexure to the auditors' report at clause 11, your directors wish to state that, the company's cash flow constraints during the year resulted in delayed repayments to the bank. However, the company has no overdue as of date.

### Directors

Mr S Ravindra Babu and Mr Anil Kumar Sood, Directors of the company, retire by rotation at the ensuing Annual General Meeting and, being eligible, offer themselves for re-appointment.

Mr G V Kumar is being reappointed as the Managing Director for a further period of five years with effect from 1 April 2011, subject to the approval of the members at the ensuing Annual General Meeting.

Mr D Sudhakar Reddy is being reappointed as an Executive Director for a further period of five years with effect from 1 April 2011, subject to the approval of the members at the ensuing Annual General Meeting.

### Human Resources Development

Your company recognised the importance of human resources as a catalyst of success. Your company reinforced HR practices to recruit and retain talent leading to organisational value.

### Auditors

The joint statutory auditors, M/s Srikanth & Shanthi Associates and M/s TN Rajendran & Co., Chartered Accountants, retire at the ensuing Annual General Meeting and confirmed their eligibility and willingness to accept office, if re-appointed.

### Directors' responsibility statement

As required under Section 217(2AA) of the Companies Act, 1956, it is hereby stated that:

(i) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanations relating to material departures;

(ii) the directors had selected such accounting policies and applied them consistently and 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 at the end of the financial year and of the profit of the company for the year;

(iii) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; and

(iv) the directors had prepared the annual accounts on a "going concern basis".

### Employee Stock Option Schemes

As required by clause 12 of the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, the particulars of the stock options schemes are furnished as annexure to this report.

### Acknowledgements

Your directors place on record their appreciation of the customers, bankers, Government of India and of other countries, Registrar and Share Transfer Agent, vendors and Technology Partners for the support extended. Your directors also wish to place on record their appreciation of the contribution made by employees at all levels without whom the growth of the company is unattainable. Your directors seek and look forward to the same support during the future years of growth.

For and on behalf of the Board of Directors

Hyderabad
28 February 2011

**GV Kumar**
Managing Director

**S Ravindra Babu**
Chairman

# annexure to the directors' report

## Employees Stock Option Plans

| Particulars | ASOP 2004 | ESOS 2007 |
|---|---|---|
| Options outstanding as at the beginning of the year | 297,500 | 1,350,000 |
| (a) Options granted during the year | – | 2,645,000 |
| (b) Pricing Formula | Options have been granted at a discount to the latest available market price as on the date of grant. | Options have been granted at a discount to the latest available market price as on the date of grant. |
| (c) Options Vested** | 297,500 | 1,350,000 |
| (d) Options Exercised** | – | – |
| (e) Total no. of shares arising as result of exercise of Options | – | – |
| (f) Options lapsed * | 297,500 | 1,350,000 |
| (g) Variation in terms of Options | – | – |
| (h) Money realised by exercise of Options | – | – |
| (i) Total number of options in force** | – | 2,645,000 |
| ** The number of options have been reported as on 31 December 2009 | | |
| * Lapsed Options includes options cancelled/lapsed | | |
| (j) Employee wise details of options granted to: | | |
| - Senior Management | – | GV Kumar - 2,250,000 |
| - any other employee who received a grant in any one year of option amounting to 5% or more of option granted during the year | – | GV Kumar - 2,250,000 |
| - employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding warrants and conversions) of the company at the time of grant | – | GV Kumar - 2,250,000 |
| (k) Diluted earnings per share pursuant to issue of shares on exercise of option calculated in accordance with AS 20 'Earnings per Share' (₹) | 1.20 | |
| (l) Pro Forma Adjusted Net Income and Earning Per Share | | |
| Particulars | ₹ million | |
| Net Income | | |
| As Reported | 52.99 | |
| Add: Intrinsic Value Compensation Cost | 0.00 | |
| Less: Fair Value Compensation Cost | 8.53 | |
| Adjusted Proforma Net Income | 44.46 | |
| Earning Per Share: Basic | | |
| As Reported (₹) | 1.20 | |
| Adjusted Pro Forma (₹) | 1.00 | |
| Earning Per Share: Diluted | | |
| As Reported (₹) | 1.20 | |
| Adjusted Pro Forma (₹) | 1.00 | |
| (m) Weighted average exercise price of Options granted during the year whose | | |
| (a) Exercise price equals market price | – | 25.00 |
| (b) Exercise price is greater than market price | – | – |
| (c) Exercise price is less than market price | – | – |
| Weighted average fair value of options granted during the year whose | | |
| (a) Exercise price equals market price | – | 12.56 |
| (b) Exercise price is greater than market price | – | – |
| (c) Exercise price is less than market price | – | – |

| Particulars | ASOP 2004 | ESOS 2007 |
|---|---|---|
| (n) Description of method and significant assumptions used to estimate the fair value of options | The fair value of the options granted has been estimated using the Black-Scholes option pricing Model. Each tranche of vesting have been considered as a separate grant for the purpose of valuation. The assumptions used in the estimation of the same has been detailed below:<br>Weighted average values for options granted during the year | |

| Variables | | ASOP 2004 | ESOS 2007 |
|---|---|---|---|
| Stock Price | ₹ | – | 29.25 |
| Volatility | % | – | 59.53 |
| Riskfree Rate | % | – | 7.01 |
| Exercise Price | ₹ | – | 25.00 |
| Time To Maturity | Years | – | 2.22 |
| Dividend yield | % | – | 0.72 |
| Option Fair Value | ₹ | – | 12.56 |

Stock Price: Closing price on BSE as on the date of grant has been considered for valuing the grants.
Volatility: We have considered the historical volatility of the stock till the date of grant to calculate the fair value.
Risk-free rate of return: The risk-free interest rate being considered for the calculation is the interest rate applicable for a maturity equal to the expected life of the options based on the zero-coupon yield curve for Government Securities.
Exercise Price: Options have been granted at a discount to the latest available market price as on the date of grant.
Time to Maturity: Time to Maturity / Expected Life of options is the period for which the Company expects the options to be live. The minimum life of a stock option is the minimum period before which the options cannot be exercised and the maximum life is the time period after which the options cannot be exercised.
Expected dividend yield: The dividend yield for the year is derived by dividing the dividend per share by the average price per share of the respective period.

# corporate governance report

The Securities and Exchange Board of India (SEBI) has introduced a code of corporate governance for listed companies which are implemented through the Listing Agreement with the Exchanges with which the company is listed. The company has complied with the corporate governance requirements set out in clause 49 of the Listing Agreement.

## (1) COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

The company believes in adapting and adhering globally recognised standards of corporate conduct towards its employees, clients and society. Corporate Governance is an ongoing process ensuring integrity, transparency and accountability in dealing with employees, shareholders, customers and the community at large. The company has benchmarked its practices with the prevailing guidelines by upholding the core values across all aspects of its operations. The company's Board is fully aware of its fiduciary responsibilities in the widest sense of the term. The company's disclosures match, if not go beyond, the best practices recommended by all international corporate governance codes.

## (2) BOARD OF DIRECTORS

The composition and category of the Directors on the Board of the company are given below:

| Name of Director | Category of director | Designation | Date of appointment | Shareholding in company | |
|---|---|---|---|---|---|
| | | | | No. of shares | % |
| S Ravindra Babu | Promoter | Chairman | 29/06/1999 | 1,988,768 | 4.49 |
| GV Kumar | Executive | Managing Director | 01/09/2004 | 2,197,348 | 4.96 |
| D Sudhakar Reddy | Executive | Whole-time Director | 06/03/2000 | – | – |
| P Mukunda Reddy | Independent Non-Executive | Director | 16/06/2000 | 12,600 | 0.03 |
| Anil Kumar Sood | Independent Non-Executive | Director | 28/04/2007 | – | – |
| Anish Mathew | Independent Non-Executive | Director | 31/01/2009 | 107,570 | 0.24 |
| R Janardhana | Independent Non-Executive | Director | 31/01/2009 | 400 | 0.00 |

The Board met five times on March 31, May 13, August 6, September 9 and November 2 during the financial year ended 31 December 2010.

| Name of Director | No. of Meetings attended | | Attendance at AGM held on 30 June 2010 | Number of directorships in other public companies and Committee memberships / Chairmanships (only audit and shareholders / investors grievance committees considered) | | |
|---|---|---|---|---|---|---|
| | Held | Attended | | Directorships | Committee memberships | Committee Chairmanships |
| S Ravindra Babu | 5 | 3 | Yes | – | – | – |
| GV Kumar | 5 | 5 | Yes | – | – | – |
| D Sudhakar Reddy | 5 | 5 | Yes | – | – | – |
| P Mukunda Reddy | 5 | 5 | Yes | – | – | – |
| Anil Kumar Sood | 5 | 3 | No | – | – | – |
| Anish Mathew | 5 | 3 | No | – | – | – |
| R Janardhana | 5 | 5 | Yes | – | – | – |

The company circulates the Agenda papers for Board Meetings in advance before the Meeting. The directors actively participate in the discussions at the Board Meetings. There were no circular resolutions of the Board passed during the year under report. The company has granted leave of absence to directors from attending Board Meetings after due requisition from them.

## (3) AUDIT COMMITTEE

The primary objective of the Audit Committee is to monitor and provide effective supervision of the management's financial reporting process with a view to ensuring accurate, timely and proper disclosure and transparency, integrity and quality of financial reporting. The Audit Committee adheres to the Listing Agreement in terms of quorum for its meetings, functioning, role and powers as also those set out in the Companies Act, 1956. The functions of the committee include:

- Overseeing the company's financial reporting process and disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible
- Recommendation of appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services
- Review of quarterly / annual financial statements before submission to the Board
- Review of adequacy of internal control systems
- Review of adequacy of internal audit function, including the reporting structure, coverage and frequency of internal audit
- Review of the company's financial and risk management policies

The company has a qualified and independent Audit Committee, consisting of Independent Non-Executive Directors. All the members including the Chairman have adequate financial and accounting knowledge.

The Audit Committee met four times on March 31, May 13, August 6 and November 2 during the financial year ended 31 December 2010.

Composition of the Audit Committee as on 31 December 2010 and related information is given below:

| Director | No of Meetings held | No of Meetings attended |
|---|---|---|
| R Janardhana, Chairman | 4 | 4 |
| Anish Mathew | 4 | 3 |
| Anil Kumar Sood | 4 | 3 |
| P Mukunda Reddy | 4 | 4 |

The Company Secretary is the Secretary of the Audit Committee.

Executive Directors as well as the Internal and Statutory Auditors of the company, attend Audit Committee meetings to brief the Members. The Committee also invites Business and Departmental Heads, to discuss matters concerning their business / departments, as and when it deems necessary.

## (4) REMUNERATION / COMPENSATION COMMITTEE

The Committee determines the compensation and benefits for Board members, as well as for the Senior Management personnel. The Committee rewards the employees of the company based on their performance, experience, qualification and the value addition. The Committee also approves, allocates and administers the Employee Stock Option Plans delegated by the Board / Shareholders of the company subject to the Listing Agreement and other statutory regulations from time to time.

The Committee met twice on March 31 & August 6 during the financial year ended 31 December 2010.

During the year, the company paid sitting fees of ₹ 5,000 per meeting to its non-executive directors for attending the board and committee meetings. The company also reimburses the out-of-pocket expenses incurred by the directors for attending meetings.

Composition of the Remuneration / Compensation Committee as on 31 December 2010 and related information is given below:

| Director | No of Meetings held | No of Meetings attended |
|---|---|---|
| Anil Kumar Sood, Chairman | 2 | 2 |
| R Janardhana | 2 | 2 |
| Anish Mathew | 2 | 1 |
| P Mukunda Reddy | 2 | 2 |

The members at the AGM held on 23 June 2008 have approved payment of commission to the Non-Executive Directors (NED) within the ceiling of 1% of the net profits of the company as computed under the applicable provisions of the Companies Act, 1956. The said commission is decided each year by the Board of Directors and distributed amongst the NEDs based on their contribution at Board and certain Committee meetings, as well as the time spent on operational matters other than at meetings. The Company also reimburses the out-of-pocket expenses incurred by the Directors for attending meetings.

The details of remuneration paid to directors of the company during the year are given below: (₹ 000s)

| Director | Sitting fees | Salary | Perquisites | Commission | Total |
|---|---|---|---|---|---|
| S Ravindra Babu | – | – | – | – | – |
| GV Kumar | – | 6,634 | 1,851 | – | 8,485 |
| D Sudhakar Reddy | – | 624 | 432 | – | 1,056 |
| Anil Kumar Sood | 40 | – | – | 250 | 290 |
| P Mukunda Reddy | 55 | – | – | 250 | 305 |
| R Janardhana | 55 | – | – | 250 | 305 |
| Anish Mathew | 35 | – | – | 250 | 285 |

The remuneration paid to executive directors exclude contribution to gratuity fund and provision for leave encashment on retirement payable to them since the same is provided on actuarial basis for the company as a whole.

The severance payment to executive directors is in terms of the provisions of Section 318 of the Companies Act, 1956.

Notice period of executive directors is as per the company's rules.

GV Kumar was granted 1,350,000 stock options on 7 July 2007 at ₹ 128 per option convertible into equivalent equity shares of ₹ 10 each in three equal tranches at the end of first, second and third year from the date of grant. Considering the market scenario and the economical factors it was not feasible to exercise the stock options granted and the same got lapsed.

GV Kumar was granted 1,350,000 stock options on 6 August 2010 at ₹ 25 (market price) per option convertible into equivalent equity shares of ₹ 10 each in three equal tranches at the end of first, second and third year from the date of grant. He was further granted 900,000 stock options (performance based) on 6 August 2010 at ₹ 25 (market price) per option convertible into equivalent equity shares of ₹ 10 each in three equal tranches at the end of first, second and third year from the date of grant.

## (5) SHARE TRANSFER / INVESTORS GRIEVANCE COMMITTEE

The Committee oversees the share transfers and takes care of investor grievances. There were no meetings held during the financial year ended 31 December 2010.

The committee oversees the share transfers and takes care of investor grievances. There were no meetings held during the financial year ended 31 December 2010. P Mukunda Reddy, D Sudhakar Reddy and R Janardhana are the members of the committee.

The process of share transfer is assigned to Cameo Corporate Services Limited, the Registrars & Share Transfer Agent of the company, for taking care of share transfer formalities on an ongoing basis.

There were nine complaints (other than dividend warrant revalidation) received and resolved during the year under report. There were no pending complaints at the beginning or end of the year. There were no transfers pending at the end of the year. All the complaints have been resolved to the satisfaction of the investors.

The Board has designated GP Srinath, Company Secretary as the Compliance Officer of the company.

## (6) GENERAL BODY MEETINGS

**Annual General Meetings (AGM)**

| Year | AGM | Location | Date | Time | Special Resolutions passed |
|---|---|---|---|---|---|
| 2010 | 10th | Hotel Ramada Raj Park-Chennai<br>180, TTK Road, Alwarpet, Chennai 600018 | 29 June 2010 | 04.30 PM | No special resolution |
| 2009 | 9th | Hotel Ramada Raj Park-Chennai<br>180, TTK Road, Alwarpet, Chennai 600018 | 30 June 2009 | 10.30 AM | No special resolution |
| 2008 | 8th | Hotel Ramada Raj Park-Chennai<br>180, TTK Road, Alwarpet, Chennai 600018 | 23 June 2008 | 10.30 AM | (i) Payment of commission to non-executive directors<br>(ii) Authority to the Board for extension of exercise period under the ESOP (VisualSoft) scheme |

The resolutions were passed on show of hands with requisite majority.

**Extra-ordinary General Meetings (EGM)**

A Court convened meeting of the members of the company was held on 4 January 2010 at 4.00 PM at Hotel Ramada Raj Park-Chennai, 180, TTK Road, Alwarpet, Chennai 600018, in terms of the Order dated 26 November 2009 of the High Court of Judicature at Madras, for obtaining the approval of the members for the Scheme of Arrangement.

**Postal Ballot**

The Central Government has notified the Companies (Passing of Resolution by Postal Ballot) Rules, 2001 which lays down the business required to be passed by postal ballot.

A notice was sent to the members, pursuant to Section 192A of the Companies Act, 1956 and a draft resolution and the explanatory statement stating all material facts and reasons thereto. Members had to fill in the Postal Ballot forms duly sign and send it to the company. The Postal Ballot results were announced at the Registered Office of the company. Mr M Damodaran, Practising Company Secretary, was the scrutinizer for the postal ballot process.

During the financial year, the shareholders of the company, through postal ballot process approved the following resolution:

| Sl. No. | Subject | Resolution | Votes for the resolution | | Votes against the resolution | |
|---|---|---|---|---|---|---|
| | Postal Ballot Notice dated 9 September 2010, results declared on 15 October 2010 | | No. of shares | % | No. of shares | % |
| 1 | Resolution under Section 293(1)(a) of the Companies Act, 1956, for disposal of the company's properties - land and buildings (furnishings and fittings) at Kundanbagh, Begumpet, Hyderabad and land at Vishakhapatnam | Ordinary | 17,236,211 | 99.8526 | 25,387 | 0.1470 |

## (7) SUBSIDIARY COMPANIES

The company does not have a material non-listed Indian subsidiary whose turnover or net worth (i.e. paid-up capital and free reserves) exceeds 20% of the consolidated turnover or net worth of the listed holding company and its subsidiaries in the immediately preceding accounting year.

The financial statements of the subsidiary companies are placed before and reviewed by the Audit Committee.

Copies of the minutes of the Board meetings of the subsidiary companies are tabled at the Board Meetings of the company.

## (8) DISCLOSURES

There have been no materially significant related party transactions, pecuniary transaction or relationships between the Company and its Directors for the year ended 31 December 2010 that may have a potential conflict with the interests of the Company at large.

All details relating to financial and commercial transactions where Directors may have a pecuniary interest are provided to the Board, and the interested Directors neither participate in the discussion, nor do they vote on such matters.

Transactions with related parties, as per requirements of Accounting Standard 18, are disclosed elsewhere in this Annual Report and they are not in conflict with the interest of the company.

Business risk evaluation and managing such risks is an ongoing process within the organisation. The Board is regularly briefed of risks assessed and the measures adopted by the company to mitigate the risks.

No strictures/ penalties have been imposed on the company by the Stock Exchanges or SEBI or any statutory authority on any matters related to the capital market during the last three years.

The company's code of conduct has clearly laid down procedures for reporting unethical behaviour, actual or suspected fraud or violation of the ethics policies. No employee of the company was denied access to the Audit Committee.

Adoption of non-mandatory requirements under clause 49 of the Listing Agreement is being reviewed by the Board from time to time.

## (9) MEANS OF COMMUNICATION

The unaudited / half yearly financial results are announced within the stipulated time from the end of the quarter in terms of the Listing Agreement with the Stock Exchanges. The said results are taken on record by the Board of Directors and communicated to the Stock Exchanges where the company's securities are listed. Once the Stock Exchanges have been intimated these results are given by way of a Press Release to various news agencies and published within 48 hours in English and Tamil daily newspapers.

The audited annual financial results are announced within the stipulated time from the end of the last quarter in terms of the Listing Agreement with the Stock Exchanges. For the financial year ended 31 December 2010, the audited annual financial results announced on 28 February 2011. The said results are taken on record by the Board of Directors and communicated to the Stock Exchanges where the company's securities are listed. Once the Stock Exchanges have been intimated these results are given by way of a press release to various news agencies and published within 48 hours in English and Tamil daily newspapers.

The quarterly / half-yearly and the annual financial results are posted on the company's website - www.megasoft.com.

## (10) GENERAL SHAREHOLDER INFORMATION

- **Annual General Meeting**

  At 3.30 PM on Friday the 17th day of June 2011 at Hotel Ramada Raj Park-Chennai, 180, TTK Road, Alwarpet, Chennai 600018.

- **Financial calendar for 2011**

  1 January to 31 December

  Unaudited quarterly results for 2011

  First quarter - last week of April 2011

  Second quarter - last week of July 2011

  Third quarter - last week of October 2011

  Annual results for the year ending 31 December 2011 - February 2012

  Annual General Meeting for the year ending 31 December 2011 - May / June 2012

- **Date of book closure**

  10th to 17th day of June 2011 (both days inclusive)

- **Listing on Stock Exchanges**

  The company's equity shares are listed in India:

  Bombay Stock Exchange Limited
  Phiroze JeeJee Bhoy Towers, Dalal Street, Fort, Mumbai 400001

  National Stock Exchange of India Limited
  Exchange Plaza, Bandra-Kurla Complex, Bandra(E), Mumbai 400051

  Madras Stock Exchange Limited
  Exchange Building, New No.30 (Old No.11), Second Line Beach, Chennai 600001

  The company has paid the listing fees to the stock exchanges where its securities are listed.

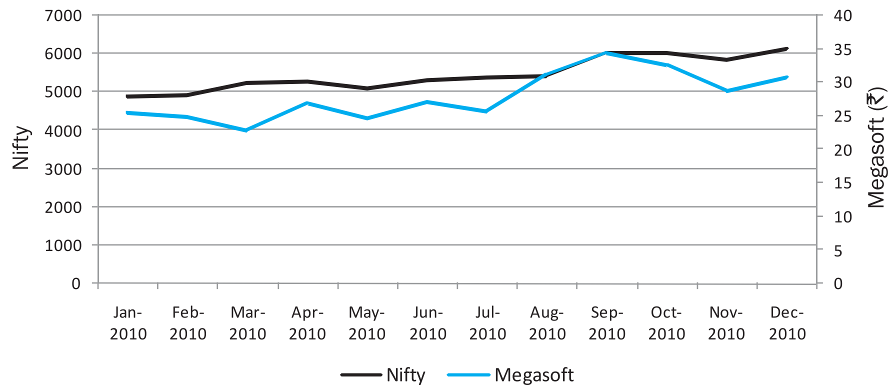
- **Stock Code**

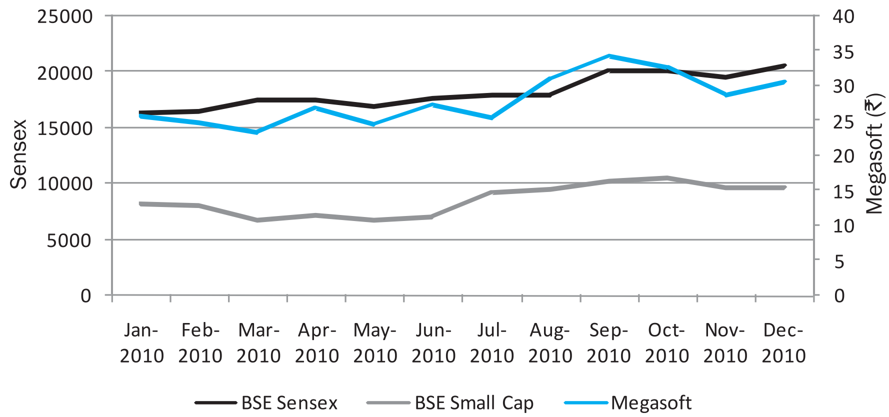
| Stock Exchange | Code |
|---|---|
| Bombay Stock Exchange Limited | 532408 |
| National Stock Exchange of India Limited | MEGASOFT |
| Madras Stock Exchange Limited | MEGASOFT |
| Bloomberg Code | MGSF@IN |
| Reuters Code | MSFT.BO |
| ISIN number for equity shares | INE933B01012 |

- **Stock market data**

| Months | Bombay Stock Exchange Limited | | | | National Stock Exchange of India Limited | | | |
|---|---|---|---|---|---|---|---|---|
| | High | Low | Close | Volume | High | Low | Close | Volume |
| | ₹ | ₹ | ₹ | Nos | ₹ | ₹ | ₹ | Nos |
| January | 34.65 | 24.35 | 25.70 | 1,476,480 | 34.35 | 24.60 | 25.30 | 1,656,667 |
| February | 29.10 | 23.90 | 24.65 | 280,298 | 29.80 | 24.00 | 24.80 | 270,603 |
| March | 27.85 | 21.05 | 23.35 | 312,433 | 28.25 | 21.85 | 22.75 | 479,061 |
| April | 28.50 | 23.40 | 26.75 | 731,448 | 28.00 | 23.15 | 26.90 | 608,044 |
| May | 28.75 | 22.95 | 24.55 | 575,018 | 28.30 | 22.80 | 24.65 | 462,284 |
| June | 28.75 | 23.80 | 27.35 | 404,776 | 28.50 | 24.15 | 27.10 | 398,106 |
| July | 27.60 | 23.95 | 25.45 | 311,332 | 27.40 | 24.10 | 25.60 | 492,123 |
| August | 34.00 | 24.65 | 31.00 | 1,770,702 | 33.70 | 24.55 | 31.10 | 2,025,569 |
| September | 41.25 | 31.00 | 34.20 | 2,931,598 | 41.10 | 30.55 | 34.35 | 3,305,861 |
| October | 36.25 | 31.15 | 32.60 | 331,730 | 36.40 | 32.10 | 32.60 | 304,898 |
| November | 37.95 | 27.70 | 28.70 | 929,305 | 38.00 | 27.80 | 28.75 | 423,482 |
| December | 33.50 | 26.65 | 30.60 | 247,655 | 33.50 | 26.55 | 30.75 | 285,573 |

* There were no trades during the year in the Madras Stock Exchange.




- **Registrars and Share Transfer Agents**
  Cameo Corporate Services Limited
  Subramanian Building, 1, Club House Road, Chennai 600002, India.
  Tel: +91.44.28460390, Fax: +91.44.28460129, email: cameo@cameoindia.com
- **Share Transfer System and other related matters**

(i) **Share transfers**

The share transfers in physical form are presently processed and the share certificates are generally returned within a period of 15 days from the date of receipt.

(ii) **Nomination facility for shareholding**

As per the provisions of the Companies Act 1956, facility for making nomination is available for shareholders in respect of shares held by them. Those shareholders who hold shares in physical form may obtain nomination forms from the company.

(iii) **Payment of dividend through Electronic Clearing Service**

The Securities and Exchange Board of India (SEBI) has made it mandatory for all companies to use the bank account details furnished by the depositories for depositing dividends through Electronic Clearing Service (ECS) to the investors wherever ECS and Bank details are available. In the absence of ECS facility the company is required to print the Bank account details, if available, on payment instruments for distribution of dividend to the shareholders. The company is complying with SEBI's directive in this regard.

(iv) **Unclaimed Dividends**

Section 205 of the Companies Act, 1956, mandates that companies transfer dividend that has been unclaimed for a period of seven years from the unpaid dividend account to the Investor Education and Protection Fund (IEPF). In accordance with the following schedule, the dividend for the years mentioned as follows, if unclaimed within a period of seven years, will be transferred to IEPF.

| Financial Year | Date of Declaration | Due date for transfer to IEPF |
|---|---|---|
| Dividend of erstwhile VisualSoft Technologies Limited | | |
| 2003-2004 | September 16, 2004 | October 23, 2011 |
| 2004-2005 | September 16, 2005 | October 23, 2012 |
| Dividend declared by Megasoft Limited | | |
| 2006 | June 27, 2007 | August 2, 2014 |
| 2007 | June 23, 2008 | July 30, 2015 |

(v) **Dividend remitted to IEPF**

| Financial Year | ₹ 000s |
|---|---|
| Dividend of erstwhile VisualSoft Technologies Limited | |
| 2010 | 298 |
| 2009 | 256 |
| 2008 | 341 |
| 2007 | 125 |

(vi) **Correspondence regarding Change of Address, etc.**

Shareholders are requested to ensure that any correspondence for change of address, change in Bank Mandates, etc. should be signed by the first named shareholder. The company is now also requesting for supporting documents such as proof of residence and proof of identification whenever a letter requesting for change of address is received. This is being done in the interest of shareholders as there are cases in the corporate world where attempts are made to fraudulently change the registered address of shareholders by unscrupulous parties. Shareholders are requested to kindly co-operate and submit the necessary documents / evidence while sending the letters for change of address. Shareholders who hold shares in dematerialised form should correspond with the Depository Participant with whom they have opened Demat Account/s.

(vii) **Pending Investors' Grievances'**

Any shareholder whose grievance has not been resolved to his / her satisfaction may kindly write to the Company Secretary at the Registered Office with a copy of the earlier correspondence.

- **Distribution of shareholding as on 31 December 2010**

| No of Shares held | No of Shareholders | % of Shareholders | No of Shares | % of Shareholding |
|---|---|---|---|---|
| 1-500 | 25,163 | 88.5896 | 2,653,135 | 5.9934 |
| 501-1000 | 1,564 | 5.5063 | 1,217,148 | 2.7495 |
| 1001-2000 | 730 | 2.5701 | 1,087,447 | 2.4566 |
| 2001-3000 | 263 | 0.9259 | 673,865 | 1.5223 |
| 3001-4000 | 128 | 0.4506 | 453,227 | 1.0238 |
| 4001-5000 | 127 | 0.4471 | 603,320 | 1.3629 |
| 5001-10000 | 198 | 0.6971 | 1,485,814 | 3.3565 |
| 10001 & Above | 231 | 0.8133 | 36,093,337 | 81.5350 |
| **Total** | **28,404** | **100.0000** | **44,267,293** | **100.0000** |

- **Dematerialisation of shares**

Megasoft shares are tradable compulsorily in electronic form and, through Cameo Corporate Services Limited, Registrars and Share Transfer Agents, we have established connectivity with both the depositories, that is, National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). The International Securities Identification Number (ISIN) allotted to our shares under the Depository System is INE933B01012.

Over 89.8% of outstanding equity shares of the company have been dematerialised as on 31 December 2010.

| Category | Number of shareholders | Number of shares | % to total equity |
|---|---|---|---|
| Demat mode | | | |
| NSDL | 20,294 | 35,745,675 | 80.7496 |
| CDSL | 7,256 | 4,040,905 | 9.1284 |
| Total | 27,550 | 39,786,580 | 89.8780 |
| Physical mode | 854 | 4,480,713 | 10.122 |
| **Grand Total** | **28,404** | **44,267,293** | **100.0000** |

- **Categories of shareholders**

| | Category | No of Shareholders | No of Shares held | % of Shareholding |
|---|---|---|---|---|
| A | **Shareholding of Promoter and Promoter Group** | | | |
| | Indian Promoters * | 4 | 3,203,956 | 7.2378 |
| | **Total Shareholding of Promoter Group** | **4** | **3,203,956** | **7.2378** |
| B | **Public Shareholding** | | | |
| 1 | Institutions | | | |
| | Mutual Funds / UTI | 2 | 2,029,988 | 4.5858 |
| | Financial Institutions / Banks | 1 | 12 | 0.0000 |
| | Venture Capital Funds | 1 | 3,762,375 | 8.4992 |
| | Insurance Companies | 1 | 30,478 | 0.0688 |
| | Foreign Institutional Investors | 7 | 5,417,815 | 12.2389 |
| | Sub Total B(1) | 12 | 11,240,668 | 25.3927 |
| 2 | Non-institutions | | | |
| | Bodies Corporate | 763 | 6,293,906 | 14.2180 |
| | Individuals | 26,617 | 17,744,289 | 40.0844 |
| | Others: | | | |
| | Directors & their Relatives | 8 | 2,394,261 | 5.4086 |
| | HUF | 685 | 515,751 | 1.1651 |
| | Trusts | 6 | 3,262 | 0.0074 |
| | Foreign Company | 1 | 1,747,872 | 3.9485 |
| | NRI | 264 | 1,101,728 | 2.4888 |
| | OCB | 1 | 31 | 0.0000 |
| | Clearing Members | 43 | 21,569 | 0.0487 |
| | Sub Total B(2) | 28,388 | 29,822,669 | 67.3695 |
| | **Total Public Shareholding (B)=B(1)+B(2)** | **28,400** | **41,063,337** | **92.7622** |
| | **Total (A+B)** | **28,404** | **44,267,293** | **100.0000** |

**Shareholders holding more than 1% of the equity share capital**

| Sl.No. | Name of the shareholder | No of Shares | % of Shareholding |
|---|---|---|---|
| 1 | S Ravindra Babu * | 1,988,768 | 4.4927 |
| 2 | S Ravindra Babu - HUF * | 1,212,126 | 2.7382 |
| 3 | I Labs Venture Capital Fund | 3,762,375 | 8.4992 |
| 4 | Ashish Dhawan | 3,554,769 | 8.0302 |
| 5 | Venkataraman Kumar Gandaravakottai | 2,197,348 | 4.9638 |
| 6 | Copthall Mauritius Investment Limited | 2,123,300 | 4.7965 |
| 7 | Chintalapati Holdings Private Limited | 1,769,822 | 3.9980 |
| 8 | Birla Sun Life Trustee Company Pvt Ltd A/C Birla Sun Life Equity Fund | 1,756,856 | 3.9687 |
| 9 | Saif II Mauritius Company Limited | 1,747,872 | 3.9485 |
| 10 | Morgan Stanley Mauritius Company Limited | 1,427,483 | 3.2247 |
| 11 | Godavari Greenlands Private Limited | 1,343,750 | 3.0355 |
| 12 | Deutsche Securities Mauritius Limited | 1,252,725 | 2.8299 |
| 13 | Satyavathi Dendukuri | 835,500 | 1.8874 |
| 14 | Srinivas Raju D | 747,600 | 1.6888 |
| 15 | BNP Paribas Arbitrage | 500,000 | 1.1295 |
| 16 | Venturetech Solutions P Ltd | 458,250 | 1.0352 |
| | | **26,678,544** | **60.2668** |

* The promoters have pledged 1,971,870 shares.

- **Plant locations**

  In view of the nature of the company's business viz. Information Technology (IT) services, the company operates from various offices in India and abroad and does not have any manufacturing plant.

- **Address for correspondence**

  Company Secretary
  Megasoft Limited
  85, Kutchery Road, Mylapore, Chennai 600004
  Tel: +91.44.24616768 Fax: +91.44.24617810
  email: investors@megasoft.com

## (11) SHARE CAPITAL HISTORY

| Date of Allotment | No. of Shares | Consideration | | Paid-up Capital (₹) | Remarks |
|---|---|---|---|---|---|
| 29/06/1999 | 800 | Cash | | 8,000 | Subscribers to the Memorandum of Association |
| 29/12/1999 | 1,130,000 | Cash | | 11,300,000 | Allotted to Promoters |
| 31/12/1999 | 169,200 | Cash | | 1,692,000 | Allotted to Promoters |
| 31/12/1999 | 500,000 | Cash | | 5,000,000 | Allotted to Megasoft Employees Welfare Trust as part of ESOP/ESPP |
| 14/01/2000 | 2,029,100 | Cash | # | 20,291,000 | Allotted to Mr S Ravindra Babu, NRI |
| | 1,670,900 | Cash | # | 16,709,000 | Allotted to KR Investments Corpn, OCB |
| 24/08/2000 | 5,150,500 | Swap | * | 51,505,000 | Allotted to Shareholders of Indus e-Solutions Limited |
| 12/06/2002 | 4,260,200 | Cash | @ | 42,602,000 | Rights Issue |
| 04/10/2002 | 207,075 | Cash | $ | 2,070,750 | Preferential Issue |
| 01/09/2004 | 10,330,625 | Swap | ** | 103,306,250 | Allotted to Shareholders of XIUS India Limited |
| 23/01/2006 | 776,869 | Cash | | 7,768,690 | Conversion of FCCB aggregating to USD 2 million |
| 27/02/2006 | 1,800,000 | Cash | | 18,000,000 | Conversion of 900,000 10% Convertible Redeemable Preference Shares of ₹ 100/- each issued on 28 February 2005 |
| 08/03/2006 | 1,328,125 | Cash | | 13,281,250 | Exercise of stock options under ESOP (XIUS) |
| 30/03/2006 | 773,391 | Cash | | 7,733,910 | Conversion of FCCB aggregating to USD 2 million |
| 26/04/2006 | 56,000 | Cash | | 560,000 | Exercise of stock options under ESOP 2001 |
| 16/05/2006 | 700,000 | Cash | | 7,000,000 | Conversion of 700,000 equity warrants of ₹ 50/- each (10% paid in advance) issued on 28 February 2005 to one of the Promoter Director |
| 14/07/2006 | 798,608 | Cash | | 7,986,080 | Conversion of FCCB aggregating to USD 2 million |
| 31/10/2006 | 87,500 | Cash | | 875,000 | Exercise of stock options under ESOP (XIUS) |
| 29/03/2007 | 10,925 | Cash | | 109,250 | Exercise of stock options under ESOP 2001 |
| 28/04/2007 | 2,675 | Cash | | 26,750 | Exercise of stock options under ESOP 2001 |
| 17/05/2007 | 12,484,800 | Swap | *** | 124,848,000 | Allotted to Shareholders of VisualSoft Technologies Limited |
| **Total** | **44,267,293** | | | **442,672,930** | |

\# Allotted to NRI / OCB in terms of letter No. FC 114(1999)/EOP/(98)/1999 dated 7 January 2000 of Secretariat for Industrial Assistance (EOU-NRI Section), New Delhi and approved by Reserve Bank of India vide their letter No. NRFAD/1308/100% EOU/M.328/1999-2000 dated 4 March 2000.

* Pursuant to the scheme of amalgamation of Indus e-Solutions Limited, a listed company, with Megasoft Limited as approved by the High Court of Judicature at Madras in Chennai w.e.f. 1 January 2000, one share of ₹ 10 each of Megasoft Limited aggregating to 5,150,500 equity shares were allotted to the shareholders of Indus e-Solutions Limited in the ratio of 1:1 on 24 August 2000.

@ Rights issue of 4,260,200 equity shares in the ratio of two shares for every five shares held, at ₹ 25 (premium of ₹ 15) per share.

$ Preferential issue of 207,075 equity shares at ₹ 70 (premium of ₹ 60) per share.

** Pursuant to the scheme of amalgamation of XIUS India Limited, an unlisted company, with Megasoft Limited as approved by the High Court of Judicature at Madras in Chennai on 22 June 2004 and the High Court of Judicature at Andhra Pradesh in Hyderabad on 16 July 2004, w.e.f. 1 January 2004, 10,330,625 equity shares of ₹ 10 each of the company allotted in exchange of 4,132,250 equity shares of ₹ 10 each to the shareholders of XIUS India Limited in the ratio of 2:5 on 1 September 2004.

*** Pursuant to the scheme of amalgamation of VisualSoft Technologies Limited with Megasoft Limited as approved by the High Court of Judicature at Madras in Chennai on 27 March 2007 and the High Court of Judicature at Andhra Pradesh in Hyderabad on 22 March 2007, w.e.f. 1 October 2006, 12,484,800 equity shares of ₹ 10 each of the company allotted in exchange of 19,975,680 equity shares of ₹ 10 each to the shareholders of VisualSoft Technologies Limited in the ratio of 5:8 on 17 May 2007.

# management's discussion & analysis

## 1. Background and overview

2010 was an inflection year for the company as it returned to profitability on the back of robust sales growth and cost rationalization initiatives taken in the previous years. The company generated ₹ 360 million of net operational cash flow; this, in addition to proceeds from the corporate office sale, helped the company reduce debt from ₹ 1971 million as on 31 December 2009 to ₹ 872 million as on 31 December 2010 with corresponding profit and margin implications. The company expects to leverage this financial foundation, stable core business, new product launches and a rebranded 'XIUS' positioning (Innovation, Agility, Execution, Excellence and Strong Financial Focus, reinforcing Customer Centricity) for business sustainability.

## 2. Financial results

The company reported a turnover of ₹ 1679 million in 2010 and an EBIDTA of ₹ 534 million, following which it provided ₹ 39 million for doubtful debts / bad debts and ₹ 39 million for foreign exchange fluctuation losses following rupee appreciation. The result was an overall profit of ₹ 217 million for the financial year under review.

The cash proceeds from the sale of our Hyderabad property as well as improved cash generation from our core business helped rationalize debt from ₹ 1971 million to ₹ 872 million. Besides, the company reduced its receivables cycle to around 108 days of turnover by end 2010. The result was enhanced corporate liquidity.

The adverse business environment notwithstanding, the company's telecom business grew, indicative of the potential of its mobile telephony platforms and applications. Following contract wins from mobile operators (Africa, Latin America and Asia Pacific) and innovation group launches, the company appears poised for robust growth.

## 3. Business outlook and industry

The company is a mobile technology specialist in three areas of real time transaction processing:

- Infrastructure and prepaid
- Retail mobile commerce
- Mobile advertising

The company's XIUS brand is a respected global provider of Prepaid Technologies, Real Time Session Control, Mobile Commerce and Advanced OSS Infrastructure Solutions to wireless carriers and service providers. The company derives the majority of its revenues from Tier 1 global carriers, recognized for its quality service bureau delivery model and operational support with the filing of over 105 global patents (26 granted). The company continues to be a pioneer in emerging mobile technologies.

Smart phones shipment increased 72.1% from 2009 worldwide[i] and 42% in the US[ii, iii] in 2010, which catalysed the use of data and data-centric applications. The progressive launch of 3G network services and the projected rollout of 4G/LTE will facilitate 'data heavy' mobile services including mobile commerce, video games and applications, advertising sponsored content and real time mobile transactions. The company is a pioneer in some of these service areas and poised to benefit from the impending revolution.

### RETAIL MOBILE COMMERCE:

Mobile commerce (including mobile payments for digital and physical goods, NFC mobile payments, mobile money transfer and remittances, mobile ticketing, mobile coupons and mobile banking) was a $ 160 billion industry worldwide in 2010 and expected to cross $ 1 trillion of gross transaction value by 2014.[iv] Internet commerce is now being superseded by mobile commerce marked by the launch of mobile commerce services like mobile banking, mobile money transfer, mobile bill payment, mobile wallet and retail mobile commerce. Since carriers are evolving point solutions to customized services, the company launched several mobile commerce solutions in key markets; a number of solutions are in the pilot or implementation stage leading to the prospect of robust transaction-based revenues.

### RETAIL MOBILE PUSH:

Global carriers launched a number of initiatives to expand their retail presence, comprising 'tap and go' services in retail chains, malls, small outlets as well as public places (parking places, bus shelters etc.). The company is poised to leverage products like channel manager, payment manager and MTT APD Solutions to capitalize on this mobile-driven retail services.

### MOBILE ADVERTISING:

The global mobile marketing industry is expected to grow to $ 24 billion by 2013.[v] India's mobile advertising sector is expected to grow from around $ 25 million to $ 1 billion by 2013[vi], leveraging 3G's superior video quality and faster Internet access afforded by 3G enabling the convenient viewing of advertisements, short advertisement clippings and jingles on mobile instruments, hitherto restricted to television and Internet. Interestingly, advertisement-subsidized rate plans are gaining momentum as a 'here and now' use of mobile advertising for direct subscriber benefits, which will open up an entirely new dimension in the history of the telecom sector. XIUS is expected to capitalize on this trend through its Ad Value Platform leveraging rich experience in Carrier OSS and Real Time Session Control.

### US PREPAID INDUSTRY:

The company derives more than 60% of its revenues through prepaid services provided in the United States. As of 2010, 65% of all new subscribers in the US were prepaid customers,[vii] one of the fastest growing telecom segments within that country. The US prepaid market accounted for 18% of global cell phone users by end 2009 and 20% by end 2010, catalysed by young consumers; in 2010, 24% of the US population aged 15-24 years used prepaid mobile services while 18% of the population 25 years and above used prepaid services.[viii] As US consumers manage their budgets closely and the average age of cell phone users declines, the percentage of prepaid users is expected to grow rapidly.

### US RURAL BROADBAND INITIATIVE:

The United States Government, as part of its economic stimulus program, announced an overall package of $ 787 billion of stimulus grants ($ 7.2 billion allocated towards the expansion of broadband availability in rural areas through regional rural carriers[ix]). Several carriers will significantly expand their infrastructure and capability to offer mobile prepaid, broadband and data services. The company, an entrenched US rural carrier player, is poised to benefit from this infrastructure spending and expected to expand customers for its Mobile Service Platform, prepaid and other offerings.

On the overall, the company's targeted mobile segments are reporting significant growth and the company is confident of reporting attractive growth.

## 4. XIUS Products, Solutions & Business Overview:

### (A) SOLUTIONS

The company possesses products and applications catering to three mobile telecom segments.

#### (I) Infrastructure and Prepaid

**Infinite Prepaid**

The real-time rating, call processing, and subscriber management capabilities of the XIUS INfinet prepaid platform help carriers drive profitable prepaid services growth. This state-of-the-art solution supports flexible service creation, pay per use, bucket plans, unlimited service models, or anytime rating and charging of convergent services (Voice, Data, Messaging and Content).

XIUS is a dominant US prepaid market player, delivering world-class carrier-grade prepaid services to large Tier 1 and regional operators. XIUS's INfinet is a full-featured, high-quality solution pre-integrated to US networks and third party vendors.

The company derives more than 60% of its revenues from this segment, continuously engaged in technology innovation and feature-functionality improvements. Its convergent pre-paid platform continues to set wireless industry standards. This platform is now being positioned into enterprise, broadband and upcoming segments.

Mobile Service Platform (MSP) for Small Carriers and MVNE / MVNOs

XIUS's MSP solution provides a cost-effective, end-to-end mobile services infrastructure platform to the small operator, MVNEs and

MVNOs in a managed services model. MSP is a modular, stable, reliable platform that can support core and specialized mobile services. This scalable platform permits carriers to start small but scale rapidly to million of subscribers. MSP consists of all OSS and BSS elements required to roll out successful mobile service offerings:

- Network Elements; HLR, IN, Mediation Devices, GMSC, GGSN, MNP, SIP Session Control, GMLC
- Messaging & Media; SMSC, MMSC, VMS, USSD, WAP Gateway
- Customer & Business Intelligence; BI, Customer Care, Reporting, Subscriber Self Care
- Service Delivery; Roaming, USSD Callback
- BSS; Real-time Billing, Channel Manager, Recharge, Diameter Charging, Provisioning, Tariffs, AAA / Radius

Our managed services model, reinforced by our mobile market knowledge and technical expertise, enables carriers to launch services with minimal resources, freeing them to focus on market and business growth while XIUS manages end-to-end network and IT operations.

**XIUS INergy (Real Time Service Control)**

XIUS INergy is a core network element that enables carriers to extend traditional services to the world in real-time - whether to convert postpaid services to real-time or launch new age opt-in value-added services (like mobile payment, mobile advertising, and others). Our 20-plus years of mobile network session control experience helped us create a platform to enable carriers to do all of the above in a secure, scalable and reliable manner. XIUS INergy services Tier 1 and regional operators globally.

**Roaming Management**

XIUS provides solutions for roaming footprint expansion (InstaRoam through a partner in India) and the steering of roaming (PowerRoam through a partner in North America) solutions utilized by operators across the world. These solutions and partners leverage our 15 years of experience in providing managed service bureau roaming services.

XIUS Premium Prepaid Roaming addresses a need among Latin American carriers for competitive roaming rates with a single SIM. The solution makes it possible for carriers to offer prepaid roaming services to their prepaid and postpaid subscribers, eliminating shocks from unexpectedly high roaming bills. As a result, roamers will not need to seek alternative roaming solutions to escape high roaming rates, ensuring that mobile operators now retain and grow their roaming revenues. Several carriers expressed an interest in this solution being offered by the company.

**(II) Retail Mobile Commerce**

Mobile Touch Transaction (Active Poster Device)

The XIUS Mobile Touch Transaction - Active Poster Device Platform (MTT - APD) is a revolutionary concept to integrate all carrier services and mobile commerce initiatives with the retail storefront. With this 'virtual mall', carriers will now be able to sell top-ups and value-added services (ring tones, wall paper, music etc.) at any retail store with subscribers not required to go through complicated SMS-based menus to buy these services. The MTT-AP is presently under pilot launch with several leading global carriers and the Company expects to generate significant revenues from this product starting 2011.

**Retail Channel Management**

The XIUS Channel Manager makes it possible for carriers to gain a direct control and real-time access to all retail outlets in a single point. This enables carriers to launch tailor-made channel strategies, offer real-time transactions to subscribers and support strong reporting and fraud control. The XIUS Channel Manager has supported over $ 1 billion in transactions and has been successfully deployed with a number of Tier 1 carriers.

**Mobile Money Transfer and Recharge**

The XIUS payment manager is a comprehensive solution that enables carriers to offer electronic recharge, account-to-account balance transfer as well as the launch of domestic and international money transfer services. This simple, secure and integrated solution includes loyalty and reward programs, fraud management as well as retail management capabilities. Deployed across 11 countries already and a proven category leader, this solution is capable of processing million of transactions.

**Mobile Banking**

XIUS, in partnership with Diemo Mobile (a US and Latin America mobile banking company), launched a complete full-service, end-to-end banking and financial services platform. This mobile banking solution includes loading and unloading funds, money transfer, mobile via the mobile phone.

**(III) Mobile Advertising**

**XIUS Ad Value**

The XIUS Ad Value Platform empowers carriers to deliver end-to-end mobile advertising services regardless of the channel (SMS, MMS, WAP or voice).

Advertisers need a system to define what campaign to push for their targeted users. The system needs to define rules for confining campaign duration in a segment, especially tools to give advertisers a sense how the end user behaves during a campaign, track available time slots for a campaign and a metric tool to calculate investment return.

Carriers require available infrastructure to facilitate mobile advertising, data aggregation of the target segment, mechanism for revenue settlement and a content or advertisement aggregation platform to deliver specific advertisements to subscribers.

XIUS Ad Value makes it possible for carriers to integrate brand and retail channels and launch customized advertisement campaigns and ad-based rate plans customized around subscriber needs. The platform consists of real-time voice insertion, multiple channel delivery, analytics, couponing-cum-voucher management system as well as a comprehensive transaction management engine. Several leading carriers have expressed an interest in this platform.

**(B) BUSINESS STRATEGY & PRIORITIES, 2011**

After two (2008 and 2009) difficult years, the company returned to profitability and financial stability in 2010. In 2011, the company will focus on revenue growth on the one hand as well as the launch of new products and solutions on the other. The company derives 75% of its revenues from a managed services model, ensuring revenue predictability and continuity. The company will continue to focus on this delivery model for its new platforms as well. In 2011, the company intends to expand and upgrade its US data centre and infrastructure in addition to its R&D centre and back office infrastructure in India.

The company's two key markets in 2011 will be Latin America and India, while continuing to expand in the United States, its largest market.

**(C) OPERATIONAL PRIORITIES**

'Innovation, execution excellence and agility' have been identified as three of the company's four core values. Relevantly, the company is strengthening new solutions, operational efficiency, excellence, delivery quality and customer support. In line with 'customer centricity' being the fourth core philosophy, resource allocation and operational metrics are centered on customer satisfaction. Periodic senior management meetings with key customers, customer satisfaction survey and customer-delivery quality improvement initiatives will represent an integral part of 2011 priorities that grow the business of its customers.

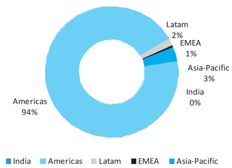
**(D) SOURCES OF REVENUE**

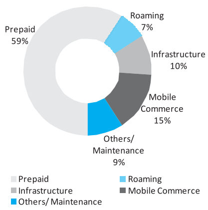
XIUS derives revenues through the following revenue models:

- Hosted managed services (ASP): The company operates its platform end-to-end on data centers and is remunerated monthly based on a revenue-share or per-subscriber transaction-fee model around a multi-year contract. This accounts for more than 75% of the company's revenues. The company also charges an up-front technology implementation fee from ASP customers.
- Software licensing: The company offers platforms on a capacity licensing basis to carriers, wherein its platforms are installed in the carrier's premises in return for a one-time license fee for a stated subscriber capacity.
- Maintenance and customization: The company also realizes revenues derived out of

the customization of its platforms to suit specific service needs of carrier customers. It is remunerated on the basis of work assessment and statement of work (SOW) submission, generating steady revenues and, together with annual maintenance contracts, offers another stream of annuity-based revenues.

## 5. Segment-wise performance




## 6. Outlook

The global telecom industry is passing through a transition in terms of technologies, subscriber expectations and mobile commerce. The company has made proactive investments in new products and mobile segments to capitalize on emerging trends.

## 7. Risks and concerns

The Megasoft management embarked on a number of initiatives to mitigate business risks (below):

Market risk:

Megasoft's growth is dependent on the growth of the wireless telecom industry. The telecom industry has historically suffered from an extended sales cycle and high debtors' position, detrimental to cash flows. While 2010 represented a turn-around for the global economy, with correspondingly positive implications for the company, sustained capital expenditure in the mobile industry remains uncertain, potentially affecting the company's performance.

Protection of Intellectual Property Rights:

In a knowledge-driven business, the primary responsibility is to safeguard intellectual property. The company encourages employees to ideate and file patents to protect intellectual property. Megasoft applied for 105 patents in the last few years, of which 26 were granted by the USPTO.

Litigation:

There is an increasing trend towards litigation regarding intellectual property rights, patents and trademarks in the software and telecom industry. This is in addition to other corporate legal risks. Megasoft is not engaged in any material litigation in any court in India or abroad. The company has an insurance policy in place to mitigate business risks.

Foreign exchange fluctuation risks:

Megasoft has exposure to foreign exchange-related risks on account of earnings denominated in foreign currencies arising from the export of software, products and solutions. A majority of the company's revenues are US dollar-denominated; the continued appreciation of the Indian rupee vis-à-vis the USD can depress revenues and margins. The fact that a major part of the company's expenditure is in US dollars serves as a natural hedge. The company did not enter into any derivative transactions during the year under review.

Client concentration risk:

The company's five leading clients contribute more than 75% of revenues, resulting in a high dependency on them. The company expanded its sales focus on new geographies and market segments, potentially widening its revenues across more revenues and clients.

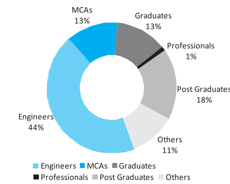
## 8. Internal control

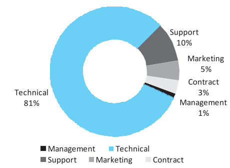
The company possessed an adequate system of internal controls to safeguard assets. Checks and balances were in place and reviewed at regular intervals to ensure that transactions were properly authorized and reported correctly. An Audit Committee, in consultation with Internal Auditors, reviewed the internal control systems at regular intervals and initiated corrective action(s) wherever deemed necessary

In addition to the above, the company has initiated a corporate management initiative to define best practices in processes, methodologies, systems and metrics with a specific focus on customer interaction and service delivery. The company commissioned a new research and development organization with supporting processes, customer support, managed services processes, management reporting and control systems (MRCS) and automation. Going forward, the company will regularly assess risks and controls for existing and new process flows.

## 9. Human Asset

The company enjoys cordial relationships with employees. It provides a professionally rewarding and enriching work environment. An effective performance management system focuses on employee development, measuring key result areas, competencies and training needs. The company advocates a work-life balance coupled with welfare activities that enhance cohesiveness.




i IDC Press Release. IDC Forecasts Worldwide Smartphone Market to Grow by Nearly 50% in 2011, http://www.idc.com/getdoc.jsp?containerId=prUS22762811, (March 29, 2011)

ii Canalys Estimates. Smartphone sales up in 2009; RIM leads the way in U.S.

http://www.intomobile.com/2010/03/17/smartphone-sales-up-in-2009-rim-leads-the-way-in-u-s/, (March 17, 2010),

iii Gartner Newsroom, Gartner Says Worldwide Mobile Device Sales to End Users Reached 1.6 Billion Units in 2010; Smartphone Sales Grew 72 Percent in 2010, http://www.gartner.com/it/page.jsp?id=1543014 (February 9, 2011)

iv Yankee Group, Global Mobile Transaction Value Will Near $1 Trillion by 2014, http://mobile-financial.com/node/13698/Global-Mobile-Transaction-Value-Will-Near-$1-Trillion-by-2014, (February 15,2011)

v Dharmakumar, Rohin, Mobile Apps In India: Not an Apt Offering Telecom operators do not want to pay app developers a higher revenue share. This does not bode well for the industry, Forbes India, http://business.in.com/printcontent/19692, (December 1st, 2010)

vi Mobile Apps In India: Not an Apt Offering, http://business.in.com/printcontent/19692, (December 1, 2010)

vii Seeking Alpha, Sprint: Betting on the Prepaid Wireless Market, http://seekingalpha.com/article/212446-sprint-betting-on-the-prepaid-wireless-market, (June 29,2010)

viii Mixed Thing, 97% Indian youth use prepaid Mobile services, http://mixedthing.blogspot.com/2011/02/97-indian-youth-use-prepaid-mobile.html, (February 26, 2011)

ix Dixon, Kim, U.S. broadband stimulus likely to aid smaller firms, Reuters, http://www.reuters.com/article/2009/02/20/us-usa-stimulus-broadband-smbiz-idUSTRE51J3IG20090220, (February 20th, 2009)

## Year under Review

The financial statements complied with the requirements of the Companies Act, 1956, and the Generally Accepted Accounting Principles (GAAP) in India.

## Financial performance (consolidated)

### Share capital

There was no change in the share capital of the company during the financial year under review.

### Reserves and surplus

As the company continued to focus on telecom products and services, it reduced its debts to strengthen its financial structure. The company obtained the consent of shareholders through a postal ballot process (results announced on 15 October 2010) for the sale of land and building (including furnishings and fittings) at Hyderabad and land at Vishakhapatnam (acquired through the scheme). The company sold its Hyderabad property and the related loss from sale was set-off to the Amalgamation Reserve (grouped under General Reserve) created in terms of the Scheme of Amalgamation ('Scheme') sanctioned by the order dated 27 March 2007 of the High Court of Judicature at Madras in Chennai and the order dated 22 March 2007 of the High Court of Judicature at Andhra Pradesh in Hyderabad, VisualSoft Technologies Limited ('VisualSoft') was amalgamated with the Company with effect from 1 October 2006.

The movement in Foreign Currency Translation Reserve was ₹ 27 million during the financial year under review.

### Secured loans

Secured loans declined from ₹ 1815 million to ₹ 687 million on account of the repayment of the loans during the year under review out of the cash generation from the operations and cash realization from sale of the Hyderabad property.

### Unsecured loan

Unsecured loans increased from ₹ 157 million to ₹ 185 million.

### Deferred tax liability / asset

The company recognized a deferred tax debit of ₹ 26 million during the year mainly arising from sale of the Hyderabad property. Accordingly, the deferred tax liability (net) was ₹ 4 million at the end of the financial year under review.

### Fixed assets

A reduction in the company's gross block of fixed assets was on account of sale of the Hyderabad property, while fixed assets additions of ₹ 43 million were made in the normal course of business.

### Goodwill on consolidation

Goodwill on consolidation was on account of accumulated losses in the overseas companies on the date of their acquisition and the excess consideration paid over and above their respective capital.

### Investments

No additional investments were made by the company during the financial year under review.

### Sundry debtors

Sundry debtors (net of provisions) stood at ₹ 495 million in 2010 against ` 914 million in the previous year. The company made an additional provision for doubtful debts of ₹ 39 million; aggregate provision for doubtful debts at the end of the year was ₹ 186 million.

### Cash and bank balances

There was a decline in Cash and Bank Balances from ₹ 266 million in 2009 to ₹ 80 million in 2010 in the normal course of business.

### Loans and advances

A decline in Loans and Advances from ₹ 634 million in 2009 to ₹ 489 million in 2010 was on account of a receipt of US$ 1.25 million for the divestment of the IT Services (BlueAlly) division with effect from 1 October 2009.

### Current Liabilities and Provisions

There was a decline in Current Liabilities from ₹ 527 million in 2009 to ₹ 203 million in 2010 in the normal course of business. A decline in Provisions from ₹ 95 million in 2009 to ₹ 45 million in 2009 was in the normal course of business.

## Results of Operation (Consolidated)

For the year ended 31 December (₹ million)

| | 2010 | 2009 |
|---|---|---|
| Revenues | 1679 | 3030 |
| EBIDTA | 534 | 386 |
| Finance Cost | 151 | 228 |
| Depreciation | 143 | 243 |
| Profit before tax | 214 | (250) |
| Less: Taxes | (3) | (29) |
| Profit after tax | 217 | (221) |

### Revenues

The company's consolidated revenues declined from ₹ 3030 million in 2009 to ₹ 1679 million in 2010, reflecting the impact of a divestment of the IT Services (BlueAlly) division with effect from 1 October 2009.

### Other Income / (Expenses)

The company suffered a foreign exchange loss (net) of ₹ 39 million due to rupee appreciation in 2010 as against ₹ 104 million in the previous financial year.

### Personnel cost

A decline in Personnel Costs from ₹ 2005 million in 2009 to ₹ 531 million in 2010 was on account of a divestment of the IT Services (BlueAlly) division with effect from 1 October 2009.

### Operating expenses

A decline in Operating Expenses from ₹ 639 million in 2009 to ₹ 613 million in 2010 was on account of the divestment of IT Services (BlueAlly) division with effect from 1 October 2009. The company made a provision for doubtful debts / write-off of debtors aggregating ₹ 39 million in 2010 as against ₹ 118 million in 2009.

### Finance charges

There was a decline in finance charges from ₹ 228 million in 2009 to ₹ 151 million in 2010 following loans repayment during the year under review out of cash generated by operations and cash proceeds from sale of the Hyderabad property.

### Depreciation

Depreciation was charged on a pro-rata basis on fixed assets purchased / sold during the year. Depreciation on assets acquired under finance lease / hire purchase was provided using the straight-line method over the shorter of the lease / hire purchase term and useful life of the asset. Depreciation provision was lower at ₹ 143 million as against ₹ 243 million in the previous financial year on account of the divestment of the IT Services (BlueAlly) division with effect from 1 October 2009 and sale of the Hyderabad property.

## Financial Performance (Standalone)

### Share Capital

There was no change in the share capital of the company during the financial year under review.

### Reserves and Surplus

As the company focuses on telecom products and services, it decided to reduce its debt. The company obtained consent of shareholders through a postal ballot process (results announced on 15 October 2010) for the sale of land and building (including furnishings and fittings) situated at Hyderabad and land at Vishakhapatnam (said properties acquired through the scheme). The company sold the Hyderabad property; the loss on sale of the same was set-off to the Amalgamation Reserve (grouped under General Reserve) created in terms of the Scheme of Amalgamation ('Scheme') sanctioned by the order dated 27 March 2007 of the High Court of Judicature at Madras in Chennai and the order dated 22 March 2007 of the High Court of Judicature at Andhra Pradesh in Hyderabad, VisualSoft Technologies Limited ('VisualSoft') was amalgamated with the Company with effect from 1 October 2006.

### Secured Loan

Secured loans declined from ₹ 434 million to ₹ 150 million on account of a reduction in working capital facilities initiated by the company subsequent to the sale of the Hyderabad property.

### Unsecured Loan

There was a reduction under this head following loan repayment during the year under review.

**Deferred tax liability**

The company recognized the deferred tax debit of ₹ 26 million during the year mainly arising on account of the sale of the Hyderabad property. Accordingly, the deferred tax liability (net) was ₹ 4 million as at the end of the financial year under review.

**Fixed Assets**

The reduction in the gross block of fixed assets was on account of sale of the Hyderabad property. The company added fixed assets worth ₹ 30 million during the normal course of business.

**Investments**

No additional investments were made by the company during the financial year under review.

**Sundry Debtors**

Sundry debtors (net of provisions) were ₹ 393 million at the end of 2010 as against ₹ 686 million at the close of the previous year. The company made an additional provision for doubtful debts of ₹ 39 million; in aggregate, the provision for doubtful debts at the end of the year was ₹ 186 million.

**Cash and Bank Balances**

The decrease in Cash and Bank Balances from ₹ 91 million in 2009 to ₹ 15 million in 2010 was in the normal course of business.

**Loans and Advances**

The increase in Loans and Advances from ₹ 463 million in 2009 to ₹ 837 million in 2010 was on account of funds provided to the wholly owned subsidiary to liquidate loans from Axis Bank out of the sale proceeds of the Hyderabad property.

**Current Liabilities and Provisions**

The decrease in Current Liabilities from ₹ 88 million in 2009 to ₹ 73 million in 2010 was in the normal course of business. The decrease in Provisions from ₹ 92 million in 2009 to ₹ 42 million in 2010 was in the normal course of business.

### Results of Operation (Standalone)

For the year ended 31 December (₹ million)

| | 2010 | 2009 |
|---|---|---|
| Revenues | 623 | 887 |
| EBIDTA | 240 | 427 |
| Finance Cost | 70 | 134 |
| Depreciation | 57 | 143 |
| Profit before tax | 50 | (5) |
| Less: Taxes | (3) | (29) |
| Profit after tax | 53 | 24 |

**Revenues**

Revenues were lower at ₹ 623 million in 2010 as against ₹ 887 million in 2009 on account of the divestment of the IT Services (BlueAlly) division with effect from 1 October 2009.

**Other Income/(Expenses)**

The company suffered a foreign exchange loss (net) of ₹ 37 million due to rupee appreciation in 2010 as against ₹ 95 million in 2009.

**Personnel Cost**

The decline in Personnel Cost from ₹ 354 million in 2009 to ₹ 287 million in 2010 was on account of the divestment of IT Services (BlueAlly) division with effect from 1 October 2009.

**Operating Expenses**

The decline in Operating Expenses from ₹ 106 million in 2009 to ₹ 96 million in 2010 was on account of the divestment of IT Services (BlueAlly) division, with effect from 1 October 2009.

The company made a provision for doubtful debts / write-off of debtors aggregating ₹ 39 million in 2010 as against ₹ 117 million in the year 2009.

**Finance charges**

The decrease in finance charges from ₹ 134 million in 2009 to ₹ 70 million in 2010 was on account of loans repayment during the year out of operations and sale of the Hyderabad property.

**Depreciation**

Depreciation was charged on a pro-rata basis on fixed assets purchased / sold during the year. Depreciation on assets acquired under finance lease / hire purchase was provided using the straight-line method over the shorter of the lease / hire purchase term and useful life of the asset. The depreciation charge was lower at ₹ 57 million as against ₹ 143 million in the previous financial year on account of the divestment of the IT Services (BlueAlly) division, with effect from 1 October 2009 and sale of the Hyderabad property.

# auditors' certificate on corporate governance

**To the Members of Megasoft Limited**

We have examined the compliance of conditions of Corporate Governance by Megasoft Limited, for the year ended 31 December 2010, as stipulated in Clause 49 of the Listing Agreement of the said compliance with the Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the company has complied in all material respect with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

We state that no investor grievance is pending for a period exceeding one month against the company as certified by the share transfer agents of the company, based on the records maintained by them.

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 **Srikanth & Shanthi Associates**
Chartered Accountants
Firm Registration No.004006S

**MC Srikanth**
Partner
Membership No.18588

for **TN Rajendran & Co.**
Chartered Accountants
Firm Registration No.005080S

**TN Rajendran**
Partner
Membership No.28778

Hyderabad
28 February 2011

## Chief Executive Officer (CEO) and Chief Financial Officer (CFO) Certification

We, the undersigned, in our respective capacities as Chief Executive Officer and Chief Financial Officer of Megasoft Limited ("the Company"), to the best of our knowledge and belief certify that:

(1) we have reviewed the financial statements and the cash flow statement for the financial year ended 31 December 2010 and based on our knowledge and belief, we state that;
  - (i) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading; and
  - (ii) these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

(2) there are no transactions entered into by the company during the year which are fraudulent, illegal or violative of the company's code of conduct;

(3) we are responsible for establishing and maintaining internal controls and for evaluating the effectiveness of the same over the financial reporting of the Company and have disclosed to the Auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies;

(4) we have indicated, based on our most recent evaluation, wherever applicable, to the Auditors and Audit Committee:
  - (i) significant changes, if any, in the internal control over financial reporting during the year;
  - (ii) significant changes, if any, in the accounting policies made during the year and that the same has been disclosed in the notes to the financial statements; and
  - (iii) instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having significant role in the Company's internal control system over financial reporting.

Hyderabad
28 February 2011

**GV Kumar**
Managing Director

**GP Srinath**
VP (Finance) & Secretary

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## Declaration regarding compliance by Board members and senior management personnel with the company's code of conduct

This is to confirm that the company has adopted a Code of Conduct for the Board of Directors and senior management of the company. The same is available on website of the company at www.megasoft.com. As Managing Director of Megasoft Limited and as required by clause 49(I)(D)(ii) of the Listing Agreement of the Stock Exchanges in India, I hereby declare that all the Board members and senior management personnel of the company have affirmed compliance with the Code of Conduct for the financial year 2010.

Hyderabad
28 February 2011

**GV Kumar**
Managing Director

# auditors' report on the consolidated financial statements

**To the Board of Directors of Megasoft Limited**

We have examined the attached consolidated balance sheet of Megasoft Limited ("the Company") and its subsidiary companies (collectively called "the Megasoft Group") as of 31 December 2010 and the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date, annexed thereto.

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. 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 prepared in all material respects, in accordance with an identified financial reporting framework generally accepted in India and 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.

We did not audit the financial statements of the subsidiary companies, whose financial statements reflect total assets of ₹ 1115 million as at 31 December 2010 and total revenues of ₹ 1349 million for the year ended on that date. These financial statements have been audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of the subsidiary companies, is based solely on the report of the other auditors.

We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard 21 - Consolidated Financial Statements prescribed by the Companies (Accounting Standards) Rules, 2006.

On the basis of the information and explanations given to us and on the consideration of the separate audit reports on individual audited financial statements of the Megasoft Group, we are of the opinion that:

(i) the consolidated balance sheet gives a true and fair view of the consolidated state of affairs of the Megasoft Group as at 31 December 2010;

(ii) the consolidated profit and loss account gives a true and fair view of the consolidated results of operations of the Megasoft Group for the year ended on that date; and

(iii) the consolidated cash flow statement gives a true and fair view of the consolidated cash flows of the Megasoft Group for the year ended on that date.

for **Srikanth & Shanthi Associates**
Chartered Accountants
Firm Registration No.004006S

**MC Srikanth**
Partner
Membership No.18588

Hyderabad
28 February 2011

for **TN Rajendran & Co.**
Chartered Accountants
Firm Registration No.005080S

**TN Rajendran**
Partner
Membership No.28778

# consolidated balance sheet

as at 31 December (₹ 000s)

| | Schedule | 2010 | 2009 |
|---|---|---|---|
| **SOURCES OF FUNDS** | | | |
| **Shareholders' Funds** | | | |
| Share Capital | 1 | 442,673 | 442,673 |
| Reserves & Surplus | 2 | 1,629,384 | 1,751,552 |
| | | **2,072,057** | **2,194,225** |
| **Loan Funds** | | | |
| Secured Loans | 3 | 686,845 | 1,814,727 |
| Unsecured Loans | 4 | 185,323 | 157,040 |
| | | **872,168** | **1,971,767** |
| Deferred tax liability | | 4,153 | – |
| | | | |
| | | **2,948,378** | **4,165,992** |
| **APPLICATION OF FUNDS** | | | |
| **Fixed Assets** | 5 | | |
| Gross Block | | 1,615,031 | 2,388,708 |
| Less: Accumulated Depreciation | | (619,687) | (573,735) |
| **Net Block** | | **995,344** | **1,814,973** |
| | | | |
| Goodwill on consolidation | | 1,015,750 | 1,015,750 |
| Investments | 6 | 121,230 | 121,230 |
| Deferred tax asset | | – | 21,712 |
| **Current Assets, Loans & Advances** | | | |
| Sundry Debtors | 7 | 495,045 | 914,122 |
| Cash & Bank balances | 8 | 79,926 | 265,595 |
| Loans & Advances | 9 | 489,293 | 634,453 |
| | | **1,064,264** | **1,814,170** |
| Less: Current Liabilities & Provisions | 10 | 248,210 | 621,843 |
| **Net Current Assets** | | **816,054** | **1,192,327** |
| | | | |
| | | **2,948,378** | **4,165,992** |
| Significant Accounting policies | 16 | | |
| Notes to Accounts | 17 | | |

The Schedules referred to above and Notes thereon form an integral part of the Balance Sheet.

As per our Report of even date attached

for **Srikanth & Shanthi Associates**
Chartered Accountants

for **TN Rajendran & Co.**
Chartered Accountants

**MC Srikanth**
Partner
Membership No.18588

**TN Rajendran**
Partner
Membership No.28778

Hyderabad
28 February 2011

For and on behalf of the Board of Directors

**GV Kumar**
Managing Director

**D Sudhakar Reddy**
Director

**GP Srinath**
Secretary

# consolidated profit & loss account

for the year ended 31 December

(₹ 000s)

| | Schedule | 2010 | 2009 |
|---|---|---|---|
| **INCOME** | | | |
| Revenues | | 1,679,055 | 3,029,865 |
| Other Income / (Expenses) | 11 | 13,871 | (46,509) |
| **Total Income** | | **1,692,926** | **2,983,356** |
| | | | |
| **EXPENDITURE** | | | |
| Personnel cost | 12 | 531,058 | 2,004,666 |
| Operating expenses | 13 | 652,634 | 757,566 |
| Finance cost | 14 | 151,477 | 228,061 |
| Depreciation | 5 | 143,426 | 242,715 |
| **Total Expenditure** | | **1,478,595** | **3,233,008** |
| | | | |
| **PROFIT** | | | |
| Profit / (Loss) before tax | | 214,331 | (249,652) |
| Less: Taxes | 15 | (2,733) | (28,659) |
| **Profit / (Loss) after tax** | | **217,064** | **(220,993)** |
| Balance brought forward | | 910,922 | 1,131,915 |
| Profit available for appropriation | | 1,127,986 | 910,922 |
| | | | |
| **APPROPRIATIONS** | | | |
| Balance carried to Balance Sheet | | 1,127,986 | 910,922 |
| | | 1,127,986 | 910,922 |
| | | | |
| Earnings per share (equity shares, par value ₹ 10 each) | | | |
| Basic (₹) | | 4.90 | (4.99) |
| Diluted (₹) | | 4.90 | (4.89) |
| Number of shares used in computing | | | |
| Basic | | 44,267,293 | 44,267,293 |
| Diluted | | 44,267,293 | 45,167,293 |
| | | | |
| Significant Accounting policies | 16 | | |
| Notes to Accounts | 17 | | |

The Schedules referred to above and Notes thereon form an integral part of the Profit & Loss Account.

As per our Report of even date attached

for **Srikanth & Shanthi Associates**
Chartered Accountants

**MC Srikanth**
Partner
Membership No.18588

for **TN Rajendran & Co.**
Chartered Accountants

**TN Rajendran**
Partner
Membership No.28778

Hyderabad
28 February 2011

For and on behalf of the Board of Directors

**GV Kumar**
Managing Director

**D Sudhakar Reddy**
Director

**GP Srinath**
Secretary

# consolidated cash flow statement

for the year ended 31 December (₹ 000s)

| | 2010 | 2009 |
|---|---|---|
| Cash flows from operating activities | | |
| Profit / (Loss) before taxation | 214,331 | (249,652) |
| Adjustments for: | | |
| Depreciation & Amortisation | 143,426 | 242,715 |
| Loss / (Profit) on sale / discard of Fixed Assets | 5,584 | 5,419 |
| Employees Stock Compensation expense | (14,413) | 1,530 |
| Provision for retirement benefits | 3,583 | (24,908) |
| Exchange differences on translation (net) | 40,127 | 9,534 |
| Provision for Doubtful Debts | 39,135 | 95,880 |
| Interest received | (5,416) | (786) |
| Finance cost | 151,477 | 228,061 |
| Operating profit before working capital changes | 577,834 | 307,793 |
| (Increase) / Decrease in Sundry Debtors | 379,942 | 670,183 |
| (Increase) / Decrease in Loans & Advances | 122,274 | 342,667 |
| (Decrease) / Increase in Current Liabilities | (323,889) | (107,750) |
| Taxes paid during the year | (1,843) | (9,985) |
| Net cash provided by operating activities | 754,318 | 1,202,908 |
| | | |
| Cash flows from investing activities | | |
| Purchase / acquisition of Fixed Assets | (42,702) | (435,517) |
| Goodwill on consolidation | — | (134,760) |
| Proceeds from sale / impairment of Fixed Assets | 350,000 | 11,516 |
| Interest received | 5,416 | 786 |
| Net Cash used for investing activities | 312,714 | (557,975) |
| | | |
| Cash flows from financing activities | | |
| Business Reconstruction Reserve | (1,625) | (28,769) |
| Proceeds / (repayment) - FCCB | — | (97,160) |
| Proceeds from long-term borrowings | — | 605,020 |
| Repayment of long-term borrowings | (790,094) | (83,600) |
| Unsecured (other) loans - borrowings / (repayments) | 28,283 | 13,658 |
| Increase / (Decrease) in working capital / demand loans | (337,788) | (677,812) |
| Finance cost | (151,477) | (228,061) |
| Net cash provided by financing activities | (1,252,701) | (496,724) |
| | | |
| Net increase in cash & cash equivalents | (185,669) | 148,209 |
| Cash & Cash equivalents at the beginning of the year | 265,595 | 117,386 |
| Cash & Cash equivalents at the end of the year | 79,926 | 265,595 |

As per our Report of even date attached

for **Srikanth & Shanthi Associates**
Chartered Accountants

**MC Srikanth**
Partner
Membership No.18588

for **TN Rajendran & Co.**
Chartered Accountants

**TN Rajendran**
Partner
Membership No.28778

Hyderabad
28 February 2011

For and on behalf of the Board of Directors

**GV Kumar**
Managing Director

**D Sudhakar Reddy**
Director

**GP Srinath**
Secretary

# schedules to the consolidated financial statements

as at 31 December (₹ 000s)

| | | 2010 | 2009 |
|---|---|---|---|
| 1 | **SHARE CAPITAL** | | |
| | Authorised | | |
| | 75,000,000 Equity Shares of ₹ 10 each | 750,000 | 750,000 |
| | Issued, Subscribed & Paid-up | | |
| | 44,267,293 Equity Shares of ₹ 10 each fully paid-up | 442,673 | 442,673 |

[Out of the above:

(i) 5,150,500 Equity Shares of ₹ 10 each were allotted as fully paid-up equity shares for a consideration other than cash pursuant to the Scheme of Amalgamation of Indus e-Solutions Limited with the Company w.e.f. 1 January 2000;

(ii) 10,330,625 Equity Shares of ₹ 10 each were allotted as fully paid-up equity shares for a consideration other than cash pursuant to the Scheme of Amalgamation of XIUS India Limited with the Company w.e.f. 1 January 2004; and

(iii) 12,484,800 Equity Shares of ₹ 10 each were allotted as fully paid-up equity shares for a consideration other than cash pursuant to the Scheme of Amalgamation of VisualSoft Technologies Limited with the Company w.e.f. 1 October 2006]

as at 31 December (₹ 000s)

| | | 2010 | 2009 |
|---|---|---|---|
| 2 | **RESERVES & SURPLUS** | | |
| | **Securities Premium** | | |
| | As per last Balance Sheet | 25,066 | 475,066 |
| | Less: Transfer to Business Reconstruction Reserve | – | (450,000) |
| | | 25,066 | 25,066 |
| | **Foreign Currency Translation Reserve** | | |
| | As per last Balance Sheet | (71,442) | (43,880) |
| | Movement during the year | 26,816 | (27,562) |
| | | (44,626) | (71,442) |
| | **Employee Stock Options** | | |
| | Employee Stock Options outstanding | | |
| | As per last Balance Sheet | 15,711 | 17,904 |
| | Additions during the year | – | – |
| | Deletions / adjusted during the year | (15,711) | (2,193) |
| | | – | 15,711 |
| | Less: Deferred Compensation Expense | | |
| | As per last Balance Sheet | 1,298 | 5,021 |
| | Additions during the year | – | – |
| | Amortised / adjusted during the year | (1,298) | (3,723) |
| | | – | 1,298 |
| | | – | 14,413 |
| | **General Reserve** | | |
| | As per last Balance Sheet | 886,865 | *1,686,865 |
| | Less: Loss on sale / disposal of property | (350,010) | – |
| | Less: Transfer to Business Reconstruction Reserve | – | (800,000) |
| | | 536,855 | 886,865 |
| | * Include ₹ 1,598,065 on amalgamations | | |
| | [Refer Note No.11 of Schedule 17] | | |
| | **Business Reconstruction Reserve** | | |
| | As per last Balance Sheet | 3,763 | – |
| | Transfer from Securities Premium | – | 450,000 |
| | Transfer from General Reserve | – | 800,000 |
| | Net of realisation on disposal of IT Services ('BlueAlly') Division | (1,625) | (1,246,237) |
| | | 2,138 | 3,763 |
| | [Refer Note No.12 of Schedule 17] | | |
| | **Profit & Loss Account** | | |
| | Balance in Profit & Loss Account | 1,127,986 | 910,922 |
| | Accumulated profit/(loss) on date of acquisition/disposal of subsidiary companies regrouped | (18,035) | (18,035) |
| | | 1,109,951 | 892,887 |
| | | **1,629,384** | **1,751,552** |
| | | | |
| 3 | **SECURED LOANS** | | |
| | Foreign Currency Loan from Bank | 536,668 | 1,380,574 |
| | Working Capital / Demand loan from Banks | 149,363 | 431,408 |
| | Vehicle Loans | 814 | 2,745 |
| | | **686,845** | **1,814,727** |
| | [Refer Note No.2 of Schedule 17] | | |
| | | | |
| 4 | **UNSECURED LOANS** | | |
| | From bodies corporate | 185,323 | 157,040 |
| | | **185,323** | **157,040** |

## 5 FIXED ASSETS

(₹ 000s)

| Particulars | Gross Block | | | | Depreciation | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Cost as at 1-Jan-2010 | Additions | Deletions / Adjustments* | Cost as at 31-Dec-2010 | As at 1-Jan-2010 | For the year | On Deletions / Adjustments* | Total as at 31-Dec-2010 | As at 31 December 2010 | As at 31 December 2009 |
| Land & Land development | 701,304 | 855 | (270,450) | 431,709 | – | – | – | – | 431,709 | 701,304 |
| Buildings | 516,278 | – | (516,278) | – | 66,551 | 20,167 | (86,719) | (1) | 1 | 449,727 |
| Plant & Machinery | 15,012 | 2,549 | – | 17,561 | 2,646 | 772 | – | 3,418 | 14,143 | 12,366 |
| Computer systems & Software | 1,054,549 | 39,282 | – | 1,093,831 | 446,925 | 116,112 | – | 563,037 | 530,794 | 607,624 |
| Furniture & Fittings | 39,603 | 16 | – | 39,619 | 20,523 | 1,561 | – | 22,084 | 17,535 | 19,080 |
| Vehicles | 19,344 | – | (530) | 18,814 | 15,249 | 2,922 | (530) | 17,641 | 1,173 | 4,095 |
| Intellectual Property Rights | 6,800 | – | – | 6,800 | 6,800 | – | – | 6,800 | – | – |
| Patents | 268 | – | – | 268 | 268 | – | – | 268 | – | – |
| **Total** | **2,353,158** | **42,702** | **(787,258)** | **1,608,602** | **558,962** | **141,534** | **(87,249)** | **613,247** | **995,355** | **1,794,196** |
| Exchange fluctuation on Consolidation | 35,550 | (29,121) | – | 6,429 | 14,773 | (8,333) | – | 6,440 | (11) | 20,777 |
| **Total** | **2,388,708** | **13,581** | **(787,258)** | **1,615,031** | **573,735** | **133,201** | **(87,249)** | **619,687** | **995,344** | **1,814,973** |
| Previous year | 2,463,128 | 436,606 | (511,026) | 2,388,708 | 765,640 | 245,971 | (437,876) | 573,735 | 1,814,973 | |

* Deletions in the previous year include impairment of assets as envisaged in the Scheme of Arrangement between the company and the equity shareholders duly approved by the Hon'ble High Court of Madras.

| as at 31 December | | (₹ 000s) |
|---|---|---|
| | **2010** | **2009** |
| **6 INVESTMENTS** | | |
| Trade (Unquoted) - at cost | | |
| In other companies | | |
| Keystone Wireless, LLC, USA | 121,230 | 121,230 |
| represents 5% of the capital on the date of investment | | |
| | **121,230** | **121,230** |
| | | |
| **7 SUNDRY DEBTORS** | | |
| Debts outstanding for a period exceeding six months | | |
| considered good | 192,187 | 230,842 |
| considered doubtful | 185,717 | 146,581 |
| Other debts - unsecured, considered good | 302,858 | 683,280 |
| | 680,762 | 1,060,703 |
| Less : Provision for doubtful debts | (185,717) | (146,581) |
| | **495,045** | **914,122** |
| | | |
| **8 CASH & BANK BALANCES** | | |
| Cash in hand | 39 | 27 |
| Balance with Scheduled Banks: | | |
| In Current Accounts | 4,475 | 99,138 |
| In Deposit Accounts | 10,627 | 83,806 |
| Balance with Non-Scheduled Banks | | |
| In Current Accounts | 61,257 | 79,269 |
| In Deposit Accounts | 3,528 | 3,355 |
| | **79,926** | **265,595** |
| | | |
| **9 LOANS & ADVANCES** | | |
| (Unsecured, considered good) | | |
| Advances recoverable in cash or in kind or for value to be received | 441,983 | 565,489 |
| Deposits | 19,217 | 17,985 |
| Advance Income-tax | 28,093 | 50,979 |
| | **489,293** | **634,453** |
| | | |
| **10 CURRENT LIABILITIES & PROVISIONS** | | |
| **Current Liabilities** | | |
| Sundry Creditors | | |
| for goods / services | 77,051 | 386,311 |
| for accrued salaries and benefits | 3,807 | 3,721 |
| Other Liabilities | 119,541 | 133,702 |
| Unclaimed Dividends | 2,916 | 3,470 |
| | **203,315** | **527,204** |
| **Provisions** | | |
| Provision for retirement benefits | 12,511 | 8,928 |
| Provision for taxation (net) | 32,384 | 85,711 |
| | **44,895** | **94,639** |
| | **248,210** | **621,843** |

for the year ended 31 December (₹ 000s)

| | | 2010 | 2009 |
|---|---|---|---|
| 11 | **OTHER INCOME / (EXPENSES)** | | |
| | Miscellaneous Income | 47,623 | 9,224 |
| | Interest received | 5,416 | 786 |
| | Gain on redemption of Foreign Currency Convertible Bonds | — | 47,760 |
| | Net Foreign Exchange gain / (loss) | (39,168) | (104,279) |
| | | **13,871** | **(46,509)** |
| 12 | **PERSONNEL COST** | | |
| | Salaries & Bonus including overseas staff expenses | 355,391 | 977,731 |
| | Contribution to Provident & Other Funds | 8,256 | 11,511 |
| | Social security and other benefit plans for overseas employees | 22,153 | 28,918 |
| | Employees Welfare expenses | 9,794 | 20,093 |
| | Employees Stock compensation expense | (14,413) | 1,530 |
| | | 381,181 | 1,039,783 |
| | Software Development expenses | 149,877 | 964,883 |
| | | **531,058** | **2,004,666** |
| 13 | **OPERATING EXPENSES** | | |
| | Rent | 40,968 | 91,488 |
| | Rates & Taxes | 12,866 | 15,350 |
| | Communication expenses | 221,168 | 207,940 |
| | Travel & Conveyance | 97,897 | 91,811 |
| | Insurance | 11,972 | 38,490 |
| | Power & Fuel | 34,259 | 44,254 |
| | Repairs & Maintenance | | |
| | Machinery | 94,254 | 36,919 |
| | Others | 7,514 | 3,161 |
| | Printing & Stationery | 14,986 | 12,517 |
| | Loss / (Profit) on sale / discard of Fixed Assets | 5,584 | 5,419 |
| | Business Development expenses | 33,590 | 18,203 |
| | Legal & Professional expenses | 16,934 | 51,686 |
| | Auditors' remuneration | 1,856 | 1,421 |
| | Managerial remuneration | 11,644 | 10,002 |
| | Miscellaneous expenses | 8,007 | 10,949 |
| | Bad debts written-off | — | 22,076 |
| | Provision for doubtful debts | 39,135 | 95,880 |
| | | **652,634** | **757,566** |
| 14 | **FINANCE CHARGES** | | |
| | Interest on Term Loans | — | 1,273 |
| | Interest on Foreign Currency Loan | 81,253 | 88,853 |
| | Interest on Working Capital / Demand Loans | 33,074 | 97,875 |
| | Interest on Other Loans | 19,322 | 26,862 |
| | Other Finance Charges | 17,828 | 13,198 |
| | | **151,477** | **228,061** |
| 15 | **TAXES** | | |
| | Current tax | 7,000 | 5,355 |
| | Fringe benefit tax | — | 500 |
| | Deferred tax expense / (benefit) | 25,867 | (34,514) |
| | Earlier year tax | (35,600) | — |
| | | **(2,733)** | **(28,659)** |

## 16 SIGNIFICANT ACCOUNTING POLICIES

1 Basis of preparation of consolidated financial statements

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

The financial statements are prepared in accordance with the principles and procedures required for the preparation and presentation of consolidated financial statements as laid down under the accounting standard on Consolidated Financial Statements as specified in the Companies (Accounting Standards) Rules, 2006. The financial statements of Megasoft Limited and its subsidiaries have been combined on a line-by-line basis by adding together book values of like items of assets, liabilities, income and expenses after eliminating intragroup balances and transactions and resulting unrealized gain / loss. The consolidated financial statements are prepared by applying uniform accounting policies in use at the Group. Minority interests have been excluded. Exchange difference resulting from the difference due to translation of foreign currency assets and liabilities in subsidiaries is disclosed as foreign currency translation reserve.

2 Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Examples of such estimates include estimates of carrying value of work in progress, provision for doubtful debts and useful life of fixed assets. Actual results could differ from estimates.

3 Revenue Recognition

Revenue from software development on the time and material basis is recognised based on software developed and billed to clients as per the terms of specific contracts. In the case of fixed-price contracts, revenue is recognised based on the milestones achieved as specified in the contracts or on the percentage of completion basis. Provision for estimated losses on incomplete contract is recorded in the period in which such losses become probable based on the current estimates. Revenues from product licenses and related revenues are recognised as follows:

- Licence fees, on delivery and subsequent milestone schedule as per the terms of the contract with the end user.
- Product maintenance revenues, over the period of the maintenance contract.

4 Fixed Assets & Depreciation

Fixed assets are stated at cost of acquisition less accumulated depreciation. Direct costs such as freight, installation costs, duties and taxes are included in the cost of the asset until the assets are ready to be put to use. Assets acquired under hire purchase / leases are capitalized and the corresponding liability is recorded at an amount equal to the fair value of the hired / leased asset or the present value of the minimum hire / lease payments, whichever is lower, at the inception of the lease / hire purchase. Lease rentals in respect of leased assets are charged to Profit and Loss Account. Initial costs incurred in connection with specific leasing / hire purchase activities directly attributable to activities performed for a finance lease / hire purchase are included as part of the amount recognised as an asset under the lease / hire purchase. Depreciation on fixed assets is provided using the straightline method other than in German subsidiary, wherein reducing balance method is followed, in accordance with the rates specified under the local laws of the respective countries. Depreciation is charged on a pro-rata basis on fixed assets purchased / sold during the period. Depreciation on assets acquired under finance lease / hire purchase is provided using the straight-line method over the shorter of the lease / hire purchase term and useful life of the asset.

5 Investments

Investments in other companies are classified as long-term investments and are stated at cost. Any diminution in value is to be determined for each investment individually on the basis of its expected benefits to the Company. The exact quantum of such benefits is dependent on a number of uncertain future events.

6 Foreign Currency transactions

The Consolidated Financial Statements are prepared in Indian Rupees, which is the functional currency for Megasoft Limited. The translation of the functional currencies into the reporting currency is performed for assets and liabilities of the foreign subsidiary companies currency using the current exchange rates in effect at the balance sheet date, for revenues, costs and expenses using average exchange rates prevailing during the reporting periods and for share capital, using the exchange rate at the date of the transaction. The resultant translation exchange gain/loss has been disclosed as "Foreign Currency Translation Reserve" under "Reserves & Surplus".

All income and expenditure transactions of the foreign branch during the year are included in these accounts at the average rate of exchange. Monetary assets and liabilities at rates prevailing on the balance sheet date. Non-monetary assets and liabilities are translated at the rate prevailing on the date of the transaction. Depreciation is translated at the rates used for the translation of the values of the assets on which depreciation is computed. Net gain/loss on foreign currency translation is recognised in the Profit & Loss Account.

In case of forward exchange contract or any other financial instruments that is in substance a forward exchange contract to hedge the foreign currency risk which is on account of firm commitment and / or is a highly probable forecast transaction, the premium or discount arising at the inception of the contract is amortised as expense or income over the life of the contract.

Gains / Losses on settlement of transaction arising on cancellation or renewal of such a forward exchange contract are recognised as income or expense for the period.

In all other cases the gain or loss on contract is computed by multiplying the foreign currency amount of the forward exchange contract by the difference between the forward rate available at the reporting date for the remaining maturity of the contract and the contracted forward rate (or the forward rate last used to measure a gain or loss on that contract for an earlier period) is recognised in the profit and loss account for the period.

7 Retirement benefits

India

Contributions to provident fund are deposited with a recognised provident fund. Provision for gratuity and leave encashment is made on the basis of an actuarial valuation.

Subsidiary companies

Retirement benefits are provided to employees of subsidiary companies in accordance with the local laws and regulations prevailing in the country in which the subsidiary company is located.

8 Borrowing cost

Borrowing costs other than those directly attributable to qualifying Fixed Assets are recognised as an expense in the period in which they are incurred.

9 Taxes

Current tax

Current tax is measured at the amount expected to be paid out or recovered from the tax administration adopting the applicable rates in force.

Deferred tax

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future. However, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognized only if there is virtual certainty of realisation of such assets. Deferred tax assets are reviewed at each balance sheet date and written down or written up to reflect the amount that is reasonable / virtual certainty (as the case may be) to be realised.

The break-up of major components of the deferred tax assets and liabilities as of each year end Balance Sheet date have been arrived at after setting off deferred tax assets and liabilities where the Group has a legally enforceable right to set-off assets against liabilities and where such assets and liabilities relate to taxes on income levied by the same governing laws.

## 17 NOTES TO ACCOUNTS

[All amounts in the financial statements are presented in Rupees thousands, except for per share data and as otherwise stated]

**1 Description of the Group**

Megasoft Limited ("the Company") together with its subsidiary companies (collectively "the Group") are engaged in the business of providing Information Technology services to customers.

| Name of the subsidiary company | Country of Incorporation | % of holding |
|---|---|---|
| Megasoft Consultants Sdn Bhd | Malaysia | 100% |
| Megasoft Consultants Pte Ltd | Singapore | 100% |
| XIUS Holding Corp (formerly Boston Communications Group, Inc.) | USA | 100% |
| Xius Corp (formerly Cellular Express, Inc.) | USA | 100% |
| BCGI Wireless Pvt Ltd | India | 100% |

**2 Secured loans / borrowings**

(a) For borrowings by the company

(i) The working capital loan facilities from Axis Bank are secured by a first charge on entire current assets and fixed assets (except company's assets acquired under hire purchase scheme), present and future, of the company.

(ii) The demand loan facility from Tamilnad Mercantible Bank which was secured by a first charge on company's immovable property at Vizag was repaid during the year. The loan repayable within one year is Nil (Previous year - ₹ 180,000).

(iii) Vehicles are hypothecated to the Banks / Financial Institutions as security for the amounts borrowed by the Company. Amount repayable within one year is ₹ 499 (Previous year - ₹ 2,494).

(b) Collaterals for borrowings by the company's wholly owned subsidiary

(i) The foreign currency loan of US$ 25 million from Axis Bank, Dubai to XIUS Holding Corp., USA, which was secured by a pari passu first charge on the assets of XIUS Holding Corp., USA and the company's land and building situate at Kundanbagh, Begumpet, Hyderabad, was repaid during the year. The loan repayable within one year is Nil (Previous year - US$ 8.33 million).

(ii) The foreign currency loan of US$ 12 million (previous year US$ 13 million) from Axis Bank, Hong Kong to XIUS Holding Corp., USA, against the SBLC from Axis Bank, Hyderabad, India, is secured by a pari passu first charge on the assets of XIUS Holding Corp., USA and company's land and building situate at Kundanbagh, Begumpet, Hyderabad, in the previous year.

**3 Deferred Taxation**

(₹ 000s)

| as at 31 December | 2010 | 2009 |
|---|---|---|
| Deferred tax comprise | | |
| Fixed Assets | 18,309 | (18,678) |
| Retirement benefits | (4,253) | (3,034) |
| Provision for doubtful debts | (9,903) | -- |
| Net deferred tax liability / (asset) (timing difference) | 4,153 | (21,712) |

**4 Goodwill on consolidation**

Goodwill arising on account of acquisition of subsidiary companies are not being amortised.

(₹ 000s)

| as at 31 December | 2010 | 2009 |
|---|---|---|
| XIUS Holding Corp (formerly Boston Communications Group, Inc.) | | |
| Accumulated losses on the date of becoming subsidiary i.e. 30 August 2007 | 1,015,750 | 1,015,750 |

5 **Related party transactions**

Associates - Entities controlled by Director/s

S Ravindra Babu HUF

Aries Foundations Private Limited, Kovalam Property Development Private Ltd, NMR Property Development Private Limited, Olive Island Properties Development Private Ltd, Sannareddy Holdings Private Limited, SR Heritage Farms Private Limited, SR Modern Structures Private Limited, SRB Infrastructure Private Limited, Sri City Infrastructure Development Private Limited, Sri City Property Development Private Limited, Sri Security Services Private Limited, Sricity Holdings India Private Limited, Sricity Security Services Private Limited, Sricity E-World Private Limited, Uthandi Property Development Private Ltd, Manapad Power Generation Private Limited, Sricity Utility Services Private Limited, Sricity Electricity Company Private Limited, Sansri Powers Private Limited, Suprani Farms Private Limited, Sri City Private Limited, Innovative Water Solutions Limited.

Directors & Key Management personnel

GV Kumar & D Sudhakar Reddy

(₹ 000s)

| | for the year ended 31 December | | as at 31 December | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Associates | | | | |
| Lease rental paid | — | 300 | | |
| Reimbursement of common expenses received | 1,053 | 1,441 | | |
| Due to / (from) | | | (219) | (614) |
| Directors & Key Management Personnel | | | | |
| Remuneration to Executive Directors | 9,541 | 8,701 | | |
| Commission to Non-Executive Directors | 1,000 | 1,000 | | |
| Directors' sitting fees | 185 | 125 | | |

There are no provisions for doubtful debts / advances in respect of related parties as at the Balance Sheet date or amounts written-off or written back during the year in respect of debts due from or to related parties.

## 6 Segmental Information

Subsequent to divestment of IT Services ('BlueAlly') Division, w.e.f. 1 October 2009, the company has a single reportable segment, that of Telecom.

Secondary segmental reporting is reported on the basis of the geographical location of customers. Geographical revenues are segregated based on the location of the customer who is invoiced or in relation to which the revenue is otherwise recognised.

(₹ 000s)

| for the year ended 31 December | 2010 | 2009 |
|---|---|---|
| **Business Segment (Primary)** | | |
| Revenues | | |
| IT Services | – | 794,298 |
| Telecom | 1,679,055 | 2,235,567 |
| | **1,679,055** | **3,029,865** |
| Segment result profit | | |
| IT Services | – | 95,900 |
| Telecom | 495,363 | 264,887 |
| | **495,363** | **360,787** |
| Less: Operating expenses (unallocable) | – | 197,433 |
| Less: Finance charges | 151,477 | 228,061 |
| Less: Depreciation and Amortisation | 143,426 | 242,715 |
| Other Income / (Expenses) | 13,871 | 57,770 |
| Profit before taxes | 214,331 | (249,652) |
| Less: Taxes | (2,733) | (28,659) |
| **Profit after taxes** | **217,064** | **(220,993)** |
| | | |
| **Geographical Segment (Secondary)** | | |
| Revenues | | |
| India | 703 | 5,213 |
| Americas | 1,581,694 | 2,801,068 |
| Latam | 31,523 | 53,123 |
| EMEA | 9,142 | 79,119 |
| Asia-Pacific | 55,993 | 91,342 |
| | **1,679,055** | **3,029,865** |
| Carrying amount of segment assets | | |
| India | 863,942 | 328,134 |
| Americas | 1,083,013 | 2,663,957 |
| Latam | 2,225 | – |
| EMEA | 30,593 | 277,734 |
| Asia-Pacific | 51,743 | 300,209 |
| | **2,031,515** | **3,570,034** |
| Addition to Fixed Assets | | |
| India | 29,799 | 31,682 |
| Americas | 12,903 | 403,835 |
| Latam | – | – |
| EMEA | – | – |
| Asia-Pacific | – | – |
| | **42,702** | **435,517** |

**7 Employees Stock Option Plans**

The company has two stock option plans that provide for the granting of stock options to employees / directors of the company and its subsidiaries (not being promoter directors of the company). The objectives of these plans include attracting and retaining the best personnel, providing for additional performance incentives and promoting the success of the company by providing employees the opportunity to acquire equity shares. Remuneration / Compensation Committee administers all these stock options under various plans. The stock option plans are summarised below :

(i) Associates Stock Option Plan 2004

The shareholders of the company in the AGM held on 18 June 2004 approved an Associate Stock Option Plan (ASOP-2004). The ASOP-2004 provides for issue of 755,000 equity shares of ₹ 10 each to the employees including directors at the market price of the shares on the date of grant.

At the AGM held on 22 June 2006, the exercise price of the options to be granted was amended to enable issue of options / shares at such discounts to the Market Price as on the date of the grant of the options subject to the exercise price not being less than the face value of shares.

A summary of the status of the 2004 Plan is given below :

| as at 31 December | 2010 | 2009 |
|---|---|---|
| Options outstanding at the beginning of the year | 297,500 | 385,000 |
| Options granted during the year | – | – |
| Exercised during the year | – | – |
| Expired / Cancelled during the year | 297,500 | 87,500 |
| Options outstanding at the end of the year | – | 297,500 |
| Exercisable at the end of the year | – | – |

(ii) Employees Stock Option Plan 2007

The shareholders of the company through a postal ballot process, postal ballot notice dated 26 April 2007, results declared on 8 June 2007, approved an Employees Stock Option Plan (ESOP-2007). The ESOP-2007 provides for issue of 2,700,000 options (underlying equity shares of ₹ 10 each) to the employees / Directors of both the company and its subsidiaries, at such discounts to the Market Price as on the date of the grant of the options subject to the exercise price not being less than the face value of equity shares.

| as at 31 December | 2010 | 2009 |
|---|---|---|
| Options outstanding at the beginning of the year | 1,350,000 | 1,350,000 |
| Options granted during the year | 2,645,000 | – |
| Exercised during the year | – | – |
| Expired during the year | 1,350,000 | – |
| Options outstanding at the end of the year | 2,645,000 | 1,350,000 |
| Exercisable at the end of the year | – | 900,000 |

The company granted stock options to the Managing Director and the Officers on 6 August 2010 at the market price of ₹ 25 per equity share of ₹ 10 each.

**8 Earnings per share**

(₹ 000s)

| for the year ended 31 December | 2010 | 2009 |
|---|---|---|
| **Basic** | | |
| Profit after tax | 217,064 | (220,993) |
| Weighted average number of equity shares outstanding | 44,267,293 | 44,267,293 |
| Earnings per share - Basic (₹) | 4.90 | (4.99) |
| **Diluted** | | |
| Profit after tax | 217,064 | (220,993) |
| Weighted average number of equity shares outstanding | 44,267,293 | 44,267,293 |
| Dilutive effect of stock options outstanding | – | 900,000 |
| Weighted average number of equity shares outstanding | 44,267,293 | 45,167,293 |
| Earnings per share - Diluted (₹) | 4.90 | (4.89) |

**9 Commitments & Contingencies**

(₹ 000s)

| as at 31 December | 2010 | 2009 |
|---|---|---|
| Contingent liabilities including bank guarantees, letter of credits, etc. | 62,749 | 115,600 |

**10 Corporate Guarantees**

(i) The company has given a corporate guarantee for the foreign currency loan of Nil (Previous Year - US$ 16.67) million from Axis Bank, Dubai to XIUS Holding Corp., USA.

(ii) The company has given a corporate guarantee for the foreign currency loan of US$ 12.00 (Previous Year - US$ 13.00) million from Axis Bank, Hong Kong to XIUS Holding Corp., USA.

**11 Sale of property at Hyderabad**

In terms of the Scheme of Amalgamation ("Scheme") sanctioned by the order dated 27 March 2007 of the High Court of Judicature at Madras in Chennai and the order dated 22 March 2007 of the High Court of Judicature at Andhra Pradesh in Hyderabad, VisualSoft Technologies Limited ("VisualSoft") was amalgamated with the Company w.e.f. 1 October 2006. The assets, liabilities, rights and obligations of VisualSoft were recorded at their respective fair values under the purchase method of accounting for amalgamation and the excess of fair value of net assets taken over by the company over the paid up value of equity shares issued and allotted was taken under general reserve as that 'on amalgamation'.

As the company continues its strategic focus on the telecom products and services, the company decided to reduce its debts. In this regard, the company obtained the consent of the shareholders through a postal ballot process, results announced on 15 October 2010, for sale of the land and building (including furnishings & fittings) situated at Hyderabad and land at Vishakhapatnam (the said properties were acquired through the scheme). The company sold off the Hyderabad property and the resultant loss on sale of the same has been set-off to the amalgamation reserve (grouped under general reserve) created in terms of the scheme, as has been advised.

**12 Divestment of IT Services ('BlueAlly') Division**

(a) The company divested its IT Services ('BlueAlly') division to an overseas company w.e.f. 1st October 2009, with approval of the members through a postal ballot process.

(b) As per the scheme of arrangement under sections 391 to 394 of the Companies Act 1956 between the company and its equity shareholders approved by the High Court of Judicature at Madras vide its order dated 30 March 2010 duly filed with the Registrar of Companies on 30 March 2010 (effective date), a "Business Reconstruction Reserve account" was created by transferring ₹ 1,250,000 in aggregate from the Securities Premium account and the General Reserve of the company for adjustment of certain expenses as prescribed therein. A sum of ₹ 1,247,862 has been set-off against the same.

**13 Previous year comparatives**

Previous years' figures have been regrouped, reclassified / rearranged wherever necessary to conform to current year's presentation. Current years' figures are without IT Services Division and hence are not comparable.

**14 Cash flows**

Cash flows are reported using the indirect method, whereby profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, financing and investing activities of the Group are segregated. Cash flows in foreign currencies are accounted at average monthly exchange rates that approximate the actual rates of exchange prevailing at the dates of the transactions.

# auditors' report

**To the Members of Megasoft Limited**

We have audited the attached Balance Sheet of Megasoft Limited ("the Company") as at 31 December 2010 and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. 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.

We conducted our audit in accordance with the 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.

As required by the Companies (Auditor's Report) Order, 2003 ('the Order'), as amended, issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 ('the Act'), we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

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 purposes 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 and Cash Flow Statement dealt with by this report are in agreement with the books of account;

(d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;

(e) On the basis of written representations received from the directors, as on 31 December 2010, and taken on record by the Board of Directors, none of the directors is disqualified as on 31 December 2010 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act;

(f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner the information required by the Act and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 December 2010;
- (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 the Cash Flow Statement, of the cash flows for the year ended on that date.

for **Srikanth & Shanthi Associates**
Chartered Accountants
Firm Registration No.004006S

**MC Srikanth**
Partner
Membership No.18588

for **TN Rajendran & Co.**
Chartered Accountants
Firm Registration No.005080S

**TN Rajendran**
Partner
Membership No.28778

Hyderabad
28 February 2011

## Annexure to the Auditors' Report

**[Referred to in paragraph 3 of the Auditors' Report of even date to the Members of Megasoft Limited on the Financial Statements for the year ended 31 December 2010]**

(1) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) The Company has a phased programme of physical verification of its fixed assets which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. In accordance with such programme, the Management has physically verified certain fixed assets during the year and no material discrepancies were noticed on such verification.

(c) Fixed assets disposed off during the year were substantial (refer note no.21 of schedule no.17). However as per the management representation this disposal will not affect the going concern assumption.

(2) In our opinion and according to the information and explanations given to us, in view of the nature of activities of the Company, the provisions of Clause 4(ii) relating to inventory is not applicable to the Company.

(3) The Company has neither granted nor taken any loans, secured or unsecured, to / from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956 ("the Act"). Consequently, clauses (iii)(b), (iii)(c), (iii)(d), (iii)(f) and (iii)(g) of paragraph 4 of the Order are not applicable.

(4) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of fixed assets and the sale of services. We have not observed any major weakness in the internal control system during the course of the audit.

(5) (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register maintained under that section.

(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements exceeding ₹ 5 lakhs in respect of any party during the year, which have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.

(6) The Company has not accepted any deposits from the public and hence the directives issued by the Reserve Bank of India and the provisions of Sections 58A, 58AA or any other relevant provisions of the Act and the Companies (Acceptance of Deposit) Rules, 1975 with regard to the deposits accepted from the public are not applicable.

(7) In our opinion, the Company has an internal audit system, commensurate with its size and the nature of its business.

(8) According to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records under Section 209(1)(d) of the Act in respect of services carried out by the Company.

(9) (a) According to the information and explanations given to us, and on the basis of our examination of the books of account, the Company has been generally regular in depositing with the appropriate authorities undisputed statutory dues including provident fund, employees' state insurance, income-tax, wealth tax, service tax, sales-tax, customs duty, cess and other material statutory dues applicable to it.

(b) According to the information and explanations given to us, no undisputed dues payable in respect of provident fund, employees' state insurance, income-tax, wealth tax, service tax, sales-tax, customs duty, cess and other material statutory dues were outstanding as at 31 December 2010 for a period of more than six months from the date they became payable.

(c) According to the information and explanations given to us there are no such statutory dues that have not been deposited with the appropriate authorities on account of any dispute.

(10) The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year.

(11) In our opinion and according to the information and explanations given to us, *the Company has delayed repayment of dues aggregating to ₹ 100 million to a bank for a period of three to four months.* However, there were no dues to the bank as of the balance sheet date.

(12) According to the information and explanations given to us, the Company has not given any loans and advances on the basis of security by way of pledge of shares, debentures and other securities and hence the question of maintenance of adequate records for this purpose does not arise.

(13) In our opinion and according to the information and explanations given to us, the Company is not a chit fund, nidhi, mutual benefit fund or a society.

(14) In our opinion and according to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.

(15) According to the information and explanations given to us, the Company has given corporate guarantees for foreign currency loans taken by wholly-owned subsidiaries from a bank. The terms and conditions of such guarantees are not prejudicial to the interest of the Company.

(16) According to the information and explanations given to us, the Company has not availed any new term loan during the year.

(17) According to the information and explanations given to us, and on an overall examination of the Balance Sheet of the Company, funds raised on short-term basis have, prima-facie, not been used for long term investment.

(18) During the year, the Company has not made any preferential allotment of securities to companies / firms / parties covered in the register maintained under section 301 of the Act.

(19) The Company has not raised any money by public issues during the year.

(20) To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

for **Srikanth & Shanthi Associates**
Chartered Accountants
Firm Registration No.004006S

**MC Srikanth**
Partner
Membership No.18588

for **TN Rajendran & Co.**
Chartered Accountants
Firm Registration No.005080S

**TN Rajendran**
Partner
Membership No.28778

Hyderabad
28 February 2011

# balance sheet

as at 31 December

(₹ 000s)

| | Schedule | 2010 | 2009 |
|---|---|---|---|
| **SOURCES OF FUNDS** | | | |
| Shareholders' Funds | | | |
| Share Capital | 1 | 442,673 | 442,673 |
| Reserves & Surplus | 2 | 1,197,760 | 1,510,827 |
| | | **1,640,433** | **1,953,500** |
| Loan Funds | | | |
| Secured Loans | 3 | 150,177 | 434,153 |
| Unsecured Loans | 4 | 19,850 | 105,850 |
| | | **170,027** | **540,003** |
| | | | |
| Deferred tax liability | | 4,153 | – |
| | | | |
| **Total Liabilities** | | **1,814,613** | **2,493,503** |
| | | | |
| **APPLICATION OF FUNDS** | | | |
| Fixed Assets | 5 | | |
| Gross Block | | 876,726 | 1,634,185 |
| Less: Accumulated Depreciation | | (321,966) | (352,537) |
| **Net Block** | | **554,760** | **1,281,648** |
| | | | |
| Investments | 6 | 130,224 | 130,224 |
| | | | |
| Deferred tax asset | | – | 21,712 |
| | | | |
| Current Assets, Loans & Advances | | | |
| Sundry Debtors | 7 | 393,142 | 686,156 |
| Cash & Bank balances | 8 | 15,200 | 90,619 |
| Loans & Advances | 9 | 836,899 | 463,435 |
| | | **1,245,241** | **1,240,210** |
| Less: Current Liabilities & Provisions | 10 | 115,612 | 180,291 |
| **Net Current Assets** | | **1,129,629** | **1,059,919** |
| | | | |
| **Total Assets** | | **1,814,613** | **2,493,503** |
| Significant Accounting policies | 16 | | |
| Notes to Accounts | 17 | | |

The Schedules referred to above and Notes thereon form an integral part of the Balance Sheet.

As per our Report of even date attached

for **Srikanth & Shanthi Associates**
Chartered Accountants

**MC Srikanth**
Partner
Membership No.18588

for **TN Rajendran & Co.**
Chartered Accountants

**TN Rajendran**
Partner
Membership No.28778

Hyderabad
28 February 2011

For and on behalf of the Board of Directors

**GV Kumar**
Managing Director

**D Sudhakar Reddy**
Director

**GP Srinath**
Secretary

# profit & loss account

for the year ended 31 December

(₹ 000s)

| | Schedule | 2010 | 2009 |
|---|---|---|---|
| **INCOME** | | | |
| Revenues | | | |
| Exports | | 623,204 | 881,800 |
| Domestic | | 703 | 5,213 |
| **Total Revenues** | | **623,907** | **887,013** |
| Other Income / (Expenses) | 11 | (24,525) | (37,492) |
| **Total Income** | | **599,382** | **849,521** |
| | | | |
| **EXPENDITURE** | | | |
| Personnel cost | 12 | 287,163 | 354,041 |
| Operating expenses | 13 | 135,143 | 223,541 |
| Finance cost | 14 | 70,195 | 133,723 |
| Depreciation | 5 | 56,678 | 142,792 |
| **Total Expenditure** | | **549,179** | **854,097** |
| | | | |
| **PROFIT** | | | |
| Profit / (Loss) before tax | | 50,203 | (4,576) |
| Less: Taxes | 15 | (2,778) | (29,014) |
| **Profit after tax** | | **52,981** | **24,438** |
| Balance brought forward | | 580,720 | 556,282 |
| Profit available for appropriation | | 633,701 | 580,720 |
| | | | |
| **APPROPRIATIONS** | | | |
| Balance carried to Balance Sheet | | 633,701 | 580,720 |
| | | 633,701 | 580,720 |
| | | | |
| Earnings per share (equity shares, par value ₹ 10 each) | | | |
| Basic (₹) | | 1.20 | 0.55 |
| Diluted (₹) | | 1.20 | 0.54 |
| Number of shares used in computing | | | |
| Basic | | 44,267,293 | 44,267,293 |
| Diluted | | 44,267,293 | 45,167,293 |
| | | | |
| Significant Accounting policies | 16 | | |
| Notes to Accounts | 17 | | |

The Schedules referred to above and Notes thereon form an integral part of the Profit & Loss Account.

As per our Report of even date attached

for **Srikanth & Shanthi Associates**
Chartered Accountants

**MC Srikanth**
Partner
Membership No.18588

for **TN Rajendran & Co.**
Chartered Accountants

**TN Rajendran**
Partner
Membership No.28778

Hyderabad
28 February 2011

For and on behalf of the Board of Directors

**GV Kumar**
Managing Director

**D Sudhakar Reddy**
Director

**GP Srinath**
Secretary

# cash flow statement

for the year ended 31 December (₹ 000s)

| | 2010 | 2009 |
|---|---|---|
| Cash flows from operating activities | | |
| Profit / (Loss) before taxation | 50,203 | (4,576) |
| Adjustments for: | | |
| Depreciation & Amortisation | 56,678 | 142,792 |
| Loss / (Profit) on sale / discard of Fixed Assets | – | (20) |
| Provision for Doubtful Debts | 39,135 | 95,880 |
| Employees Stock compensation expense | (14,413) | 1,530 |
| Provision for retirement benefits | 3,583 | (24,908) |
| Interest received | (3,388) | (777) |
| Finance cost | 70,195 | 133,723 |
| Operating profit before working capital changes | 201,993 | 343,644 |
| (Increase) / Decrease in Sundry Debtors | 253,879 | 30,538 |
| (Increase) / Decrease in Loans & Advances | (396,350) | 265,938 |
| Increase / (Decrease) in Current Liabilities | (14,889) | (46,454) |
| Income taxes paid during the year | (1,844) | (9,436) |
| Net cash provided by operating activities | 42,789 | 584,230 |
| Cash flows from investing activities | | |
| Purchase / acquisition of Fixed Assets | (29,800) | (31,682) |
| Investment / (divestment) in subsidiary / other companies | – | (1,012) |
| Proceeds from sale / impairment of Fixed Assets | 350,000 | 20 |
| Interest received | 3,388 | 777 |
| Net Cash used for investing activities | 323,588 | (31,897) |
| Cash flows from financing activities | | |
| Business Reconstruction Reserve | (1,625) | (28,769) |
| Proceeds from issue of FCCB | – | (97,160) |
| Proceeds from long-term borrowings | – | (20,000) |
| Unsecured (other) loans - borrowings / (repayments) | (86,000) | 6,190 |
| Increase / (Decrease) in working capital / demand loans | (283,976) | (205,306) |
| Finance cost | (70,195) | (133,723) |
| Net cash provided by financing activities | (441,796) | (478,768) |
| | | |
| Net increase in cash & cash equivalents | (75,419) | 73,565 |
| Cash & Cash equivalents at the beginning of the year | 90,619 | 17,054 |
| Cash & Cash equivalents at the end of the year | 15,200 | 90,619 |

As per our Report of even date attached

for **Srikanth & Shanthi Associates**
Chartered Accountants

**MC Srikanth**
Partner
Membership No.18588

for **TN Rajendran & Co.**
Chartered Accountants

**TN Rajendran**
Partner
Membership No.28778

Hyderabad
28 February 2011

For and on behalf of the Board of Directors

**GV Kumar**
Managing Director

**D Sudhakar Reddy**
Director

**GP Srinath**
Secretary

# schedules to the financial statements

as at 31 December (₹ 000s)

| | | 2010 | 2009 |
|---|---|---|---|
| 1 | **SHARE CAPITAL** | | |
| | Authorised | | |
| | 75,000,000 Equity Shares of ₹ 10 each | 750,000 | 750,000 |
| | Issued, Subscribed & Paid-up | | |
| | 44,267,293 Equity Shares of ₹ 10 each fully paid-up | 442,673 | 442,673 |

[Out of the above:

(i) 5,150,500 Equity Shares of ₹ 10 each were allotted as fully paid-up equity shares for a consideration other than cash pursuant to the Scheme of Amalgamation of Indus e-Solutions Limited with the Company w.e.f. 1 January 2000;

(ii) 10,330,625 Equity Shares of ₹ 10 each were allotted as fully paid-up equity shares for a consideration other than cash pursuant to the Scheme of Amalgamation of XIUS India Limited with the Company w.e.f. 1 January 2004; and

(iii) 12,484,800 Equity Shares of ₹ 10 each were allotted as fully paid-up equity shares for a consideration other than cash pursuant to the Scheme of Amalgamation of VisualSoft Technologies Limited with the Company w.e.f. 1 October 2006]

as at 31 December (₹ 000s)

| | | 2010 | 2009 |
|---|---|---|---|
| 2 | **RESERVES & SURPLUS** | | |
| | **Securities Premium** | | |
| | As per last Balance Sheet | 25,066 | 475,066 |
| | Less: Transfer to Business Reconstruction Reserve | – | (450,000) |
| | | 25,066 | 25,066 |
| | | | |
| | **Employee Stock Options** | | |
| | Employee Stock Options outstanding | | |
| | As per last Balance Sheet | 15,711 | 17,904 |
| | Additions during the year | – | – |
| | Deletions / adjusted during the year | (15,711) | (2,193) |
| | | – | 15,711 |
| | Less: Deferred Compensation Expense | | |
| | As per last Balance Sheet | 1,298 | 5,021 |
| | Additions during the year | – | – |
| | Amortised / adjusted during the year | (1,298) | (3,723) |
| | | – | 1,298 |
| | | – | 14,413 |
| | | | |
| | **General Reserve** | | |
| | As per last Balance Sheet | 886,865 | *1,686,865 |
| | Less: Loss on sale / disposal of property | (350,010) | – |
| | Less: Transfer to Business Reconstruction Reserve | – | (800,000) |
| | | 536,855 | 886,865 |
| | * include ₹ 1,598,065 on amalgamations | | |
| | [Refer Note No.21 of Schedule 17] | | |
| | **Business Reconstruction Reserve** | | |
| | As per last Balance Sheet | 3,763 | – |
| | Transfer from Securities Premium | – | 450,000 |
| | Transfer from General Reserve | – | 800,000 |
| | Nett of realisation on disposal of IT Services ('BlueAlly') Division | (1,625) | (1,246,237) |
| | | 2,138 | 3,763 |
| | [Refer Note No.22 of Schedule 17] | | |
| | **Profit & Loss Account** | | |
| | Balance in Profit & Loss Account | 633,701 | 580,720 |
| | | **1,197,760** | **1,510,827** |
| | | | |
| 3 | **SECURED LOANS** | | |
| | Working Capital / Demand loan from Banks | 149,363 | 431,408 |
| | Vehicle Loans | 814 | 2,745 |
| | | **150,177** | **434,153** |
| | [Refer Note No.1 of Schedule 17] | | |
| | | | |
| 4 | **UNSECURED LOANS** | | |
| | From bodies corporate | 19,850 | 105,850 |
| | | **19,850** | **105,850** |

## 5 FIXED ASSETS

(₹ 000s)

| Particulars | Gross Block | | | | Depreciation | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Cost as at 1-Jan-2010 | Additions | Deletions / Adjustments* | Cost as at 31-Dec-2010 | As at 1-Jan-2010 | For the year | On Deletions / Adjustments* | Total as at 31-Dec-2010 | As at 31 December 2010 | 2009 |
| Land & Land development | 701,304 | 855 | (270,450) | 431,709 | – | – | – | – | 431,709 | 701,304 |
| Buildings | 516,278 | – | (516,278) | – | 66,551 | 20,167 | (86,718) | – | – | 449,727 |
| Plant & Machinery | 14,996 | 2,549 | – | 17,545 | 2,633 | 770 | – | 3,403 | 14,142 | 12,363 |
| Computer systems & Software | 347,038 | 26,380 | – | 373,418 | 251,959 | 31,258 | – | 283,217 | 90,201 | 95,079 |
| Furniture & Fittings | 28,157 | 16 | – | 28,173 | 9,077 | 1,561 | – | 10,638 | 17,535 | 19,080 |
| Vehicles | 19,344 | – | (531) | 18,813 | 15,249 | 2,922 | (531) | 17,640 | 1,173 | 4,095 |
| Intellectual Property Rights | 6,800 | – | – | 6,800 | 6,800 | – | – | 6,800 | – | – |
| Patents | 268 | – | – | 268 | 268 | – | – | 268 | – | – |
| **Total** | **1,634,185** | **29,800** | **(787,259)** | **876,726** | **352,537** | **56,678** | **(87,249)** | **321,966** | **554,760** | **1,281,648** |
| Previous year | 2,029,826 | 31,682 | (427,323) | 1,634,185 | 580,853 | 142,792 | (371,108) | 352,537 | 1,281,648 | |

* Deletions in the previous year include impairment of assets as envisaged in the Scheme of Arrangement between the company and the equity shareholders duly approved by the Hon'ble High Court of Madras.

as at 31 December (₹ 000s)

| | | 2010 | 2009 |
|---|---|---|---|
| 6 | **INVESTMENTS** | | |
| | Trade (Unquoted) - at cost | | |
| | In wholly owned subsidiary companies | | |
| | Megasoft Consultants Pte Ltd, Singapore | 2,631 | 2,631 |
| | 100,000 ordinary shares of S$ 1 each fully paid | | |
| | Megasoft Consultants Sdn Bhd, Malaysia | 6,363 | 6,363 |
| | 500,000 ordinary shares of MR 1 each fully paid | | |
| | Megasoft Consultants, Inc., USA | — | 162,310 |
| | 5,500 ordinary shares of US$ 1 each fully paid | | |
| | Less: Sale of Investments | — | (162,310) |
| | XIUS Holding Corp (formerly Boston Communications Group, Inc.), USA | — | — |
| | 1,000 ordinary shares of US$ 0.001 each fully paid | | |
| | Trade (Unquoted) - at cost | | |
| | In other companies | | |
| | Keystone Wireless, LLC, USA | 121,230 | 121,230 |
| | represents 5% of the capital on the date of investment | | |
| | | **130,224** | **130,224** |
| | | | |
| 7 | **SUNDRY DEBTORS** | | |
| | Debts outstanding for a period exceeding six months | | |
| | considered good | 190,345 | 249,980 |
| | considered doubtful | 185,717 | 146,581 |
| | Other debts - unsecured, considered good | 202,797 | 436,176 |
| | | 578,859 | 832,737 |
| | Less: Provision for doubtful debts | (185,717) | (146,581) |
| | | **393,142** | **686,156** |
| | | | |
| 8 | **CASH & BANK BALANCES** | | |
| | Cash in hand | 31 | 27 |
| | Balance with Scheduled Banks: | | |
| | In Current Accounts | 4,316 | 5,887 |
| | In Deposit Accounts | 10,627 | 83,706 |
| | Balance with Non-Scheduled Banks | | |
| | In Current Accounts | 226 | 999 |
| | In Deposit Accounts | — | — |
| | | **15,200** | **90,619** |
| | [Refer Note No.4 of Schedule 17] | | |
| | | | |
| 9 | **LOANS & ADVANCES** | | |
| | (Unsecured, considered good) | | |
| | Advances recoverable in cash or in kind or for value to be received | 47,196 | 102,272 |
| | Loan to subsidiary companies | 750,454 | 297,367 |
| | Deposits | 13,763 | 15,424 |
| | Advance Income-tax | 25,486 | 48,372 |
| | | **836,899** | **463,435** |
| | | | |
| 10 | **CURRENT LIABILITIES & PROVISIONS** | | |
| | **Current Liabilities** | | |
| | Sundry Creditors | | |
| | for goods / services | 20,308 | 34,249 |
| | for accrued salaries and benefits | 3,787 | 3,673 |
| | Other Liabilities | 46,016 | 46,524 |
| | Unclaimed Dividends | 2,916 | 3,470 |
| | | **73,027** | **87,916** |
| | **Provisions** | | |
| | Provision for retirement benefits | 12,511 | 8,928 |
| | Provision for taxation (net) | 30,074 | 83,447 |
| | | **42,585** | **92,375** |
| | | **115,612** | **180,291** |

for the year ended 31 December (₹ 000s)

| | | 2010 | 2009 |
|---|---|---|---|
| 11 | OTHER INCOME / (EXPENSES) | | |
| | Miscellaneous Income | 9,229 | 9,200 |
| | Interest received [tax deducted at source ₹ 331 (previous year ₹ 289)] | 3,388 | 777 |
| | Gain on redemption of Foreign Currency Convertible Bonds | – | 47,760 |
| | Net Foreign Exchange gain / (loss) | (37,142) | (95,229) |
| | | **(24,525)** | **(37,492)** |
| 12 | PERSONNEL COST | | |
| | Salaries & Bonus including overseas staff expenses | 171,004 | 311,340 |
| | Contribution to Provident & Other Funds | 8,256 | 11,511 |
| | Social security and other benefit plans for overseas employees | – | 2,040 |
| | Employees Welfare expenses | 8,648 | 20,074 |
| | Employees Stock compensation expense | (14,413) | 1,530 |
| | | 173,495 | 346,495 |
| | Software Development expenses | 113,668 | 7,546 |
| | | **287,163** | **354,041** |
| 13 | OPERATING EXPENSES | | |
| | Rent | 9,316 | 2,698 |
| | Rates & Taxes | 6,659 | 5,449 |
| | Communication expenses | 5,416 | 9,228 |
| | Travel & Conveyance | 27,297 | 47,635 |
| | Insurance | 3,406 | 3,003 |
| | Power & Fuel | 8,597 | 8,488 |
| | Repairs & Maintenance | | |
| | Machinery | 12,674 | 4,834 |
| | Others | 2,844 | 2,039 |
| | Printing & Stationery | 1,167 | 1,915 |
| | Loss / (Profit) on sale / discard of Fixed Assets | – | (20) |
| | Business Development expenses | 1,225 | 847 |
| | Legal & Professional expenses | 1,541 | 856 |
| | Auditors' remuneration | 1,705 | 1,245 |
| | Managerial Remuneration | 10,726 | 9,826 |
| | Miscellaneous expenses | 3,435 | 8,177 |
| | Bad debts written-off | – | 21,441 |
| | Provision for doubtful debts | 39,135 | 95,880 |
| | | **135,143** | **223,541** |
| 14 | FINANCE CHARGES | | |
| | Interest on Term Loans | – | 1,273 |
| | Interest on Working Capital / Demand Loans | 33,074 | 96,506 |
| | Interest on Other Loans | 19,322 | 26,862 |
| | Other Finance Charges | 17,799 | 9,082 |
| | | **70,195** | **133,723** |
| 15 | TAXES | | |
| | Current tax | 7,000 | 5,000 |
| | Fringe benefit tax | – | 500 |
| | Deferred tax expense / (benefit) | 25,865 | (34,514) |
| | Earlier year tax | (35,643) | – |
| | | **(2,778)** | **(29,014)** |

## 16 SIGNIFICANT ACCOUNTING POLICIES

1 Basis for preparation

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, the provisions of the Companies Act, 1956 and guidelines issued by the Securities and Exchange Board of India. Accounting policies have been consistently applied except where a newly issued accounting standard is initially 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 on-going basis.

2 Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Examples of such estimates include estimates of carrying value of work in progress, provision for doubtful debts and useful life of fixed assets. Actual results could differ from estimates.

3 Revenue Recognition

Revenue from software development on time and material basis is recognised based on software developed and billed to clients as per the terms of specific contracts. In the case of fixed-price contracts, revenue is recognised based on the milestones achieved as specified in the contracts or on the percentage of completion basis. Provision for estimated losses on incomplete contract is recorded in the period in which such losses become probable based on the current estimates. Revenues from product licenses and related revenues are recognised as follows:

- Licence fees, on delivery and subsequent milestone schedule as per the terms of the contract with the end user.
- Product maintenance revenues, over the period of the maintenance contract.

4 Fixed Assets & Depreciation

Fixed assets are stated at cost of acquisition less accumulated depreciation. Direct costs such as freight, installation costs, duties and taxes are included in the cost of the asset until the assets are ready to be put to use. Assets acquired under hire purchase / leases are capitalized and the corresponding liability is recorded at an amount equal to the fair value of the hired / leased asset or the present value of the minimum hire / lease payments, whichever is lower, at the inception of the lease / hire purchase. Leased rentals in respect of leased assets are charged to Profit and Loss Account. Initial costs incurred in connection with specific leasing / hire purchase activities directly attributable to activities performed by the Company for a finance lease / hire purchase are included as part of the amount recognised as an asset under the lease / hire purchase.

Depreciation on fixed assets other than computer systems & software is provided using the straight-line method in accordance with the rates specified under Schedule XIV to the Companies Act, 1956. Depreciation on computer systems & software other than telecom related assets is provided on the basis of estimated useful life of four years. Depreciation is charged on a pro-rata basis on fixed assets purchased / sold during the year. Depreciation on assets acquired under finance lease / hire purchase is provided using the straightline method over the shorter of the lease / hire purchase term and useful life of the asset.

5 Investments

Investments in subsidiary / other companies are classified as long-term investments and are stated at cost. Any diminution in value is to be determined for each investment individually on the basis of its expected benefits to the Company. The exact quantum of such benefits is dependent on a number of uncertain future events.

6 Foreign Currency transactions

Transactions in foreign currency are recorded at the rates of exchange prevailing on the date of the transaction or at average monthly exchange rates that approximate the actual rates of exchange prevailing at the dates of the transactions. Current assets and liabilities denominated in foreign currency are translated at the rate of exchange as at Balance Sheet date. All resulting gains or losses are recognised in the Profit & Loss account. Foreign exchange gains or losses relating to the acquisition of fixed assets are adjusted to the cost of the asset. All income and expenditure transactions of the foreign branch during the year are included in these accounts at the average rate of exchange. Monetary assets and liabilities are translated at rates prevailing on the balance sheet date. Non-monetary assets and liabilities are translated at the rate prevailing on the date of the transaction. Depreciation is translated at the rates used for the translation of the values of the assets on which depreciation is computed. Net gain/loss on foreign currency translation is recognised in the Profit & Loss Account.

In case of forward exchange contract or any other financial instruments that is in substance a forward exchange contract to hedge the foreign currency risk which is on account of firm commitment and / or is a highly probable forecast transaction, the premium or discount arising at the inception of the contract is amortised as expense or income over the life of the contract. Gains / Losses on settlement of transaction arising on cancellation or renewal of such a forward exchange contract are recognised as income or expense for the period.

In all other cases the gain or loss on contract is computed by multiplying the foreign currency amount of the forward exchange contract by the difference between the forward rate available at the reporting date for the remaining maturity of the contract and the contracted forward rate (or the forward rate last used to measure a gain or loss on that contract for an earlier period) is recognised in the profit and loss account for the period.

7 Retirement benefits

Provident Fund

Employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and the company make monthly contributions to the Regional Provident Fund equal to a specified percentage of the covered employee's salary. The company has no further obligations under the plan beyond its monthly contributions.

Gratuity

In accordance with the Payment of Gratuity Act, 1972, the Company provides for gratuity, a non-funded, defined benefit retirement plan (the "Gratuity Plan") covering all employees. The plan, subject to the provisions of the Act, provides a lump sum payment to vested employees at retirement or termination of employment of an amount based on the respective employee's salary and the years of employment with the Company. The Company estimates its liability on adhoc basis in the interim financial reports and on an actuarial valuation basis as of each year-end balance sheet date carried out by an independent actuary, and is charged to Profit & Loss Account in accordance with AS-15 (revised).

Leave encashment

Leave encashment cost is a defined benefit, and is accrued on adhoc basis in the interim financial reports and on an actuarial valuation basis as of each year end balance sheet date carried out by an independent actuary, and is charged to Profit & Loss Account in accordance with AS-15 (revised).

8 Borrowing cost
Borrowing costs other than those directly attributable to qualifying Fixed Assets are recognised as an expense in the period in which they are incurred.

9 Taxes
Current tax
Current tax is measured at the amount expected to be paid out or recovered from the tax administration adopting the applicable rates in force.
Deferred tax
Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future. However, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognized only if there is virtual certainty of realisation of such assets. Deferred tax assets are reviewed at each balance sheet date and written down or written up to reflect the amount that is reasonable / virtual certainty (as the case may be) to be realised.
The break-up of major components of the deferred tax assets and liabilities as of each year end Balance Sheet date have been arrived at after setting off deferred tax assets and liabilities where the Company has a legally enforceable right to set-off assets against liabilities and where such assets and liabilities relate to taxes on income levied by the same governing laws.

## 17 NOTES TO ACCOUNTS

[All amounts in the financial statements are presented in Rupees thousands, except for per share data and as otherwise stated]

1 **Secured loans / borrowings are secured as follows:**

(a) For borrowings by the company

(i) The working capital loan facilities from Axis Bank are secured by a first charge on entire current assets and fixed assets (except company's assets acquired under hire purchase scheme), present and future, of the company.

(ii) The demand loan facility from Tamilnad Mercantible Bank which was secured by a first charge on company's immovable property at Vizag was repaid during the year. The loan repayable within one year is Nil (Previous year - ₹ 180,000).

(iii) Vehicles are hypothecated to the Banks / Financial Institutions as security for the amounts borrowed by the Company. Amount repayable within one year is ₹ 499 (Previous year - ₹ 2,494).

(b) Collaterals for borrowings by the company's wholly owned subsidiary

(i) The foreign currency loan of US$ 25 million from Axis Bank, Dubai to XIUS Holding Corp., USA, which was secured by a pari passu first charge on the assets of XIUS Holding Corp., USA and the company's land and building situate at Kundanbagh, Begumpet, Hyderabad, was repaid during the year. The loan repayable within one year is Nil (Previous year - US$ 8.33 million).

(ii) The foreign currency loan of US$ 12 million (previous year US$ 13 million) from Axis Bank, Hong Kong to XIUS Holding Corp., USA, against the SBLC from Axis Bank, Hyderabad, India, is secured by a pari passu first charge on the assets of XIUS Holding Corp., USA and company's land and building situate at Kundanbagh, Begumpet, Hyderabad, in the previous year.

2 **Leases / Hire purchase**

(a) Leases / Hire purchase - Capital
The Company has entered into leasing / hire purchase arrangements with banks and financial institutions for the hire / lease of motor vehicles ("the leased asset") for a period not exceeding 60 months. During the lease / hire period, the Company has agreed to hypothecate and create an exclusive charge on the vehicle in favour of the bank / financial institution and repay the principal amount of the loan along with interest thereon by way of instalments as agreed upon. The charge / security created in favour of the bank / financial institution shall remain in force until such time all the dues under the agreement are fully discharged.

Pending lease / hire purchase obligations comprising minimum lease / hire payments

(₹ 000s)

| as at 31 December | 2010 | 2009 |
|---|---|---|
| Not later than one year | 499 | 2,494 |
| Later than one year and not later than five years | 342 | (99) |
| Total | 841 | 2,395 |
| Less: Amounts representing interest | (71) | (208) |
| Present value of minimum lease payments | 770 | 2,187 |
| Less : Amount due not later than one year | (413) | (1,472) |
| Amounts due later than one year and not later than five years | 357 | 715 |

(b) Operating Lease
The operating lease arrangements relate to rented premises and transit / guest house which are cancellable at the option of the Company.

**3 Deferred Taxation**

(₹ 000s)

| as at 31 December | 2010 | 2009 |
|---|---|---|
| Deferred tax comprise | | |
| Fixed Assets | 18,309 | (18,678) |
| Retirement benefits | (4,253) | (3,034) |
| Provision for doubtful debts | (9,903) | — |
| Net deferred tax liability / (asset) (timing difference) | 4,153 | (21,712) |

**4 Cash and Bank balances**

(i) Balance in current accounts with Scheduled Banks include ₹ 2,916 (Previous year - ₹ 3,470) representing the balances in unclaimed dividend accounts.

(ii) Balance in deposit accounts include ₹ 7,599 (Previous year - ₹ 8,706) under lien with banks for guarantees given by banks to various government authorities.

(iii) Balance in deposit accounts in the previous year include ₹ 75,000 under lien pending transfer of title in respect of the immovable properties belonging to the company with Axis Bank, Hyderabad. The same was received during the year in terms of the agreement.

(iv) Details of balances as on balance sheet dates and the maximum balances during the year with non-scheduled banks:

(₹ 000s)

| as at 31 December | 2010 | 2009 |
|---|---|---|
| Balance with non-scheduled banks: | | |
| In Current Accounts | | |
| United Bank, Virginia, USA | 226 | 999 |
| Maximum balance with non-scheduled banks: | | |
| In Current Accounts | | |
| United Bank, Virginia, USA | 1,198 | 26,149 |

**5 Loans and advances**

(i) Loans and advances in the previous year include US$ 1.25 million receivable from the overseas company towards part of the IT Services Division divestment deal within a period of one year from the date of consummation of the transaction. The same was received during the year in terms of the agreement.

(ii) The erstwhile VisualSoft had entered into an agreement with Andhra Pradesh Industrial Infrastructure Corporation Limited ("APIIC") to acquire land admeasuring 0.751 acres at Madhapur and 15.61 acres at Nanakramguda, Hyderabad. As per the agreement the erstwhile VisualSoft had paid the required amount towards purchase of the land, stamp duty, other expenditure, etc., and the same has been included under Loans & Advances as capital advance. On satisfaction of certain terms and conditions laid down in the agreement, the deed of conveyance shall be executed in favour of the Company after payment of differential stamp duty, if any. Non-compliance of certain terms and conditions would attract withdrawal of rebate which may increase the cost of land.

(iii) Advance income-tax include MAT credit entitlement.

## 6 Managerial Remuneration

(₹ 000s)

| for the year ended 31 December | 2010 | 2009 |
|---|---|---|
| (i) Managing Director | | |
| Salaries & Allowances | 6,634 | 6,130 |
| Contribution to provident & other funds | 606 | 562 |
| Perquisites * | 1,245 | 1,009 |
| | 8,485 | 7,701 |
| (ii) Whole-time Director | | |
| Salaries & Allowances | 624 | 624 |
| Contribution to provident & other funds | 75 | 75 |
| Perquisites * | 357 | 301 |
| | 1,056 | 1,000 |
| (iii) Non whole-time Directors | | |
| Commission | 1,000 | 1,000 |
| Sitting Fees | 185 | 125 |
| | 1,185 | 1,125 |
| Total Managerial Remuneration | 10,726 | 9,826 |

* The liability towards gratuity is provided on an actuarial basis for the company as a whole. The amount pertaining to directors is not individually ascertainable and is therefore not included above.

**Computation of net profit in accordance with Section 198 read with section 309(5) of the Companies Act, 1956, and calculation of commission payable to non-executive directors.**

(₹ 000s)

| for the year ended 31 December | 2010 | 2009 |
|---|---|---|
| Profit after tax | 52,981 | 24,438 |
| Add: | | |
| Managerial Remuneration | 10,726 | 9,826 |
| Provision for doubtful debts | 39,135 | 95,880 |
| Loss on sale / Discard of Fixed Assets | — | (20) |
| Provision for taxation | (2,778) | (29,014) |
| | 47,083 | 76,672 |
| Profit on which commission is payable | 100,064 | 101,110 |
| Maximum allowed as per the Companies Act, 1956 | 1,001 | 1,011 |
| Commission provided for | 1,000 | 1,000 |

| | | (₹ 000s) | |
|---|---|---|---|
| | for the year ended 31 December | **2010** | **2009** |
| 7 | **Payments to Auditors** | | |
| | Audit fees (including service tax) | 1,323 | 1,082 |
| | Out of pocket expenses | 23 | 43 |
| | Tax matters (including service tax) | 276 | – |
| | Others (including service tax) | 83 | 120 |
| | | **1,705** | **1,245** |
| | | | |
| 8 | **CIF value of imports** | | |
| | Capital goods | – | – |
| | | | |
| 9 | **Expenditure in foreign currency** | | |
| | Travel expenses | 13,526 | 3,718 |
| | Software Development expenses | 54,150 | – |
| | Expenditure incurred at overseas branches | 5,416 | 39,745 |
| | Other expenses | 6,301 | – |
| | | **79,393** | **43,463** |
| | | | |
| 10 | **Earnings in foreign exchange** | | |
| | Software development services | 623,204 | 881,800 |

**11 Quantitative details**

The Company is in the business of development and maintenance of computer software. The development and sale of such software cannot be expressed in any generic unit. Hence, it is not possible to furnish the quantitative details and the information required under paragraphs 3, 4C and 4D of part II of Schedule VI to the Companies Act, 1956.

**12 Segmental Information**

In accordance with AS 17 – Segment Reporting, segment information has been given in the consolidated financial statements of Megasoft Group and therefore no separate disclosure on segment information is given in these financial statements.

**13 Taxation**

The profits arising from the Indian operations of the Company registered under Software Technology Park scheme of India ("STPI") are exempted from taxation:

(i) for a period of five years for the Chennai unit vide STPI letter dated 3 September 1999 and duly renewed for further periods vide STPI letter dated 10 November 2004 and 8 April 2010.

(ii) for a period of five years for Banjara Hills, Hyderabad unit vide STPI letter dated 30 March 2001, however, the five year period is determined based on commencement of commercial production date i.e. 8 November 2003 and duly renewed for a further period of five years vide STPI letter dated 3 July 2009.

(iii) for a period of five years for the VisualSoft, Begumpet, Hyderabad unit vide STPI letter dated 12 April 1996 and duly renewed for further periods vide STPI letter dated 25 February 2002 and 20 February 2007.

(iv) for a period of five years for the VisualSoft, Ameerpet, Hyderabad unit vide STPI letter dated 23 December 2003 and the company closed the said facility vide STPI letter dated 19 March 2010.

Hence, there is no tax liability for the Indian operations of the Company relating to exports.

Provision for taxation is made in accordance with the provisions of Section 115JB of the Income Tax Act, 1961.

**14 Transfer pricing legislation**

The Company has established a comprehensive system of maintenance of information and documents as required by the transfer pricing legislation under sections 92-92F of the Income Tax Act, 1961. Since the law requires existence of such information and documentation to be continuous, the Company is in the process of updating the documentation for the international transactions entered into with the associated enterprises during the financial year. The management is of the opinion that its international transactions are at arm's length so that the aforesaid legislation will not have any impact on the financial statements, particularly on the amount of tax expense and that of provision for taxation.

**15 Employees Stock Option Plans**

The company has two stock option plans that provide for the granting of stock options to employees / directors of the company and its subsidiaries (not being promoter directors of the company). The objectives of these plans include attracting and retaining the best personnel, providing for additional performance incentives and promoting the success of the company by providing employees the opportunity to acquire equity shares. Remuneration / Compensation Committee administers all these stock options under various plans. The stock option plans are summarised below :

(i) Associates Stock Option Plan 2004

The shareholders of the company in the AGM held on 18 June 2004 approved the Associate Stock Option Plan (ASOP-2004). The ASOP-2004 provides for issue of 755,000 equity shares of ₹ 10 each to the employees including directors at the market price of the shares on the date of grant.

At the AGM held on 22 June 2006, the exercise price of the options to be granted was amended to enable issue of options / shares at such discounts to the Market Price as on the date of the grant of the options subject to the exercise price not being less than the face value of shares.

A summary of the status of the 2004 Plan is given below:

| as at 31 December | 2010 | 2009 |
|---|---|---|
| Options outstanding at the beginning of the year | 297,500 | 385,000 |
| Options granted during the year | – | – |
| Exercised during the year | – | – |
| Expired / Cancelled during the year | 297,500 | 87,500 |
| Options outstanding at the end of the year | – | 297,500 |
| Exercisable at the end of the year | – | – |

(ii) Employees Stock Option Plan 2007

The shareholders of the company through a postal ballot process, postal ballot notice dated 26 April 2007, results declared on 8 June 2007, approved an Employees Stock Option Plan (ESOP-2007). The ESOP-2007 provides for issue of 2,700,000 options (underlying equity shares of ₹ 10 each) to the employees / Directors of both the company and its subsidiaries, at such discounts to the Market Price as on the date of the grant of the options subject to the exercise price not being less than the face value of equity shares.

| as at 31 December | 2010 | 2009 |
|---|---|---|
| Options outstanding at the beginning of the year | 1,350,000 | 1,350,000 |
| Options granted during the year | 2,645,000 | – |
| Exercised during the year | – | – |
| Expired / Cancelled during the year | 1,350,000 | – |
| Options outstanding at the end of the year | 2,645,000 | 1,350,000 |
| Exercisable at the end of the year | – | 900,000 |

The company granted stock options to the Managing Director and the Officers on 6 August 2010 at the market price of ₹ 25 per equity share of ₹ 10 each.

**16 Earnings per share**

(₹ 000s)

| for the year ended 31 December | 2010 | 2009 |
|---|---|---|
| **Basic** | | |
| Profit / (loss) after tax | 52,981 | 24,438 |
| Weighted average number of equity shares outstanding | 44,267,293 | 44,267,293 |
| Earnings per share (₹) | 1.20 | 0.55 |
| **Diluted** | | |
| Profit / (loss) after tax | 52,981 | 24,438 |
| Weighted average number of equity shares outstanding | 44,267,293 | 44,267,293 |
| Dilutive effect of stock options outstanding | -- | 900,000 |
| Weighted average number of equity shares outstanding | 44,267,293 | 45,167,293 |
| Earnings per share (₹) | 1.20 | 0.54 |

**17 Related party transactions**

Subsidiary companies

Megasoft Consultants Sdn Bhd, Megasoft Consultants Pte Ltd, XIUS Holding Corp, Xius Corp, BCGI Wireless Pvt Ltd

Associates - Entities controlled by Director/s

S Ravindra Babu HUF

Aries Foundations Private Limited, Kovalam Property Development Private Ltd, NMR Property Development Private Limited, Olive Island Properties Development Private Ltd, Sannareddy Holdings Private Limited, SR Heritage Farms Private Limited, SR Modern Structures Private Limited, SRB Infrastructure Private Limited, Sri City Infrastructure Development Private Limited, Sri City Property Development Private Limited, Sri Security Services Private Limited, Sricity Holdings India Private Limited, Sricity Security Services Private Limited, Sricity E-World Private Limited, Uthandi Property Development Private Ltd, Manapad Power Generation Private Limited, Sricity Utility Services Private Limited, Sricity Electricity Company Private Limited, Sansri Powers Private Limited, Suprani Farms Private Limited, Sri City Private Limited, Innovative Water Solutions Limited.

Directors & Key Management personnel

GV Kumar & D Sudhakar Reddy

(₹ 000s)

| | for the year ended 31 December | | as at 31 December | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Subsidiary companies | | | | |
| Revenues | | 293,733 | 818,144 | |
| Receivables | | | 109,539 | 348,551 |
| Software development expenses | 54,150 | | | |
| Investments in subsidiary companies | – | – | 8,994 | 8,994 |
| Loan to subsidiary companies (net) | 453,087 | (298,404) | 750,454 | 297,367 |
| Corporate Guarantees for foreign currency loan from bank | – | – | 536,668 | 1,768,376 |
| Associates | | | | |
| Lease rentals paid | – | 300 | | |
| Reimbursement of common expenses received | 1,053 | 1,441 | | |
| Due to / (from) | | | (219) | (614) |
| Directors & Key Management Personnel | | | | |
| Remuneration to Executive Directors | 9,541 | 8,701 | | |
| Commission to Non-Executive Directors | 1,000 | 1,000 | | |
| Directors' sitting fees | 185 | 125 | | |

There are no provisions for doubtful debts / advances in respect of related parties as at the Balance Sheet date or amounts written-off or written back during the year in respect of debts due from or to related parties.

Out of the above items, transactions with the subsidiaries and Key Management Personnel in excess of 10% of the total related party transactions are as under :

(₹ 000s)

| | **2010** | **2009** |
|---|---|---|
| Subsidiary companies | | |
| Revenues | | |
| Megasoft Consultants Sdn Bhd | 26,116 | 35,930 |
| Megasoft Consultants, Inc. | – | 18,356 |
| XIUS Corp | 260,356 | 763,858 |
| Software development expenses | | |
| XIUS Corp | 54,150 | – |
| Loan to subsidiary companies | | |
| Granted during the year | | |
| Megasoft Consultants, Inc. | – | 98,939 |
| XIUS Holding Corp | 453,086 | 52,800 |
| Repaid / adjusted during the year | | |
| Megasoft Consultants, Inc. | – | 401,372 |
| XIUS Holding Corp | – | 29,568 |

Details of loans and advances in the nature of loans (as required by clause 32 of the listing agreement with stock exchanges)

(₹ 000s)

| | **2010** | **2009** |
|---|---|---|
| Balance at the end of the year | | |
| XIUS Holding Corp | 757,074 | 303,988 |
| Maximum amount outstanding during the year | | |
| Megasoft Consultants, Inc. | – | 401,372 |
| XIUS Holding Corp | 757,074 | 303,988 |

**18 Defined benefit plans / long term compensated absences**

As per actuarial valuations as on 31 December 2010 and recognised in the financial statements in respect of employee benefit schemes.

| as at 31 December | Gratuity (Unfunded) | | Leave encashment (Unfunded) | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| | % | % | % | % |
| (i) Assumptions | | | | |
| Discount Rate | 8.40 | 8.25 | 8.40 | 8.25 |
| Rate of Return on Plan Assets | 8.40 | 8.25 | 8.40 | 8.25 |
| Salary Escalation | 6.00 | 6.00 | 6.00 | 6.00 |
| Attrition rate | 1.00 | 1.00 | 1.00 | 1.00 |
| | ₹ 000s | ₹ 000s | ₹ 000s | ₹ 000s |
| (ii) Table showing change in Benefit Obligation | | | | |
| Liability at the beginning of the year | 5,774 | 22,256 | 3,154 | 11,579 |
| Interest Cost | 476 | 1,558 | 260 | 811 |
| Current Service Cost | 1,804 | 6,571 | 584 | 2,847 |
| Benefit Paid | (1,015) | (12,374) | (1,667) | (6,541) |
| Actuarial (gain) / loss on obligations | 1,035 | (12,237) | 2,108 | (5,542) |
| Liability at the end of the year | 8,074 | 5,774 | 4,439 | 3,154 |
| (iii) Tables of fair value of Plan Assets | | | | |
| Fair value of Plan Assets at the beginning of the year | — | — | — | — |
| Expected return on Plan Assets | — | — | — | — |
| Contributions | 1,015 | 12,374 | 1,667 | 6,541 |
| Benefit Paid | (1,015) | (12,374) | (1,667) | (6,541) |
| Actuarial gain / (loss) on Plan Assets | — | — | — | — |
| Fair value of Plan Assets at the end of the year | — | — | — | — |
| Total actuarial gain / (loss) to be recognised | (1,035) | 12,237 | (2,108) | 5,542 |
| (iv) Actual Return on Plan Assets | | | | |
| Expected Return on Plan Assets | — | — | — | — |
| Actuarial gain / (loss) on Plan Assets | — | — | — | — |
| Actual Return on Plan Assets | — | — | — | — |
| (v) Amount recognised in the Balance Sheet | | | | |
| Liability at the end of the year | 8,074 | 5,774 | 4,439 | 3,154 |
| Fair value of plan assets at the end of the year | — | — | — | — |
| Difference | 8,074 | 5,774 | 4,439 | 3,154 |
| Amount recognised in the Balance Sheet | 8,074 | 5,774 | 4,439 | 3,154 |
| (vi) Expenses recognised in the Income Statement | | | | |
| Current Service Cost | 1,804 | 6,571 | 584 | 2,847 |
| Interest Cost | 476 | 1,558 | 260 | 811 |
| Expected Return on Plan Assets | — | — | — | — |
| Net actuarial (gain) / loss to be recognised | 1,035 | (12,237) | 2,108 | (5,542) |
| Expense Recognised in Profit & Loss A/c | 3,315 | (4,108) | 2,952 | (1,884) |
| (vii) Amount Recognised in the Balance Sheet | | | | |
| Opening net liability | 5,774 | 22,256 | 3,154 | 11,579 |
| Expense as above | 3,315 | (4,108) | 2,952 | (1,884) |
| Employers Contribution paid | (1,015) | (12,374) | (1,667) | (6,541) |
| Closing net Liability | 8,074 | 5,774 | 4,439 | 3,154 |

**19 Commitments & Contingencies**

(₹ 000s)

| as at 31 December | 2010 | 2009 |
|---|---|---|
| Contingent liabilities including bank guarantees, letter of credits, etc. | 62,749 | 115,600 |

**20 Corporate Guarantees**

(i) The company has given a corporate guarantee for the foreign currency loan of Nil (Previous Year - US$ 16.67) million from Axis Bank, Dubai to XIUS Holding Corp., USA.

(ii) The company has given a corporate guarantee for the foreign currency loan of US$ 12.00 (Previous Year - US$ 13.00) million from Axis Bank, Hong Kong to XIUS Holding Corp., USA.

**21 Sale of property at Hyderabad**

In terms of the Scheme of Amalgamation ("Scheme") sanctioned by the order dated 27 March 2007 of the High Court of Judicature at Madras in Chennai and the order dated 22 March 2007 of the High Court of Judicature at Andhra Pradesh in Hyderabad, VisualSoft Technologies Limited ("VisualSoft") was amalgamated with the Company w.e.f. 1 October 2006. The assets, liabilities, rights and obligations of VisualSoft were recorded at their respective fair values under the purchase method of accounting for amalgamation and the excess of fair value of net assets taken over by the company over the paid up value of equity shares issued and allotted was taken under general reserve as that 'on amalgamation'.

As the company continues its strategic focus on the telecom products and services, the company decided to reduce its debts. In this regard, the company obtained the consent of the shareholders through a postal ballot process, results announced on 15 October 2010, for sale of the land and building (including furnishings & fittings) situated at Hyderabad and land at Vishakhapatnam (the said properties were acquired through the scheme). The company sold off the Hyderabad property and the resultant loss on sale of the same has been set-off to the amalgamation reserve (grouped under general reserve) created in terms of the scheme, as has been advised.

**22 Divestment of IT Services ('BlueAlly') Division**

(a) The company divested its IT Services ('BlueAlly') division to an overseas company w.e.f. 1st October 2009, with approval of the members through a postal ballot process.

(b) As per the scheme of arrangement under sections 391 to 394 of the Companies Act 1956 between the company and its equity shareholders approved by the High Court of Judicature at Madras vide its order dated 30 March 2010 duly filed with the Registrar of Companies on 30 March 2010 (effective date), a "Business Reconstruction Reserve account" was created by transferring ₹ 1,250,000 in aggregate from the Securities Premium account and the General Reserve of the company for adjustment of certain expenses as prescribed therein. A sum of ₹ 1,247,862 has been set-off against the same.

**23 Dues to micro, small and medium enterprises**

As at 31 December 2010, the company had no outstanding dues to small-scale industrial (SSI) undertakings and Micro and Medium enterprises (Previous year - Nil). The list of SSI undertakings, Micro and Medium enterprises was determined on the basis of information available with the company.

**24 Previous year comparatives**

Previous years' figures have been regrouped, reclassified / rearranged wherever necessary to conform to current year's presentation. Current years' figures are without IT Services Division and hence are not comparable.

**25 Cash flows**

Cash flows are reported using the indirect method, whereby profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, financing and investing activities of the company are segregated. Cash flows in foreign currencies are accounted at average monthly exchange rates that approximate the actual rates of exchange prevailing at the dates of the transactions.

**26** The Ministry of Corporate Affairs ("MCA") vide its letter No.47/715/2010-CL-III dated 9 December 2010 issued under Section 212(8) of the Companies Act, 1956 has exempted the company from attaching the financial statements of the company's subsidiaries along with the company's accounts for the financial year ended 31 December 2010.

# balance sheet abstract & company's general business profile

| | | | | |
|---|---|---|---|---|
| I | Registration Details | | | |
| | CIN | L72200TN1999PLC042730 | | |
| | Registration No. | 42730 | State Code | 18 |
| | Balance Sheet Date | 31/12/2010 | | |
| II | Capital raised during the year (Amount in Rupees Thousands) | | | |
| | Public Issue | — | Rights Issue | — |
| | Private Placement | — | Bonus Issue | — |
| III | Position of Mobilisation & Deployment of Funds (Amount in Rupees Thousands) | | | |
| | Total Liabilities | 1,814,613 | Total Assets | 1,814,613 |
| | Source of Funds | | Application of Funds | |
| | Paid-up capital | 442,673 | Net Fixed Assets | 554,760 |
| | Reserves & Surplus | 1,197,760 | Investments | 130,224 |
| | Secured Loans | 150,177 | Net Current Assets | 1,129,629 |
| | Unsecured Loans | 19,850 | Miscellaneous Expenditure | -- |
| | Deferred tax liability / (asset) | 4,153 | Accumulated Losses | -- |
| IV | Performance of Company (Amount in Rupees Thousands) | | | |
| | Turnover | 599,382 | Total Expenditure | 549,179 |
| | Profit before Tax | 50,203 | Profit after Tax | 52,981 |
| | Earnings per Share (₹) | 1.20 | Dividend Rate % | 0% |
| V | Generic name of principal product / service of Company | | | |
| | (as per monetary terms) | | | |
| | ITC Code | 85249113 | | |
| | Product Description | Computer software | | |

For and on behalf of the Board of Directors

**GV Kumar**
Managing Director

**D Sudhakar Reddy**
Director

**GP Srinath**
Secretary

Hyderabad
28 February 2011

## Statement regarding Subsidiary Companies pursuant to Section 212 of the Companies Act, 1956

| Name of the subsidiary | Country | Currency | Financial year ending of the subsidiary | Number of Shares in the subsidiary company held | Extent of holding | Net aggregate of profits / (losses) of the subsidiary company for the financial year so far as they concern the members of Megasoft Limited | | Net aggregate amount of profits / (losses) of the subsidiary company for the previous financial years so far as they concern the members of Megasoft Limited | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Dealt with or provided for in the accounts | Not dealt with or provided for in the accounts | Dealt with or provided for in the accounts | Not dealt with or provided for in the accounts |
| | | | | | | ₹ 000s | | | |
| Megasoft Consultants Sdn Bhd | Malaysia | MR | 31-Dec-2010 | 500,000 of MR 1 each | 100% | – | 1,157 | – | (2,445) |
| Megasoft Consultants Pte Ltd | Singapore | SD | 31-Dec-2010 | 100,000 of SD 1 each | 100% | – | (792) | – | 1,212 |
| XIUS Holding Corp (formerly Boston Communications Group, Inc.) | USA | USD | 31-Dec-2010 | 1,000 of US$ 0.001 each | 100% | – | (61,227) | – | (1,755,716) |
| Xius Corp (formerly Cellular Express, Inc.) | USA | USD | 31-Dec-2010 | 100 of US$ 0.01 each | 100% | – | 220,666 | – | 981,339 |
| BCGI Wireless Private Limited | India | INR | 31-Dec-2010 | 280,000 of ₹10 each | 100% | – | 726 | – | 28,724 |

For and on behalf of the Board of Directors

**GV Kumar**
Managing Director

**D Sudhakar Reddy**
Director

**GP Srinath**
Secretary

Hyderabad
28 February 2011

## Statement regarding Subsidiary Companies pursuant to Section 212 of the Companies Act, 1956

| Name of the subsidiary company | Country | Reporting currency | Exchange Rate as on 31 December 2010 | Issued and subscribed capital | Reserves | Total Assets | Total Liabilities | Investments (except in case of investment in subsidiaries) | Turnover | Profit / (Loss) before taxation | Provision for taxation | Profit / (Loss) after taxation | Proposed Dividend |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | ₹ | ₹ 000s | | | | | | | | | |
| Megasoft Consultants Sdn Bhd | Malaysia | MR | 14.5929 | 7,296 | (1,288) | 15,366 | 9,358 | — | 52,970 | 1,201 | 44 | 1,157 | — |
| Megasoft Consultants Pte Ltd | Singapore | SD | 34.8728 | 3,487 | 420 | 4,401 | 494 | — | — | (792) | — | (792) | — |
| XIUS Holding Corp (formerly Boston Communications Group, Inc.) | USA | USD | 44.7223 | 0 | (1,816,943) | 0 | 1,816,943 | — | — | (61,227) | — | (61,227) | — |
| Xius Corp (formerly Cellular Express, Inc.) | USA | USD | 44.7223 | 0 | 1,202,005 | 1,343,117 | 141,111 | — | 1,329,831 | 220,666 | — | 220,666 | — |
| BCGI Wireless Private Limited | India | Rs | 1 | 2,800 | 29,450 | 39,375 | 7,125 | — | — | 726 | — | 726 | — |

For and on behalf of the Board of Directors

**GV Kumar**
Managing Director

**D Sudhakar Reddy**
Director

**GP Srinath**
Secretary

Hyderabad
28 February 2011

Note:
Information on subsidiary companies is provided in compliance with The Ministry of Corporate Affairs approval vide their letter No.47/715/2010-CL-III dated 9 December 2010.
We undertake to make available the audited annual accounts and related information of subsidiary companies, where applicable, upon request by any of the company's shareholders.
The annual accounts will also be available for inspection during business hours at our registered office in Chennai, India.

# notice of the annual general meeting

Notice is hereby given that the Eleventh Annual General Meeting of the Members of Megasoft Limited will be held on Friday the 17th day of June 2011 at 3.30 PM at Hotel Ramada Raj Park-Chennai, 180, TTK Road, Alwarpet, Chennai 600018 to transact the following business:

**Ordinary Business**

(1) To receive, consider and adopt the audited Balance Sheet as at 31 December 2010 and the Profit and Loss Account for year ended on that date and the Report of the Directors and the Auditors thereon.

(2) To appoint a Director in place of Mr Anil Kumar Sood, who retires by rotation and being eligible, offers himself for re-election.

(3) To appoint a Director in place of Mr S Ravindra Babu, who retires by rotation and being eligible, offers himself for re-election.

(4) To appoint auditors to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration:

RESOLVED that M/s Srikanth & Shanthi Associates, Chartered Accountants, Chennai, and M/s TN Rajendran & Co., Chartered Accountants, Chennai, be and are hereby appointed as the Joint Statutory Auditors of the company to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting at a remuneration as may be mutually agreed to, between the Board of Directors and the Auditors, plus applicable tax, reimbursement of out of pocket expenses, travelling and other expenses, in connection with the work of audit to be carried out by them.

**Special Business**

(5) To consider and if thought fit, to pass, with or without modification(s), the following resolution as Ordinary Resolution:

RESOLVED that pursuant to the provisions of Section 228 and other applicable provisions, if any, of the Companies Act, 1956, the Board of Directors of the company be and is hereby authorised to appoint Branch Auditors of any branch office of the company, whether existing or which may be opened / acquired hereafter, in India or abroad, in consultation with the company's Auditors, any person(s) qualified to act as Branch Auditor within the provisions of the said Section 228 and to fix their remuneration.

(6) To consider and if thought fit, to pass, with or without modification(s), the following resolution as Ordinary Resolution:

RESOLVED that pursuant to Sections 198, 269, 309, 310, 311 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to such approvals or permissions from any appropriate authority as may be necessary and subject to such modifications or stipulations as may be advised / stipulated by such authorities, approval of the company be and is hereby accorded to the reappointment of Mr GV Kumar as Managing Director of the company, for a further period of five years with effect from 1 April 2011 as recommended by the Remuneration / Compensation Committee at its meeting held on 28 February 2011 and approved by the Board of Directors at its meeting held on 28 February 2011, as per the terms and conditions stated in the explanatory statement and on the remuneration set out as follows:

(i) Salary: ₹ 190,000 per month, which is eligible for revision on annual basis.

(ii) Perquisites

(a) Housing: Furnished / unfurnished residential accommodation or house rent allowance up to 50% of salary in lieu thereof. The expenditure incurred by the company on gas, electricity, water and furnishings shall be valued as per Income Tax Rules, 1962.

(b) Medical reimbursement / insurance / allowance: Reimbursement of actual expenses for self and family and / or allowance will be paid as decided by the Board from time to time.

(c) Leave travel concession / allowance: For self and family once in a year, as decided by the Board from time to time.

(d) Club fees: Fees payable subject to a maximum of two clubs.

(e) Provision for driver / driver's salary allowance: As per the rules of the company.

(f) Personal accident insurance: As per the rules of the company.

(iii) Other benefits

(a) Earned / Privilege leave: As per the rules of the company.

(b) Company's contribution to provident fund / superannuation / retirement benefits: As per the rules of the company.

(c) Gratuity: As per the rules of the company.

(d) Encashment of leave: As per the rules of the company.

(e) Company car and telephone: Use of the company's car and telephone at residence for official purposes, as per the rules of the company.

RESOLVED FURTHER that the Board of Directors be and are hereby authorised to alter, vary and modify the different components of the above-stated remuneration in such manner as may be agreed to by the Board of Directors and Mr GV Kumar.

RESOLVED FURTHER that in the absence or inadequacy of profits in any financial year, (a) subject to the approval of the Central Government, the remuneration payable to Mr GV Kumar, Managing Director of the company by way of salary, allowances and perquisites shall not be reduced and (b) if the approval of the Central Government as stated in (a) is not received, the remuneration payable to Mr GV Kumar, Managing Director of the company shall be the maximum amount permissible as per Schedule XIII, as amended from time to time.

RESOLVED FURTHER that in the event of loss of his office as Managing Director, Mr GV Kumar, shall be paid compensation in the manner and to the extent permissible under the provisions of Section 318 of the Companies Act, 1956 (including any statutory modifications or re-enactments thereof, for the time being in force) or such other limits as may be prescribed by the government from time to time.

RESOLVED FURTHER that the Board of Directors be and are hereby authorised to take all such steps as may be necessary, proper or expedient, to give effect to this resolution.

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

RESOLVED that pursuant to the provisions of Section 314, and other applicable provisions, if any, of the Companies Act, 1956, consent of the company be and is hereby accorded to Mr GV Kumar, Managing Director of the company to hold an office or place of profit as a Director of XIUS Holding Corp (formerly Boston Communications Group, Inc.), USA, and Xius Corp (formerly Cellular Express, Inc.), USA, wholly owned subsidiaries of the company and to the payment of an aggregate remuneration to him by the aforesaid subsidiaries of the company of a sum not exceeding USD 120,000 (USD one hundred twenty thousand only) per annum in his capacity as a director of the said wholly owned subsidiaries, namely, XIUS Holding Corp, USA, and Xius Corp, USA..

(8) To consider and if thought fit, to pass, with or without modification(s), the following resolution as Ordinary Resolution:

RESOLVED that pursuant to Sections 198, 269, 309, 310, 311 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to such approvals or permissions from any appropriate authorities as may be necessary and subject to such modifications or stipulations as may be advised / stipulated by such authorities, approval of the company be and is hereby accorded to the reappointment of Mr D Sudhakar Reddy, as director in the whole-time employment of the company, for a further period of five years with effect from 1 April 2011 as recommended by the Remuneration / Compensation Committee at its meeting held on 28 February 2011 and approved by the Board of Directors at its meeting held on 28 February 2011, as per the terms and conditions stated in the explanatory statement and on the remuneration set out as follows:

(i) Salary: ₹ 65,000 per month, with power to the Board to decide on the quantum of yearly increment(s) payable to Mr D Sudhakar Reddy consistent with performance.

(ii) Perquisites

(a) Housing: Furnished / unfurnished residential accommodation or house rent allowance up to 50% of salary in lieu thereof. The expenditure incurred by the company on gas, electricity, water and furnishings shall be valued as per Income Tax Rules, 1962.

(b) Medical reimbursement / insurance / allowance: Reimbursement of actual expenses for self and family and / or allowance will be paid as decided by the Board from time to time.

(c) Leave travel concession / allowance: For self and family once in a year, as decided by the Board from time to time.

(d) Club fees: Fees payable subject to a maximum of two clubs.

(e) Provision for driver / driver's salary allowance: As per the rules of the company.

(f) Personal accident insurance: As per the rules of the company.

(iii) Other benefits

(a) Earned / Privilege leave: As per the rules of the company.

(b) Company's contribution to provident fund / superannuation / retirement benefits: As per the rules of the company.

(c) Gratuity: As per the rules of the company.

(d) Encashment of leave: As per the rules of the company.

(e) Company car and telephone: Use of the company's car and telephone at residence for official purposes, as per the rules of the company.

RESOLVED FURTHER that the Board of Directors be and are hereby authorised to alter, vary and modify the different components of the above-stated remuneration in such manner as may be agreed to by the Board and Mr D Sudhakar Reddy.

RESOLVED FURTHER that in the absence or inadequacy of profits in any financial year, (a) subject to the approval of the Central Government, the remuneration payable to Mr D Sudhakar Reddy, Executive Director of the company by way of salary, allowances and perquisites shall not be reduced and (b) if the approval of the Central Government as stated in (a) is not received, the remuneration payable to Mr D Sudhakar Reddy, Executive Director of the company shall be the maximum amount permissible as per Schedule XIII, as amended from time to time.

RESOLVED FURTHER that in the event of loss of his office as Executive Director, Mr D Sudhakar Reddy, shall be paid compensation in the manner and to the extent permissible under the provisions of Section 318 of the Companies Act, 1956 (including any statutory modifications or re-enactments thereof, for the time being in force) or such other limits as may be prescribed by the government from time to time.

RESOLVED FURTHER that the Board of Directors be and are hereby authorised to take all such steps as may be necessary, proper or expedient, to give effect to this resolution.

By order of the Board of Directors
For **Megasoft Limited**

**GP Srinath**
Secretary

Hyderabad
28 February 2011

## Notes

(1) An Explanatory Statement relating to the Special Business pursuant to Section 173(2) of the Companies Act, 1956 is annexed hereto.

(2) A Member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the company. Proxies, in order to be effective must be received at the company's Registered Office not less than 48 hours before the meeting. Proxies submitted on behalf of limited companies, societies, partnership firms, etc., must be supported by appropriate resolution / authority as applicable, issued on behalf of the nominating organisation.

(3) Members / Proxies should bring duly filled in Attendance Slip sent herewith for attending the Meeting.

(4) The Register of Members and Share Transfer Books will remain closed from 10th to 17th June 2011 (both days inclusive) in connection with the Annual General Meeting.

(5) The Register of Directors' Shareholding, maintained under Section 307 of the Companies Act, 1956, will be available for inspection by the members at the AGM.

(6) The Register of Contracts, maintained under Section 301 of the Companies Act, 1956 will be available for inspection by the members at the Registered Office of the company.

(7) The Certificate from the Auditors of the company certifying that the company's Employee Stock Option Schemes is being implemented in accordance with the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and in accordance with the resolution of the Members passed in the general meeting, will be available for inspection by the Members at the AGM.

(8) All documents referred to in the Notice and Explanatory Statements are open for inspection at the Registered Office of the company on all working days from 11.00 a.m. to 4.00 p.m. up to the date of the Meeting except holidays.

(9) Members desirous of obtaining any information / clarification concerning the accounts and operations of the company are requested to address their queries in writing to the Company Secretary at least 10 days before the AGM, so that the information required may be made available at the AGM.

(10) Members who are holding physical shares in more than one Folio are requested to intimate to the company / Registrar & Share Transfer Agents the details of all their Folio numbers for consolidation into a single Folio.

(11) Shareholders holding shares in physical form are requested to intimate the Income Tax Permanent Account Number (PAN), which is mandatory for transfer of shares.

(12) 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.

(13) Members wishing 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 seven years from the date of transfer to the Company's Unpaid Dividend Account, will, as per Section 205A of the Companies Act, 1956, be transferred to the Investor Education and Protection Fund.

(14) Members are requested to address all correspondences, including dividend matters, to the Registrar and Share Transfer Agents, Cameo Corporate Services Limited, Subramanian Building, No.1, Club House Road, Chennai 600002, India.

## Explanatory Statement

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

### Item No.5

The company has branches in India and abroad and may also open new branches in India and abroad in future. It may be necessary to appoint branch auditors for carrying out the audit of the accounts of such branches. The shareholders are requested to authorise the Board of Directors of the company to appoint branch auditors in consultation with the company's Auditors and to fix their remuneration.

No Director is in any way concerned or interested in the resolution. Your directors recommend the said resolution for approval of the Members.

### Item No.6

The Board of Directors of the company at its meeting held on 28 February 2011 have decided to reappoint Mr GV Kumar as the Managing Director of the company for a further period of five years w.e.f. 1 April 2011 on the terms and conditions including remuneration payable to him as set out in the resolution under Item No.6 of the Notice, as recommended by the Remuneration / Compensation Committee of the company.

The terms of reappointment and payment of remuneration to Mr GV Kumar as stated in the notice may be treated as an abstract under Section 302 of the Companies Act, 1956.

None of the directors of the company other than Mr GV Kumar are interested in the resolution. Your directors recommend the said resolution for approval of the Members.

### Item No.7

Mr GV Kumar, Managing Director of the Company, has been actively involved with the management of the affairs of the wholly-owned subsidiary companies of the company, namely, XIUS Holding Corp (formerly Boston Communications Group, Inc.), USA, and Xius Corp (formerly Cellular Express, Inc.), USA and has been instrumental in spearheading the growth of the said subsidiaries. The respective Boards of the said wholly-owned subsidiary companies in recognition of his contribution towards the growth of the said subsidiary companies have appointed him as a member of its Board on an aggregate remuneration of a sum not exceeding USD 120,000 (US$ one hundred twenty thousand only) per annum. The remuneration payable to Mr GV Kumar by the subsidiaries of the Company, viz. namely, XIUS Holding Corp, USA, and Xius Corp, USA would be in excess of the limits prescribed under Section 314 and would tantamount to holding an office or place of profit in the respective subsidiary companies, which would necessitate prior consent of the shareholders by a special resolution.

None of the directors of the company other than Mr GV Kumar are interested in the resolution. Your directors recommend the said resolution for approval of the Members.

### Item No.8

The Board of Directors of the company at its meeting held on 28 February 2011 have decided to reappoint Mr D Sudhakar Reddy as an Executive Director of the company for a further period of five years w.e.f. 1 April 2011 on terms and conditions including remuneration payable to him as set out in the resolution under Item No.8 of the Notice, as recommended by the Remuneration / Compensation Committee of the company.

The terms of reappointment and payment of remuneration to Mr D Sudhakar Reddy as stated in the notice may be treated as an abstract under Section 302 of the Companies Act, 1956.

None of the directors of the company other than Mr D Sudhakar Reddy are interested in the resolution. Your directors recommend the said resolution for approval of the Members.

By order of the Board of Directors
For **Megasoft Limited**

Hyderabad
28 February 2011

**GP Srinath**
Secretary

## Additional Information on directors seeking appointment / re-appointment at the 11th Annual General Meeting pursuant to Clause 49 of the Listing Agreement

The brief resume, experience and functional expertise and the membership on the various Boards and Committees, of Directors proposed to be re-appointed at Sl. Nos. 2, 3 6 and 8 of the Notice of the AGM as required under Clause 49 of the Listing Agreement are furnished below:

| Name of the Director | Anil Kumar Sood | S Ravindra Babu | GV Kumar | D Sudhakar Reddy |
|---|---|---|---|---|
| Date of Birth | 1 January 1963 | 10 July 1963 | 31 July 1966 | 15 June 1958 |
| Date of Appointment | 28 April 2007 | 29 June 1999 | 1 September 2004 | 06 March 2000 |
| Qualification | PGDM and Fellow of IIM, Ahmedabad | Master's Degree in Civil and Environ mental Engineering from Utah State University, US and an MSE from The John Hopkins University, USA | Electrical Engineer with Post Graduate degree in Management | Fellow Member of The Institute of Chartered Accountants of India |
| Experience in Specific-functional area | His industry experience includes management accounts, business development and financial accounting assignments with Smithkline Beecham Consumer Health Limited, Delhi from 1983 to 1986 and executive (Business Head) responsibilities with Scientific Engineering (P) Limited, Hyderabad from 1989 to 1990. He has served as a Professor of Finance at the Administrative Staff College of India (ASCI) for about 12 years. He has served a term on the Board of Directors of Andhra Bank and has worked as a member of Technical Experts Committee for Restructuring of Punjab and Sind Bank. | He has over two decades of experience in progressive management and in managing technical organisations. He has a rich experience in the IT segment in general and more specifically in application of numerical methods and software solutions for engineering and energy issues. Being the founder of Megasoft Consultants, Inc., USA in 1994 and Megasoft Limited in 1999, he has also launched and successfully ran software services division in USA for a large Indian IT company. Prior to it he was associated with an elite American engineering and energy-consulting organisation, since 1990 in different capacities. He is also an active member of the Indo American Socio Cultural Organizations such as TANA. | Founder & CEO of XIUS India Limited and has over two decade of experience business man In Telecom industries. | He was in practice for over fifteen years and is an expert in Finance, Tax and Corporate Laws. |
| List of companies in which directorship held in other companies | | Aries Foundations Private Limited, Sri City Private Limited, Sri City Infrastructure Development, Private Limited, Sricity Pipe Factory Private Limited, SR Heritage Farms Private Limited, Innovative Water Solutions Limited, Sannareddy Holdings Private Limited | XIUS Holding Corp, USA<br>Xius Corp, USA | Megasoft Consultants Pte Ltd, Megasoft Consultants Sdn Bhd, Sricity Electricity Company Private Limited, NMR Property Development Private Limited, Sri City Private Limited, Sri City Infrastructure Development Private Limited, Suprani Farms Private Limited, Sricity Holdings India Private Limited, Sricity Utility Services Private Limited, Sansri Powers Private Limited |
| Chairman / Members of the Committee of the Board of companies in which he is Director | Chairman of Remuneration / Compensation Committee of the company<br>Member of Audit Committee of the company | Nil | NIL | Member of the Share Transfer / Investors' Grievance Committee of the company |
| Shareholding in the company (equity shares of ₹ 10 each) | NIL | 2,688,768 | 2,197,348 | NIL |

# MEGASOFT LIMITED

Registered Office : 85, Kutchery Road, Mylapore, Chennai 600004

## PROXY FORM

Regd. Folio No. 

DP / Client ID*

I/We................................................................................................................ of ...................................................................... in the district

of .................................................................................................................... being a member/members of the Company hereby appoint

...................................................................................................... of ............................................................... in the district of

............................................................................. or failing him/her .......................................................... of

........................................................................................................ in the district of .......................................................................... as my/our proxy to vote for me/us on my/our behalf at the **ELEVENTH ANNUAL GENERAL MEETING** of the Company to be held at Hotel Ramada Raj Park-Chennai, 180, TTK Road, Alwarpet, Chennai 600018 at 3.30 PM on Friday, the 17th day of June 2011 and at any adjournment(s) thereof.

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

Affix Re. 1/- Revenue Stamp

Signature ......................................................

Note : This form, in order to be effective, should be duly stamped, completed and signed and must be deposited at the Registered Office of the Company, not less than 48 hours before the meeting.

* For share(s) held in electronic form.

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# MEGASOFT LIMITED

Registered Office : 85, Kutchery Road, Mylapore, Chennai 600004

## ATTENDANCE SLIP

Regd. Folio No. 

No. of shares held

DP / Client ID*

I certify that I am a Member/Proxy for the Member of the Company.

I hereby record my presence at the **ELEVENTH ANNUAL GENERAL MEETING** of the Company at Hotel Ramada Raj Park-Chennai, 180, TTK Road, Alwarpet, Chennai 600018 at 3.30 PM on Friday, the 17th day of June 2011.

..........................................................................

Member's/Proxy's name in BLOCK Letters

..........................................................................

Signature of Member/Proxy

Note : Please fill up this attendance slip and hand it over at the entrance of the meeting hall.
Members are requested to bring their copies of the Annual Report to the meeting.

* For share(s) held in electronic form.

# Global presence

## INDIA

**Megasoft Limited**
85, Kutchery Road
Millennium Centre
Mylapore
Chennai-600004
Phone: +91 44 24616768
Fax: +91 44 24617810
Email: contactin@megasoft.com

6-3-1192/2/1, Kundanbagh
Begumpet
Hyderabad-500016
Phone: +91 40 40330000
Fax: +91 40 40133555
Email: contactin@megasoft.com

**BCGI Wireless Private Limited**
6-3-1192/2/1, Kundanbagh
Begumpet
Hyderabad-500016
Phone: +91 40 40330000
Fax: +91 40 40133555

## UNITED STATES

**Megasoft Limited**
42823 Shaler St.
South Riding
VA 20152, USA

**XIUS Holding Corp**
400 Trade Center
Suite 2890, Woburn
MA 01801-7458
Phone: +1 781-904-5000
Fax: +1 781-904-5601

**XIUS Corp**
400 Trade Center
Suite 2890, Woburn
MA 01801-7458
Phone: +1 781-904-5000
Fax: +1 781-904-5601

## SINGAPORE

**Megasoft Consultants Pte Ltd**
Level 30
Six Battery Road
Singapore 049909

## MALAYSIA

**Megasoft Consultants Sdn Bhd**
No. 21-2 Jalan Taman Melati Utama
4 Melati Utama, 53300 Kuala Lumpur
Malaysia
Tel No. 03-4105 4476
Fax No. 03-4147 4144

XIUS®
INNOVATE. LEAD.

Registered office: Megasoft Limited, 85 Kutchery Road, Mylapore, Chennai 600004