# Innovate.Lead.

MEGASOFT

MEGASOFT LIMITED I ANNUAL REPORT 2011

## ACROSS THE PAGES...



### 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 such as '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 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.


In a challenging business environment, success comes down to simple fundamentals.

The ability to innovate at the cutting-edge of the technology curve.

The ability to demonstrate distinctive thought leadership.

The ability to demonstrate financial discipline.

## At Megasoft, this focus on innovation, leadership and financial discipline translated into a profitable financial position in a challenging 2011 with prospects of better days ahead.

# CORPORATE IDENTITY

Megasoft a unique Indo-American trans-national company. Combines the best practices of both cultures. Provides sophisticated cost-effective services to the global telecommunications industry.

## Background

Established in 1994 in Virginia (USA) and listed on BSE in 2000, Megasoft, a publicly listed company, operates out of offices in Asia, the Americas and Europe.

## Our business

Mobile network operators are faced with increasing competition. To compete successfully, they must continually reduce operating costs and yet provide cutting-edge, next-generation services (anywhere connectivity, personalised content, social networking and mobile commerce). There is only one way that mobile network operators can succeed: enter into partnerships with technology companies like Megasoft.

Across the past decade, Megasoft partnered with a growing number of the world's largest mobile network operators, offering advanced real-time mobile solutions (prepaid billing, roaming, mobile payments, access management and network management) that improve network efficiency and create emerging revenue opportunities through innovative subscriber services.

## 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

Our core philosophies are customer-centricity, innovation, execution excellence, agility and financial discipline.

## Location

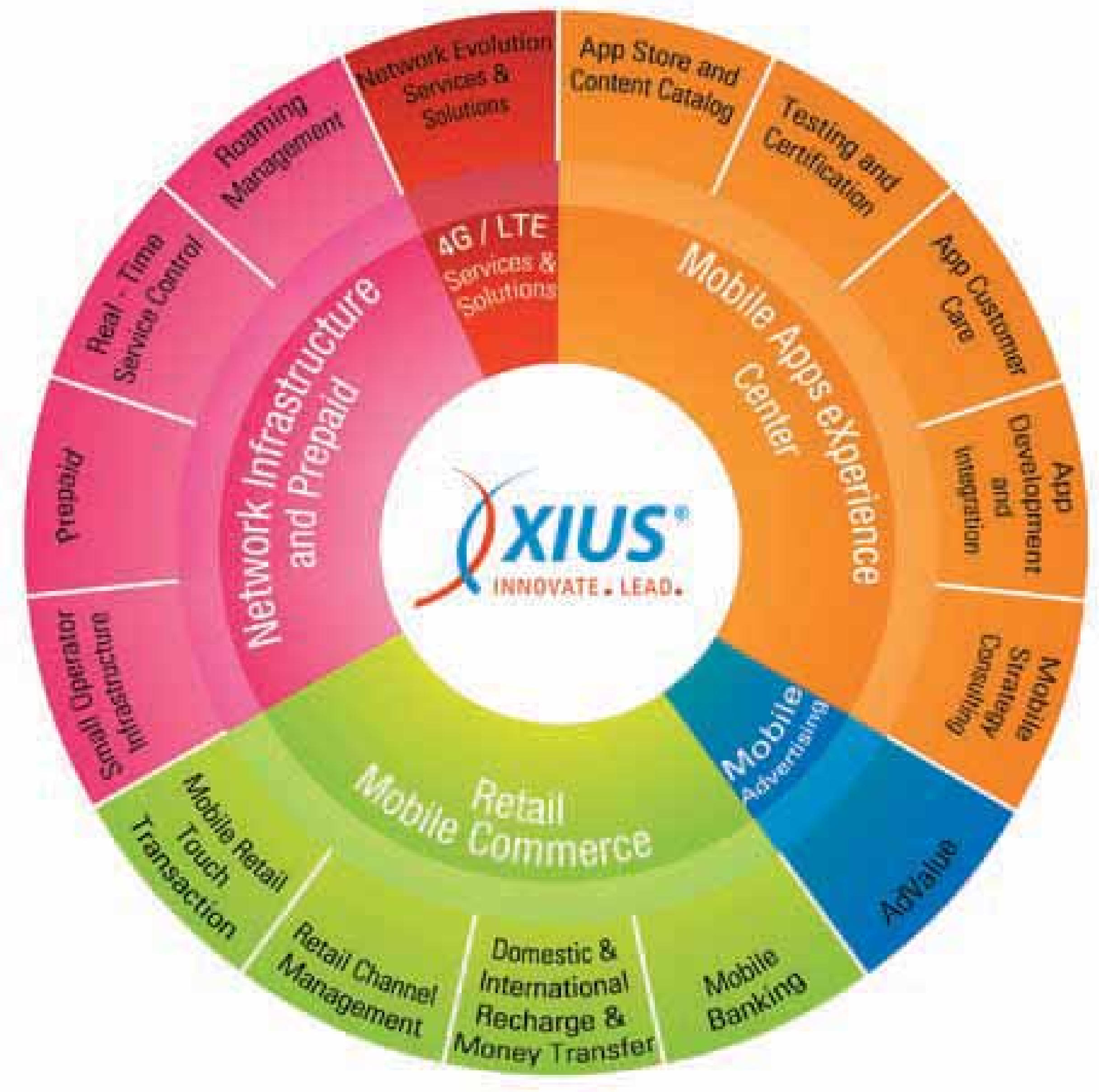
The Company's headquarters are located in Hyderabad, Andhra Pradesh (India) and regional offices in Chennai, Tamil Nadu (India), Boston, the US, Singapore and Kuala Lumpur, Malaysia.

## Presence

The Company has a proven track record of delivering solutions to the telecom industry in the US, India, Singapore and Malaysia through partnerships with global leaders. The Company's shares are listed on The Bombay Stock Exchange (BSE), National Stock Exchange (NSE) and Madras Stock Exchange.

Megasoft partnered with a growing number of the world's largest mobile network operators, offering advanced real-time mobile solutions that improve network efficiency and create emerging revenue opportunities

## Products and solutions




### 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, helping them deliver differentiated services leading to a first-mover's advantage and subscriber loyalty.

# MEGASOFT'S JOURNEY SO FAR...

## 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 and gets listed on Bombay, Madras, Hyderabad and Ahmedabad stock exchanges

## 2003

Acquired MCI and makes it a wholly-owned subsidiary

## 2004

Merged XIUS India Limited

## 2006

Merged VisualSoft Technologies Limited and gained valuable real estate assets and development infrastructure

## 2007

Bought bcgi, a US NASDAQ listed company, establishing a strong presence in the US

## 2009

Divested IT services division 'BlueAlly'

## 2010

Created innovation centre to focus on the identifying, nurturing, testing and delivering additional new solutions to the markets

## 2011

- Launched two new products - Active Poster Product (APP) and Mobile advertising product (Ad value)
- Sold the Hyderabad property

## 2012

- Extended the positive working experience with a LatAm telco from two properties to seven
- Launched a full 10-inch Android-based system in the poster product segment

CEO'S REVIEW

# "DESPITE A CHALLENGING YEAR, WE REMAINED CASH POSITIVE AND CONTINUED TO INVEST IN BUSINESS GROWTH"

## Mr GV Kumar, CEO, reviews the Company's performance

**Q: Were you pleased with the Company's performance during the year under review?**

A: The Company's performance was not what we had budgeted at the start of 2011. The under performance was on account of the following reasons:

→ We lost a major client during the year under review. The full impact of this attrition will be felt visibly only during the first six months of 2012.

→ There was a delay in launching the poster product by six months from the second half of 2011, translating into a notional revenue loss of around Rs 150 million in 2011. The launch will happen in the first half of 2012.

→ The currency volatility made it difficult to plan.

However, we must assure our shareholders that we embarked on a number of initiatives to mitigate the impact of client attrition and currency volatility, while making up for lost time through the profitable launch of our poster product and other new business lines.

**Q: What were some of the high points of the Company's working in 2011?**

A: The biggest point that I must make is that despite facing a decline in revenues, the Company continued to deliver on its core philosophy – continued to innovate, achieved 100 percent SLAs with all clients (execution excellence) and remained cash positive (financial discipline).

Besides, what was assuring is that the core competence that we built over the years in our specialised line of business continued to remain protected in 2011 despite external upheavals. The result was that a number of our old clients continued to work with us; 85 percent of our revenues were derived from long-standing customers during the year under review without any penalties for under-delivery. This is easily our single most assuring factor in 2011.

We didn't just work with long-standing customers; we conducted a customer satisfaction survey that made it possible to rate our performance in an unambiguously numerical way. The result was that our rating increased from 6 to 8, which will translate into higher bookings from each customer and a wider spread of customers.

We extended our positive working experience with LatAm telco from two properties to seven, which is an index of the customer's confidence in our capability.

Even as the external environment continued to remain challenging, we continued to launch new products: a full 10-inch Android-based system in our poster product segment and scalability-cum-3G and 4G compatibility of our Mobile Services Platform.

We entered the 4G segment when 3G investments are yet to complete their pay back. Mobile operators, especially regional and smaller operators, face a number of competitive issues: launching next-generation services like mobile broadband comprising the following issues:

→ Supporting and maintaining existing 2G/3G subscribers while embarking on building a 4G network

→ Mobilising significant investments for a broadband network overlay

→ Marketing innovative solutions to attract subscribers

XIUS leverages years of mobile network and infrastructure design, development and operational experience to deliver the following solutions:

→ Work closely with clients to assess and build a map for their network evolution goals

→ Provide best-in-class solutions and components to enable clients to deliver quality cost-effective services

→ Provide appropriate shared managed services infrastructure and solutions, resulting in a combination of prudent capex and opex models

**Q: What initiatives did the Company take to protect it from operational volatility in a technology-led business?**

A: Over the years, we took a conscious decision. We would create a hybridised business model comprising one-off income from technology intensive product sales on the one hand and recurring income from multi-year managed services on the other. While one part of the business would bring chunky revenues, the other part would generate predictable and sustainable revenue flows. The result was evident in 2011: we generated around 80 percent of our business from recurring multi-year managed services, helping us remain cash positive and report a reasonable surplus in 2011.

The Company strengthened other de-risking initiatives as well: its cash and caution approach resulted in debt draw down of over Rs 109 million during the year. This in turn reduced the Company's interest outflow from Rs 151 million in 2010 to Rs 98 million in 2011, strengthening interest cover even as we faced a temporary decline in our bottomline from Rs 217 million to Rs 175 million – a rare phenomenon. This only indicates that while there was a decline in the quantum of our earnings, there was an increase in the quality.

As a responsible Company, we continued to clean up our balance sheet: we wrote off (including provisions) Rs 69 million of bad debts that were derived from old infrastructure clients, where the revenues were distributed across about four years. We expect to write off old outstanding debts, if any, completely by 2014.

### Q: What is the optimism that you would like to leave with shareholders?

A: The optimism that we would like to leave with our shareholders is the depth of our robust business model: our existing managed services order book possesses long-term contract tenures. Additionally, we possess a good order book position and also expect to start earning attractive revenues from the launch of our poster product. The combination of these three revenue streams at slightly higher margins is likely to more than cover our projected cumulative annual expense for 2012.

### Q: You indicated the launch of a poster product. Can you explain its significance?

A: At Megasoft, we have always prided on the launch of products positioned at the cutting-edge of technology that take the consumer experience ahead. Our poster product is precisely this kind of product: it provides a virtual store front (interactive kiosk where persons can use their mobile – not credit card – to download pictures, songs, transfer cash, among others). As in all successful product companies where the product is developed slightly ahead of the market requirement, we feel that this product is future-ready. More and more people will carry less and less cash; more and more people will want to use their mobile instruments to do everything – talk, text and transact. Megasoft is positioned attractively to capitalise on the third leg: just when the uptick starts – which we expect anytime soon - Megasoft will be positioned to translate the value of its technology intensive product into revenues and profits.

### Q: Shareholders find it unusual for an IT company to have debt on its books.

A: We share the sentiment. This is a legacy of the Company's acquisition finance activities a few years back. The Company is committed to an asset-light approach and, in line with this, liquidated its Hyderabad property in 2010 to pay off some of its debt, while we will pay the rest through accruals and emerge as a debt-free company by 2014. This reduction in indebtedness will not only reduce the annual interest outflow but will right size the Company's overall financial structure in relation to its revenue earning capability, resulting in renewed investor interest.

### Q: Shareholders are concerned about the low market capitalisation of around Rs 500 million.

A: At Megasoft, we recognise that we are in business to enhance shareholder value. We are convinced that the Company is waiting for the right triggers – a good large account, successful closure of all pipeline deals and launch of the poster product. We are convinced that as soon as these realities transpire, there will be a renewed investor interest in the Company followed by a re-rating that strengthens our market capitalisation.

### Q: How is the Company placed within the global landscape of technology-intensive mobile telephony application and services companies?

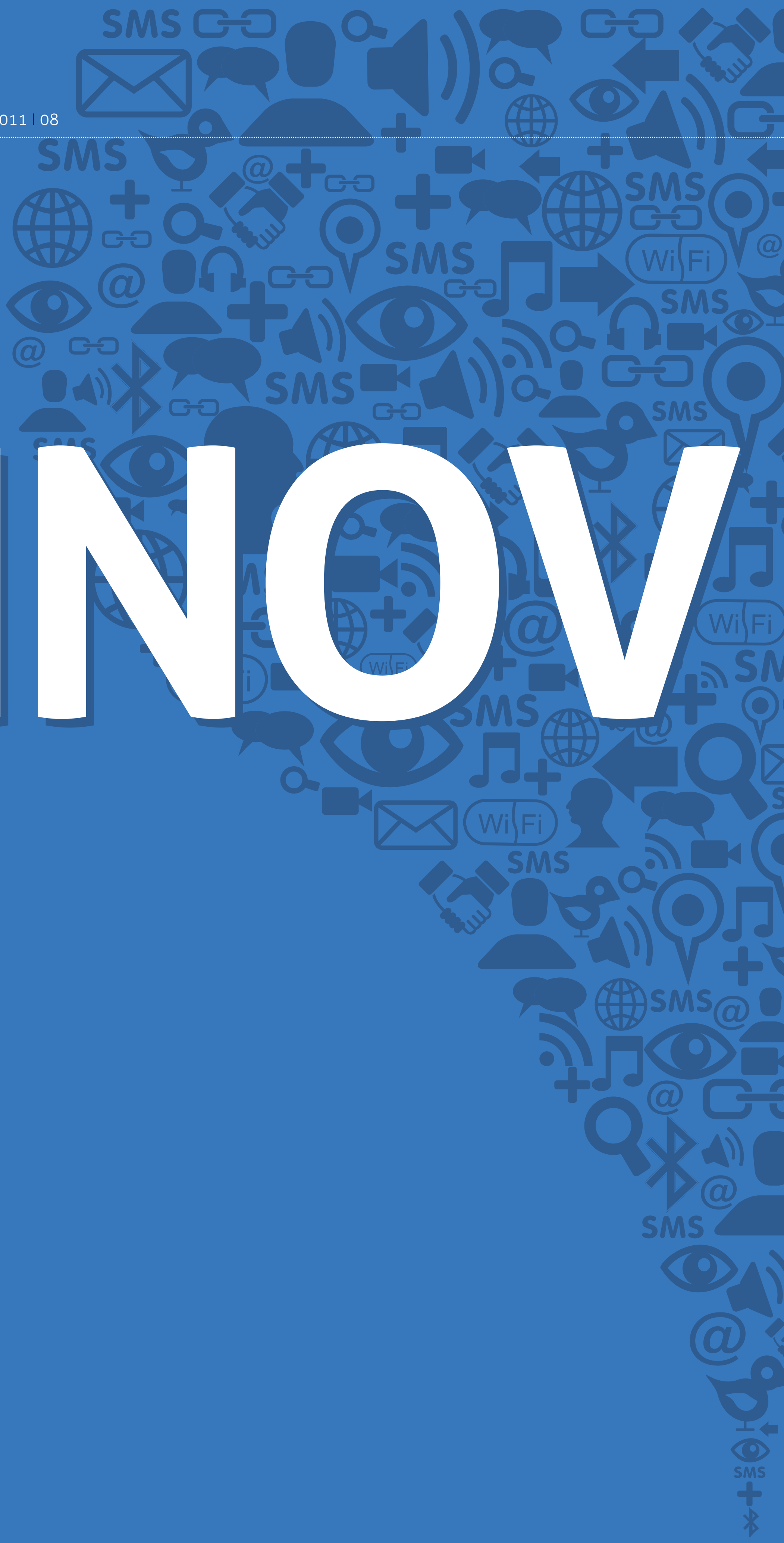
A: Megasoft enjoys a unique position for some good reasons: our technology competence is among the best in the mobile telephony industry – Near field communication, mobile commerce transaction (mobile advertising platform) and mobile retail services (enterprise mobility and mobile enablement) and wholesale MVNO services. These represent the next big waves in the global telecommunication sector and even if one of them takes off, we will be among the first companies to capitalise on the transition.

Besides, Megasoft represents a prudent and profitable combination of the east and west where our products are developed at a fraction of the cost incurred in the developed markets (the investment in these business segments was funded through accruals); we market our products in the largest market in the world (US); we operate on a global scale and more than 80 percent of our revenues are derived from mature global markets with customers drawn from credible and reputed Tier 1 backgrounds; we are a research-driven technology company having filed around 120 mobile telephony patents (30 granted).

The next obvious question that shareholders will have is how we expect to monetise this intrinsic value. What we need to educate our investors is that the success of a product-driven mobile technology company will always be influenced by spikes in revenues. As a result, investors will need to back capability as distinct from performance. In our case, we recognise that we need to demonstrate some big wins for the markets to start believing in the credibility of our business model, which I am sure, will happen soon enough.

### Q: What is the message that you would like to leave with your shareholders?

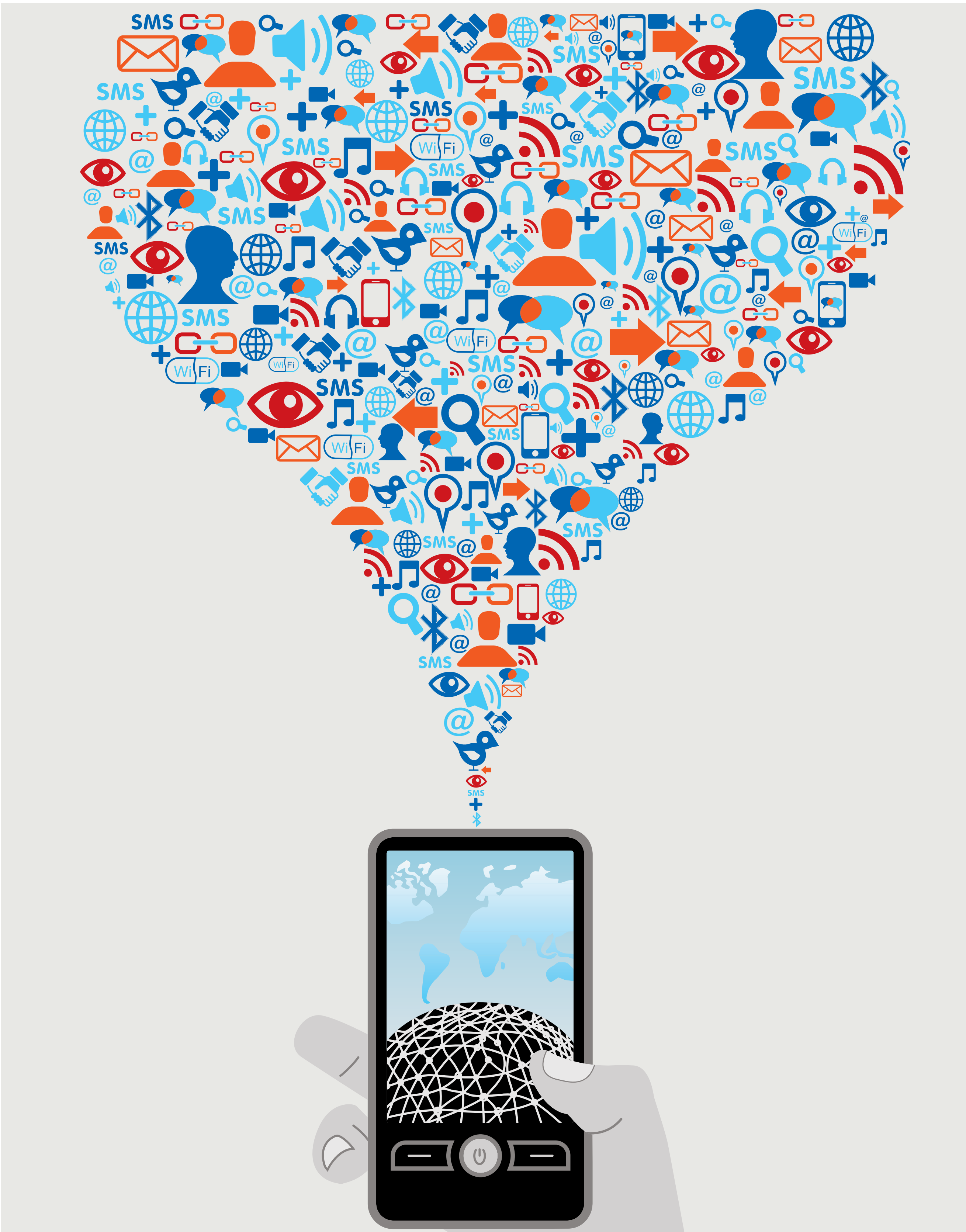
A: We possess the fundamentals to succeed: presence at the cutting-edge of our business space which will make us relevant for the next number of years, R&D innovation capability that will make it possible for us to launch relevant products to take the consumer experience ahead and an operating structure that makes it possible for us to stay profitable and liquid even in the most challenging market environments.



# INNOV

# ATION

Megasoft is not a usual technology solutions company. The company provides end-to-end technology solutions based on its own intellectual property that empowers mobile operators to differentiate their services. The result is a seamless mobile transaction management and monetisation that enhances the end user's mobile experience.



### Mobile Touch Transaction – Active Poster Device

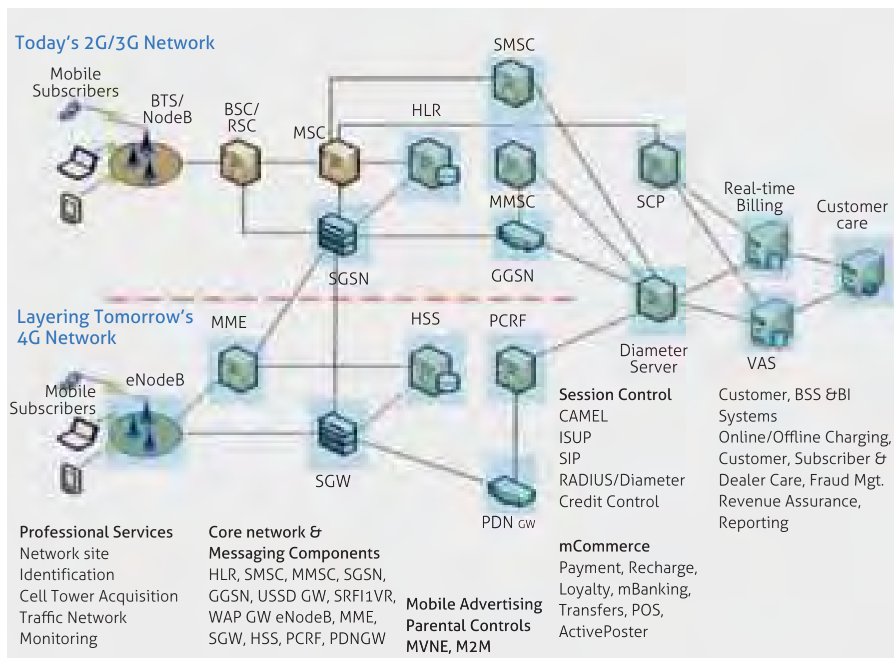
The XIUS Mobile Touch Transaction – Active Poster Device Platform (MTT – APD) is a revolutionary concept which brings all mobile operator services and mobile commerce initiatives to the retail storefront in a single integrated fashion. With this 'Virtual Mall,' mobile operators will now be able to sell top-ups, VAS services like ring tones, wall papers, music, among others at any retail store. The subscribers do not have to go through complicated SMS-based menus to buy these services.

**Mobile Innovation**


MTT Active poster. Powered by XIUS
XIUS, its tagline "Innovate. Lead.", Mobile Touch Transaction, MTT, and Active Poster are trademarks of XIUS Corp., its parent or subsidiaries.

### 4G/LTE Network Evolution Services & Solutions

Rural mobile operators face a number of difficult competitive issues today, with one in particular being significantly challenging – broadband services expansion for subscribers in rural service areas. XIUS leveraged its mobile network and infrastructure design capability to build a map for a client's network evolution goals, leverage best-in-class solutions and components, build existing infrastructure, provide shared managed services infrastructure and solutions and provide services and solutions that facilitate a low-cost, multi-generational service delivery *(shown in the diagram).*




XIUS makes it possible for customers to address migration challenges to 4G/LTE through a competitive solution. The Company conducts an analysis, builds business cases with facts and real-world examples and provides options to reconcile best-in-class services and solutions. XIUS conducts all relevant planning and deploys all network elements (eNodeB to HSS to PCRF) for a complete service or makes it possible for mobile operators to choose only the network elements they need and integrate them to the existing network.

### Mobile advertising product (Ad value)

For years, people talked on mobile phones but responded to advertisements on televisions and other media. Megasoft's patent-pending mobile advertising platform Xius AdValue reconciles the two. It allows carriers to send video and voice advertisements, SMS, video, push and pop-ups as well as text inserts to subscribers. The product is just right for the times: mobile advertising effectiveness is estimated at nearly five times that of online advertising, as it is targeted and customer-opted with integrated couponing and store discounting. The segment is attractively placed to enhance its exposure from a mere Rs 25-30 crore *(Source: Indian Express, 24 April 2011)* out of an Indian advertising industry segment of Rs 30,000 crore. We commercialised this unique mobile advertising platform in Malaysia, adding around a million subscribers within a year of launch, raising the optimism of similar success in India, Africa and Latin America.

# LEADE

Megasoft is not just one of the also-ran. Over the last few years, the Company globally pioneered various mobile telecommunication solutions, emerging as a technology leader in the areas of prepaid billing, roaming, access management and payment. Megasoft is now a respected leader in the global industry by being the first company in the world to launch some of these solutions.

# RSHIP

The real-time session control, rating, call processing and subscriber management capabilities of the XIUS INfinet prepaid platform help mobile operators drive profitable prepaid services growth.

## Mobile Service Platform (MSP)

XIUS's MSP solution provides a cost-effective, end-to-end mobile services infrastructure platform to small mobile operators, as well as wholesale divisions of large mobile operators, MVNEs and MVNOs in a managed services model. MSP is a modular, stable and highly reliable platform that can support core network and specialised mobile services. MSP is a rapidly scalable platform allowing mobile operators to start small and scale up to millions of subscribers with a grow-as-you-go model.

## INfinet Prepaid

The real-time session control, rating, call processing and subscriber management capabilities of the XIUS INfinet prepaid platform help mobile operators drive profitable prepaid services growth. This state-of-the-art solution supports a 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's INfinet is a full-featured, high-quality solution that is pre-integrated to US networks and third party vendors.

## Payment manager

XIUS Payment Manager is a single platform designed to support the unique payment needs of mobile operators. Payment Manager allows operators to create multiple payment channels and manage those channels from a single web-based user interface. Payment Manager also supports real-time payment processing, multi-level settlement capabilities, sophisticated payment loyalty functionality, and fraud prevention tools. XIUS Payment Manager can be integrated into any operator network to improve operational efficiency and lower the cost of accepting customer payments.

XIUS Payment Manager allows operators to create multiple payment channels and manage those channels from a single web-based user interface.

# FINAN
# DISCIP

# CIAL
# LINE

In any business it is necessary to maintain strict financial discipline and profitability even in the most challenging times.

At Megasoft, we continued to demonstrate just that during the year under review through the various initiatives.

- We engaged new customers who accounted for quite a substantial percent of revenues in 2011.
- We reduced our receivables cycle, helping bring revenues in faster over the last couple of years.
- We evolved our business model from product licensing to monthly-based revenues (pay-per-use) revenue model, and translated into core income stability and revenue predictability.
- We reported an EBIDTA margin of around 25 percent from our core business, which was at par or better than industry peers.
- We reported a decline in our interest outflow – from Rs 151 million in 2010 to Rs 98 million in 2011.
- Operational Costs reduction and continuous focus on cost controls.
- Company's New Product developmental expenditure is a fraction compared to the industry peers globally.

The result was that despite a decline in our bottom line to Rs 175 million in 2011, Megasoft repaid debt, reinvested in its business and had cash left over to sustain operations.



The company continues to focus stringently on financial discipline at every juncture

# COMPETITIVE STRENGTHS

## Intellectual property and innovation

The Company possesses rich basket of IPR (intellectual property):

| XIUS Patent Filing History | | |
|---|---|---|
| | Filed | Awarded |
| Company to date | 116 | 30 |
| Last 24 Months | 15 | 6 |
| Last 12 Months | 9 | 3 |

## Service bureau operations and execution excellence

The Company offers its solutions in a SaaS (Software as a service) model, through its data centers, which are well supported by a 24/7 integrated back-end Network Operations Center (NOC).

## Proven track record

Megasoft enjoys a long proven track record as a provider of quality technology and innovation demonstrated by a full suite of various offerings (products, applications, and technology platforms), providing reliable service to mobile operators and others during the Company's life span.

## Culture

Megasoft is a unique Indo-American trans-national company that combines the best practices of both cultures (Indian and American), creating a high quality and cost effective entity with a focus on the global telecommunications domain.


### Valued brand

Brand XIUS is well recognised globally for cutting-edge prepaid technologies, real-time service control platforms, mobile payments and mobile commerce, advanced roaming and core network infrastructure solutions to wireless operators and service providers.

### Building relationships

The company builds and nurtures long-term partnerships for co-creating business value, faster understanding and speedier implementation of mobile solutions and helping unlock potential revenue opportunities for clients.

### Expertise

The Company, with its combined 25 years of strength in deep domain expertise and technology excellence, is known for its unique offerings in 'Inventing the Future', and as an emerging specialist global technology company through telecom-led growth.

### Human capital

The company provides its employees with a professionally rewarding and enriching work environment; possessing an effective performance management system that focuses on employee development, measuring key result areas, competencies and training needs.

# COUNTERING RISKS AND MAXIMISING RETURNS

Risk management is an integral part of Megasoft's business approach, covering an ability to identify, assess, mitigate, manage and monitor all relevant forms of risk. The management is involved in continuously developing and enhancing its comprehensive systems for risk identification and management.

## MARKET RISK

Any slowdown in the wireless telecom industry can affect the Company's profitability.

**Mitigation**

→ The mobile commerce market was valued at US$ 240 billion in 2011 (including mobile payments for digital and physical goods, NFC mobile payments, mobile money transfer, remittances, mobile ticketing, mobile coupons and mobile banking). This market segment is expected to grow to in excess of US$ 1 trillion (gross transaction value) by 2014.

→ The global mobile ad spend was estimated at US$ 3.3 billion in 2011 and is expected to increase to US$ 20.6 billion in 2015, driven by search ads.

→ Total mobile shipments increased 11.1 percent from 1,391.5 million units (smart phones constituted 21.90 percent at 304.7 million units) in 2010 to 1,546 million units in 2011 (smart phones constituted 31.78 percent at 491.4 million units) *(Source: IDC, February 2012).*

## INTELLECTUAL PROPERTY RIGHTS RISK

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 its intellectual property. The Company applied for around 120 patents in the last few years, of which 30 were granted by the USPTO.

## LITIGATION RISK

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

**Mitigation**

The Company has/is 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 these risks.

## CLIENT CONCENTRATION RISK

The Company's top five clients contribute more than 50 percent of revenues. An excessive dependence on a few clients could impact its profitability in the event of a slowdown or client attrition.

**Mitigation**

The Company expanded its sales focus on new geographies and market segments. The Company expects to expand its revenue base and achieve a better spread in revenues and clients. Client concentration has continuously declined over the last few years.

## RECEIVABLES RISK

A long debtors' cycle could potentially affect the Company's cash flow, while sales to suspect customers could translate into bad debt.

**Mitigation**

The Company reduced its receivables cycle over the last couple of years following improved collection. The Company serves a large number of credible customers and therefore, payment default by any single customer will not have a significant impact on its cash flow.

## INTELLECTUAL CAPITAL RISK

A higher attrition rate could lead to an increase in recruitment and training.

**Mitigation**

- The Company provides a professionally rewarding work environment.
- The Company focuses on an effective performance management system that reconciles employee development, key result area measurement, competencies and training.
- The Company advocates a work-life balance and welfare that enhance team cohesiveness.


## Quality Policy

XIUS is committed to create & deliver innovative products and solutions that are consistently high quality, deliver on time, at optimum cost.

Our quality implementation efforts are all pervasive, beginning with a stated goal.

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Customer satisfaction

Attract, train and retain talented professionals through active associate engagement

**Quality Objectives**

Establish measurable performance indicators at relevant functions and levels

Continual Quality Improvements in all spheres of activity by involvement of all associates

MEGASOFT

# MEGASOFT LIMITED

12th Annual Report 2011

## 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
S V Ramkumar

### Vice-President (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 2011.

### Financial Results

*(₹ million)*

| | Standalone | | Consolidated | |
|---|---|---|---|---|
| for the year ended 31 December | 2011 | 2010 | 2011 | 2010 |
| Revenues | 501 | 624 | 1,504 | 1,679 |
| Total Expenditure | 394 | 383 | 1,098 | 1,145 |
| Finance Cost | 28 | 70 | 98 | 151 |
| Depreciation | 41 | 57 | 129 | 143 |
| Operating Profit / (Loss) | 38 | 114 | 179 | 240 |
| Profit / (Loss) before tax | 61 | 50 | 181 | 214 |
| Less: Taxes | 6 | (3) | 6 | (3) |
| Profit / (Loss) after tax | 55 | 53 | 175 | 217 |
| Earnings per share (equity shares, par value ₹ 10 each) | | | | |
| Basic (₹) | 1.25 | 1.20 | 3.95 | 4.90 |
| Diluted (₹) | 1.22 | 1.20 | 3.87 | 4.90 |

### Overview

During the financial year ended 31 December 2011, even as your company recorded consolidated revenues of ₹ 1,504 million compared to ₹ 1,679 million in the previous financial year, net profit was ₹ 175 million compared to a net Inkbep of ₹ 217 million in 2010.

### Dividend

Your Directors do not consider it prudent to recommend any dividend on equity shares for the year under review.

### Outlook

A detailed discussion on the performance of the Company, industry structure, threats, opportunities, risks, future outlook and strategy is given separately in the Management Discussion and Analysis (MDA) section, which forms a part of this annual report.

### Subsidiary Companies

Pursuant to the provisions of Section 212(8) of the Companies Act, 1956, the Ministry of Corporate Affairs vide its circular dated 8 February 2011 has granted general exemption from attaching the Balance Sheet, Profit and Loss Account and other documents of the subsidiary companies with the Balance Sheet of the Company, provided such companies publish the audited consolidated financial statements in the annual report. Accordingly, a statement containing brief financial details of the Company's subsidiaries for the financial year ended 31 December 2011 is included in the annual report. The annual accounts of these subsidiaries and the related detailed information will be made available to any member of the Company/its subsidiaries seeking such information at any point of time and are also available for inspection by any member of the Company/its subsidiaries at the registered office of the Company. The annual accounts of the said subsidiaries will also be available for inspection, as above, at the head offices/registered offices of the respective subsidiary companies. The Company shall furnish a copy of the details of the annual accounts of subsidiaries to any member on demand.

### Corporate Governance

In accordance with Clause 49 of the Listing Agreement with the stock exchanges, a separate report on Corporate Governance and Management Discussion & Analysis together with a certificate from the Company's auditors are provided as 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 believes that it forms part of the duty to save energy and also install necessary apparatus which will help conserve energy. Your Company's computer terminals, air conditioning systems, lighting and utilities are modern technology-enabled to facilitate the optimal use of energy and power.

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

Your Company is actively engaged in the research and development of software. The Company's management team performs an end-to-end function by acting as the sounding board and mentors for the R&D team to develop their ideas to facilitate market launch. The teams will develop a unique approach and strengthen our positioning through tools, frameworks and methodologies to provide value-added services to clients.

#### (c) Technology absorption

Your Company believes that in addition to progressive thought, it is imperative to invest in research and development to ascertain future exposure and prepare for challenges. In its endeavour to obtain and deliver the best, your Company entered into alliances with major global players in the industry to harness and tap the latest and the best of technology in its field, upgrade itself in line with latest technology globally and deploy/absorb technology wherever feasible, relevant and appropriate. Also, your Company also attached tremendous importance to indigenous development and technology upgradation through its extensive Research and Development operations. The benefits derived from these processes are phenomenal and improved the quality of your Company's world-class services.

#### (d) Foreign Exchange Earnings and Outgo

Foreign Exchange Earnings and Outgo: The details of foreign exchange earnings and outgo are given in note no. 10 & 9 of Schedule 17 – Notes to Accounts, forming part of the Balance Sheet and Profit & Loss Account of your Company.

### Particulars of Employees

There are no employees falling within the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended.

### 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.

## Directors

Mr R Janardhana and Mr Anish Mathew, directors of the Company, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for reappointment.

Mr SV Ramkumar was co-opted as an additional director at the meeting of the board of directors held on 28 February 2012. His appointment requires the approval of the members at the ensuing Annual General Meeting. Notices have been received from members pursuant to Section 257 of the Companies Act, 1956 along with the prescribed fees. Mr SV Ramkumar, Chartered Accountant, with over 17 years of experience in consulting and industry, started his career in audit and consulting and has experience in agri commodities and software industries. In the recent past, he was responsible for M&A and capital raising including infra, construction, engineering and real estate. Currently, he is associated with Peepul Capital Advisors.

## Human Resources Development

Your Company recognises the importance of human resources as it represents the backbone of corporate success. Your Company believes in nurturing human resources. Its focus is to enhance employee professional value and create a win-win for both. Your Company reinforced the best HR practices to recruit and retain talented employees. Your Company is confident of reaping the best from its talent pool and sharing benefits with employees on an equitable basis.

## 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 have 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 option 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 future years of growth.

For and on behalf of the Board of Directors

Chennai
28 February 2012

**GV Kumar**
Managing Director

**S Ravindra Babu**
Chairman

# Annexure to the directors' report

## Employees Stock Option Plans

| Particulars | ESOS 2007 |
|---|---|
| Options outstanding as at the beginning of the year | 2,645,000 |
| (a) Options granted during the year | - |
| (b) Pricing Formula | Options have been granted at a discount to the latest available market price as on the date of grant. |
| (c) Options Vested** | 898,000 |
| (d) Options Exercised** | - |
| (e) Total no. of shares arising as result of exercise of Options | - |
| (f) Options lapsed * | 135,000 |
| (g) Variation in terms of Options | None |
| (h) Money realised by exercise of Options (in Millions) | - |
| (i) Total number of options in force**<br>** The number of options have been reported as on 31 December 2011<br>*Lapsed Options includes options cancelled/lapsed | 2,510,000 |
| (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 | (₹ in Millions) |
|---|---|
| Net Income | |
| As Reported | 55.25 |
| Add: Intrinsic Value Compensation Cost | 0.00 |
| Less: Fair Value Compensation Cost | 14.48 |
| Adjusted Proforma Net Income | 40.77 |
| Earning Per Share: Basic | |
| As Reported (₹) | 1.25 |
| Adjusted Pro Forma (₹) | 0.92 |
| Earning Per Share: Diluted | |
| As Reported (₹) | 1.22 |
| Adjusted Pro Forma (₹) | 0.90 |

Note: Disclosures under clause (j), (m) and (n) are not applicable as the company has not granted any options during the year.

# 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 | 2,26,911 | 5.03 |
| D Sudhakar Reddy | Executive | Executive 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 |

SV Ramkumar was co-opted as an additional director at the meeting of the Board of Directors held on 28 February 2012.

The Board met four times on February 28, April 26, August 03 and November 09 during the financial year ended 31 December 2011.

| Name of Director | No. of Meetings attended | | Attendance at AGM held on 17 June 2011 | 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 | 4 | 2 | Yes | - | - | - |
| GV Kumar | 4 | 4 | Yes | - | - | - |
| D Sudhakar Reddy | 4 | 4 | Yes | - | - | - |
| P Mukunda Reddy | 4 | 4 | Yes | - | - | - |
| Anil Kumar Sood | 4 | 2 | Yes | - | - | - |
| Anish Mathew | 4 | 3 | No | - | - | - |
| R Janardhana | 4 | 4 | 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 February 28, April 26, August 3 and November 09 during the financial year ended 31 December 2011.

Composition of the Audit Committee as on 31 December 2011 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 | 2 |
| 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 once on February 28 during the financial year ended 31 December 2011.

During the year, the company revised the sitting fees to ₹ 15,000 from ₹ 5,000 per meeting, at the meeting of the Board of Directors held on 26 April 2011, 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 2011 and related information is given below:

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

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 | - | 3,505 | 1,688 | - | 5,193 |
| D Sudhakar Reddy | - | 741 | 474 | - | 1,215 |
| Anil Kumar Sood | 45 | - | - | 250 | 295 |
| P Mukunda Reddy | 105 | - | - | 250 | 355 |
| R Janardhana | 105 | - | - | 250 | 355 |
| Anish Mathew | 70 | - | - | 250 | 320 |

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 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. Considering the market scenario and the economical factors it has not been feasible to exercise the stock vested at the end of one year.

### (5) Share Transfer / Investors Grievance Committee

The committee oversees the share transfers and takes care of investor grievances. The Committee met two times on February 03, and July 16 during the financial year ended 31 December 2011. 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.

| Director | No of Meetings held | No of Meetings attended |
|---|---|---|
| R Janardhana | 2 | 2 |
| D Sudhakar Reddy | 2 | 1 |
| P Mukunda Reddy | 2 | 2 |

## (6) General body meetings

### Annual General Meetings (AGM)

| Year | AGM | Location | Date | Time | Special Resolutions passed |
|---|---|---|---|---|---|
| 2011 | 11th | Hotel Ramada Raj Park-Chennai | 17 June 2011 | 03.30 PM | Holding of office or place of profit |
| | | | | | by GV Kumar, Managing Director, |
| | | | | | in the Company's wholly owned |
| | | | | | subsidiary at the USA |
| 2010 | 10th | Hotel Ramada Raj Park-Chennai | 29 June 2010 | 04.30 PM | No special resolution |
| | | 180, TTK Road, Alwarpet, Chennai 600018 | | | |
| 2009 | 9th | Hotel Ramada Raj Park-Chennai | 30 June 2008 | 10.30 AM | No special resolution |
| | | 180, TTK Road, Alwarpet, Chennai 600018 | | | |

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

### Extra-ordinary General Meetings (EGM)

During the year, no extra-ordinary general mettings were held.

### Postal Ballot

During the year, no resolutions were passed through postal ballot.

## (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 2011 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 at large.

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 2011, the audited annual financial results announced on 28 February 2012. 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 10.AM at The Music Academy, Kasturi Srinivasan Hall (Mini Hall), 168, TTK Road, Royapettah, Chennai 600014.

- **Financial calendar for 2012**

  1 January to 31 December

  Unaudited quarterly results for 2012

  First quarter - benst week of May 2012

  Second quarter - benst week of August 2012

  Third quarter - benst week of November 2012

  Annual results for the year ending 31 December 2012 - February 2013

  Annual General Meeting for the year ending 31 December 2012 - May / June 2013

- **Date of book closure**

  25th to 29th June 2012 (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.

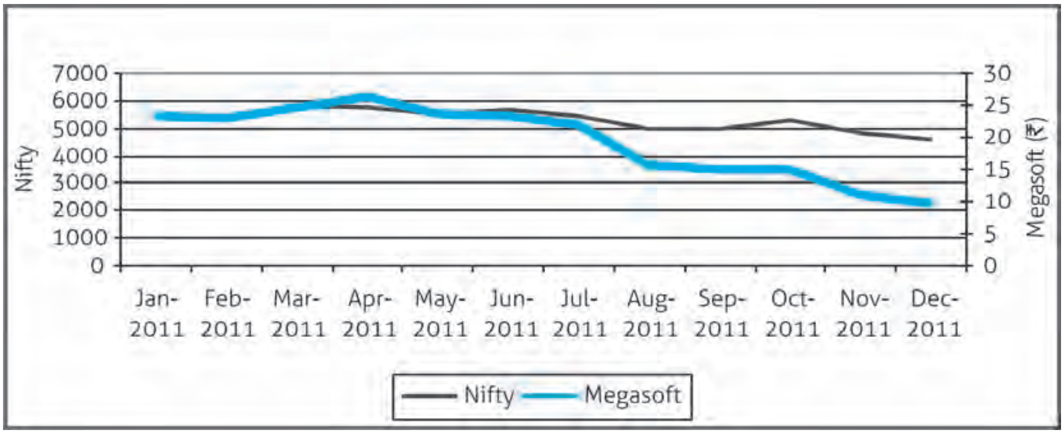
- **Stock Code**

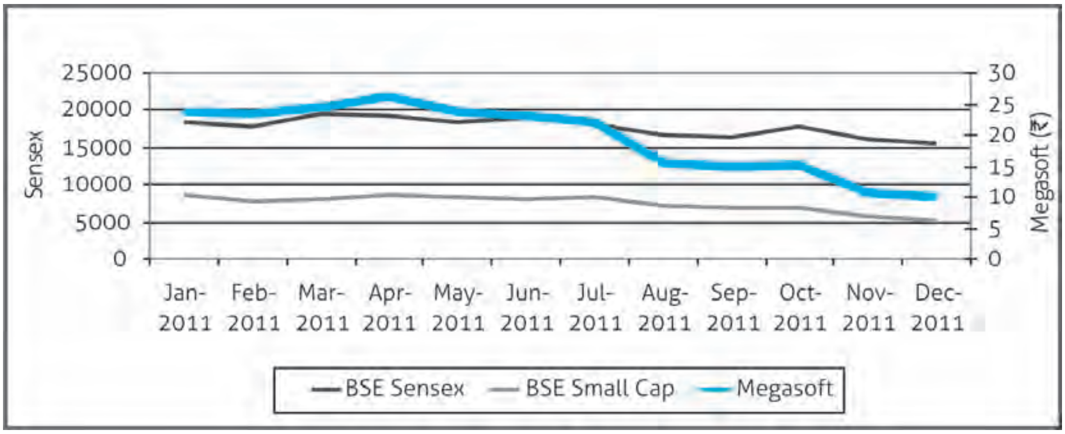
| Stock Exchange | Code |
|---|---|
| Bombay Stock Exchange Limited | 532408 |
| National Stock Exchange of India Limited | MEGASOFT |
| Madras Stock Exchange Limited | MEGASOFT |
| ISIN number for equity shares | INE933B01012 |

- **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 | 33.85 | 23.05 | 23.75 | 358,508 | 33.50 | 23.00 | 23.35 | 222,565 |
| February | 26.00 | 21.00 | 23.45 | 363,102 | 25.85 | 21.25 | 23.15 | 244,223 |
| March | 29.00 | 22.20 | 24.65 | 336,426 | 29.80 | 22.75 | 24.60 | 549,042 |
| April | 32.50 | 24.20 | 26.20 | 295,788 | 31.90 | 24.30 | 26.35 | 498,780 |
| May | 26.90 | 22.10 | 23.95 | 187,088 | 28.60 | 22.00 | 23.80 | 210,462 |
| June | 30.25 | 22.40 | 23.20 | 524,923 | 30.60 | 19.10 | 23.20 | 613,101 |
| July | 24.80 | 21.80 | 21.95 | 106,711 | 24.80 | 21.80 | 22.05 | 242,473 |
| August | 22.25 | 14.00 | 15.40 | 143,247 | 25.75 | 14.00 | 15.60 | 208,654 |
| September | 20.25 | 14.65 | 14.85 | 93,923 | 20.90 | 14.60 | 14.95 | 212,724 |
| October | 15.69 | 14.00 | 15.13 | 64,912 | 15.95 | 13.55 | 14.90 | 475,699 |
| November | 15.55 | 10.00 | 10.85 | 168,018 | 15.45 | 10.50 | 11.00 | 247,808 |
| December | 12.08 | 9.31 | 9.89 | 206,613 | 12.35 | 08.55 | 09.75 | 161,663 |

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




- **Distribution of shareholding as on 31 December 2011**

| No of Shares held | No of Shareholders | % of Shareholders | No of Shares | % of Shareholding |
|---|---|---|---|---|
| 1-500 | 23,945 | 88.0427 | 2,539,291 | 5.7362 |
| 501-1000 | 1,529 | 5.6219 | 1,188,074 | 2.6838 |
| 1001-2000 | 744 | 2.7355 | 1,104,770 | 2.4956 |
| 2001-3000 | 262 | 0.9633 | 673,727 | 1.5219 |
| 3001-4000 | 138 | 0.5074 | 483,924 | 1.0931 |
| 4001-5000 | 127 | 0.4669 | 605,965 | 1.3688 |
| 5001-10000 | 213 | 0.7831 | 1,601,281 | 3.6173 |
| 10001 & Above | 239 | 0.8787 | 36,070,261 | 81.4828 |
| Total | 27,197 | 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.

| Category | Number of shareholders | Number of shares | % to total equity |
|---|---|---|---|
| Demat mode | | | |
| NSDL | 19,387 | 35,569,651 | 80.3519 |
| CDSL | 6'966 | 4,259,021 | 9.6211 |
| Total | 26,353 | 39,828,672 | 89.9730 |
| Physical mode | 844 | 4,438,621 | 10.0268 |
| Grand Total | 27,197 | 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 | 1,909,125 | 4.3127 |
| | 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 | 5 | 4,730,238 | 10.6856 |
| | Sub Total B(1) | 10 | 10,432,228 | 23.5663 |
| 2 | Non-institutions | | | |
| | Bodies Corporate (a) | 660 | 6,112,296 | 13.8077 |
| | Individuals | | | |
| | Individual shareholders holding nominal share capital in excess of ₹ 1 laksh (i) | 25,428 | 7,001,889 | 15.8173 |
| | Individual shareholders holding nominal share capital in excess of ₹ 1 laksh (ii) | 153 | 11,701,958 | 26.4348 |
| | Others: | | | |
| | Directors & their Relatives | 7 | 2,424,324 | 5.4766 |
| | HUF | 668 | 524,198 | 1.1842 |
| | Trusts | 4 | 2,325 | 0.0053 |
| | Foreign Company | 1 | 1,747,872 | 3.9485 |
| | NRI | 246 | 1,110,166 | 2.5079 |
| | OCB | 1 | 31 | 0.0001 |
| | Clearing Members | 15 | 6,050 | 0.0137 |
| | Sub Total B(2) | 942 | 5,814,966 | 13.1363 |
| | Total Public Shareholding (B)=B(1)+B(2) | 27,193 | 41,063,337 | 92.7622 |
| | Total (A+B) | 27,197 | 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 | 2,226,911 | 5.0306 |
| 6 | Copthall Mauritius Investment Limited | 1,998,068 | 4.5136 |
| 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 | 1,640,729 | 3.7064 |
| 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 | 1,197,125 | 2.7043 |
| 13 | Satyavathi Dendukuri | 835,500 | 1.8874 |
| 14 | Srinivas Raju D | 747,600 | 1.6888 |
| 15 | Venturetech Solutions P Ltd | 458,250 | 1.0352 |

* The promoters have pledged 941,870 shares.

- **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 | | |
| 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 | |
| 2011 | 567 |
| 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.

- **Go Green initiative**

  In order to protect the environment and as a Go Green initiative, the company has taken an initiative of sending documents like Notice calling the Annual General Meeting, Corporate Governance Report, Directors' Report, Audited Financial Statements, Auditors' Report, dividend intimations, etc. by e-mail. Physical copies shall be sent only to those shareholders whose e-mail addresses are not registered with the company and for the bounced e-mail cases. Shareholders are requested to register their e-mail id with RTA / Depository to enable the company to send the documents in electronic form or inform the company in case they wish to receive the above documents in paper mode.

- **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

The year 2011 was a difficult year for the Company. The sudden loss of a contract with one of its largest customers, the overall decline in the US prepaid segment and slowness in telecom capital spending resulted in a revenue decline of around 11 percent over the previous year. Since a majority of the Company's borrowings were US dollar-denominated, the rapid appreciation of the US dollar in the second half of 2011 resulted in a higher interest outflow. However, owing to the Company's 'cash and caution' policy, marked by tight financial discipline and cost reduction, the Company remained profitable and ended the financial year with a surplus. While the loss of this major customer will be felt more in the first half of 2012, the Company possesses a strong product pipeline and is confident of offsetting this loss with new orders and revenues.

The Company and management are aware that product companies require a long-term commitment to R&D. Accordingly, the Company treats innovation and R&D as focus areas and strives to launch new products and services in the mobile technology arena. Its recent foray into mobile apps and 4G/LTE market segments are testimony to the Company's ability to innovate and stay ahead. The Company also filed 10 global patents in 2011.

## (2) Financial results

The Company reported a turnover of ₹ 1,504 million in 2011. While this generated an EBIDTA of ₹ 406 million, the Company considered it prudent to provide ₹ 70 million for doubtful debts / bad debts. The result was an overall profit of ₹ 175 million for the financial year under review.

The rapid depreciation of rupee against the US dollar (from ₹ 44 / $ in January 2011 to ₹ 53 / $ in December 2011) had a major impact on the Company's financials. Since a majority of the Company's borrowings are in US dollars even as the results are reported in rupees, all key financial parameters indicated higher numbers (higher debt, higher debtor days, among others) in 2011 compared with the previous year, even though the Company did not make any additional borrowings in 2011.

## (3) Business outlook and industry

The global mobile telecom industry is passing through a phase of vigorous growth. The total mobile subscribers in the world increased from 4.7 billion in 2009 to around 6 billion by end 2011 - equivalent to 87% of the world's population. The global mobile market is driven by the developing world, led by rapid mobile accretion in China and India, the world's most populous nations, which collectively added 300 million new mobile subscriptions in 2010 – more than the total mobile subscribers in the developing world, a market which accounts for 76% of all global subscriptions. *(Source: International telecommunication union, November 2011).*

While core voice and SMS ARPUs and revenues declined year-on-year in most global markets, data revenues and commercial transactions on mobiles increased, leading to new market segments emerging with mobile enablement leading the way. The global launch of 3G networks, explosive growth of smart phones, growing demand for mobile apps and increasing use of mobile devices for non-telecom applications are catalyzing the explosive growth of new mobile market segments (m-commerce, mobile transactions, gaming and entertainment, mobile-advertising, couponing and enterprise mobile applications). As a result, mobile technologies became more relevant to non-telco industry verticals like banking, retail, and food services, healthcare, insurance, among others. The Company, a mobile technology specialist and already a leader in real-time transactions with several established products and platforms, is attractively positioned to benefit from this significant transformation.

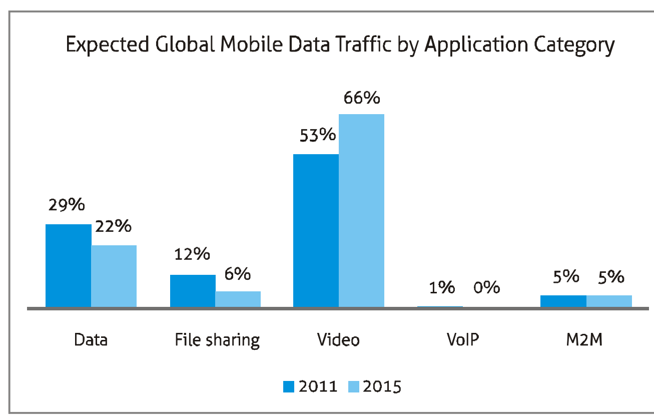
Interestingly, the small carrier infrastructure market is experiencing a growth spurt due to key market changes. Governments worldwide, including the US, are offering a stimulus for rural broadband expansion through smaller, regional mobile operators, which is increasing CAPEX spending by these mobile operators. Additionally, MVNO markets, especially in Asia, the Middle East and Latin America, are showing significant growth, with large mobile operators setting up wholesale divisions with dedicated infrastructure to launch strong MVNO brands to boost revenues and market share. The Company, already a technology leader in the small carrier infrastructure segment with installations on multiple continents, is poised to benefit.

### Retail Mobile Commerce

Mobile commerce was a USD 240 billion industry worldwide in 2011 (including mobile payments for digital and physical goods, NFC mobile payments, mobile money transfer cum remittances, mobile ticketing, mobile coupons and mobile banking). The industry is expected to exceed USD 1 trillion, based on gross transaction value, by 2014.

Total smartphone shipments increased 61.27% from 304.7 million units in 2010 to 491.4 million units in 2011 (Source: IDC, February 2012), which will catalyze mobile commerce growth. The Internet commerce revolution of the first decade of this century is now being replicated in the area of mobile commerce. The smart phone segment is expected to be the fastest-emerging segment that will outpace the growth of the overall handset market. The smart phone segment is expected to account for 29% of the total handset volume translating into 97.2 million units by 2017, a CAGR of around 40% *(Source: IBEF)*

With 45% of the world's population now covered by 3G mobile network, mobile data traffic is likely to grow at a higher rate by adopting bandwidth services such as high-definition videos.




Seizing this opportunity, many mobile operators have already launched mobile commerce services including mobile banking, mobile money transfer, mobile bill payment, mobile wallet and retail mobile commerce. Mobile operators are evolving point solutions to cater to specific needs of their particular markets.

The Company witnessed a four-fold increase in its revenues from this segment in 2011 and is poised to benefit further. Recognizing this trend, the Company launched several point mobile commerce solutions, and some of them have already been deployed in key markets. Other solutions are under pilot and implementation that should result in strong transaction-based revenues for the Company.

In a significant expansion for its target segment, the Company started focusing on the non-telco customer segment, conducting pilots and engaged in commercial negotiations with several global companies to mobile-enable their transactions and customer access. The Company expects significant revenues from non-telcos for its platforms.

### Mobile Advertising

The global mobile data traffic grew eight-fold from 75 petabytes per month in 2000 to 597 petabytes per month in 2011. The global average mobile network connection speed grew from 189 kbps in 2010 to 315 kbps in 2011, fuelling the growth of video usage in mobile phones. Despite this, the mobile advertising industry was slow in taking off. While the global mobile marketing industry is predicted to grow to US$ 24 billion by 2013, the Gartner projection was revised to US$ 20.6 billion by 2015.

Search ads and location ads (paid-for positioning on maps and augmented reality apps) are expected to deliver the highest revenues, while video / audio ads are expected to report the fastest growth through 2015. The shift of advertising dollars from other channels has not yet occurred to allow them to reach people who spend an average 2.7 hours per day socializing on their mobile devices. There are also reports that mobile operators have been slow to take their roles and commensurate remuneration in the mobile advertising value chain. However, the Company is increasingly receiving enquiries for mobile promotions, couponing, location-based advertising and promotion campaigns. It is re-positioning its ad value platform to cater to these trends. Additional interest is also coming from mobile app providers who want the ability to place their own ads into their mobile apps.

### Mobile internet revolution

- Mobile data traffic will grow at a compound annual growth rate (CAGR) of 78 percent from 2011 to 2016, reaching 10.8 exabytes per month by 2016
- There will be over 10 billion mobile-connected devices in 2016, including machine-to-machine (M2M) modules-exceeding the world's population at that time (7.3 billion)
- The average mobile network connection speed (189 kbps in 2011) will exceed 2.9 megabits per second (mbps) in 2016
- In 2016, a 4G connection will generate nine times more traffic on average than a non-4G connection
- By 2016, 39 percent of all global mobile devices could potentially be capable of connecting to an IPv6 mobile network
- Mobile videos will increase 25-fold between 2011 and 2016, accounting for over 70 percent of total mobile data traffic by the end of the forecast period
- The amount of mobile data traffic generated by tablets in 2016 (1.1 exabytes per month) will be more or less equal to the total amount of global mobile data traffic in 2012 (1.3 exabytes per month)
- The average smartphone will generate 2.6 GB of traffic per month in 2016, a 17-fold increase over the 2011 average of 150 MB per month
- The Middle East and Africa will have the strongest mobile data traffic growth of any region at 104 percent CAGR
- China will account for over 10 percent of global mobile data traffic in 2016 compared with less than 5 percent in 2011

### Prepaid Industry

The Company currently derives more than 50 percent of its revenues through its prepaid services, especially in the US. With subscribers opting more and more for bucket plans and mobile operators moving towards data-centric network infrastructure and pricing models, the global market for dedicated real-time prepaid billing technologies are on the decline, as witnessed by several specialist billing players going out of business and getting acquired by Network Equipment Providers (NEPs). The Company, too, expects its prepaid revenues to continue to decline over the years and to be replaced by growth in infrastructure and mobile transaction revenue segments.

### Infrastructure

The Company has always maintained a legacy and foundation of network infrastructure expertise, knowledge, capability, development, design and delivery. This is evidenced by our standalone, fully capable and expandable Mobile Services Platform (MSP), which was implemented globally and for which we are seeing additional demand. Additionally, as mentioned prior, we are seeing increased need for such complete solutions as well as a need for various independent network element solutions at a fair price for quality solutions. In the US and elsewhere, we are seeing expansion of opportunity and need for 4G/LTE network evolution services, point solutions / network element implementations, OSS & BSS as well as HLR offload requirements. Also, expanding regulation and allowing MVNOs in Latin America, Africa, the Middle East and Southeast Asia provide additional MSP MVNO sales opportunities.

### Summary

On the overall, the Company has built a strong pipeline, especially in South America and Asia and expects to return to growth from the second half of 2012.

## (4) Innovation

Even as the global economic situation was challenging, the Company sustained its innovation through an on-going innovation centre focus as well as a creation, in-grained patent ideation and filing process. The Company launched a new employee idea program called Eureka to tap into the creative employee potential.

The Company created a Mobile Application eXperience (MAX) Center Innovation Center. It added a broad spectrum of mobile application solutions and services aimed at mobile operators as well as a Mobile Application Development offering that is starting to gain traction in the US.

The Company is in the midst of ongoing lead generation and early sales efforts, with interest being expressed from enterprise sectors in our approach and capabilities in the mobile application development area.

Even as not all innovative ideas or offerings immediately translate into significant revenues, the Company and its R&D resources press forward in identifying and packaging new products, solutions and services.

The past year also saw the continuation of the ongoing monthly Intellectual Property Rights (IPR) meetings between Innovation Center Heads, Technology & Solution Head, Operations Head, and Legal to capture a new IP as quickly in the process as possible to determine the novelty and uniqueness of a solution given the prior month's analysis and development efforts. This process was streamlined through the creation of a simple IPR filing template that captures all relevant information regarding a potentially patentable idea for transfer to the patent filing process and attorneys to reduce filing times and increase filing timeliness against potential competitive ideas and submitters.

**Statistics of our filings include:**

| XIUS Patent Filing History | | |
|---|---|---|
| | Filed | Awarded |
| Company to date | 116 | 30 |
| Last 24 Months | 15 | 6 |
| Last 12 Months | 9 | 3 |

## (5) XIUS Products, Solutions and Business Overview

### (A) Solutions

In addition to the stable suite of solutions that the Company developed over the past decade, it launched several new solutions in 2011. The following is an illustration of our existing portfolio, followed by a description of all listed solutions.

### (I) Network Infrastructure and Prepaid

(1) Mobile Service Platform (MSP) for Wholesale Divisions, Small Mobile Operators and MVNE / MVNOs

XIUS's MSP solution provides a cost-effective, end-to-end mobile services infrastructure platform for small mobile operators, as well as wholesale divisions of large mobile operators like MVNEs and MVNOs in a managed services model. MSP is a modular, stable, and highly reliable platform that can support core network and specialized mobile services. MSP is a rapidly scalable platform allowing mobile operators to start small and scale up to millions of subscribers with a grow-as-you-go model.

MSP comprises OSS & BSS elements required to roll out a successful mobile service offering:

- Network Elements: HLR, IN, Mediation Devices, *GMSC, GGSN*, MNP, SIP Session Control, GMLC
- Messaging and Media: SMSC, MMSC, VMS, USSD, WAP Gateway
- Customer and 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

There has been a significant expansion in the Company's pipeline in this segment in recent months. The Company is planning additional products as well as technology vendor alliances to boost offerings.

(2) INfinet Prepaid

The real-time session control, rating, call processing, and subscriber management capabilities of the XIUS INfinet prepaid platform help mobile operators 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 player in the US prepaid market, successfully delivering world-class, and carrier-grade prepaid services to large Tier-II as well as regional operators. XIUS's INfinet is a full-featured, high-quality solution that is pre-integrated to US networks and third-party vendors.

(3) Real-Time Service Control

XIUS's INergy provides real-time service and event control that can be seamlessly integrated with existing business support systems to provide prepaid service, unlimited service plans with premium restrictions, parental controls, mobile advertising, in-call subscriber messaging solutions, call redirect and many other value added services. Combined with XIUS's extensive experience in mobile networking, INergy provides a flexible, scalable and robust platform enabling rapid delivery of differentiated mobile services.

(4) Roaming management

XIUS continues to provide solutions for roaming footprint expansion (InstaRoam through partner operator in India) and steering roaming (PowerRoam through partner operator in Canada) solutions, which are utilized by operators globally. These solutions and partners leverage our 15 years of experience in providing managed service bureau roaming services.

### (II) Retail Mobile Commerce

(1) Mobile Touch Transaction Active Poster Device

The XIUS Mobile Touch Transaction – Active Poster Device Platform (MTT – APD) is a revolutionary concept to bring all mobile operator services and mobile commerce initiatives to the retail storefront in a single integrated fashion. With this Virtual Mall, mobile operators will be able to sell top-ups, value-added services (ring tones, wall papers, music, among others) at any retail store so that subscribers do not have to go through complicated SMS-based menus to buy these services. The device, which employs NFC-based authorization (global standard for mobile transactions), the Company is expected to go live with a few large global mobile operators for this next-gen product and platform. The Company expects this to contribute significantly to revenues in the coming years.

Additionally, MTT-AP is also positioned for non-telco mobile transactions in several other industries, notably food services, university campuses, healthcare and retail. The MTT-AP is now under pilot with some leading companies in these areas in partnership with leading service providers in these industries. The Company expects to generate significant revenues from these segments starting this year.

(2) Retail Channel Management

The XIUS Channel Manager enables mobile operators to gain direct control and real-time access to all retail outlets at a single point. This enables mobile operators to launch tailor-made channel strategies and offer real-time transactions to subscribers while ensuring strong reporting and fraud control. The XIUS Channel Manager supported over a USD billion of transactions and is successfully deployed with Tier-I mobile operators.

(3) Domestic & International Recharge & Money Transfer

The XIUS Payment Manager is a comprehensive solution that enables mobile operators to offer electronic recharge, account to account balance transfer as well as the launch of domestic and international money transfer services. A simple, secure and integrated solution, the XIUS Payment Manager includes loyalty and reward programs, fraud management as well as retail management capabilities. Deployed across 11 countries already, the XIUS Payment Manager is capable of processing millions of transactions and currency, a proven market leader in its category.

(4) Mobile Banking

In partnership with a US and Latin America mobile banking company, XIUS 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 purchases as well as bill payment services.

The XIUS and mobile banking solution are provided at a low cost and easy-to-use manner targeted at bringing banking to a large unbanked population via mobile phones.

### (III) Mobile Advertising

(1) XIUS Ad Value

The XIUS Ad Value Platform enables mobile operators to deliver mobile advertising services in an end-to-end fashion, regardless of the channel (SMS, MMS, WAP or voice).

Advertisers require a system that allows them to easily define a campaign for their targeted demographics and push content in real-time. The system needs to clearly define rules for confining campaign duration in a particular segment, tools that will give the advertisers a sense how the end-user behaves during a campaign, a tool to keep track of the available time slots to execute a campaign and a metric tool to calculate ROI.

Mobile operators require infrastructure that is readily available to enable mobile advertising as well as data aggregation of the target segment along with the requisite infrastructure to deliver ads. As there are multiple stakeholders involved in the mobile advertising ecosystem, the carrier needs to have a mechanism for revenue settlement as well as a content or ad aggregation platform that will deliver targeted ads to its subscribers.

XIUS Ad Value enables mobile operators to bring brand and retail channels together in an integrated manner and launch customised ad campaigns and ad-based rate plans tailor-made for the individual needs of subscribers. The platform comprises real-time voice insertion, multiple channel delivery, analytics, couponing and voucher management system as well as a comprehensive transaction management engine. Several leading mobile operators have already expressed interest in this platform.

### (IV) Mobile App eXperience (MAX) Center

Mobile App eXperience (MAX) Center offers a suite of offerings for mobile operators and enterprises to help them tap into the full business potential of mobility. For mobile operators, MAX Center provides capabilities to open their own app store along with thousands of apps and offers comprehensive testing and certification services. For enterprises, MAX Center helps define, design, build, test and launch mobile applications.

(1) App Store and Content Catalog

MAX Center provides operators with an ability to quickly develop a custom branded app store, complete with hosting, delivery and management of mobile apps capabilities. The app store supports cross device and cross channel content delivery and supports Android, Java, Windows, Symbian and Blackberry mobile operating systems. MAX Center ensures that operators have full control to load and manage your mobile apps offerings.

It also provides operators with thousands of mobile apps spanning multiple operating systems and functional categories such as business, entertainment, games, education, among others and enables them to define and customize apps based on geography and customer needs.

(2) Testing and Certification

XIUS MAX center provides a set of testing and certification services to help mobile operators deliver a best-in-class app experience to all their subscribers. It provides mobile operators with comprehensive and pedigree test services by following best practices and industry-proven methodologies in executing testing and certification of mobile apps that are a compliant in the areas of usability, identity management, network conformance and security

(3) App Customer Care

MAX Center offers the option to offload customer care calls from operators' mobile apps users for the mobile apps that are developed/certified by XIUS. The Company provides both self- and assisted-care models ranging from videos (addressing issues such as mobile apps loading) to live customer care (for more onerous issues).

(4) App Development and Integration

A service to quickly design, build, and launch custom, innovative mobile apps across platforms such as Android, iOS, Windows, Java, Blackberry, Symbian. MAX center also integrates mobile applications to backend IT systems such as ERP, CRM, BSS, OSS, among others

(5) Mobile Strategy Consulting

The Company helps with insights into the various issues that are likely to surround your mobile roadmap. The Company can help you refine your strategy and roadmap for your "move to mobile," by defining mobility requirements, developing proofs of concept, addressing platform selection issues, and formulating a development and launch plan.

### (V) 4G/LTE Network Evolution Services & Solutions

(1) Network Evolution Services & Solutions

Mobile operators, especially regional and smaller operators, face a number of difficult competitive issues today, with one in particular being significantly challenging – launching and matching next-gen services like mobile broadband, among others in tandem with larger operators, in their service areas. Technologies are emerging fast (4G already spreading globally, while 3G investments are yet to complete their pay back) -

- Supporting and maintaining your existing 2G/3G subscriber base while building tomorrow's 4G network stretches resources ad compounds work for existing staff
- A broadband network overlay can be a significant investment
- Finding innovative solutions that entice subscribers to your network and managing them alone is quite daunting

XIUS, with its years of mobile network and infrastructure design, development and operational experience believes that there are solutions to these challenges and that they can be managed and overcome today. We believe in:

- Working together with you to assess and – build a map for your network evolution goals
- Along with XIUS MSP, bringing best-in-class solutions and components to enable you to deliver quality and cost-effective services to your subscribers while fully leveraging your existing infrastructure investment, providing only those components that you need, where you need them.
- Providing shared managed services infrastructure and solutions where appropriate, offering a combination of CAPEX/ OPEX models to find the right business model mix that works best for you.

### (B) Business Strategy and Priorities for 2012

In 2012, the Company will primarily focus on revenue growth, especially for new products and solutions in the small infrastructure and mobile commerce areas. Latin America, Asia, the Middle East and India will be the Company's key markets in 2012, apart from continuing to expand in its largest market, the US. The Company will focus on building a strong indirect sales channel through partnerships, alliances and distribution tie-ups in key markets during the year. Lastly, the launch of additional new products will continue to be a high priority in 2012.

Financially, tight cost controls, debt reduction and repayment and monetizing some of its real estate assets will be one of the key focus areas in 2012.

### (C) Operational Priorities

The Company's key strength is its R&D and it intends to further expand and upgrade its R&D center and infrastructure capabilities to constantly focus on innovation and the launch of new 'blockbuster' solutions and technologies.

Latin America is emerging as a key market for the Company and it will accordingly focus on expanding its capabilities to better serve this market. The Company already added several team members to support this region and is expecting to expand further.

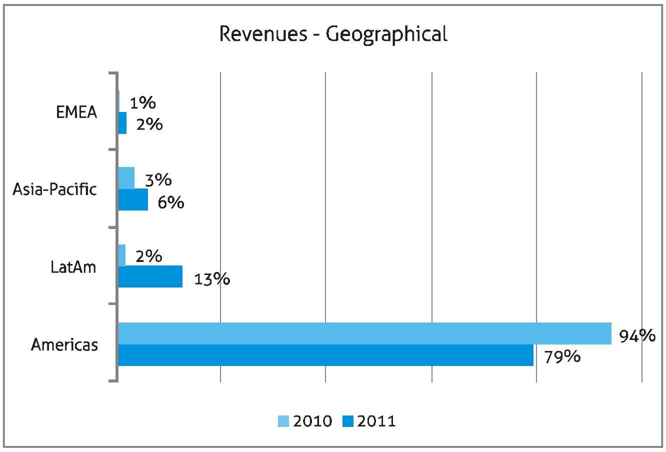
Living by our core values: innovation, execution excellence, agility and fiscal responsibility, while listening to the needs of the market and our customers, we believe that the above operational priorities will allow us to take advantage of new needs in the marketplace by creating and delivery new and innovative solutions while also opening up new opportunities through expansion and greater visibility into previously untapped prospective sales regions.

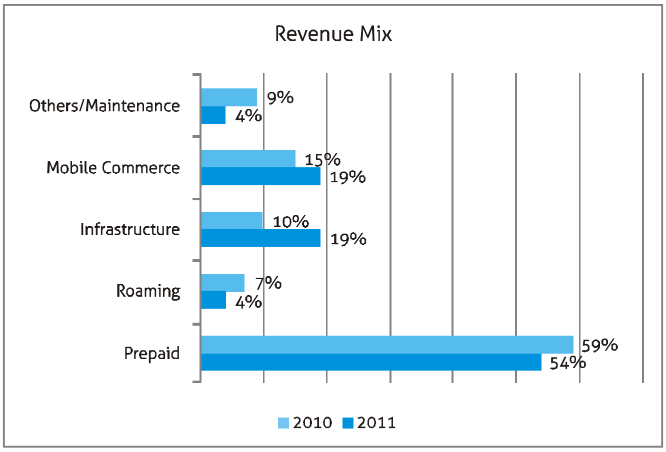
### (D) Sources of Revenue

XIUS derives revenues through the following revenue models:

- Hosted managed Services (ASP): The Company operates its platform end-to-end on data centers and gets paid monthly based on a revenue-share or per-subscriber transaction fee model around a multi-year contract. This accounts for morethan 70percent of revenues. The Company also normally charges an upfront technology implementation fee from ASP customers.
- Software licensing: The Company also offers its platforms on a capacity licensing basis to mobile operators, wherein its platforms are installed in the carrier's premises in return for a one-time license fee for a stated subscriber capacity.
- Share of transaction revenues: In the mobile transactions market place, the Company also earns from a share in transactions and this revenue stream is expected to contribute significantly to the overall revenues in the coming year.
- Maintenance and customization: The Company also realizes revenues derived from customizing its platforms to suit specific service needs of carrier customers. This is a steady revenue source with AMCs (Annual Maintenance Contracts).

### (6) Segment-wise performance




### (7) Outlook

The global telecom industry is passing through a transformation in terms of technologies, subscriber expectations and mobile commerce. With new product initiatives and expansion into new mobile segments, the Company is attractively placed to capitalize on these new trends.

## (8) Risks and Concerns

Megasoft's management embarked on a number of initiatives to manage business risks (given below):

**8.1 Market risk:** Megasoft's growth is dependent on the wireless telecom industry growth. The telecom industry has historically suffered from an extended sales cycle and high debtors' position, detrimental to cash flows. With the macroeconomic situation still fluid and the telco industry facing falling ARPUs worldwide, sustained capital expenditure in the mobile industry remains uncertain and this may affect the Company's performance. The Company is also aiming at non-telco customers for its mobile transactions platforms. While this reduces the Company's sole dependence on mobile telco's for its revenues, it may also pose unknown challenges and risks due to the Company's lack of experience in these segments.

**8.2 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.

**8.3 Litigation:** There is an increasing trend towards litigation regarding intellectual property rights, patents and trademarks in the software and telecom industry. There are also other corporate legal risks. Currently, Megasoft is 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 these risks.

**8.4 Foreign exchange fluctuation risks:** Megasoft enjoys a substantial exposure to foreign exchange-related risks on account of earnings denominated in foreign currencies by exporting software, products and solutions. A majority of the Company's revenues are US dollar-denominated; the continued depreciation of the Indian rupee vis-à-vis the USD can result in much higher interest and capital repayment outflows for the Company. Also, such huge fluctuations make revenue and profit projections more unpredictable.

**8.5 Client Concentration Risk:** As already seen in 2011, wherein the loss of one of the largest clients resulted in a decline in revenues, the Company's top five clients contribute to more than 50 percent of its revenues (which is significantly lower than the previous year), resulting in high dependency on these clients. The Company expanded its sales focus on new geographies and market segments and will expand its revenue base and achieve a better spread in revenues and clients.

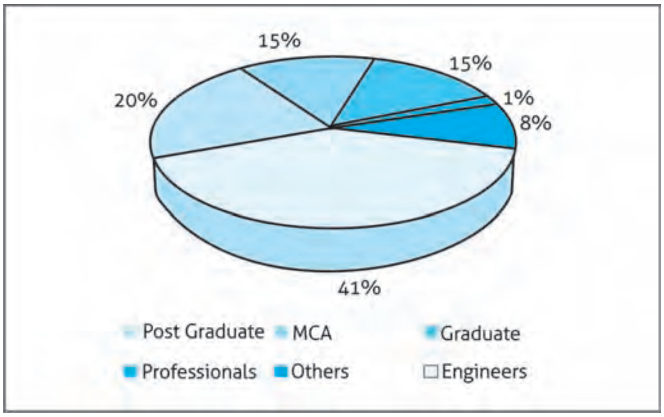
## (9) Internal controls

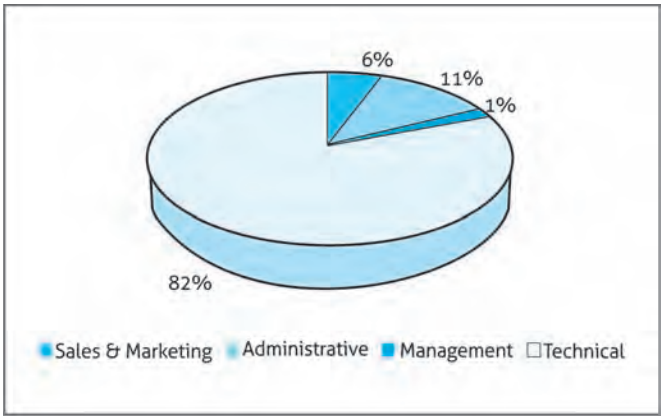
The Company possessed an adequate system of internal controls to safeguard assets. Checks and balances were in place and reviewed at regular intervals to ensure that transactions were properly authorized and reported correctly. The Audit Committee, in consultation with Internal Auditors, reviewed the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

Additionally, the Company has already 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.

## (10) Human assets

The Company enjoys cordial relationships with employees as it endeavors to provide them with a professionally rewarding and enriching work environment. The Company possesses an effective performance management system that focuses on employee development, measuring key result areas, competencies and training needs. The Company advocates work-life balance and welfare activities that enhance team cohesiveness.



## The year under Review

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

The rapid depreciation of the rupee against the US dollar (from ₹ 44/$ in January 2011 to ₹ 53/$ in Dec 2011) had a major impact on the Company's financial reporting. A majority of the Company's borrowings are in US dollars while the reported results are in rupees, resulting in all key financial parameters registering higher numbers (higher debt, higher debtor days, among others) in 2011 compared with the previous year, even though the Company did not make any additional borrowings in 2011.

## Financial performance (consolidated)

### Share capital

There was no change in the Company's share capital during the financial year under review.

### Reserves and surplus

The movement in Foreign Currency Translation Reserve was ₹ (105) million during the financial year under review mainly on account of the steep rupee depreciation against the US dollar.

### Secured loans

Secured loans increased from ₹ 687 million to ₹ 771 million on account of the steep rupee deprecation against the US dollar. In real terms, there was no additional borrowing during the year.

### Unsecured loan

The unsecured loans increased from ₹ 185 million to ₹ 227 million, owing to the steep rupee deprecation against the US dollar. In real terms, there was no additional borrowing during the year.

### Deferred tax liability / asset

The deferred tax liability (net) was ₹ 3 million as at the end of the financial year under review.

### Fixed assets

The fixed asset additions of ₹ 204 million was 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 ₹ 512 million as against ₹ 495 million in the previous year. The Company made an additional provision for doubtful debts of ₹ 48 million and in aggregate the provision for doubtful debts at the end of the year was ₹ 234 million. The Company has also written off bad debts to the extent of ₹ 21 million. The increase in debtors was mainly on account of the steep rupee depreciation against the US dollar during the year.

### Cash and bank balances

The marginal increase in cash and bank balances from ₹ 80 million in 2010 to ₹ 85 million in 2011 was in the normal course of business.

### Loans and advances

The loans and advances decreased marginally from ₹ 489 million in 2010 to ₹ 478 million in 2011.

### Current Liabilities and Provisions

The decrease in current liabilities from ₹ 203 million in 2010 to ₹163 million in 2011 was in the normal course of business.

The increase in provisions from ₹ 45 million in 2010 to ₹ 49 million in 2011 was in the normal course of business.

## Results of Operation (Consolidated)

*(₹ million)*

| for the year ended 31 December | 2011 | 2010 |
|---|---|---|
| Revenues | 1,504 | 1,679 |
| EBIDTA | 406 | 534 |
| Finance Cost | 98 | 151 |
| Depreciation | 129 | 143 |
| Profit before tax | 181 | 214 |
| Less: Taxes | 6 | (3) |
| Profit after tax | 175 | 217 |

### Revenues

The Company's consolidated revenues declined from ₹ 1,679 million in 2010 to ₹ 1,504 million in 2011. The reduction in revenues was on account of a customer not renewing their contract during the year.

### Other Income / (Expenses)

The Company has a foreign exchange gain (net) of ₹ 72 million due to the steep rupee depreciation against the US dollar in 2011 as against a loss of ₹ 39 million in the previous financial year

### Personnel cost

The increase in personnel costs from ₹ 562 million in 2010 to ₹ 578 million in 2011 was in the normal course of business.

### Operating expenses

The decline in operating expenses from ₹583 million in 2010 to ₹520 million in 2011 was on account of the economical measures implemented by the Company during the year.

The Company made a provision for doubtful debts/write-off of debtors aggregating ₹ 70 million in 2011 as against ₹ 39 million in the year 2010.

### Finance charges

The decrease in finance charges from ₹151 million in 2010 to ₹58 million in 2011 was on account of loan repayments during the previous year from cash generations from operations and the cash realisation on the sale of the Hyderabad property in 2010.

### 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 is 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 ₹129 million as against ₹143 million in the previous financial year.

## Financial Performance (Standalone)

### Share capital

There was no change in the Company's share capital during the financial year under review.

### Secured loans

Secured loans declined from ₹ 150 million to ₹ 131 million in the normal course of business.

### Unsecured loans

The reduction is on account of loan repayments during the year.

### Deferred tax liability/asset

The deferred tax liability (net) was ₹ 3 million as at the end of the financial year under review.

### Fixed assets

The fixed asset additions of ₹ 25 million were in 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 ₹ 449 million as against ₹ 393 million in the previous year. The Company made an additional provision for doubtful debts of ₹ 48 million and in aggregate the provision for doubtful debts at the end of the year was ₹ 234 million. The increase in debtors was mainly on account of the steep rupee depreciation against the US dollar during the year.

### Cash and bank balances

The decrease in the cash and bank balances from ₹ 15 million in 2010 to ₹ 11 million in 2011 was in the normal course of business.

### Loans and advances

The decrease in loans and advances to ₹ 810 million in 2011 from ₹ 836 million in 2010 was in the normal course of business.

### Current liabilities and provisions

The decrease in current liabilities from ₹ 73 million in 2010 to ₹ 44 million in 2011 was in the normal course of business.

The increase in provisions from ₹ 42 million in 2010 to ₹ 49 million in 2011 was in the normal course of business.

## Result of Operations (Standalone)

*(₹ million)*

| for the year ended 31 December | 2011 | 2010 |
|---|---|---|
| Revenues | 501 | 623 |
| EBIDTA | 107 | 240 |
| Finance Cost | 28 | 70 |
| Depreciation | 41 | 57 |
| Profit before tax | 61 | 50 |
| Less: Taxes | 6 | (3) |
| Profit after tax | 55 | 53 |

### Revenues

Revenues were lower at ₹ 501 million in 2011 as against ₹ 623 million in 2010. The reduction in revenues was on account of a customer not renewing their contract during the year.

### Other Income/(Expenses)

The Company has a foreign exchange gain (net) of ₹ 72 million due to rupee depreciation in 2011 as against a loss of ₹ 37 million in 2010.

### Personnel cost

The increase in personnel cost from ₹ 298 million in 2010 to ₹ 329 million in 2011 was on account of additional recruitments in India for moving some of the activities from the US to India.

### Operating expenses

The decline in operating expenses from ₹ 85 million in 2010 to ₹ 65 million in 2011 was on account of the economical measures implemented by the Company during the year.

The Company made a provision for doubtful debts/write-off of debtors aggregating ₹ 48 million in 2011 as against ₹ 39 million in the year 2010.

### Finance charges

The decrease in finance charges from ₹ 70 million in 2010 to ₹ 28 million in 2011 was on account of loan repayments during the previous year from cash generations from operations and the cash realisation on the sale of the Hyderabad property in 2010.

### 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 is 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 ₹ 41 million as against ₹ 57 million in the previous financial year.

# 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 2011, 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.018588

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

**TN Rajendran**
Partner
Membership No.028778

Chennai
28 February 2012

## 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 2011 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.

Chennai
28 February 2012

**GV Kumar**
Managing Director

**GP Srinath**
Vice-President (Finance) &
Company Secretary

## 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 2011.

Chennai
28 February 2012

**GV Kumar**
Managing Director

# MEGASOFT GROUP

(Consolidated Financial Statements
of Megasoft Limited and its subsidiary companies)

for the year ended 31 December 2011

# 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 2011 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 ₹ 1412 million as at 31 December 2011 and total revenues of ₹ 1453 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 2011;

(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.018588

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

**TN Rajendran**
Partner
Membership No.028778

Chennai
28 February 2012

# CONSOLIDATED balance sheet

(₹ 000s)

| as at 31 December | Schedule | 2011 | 2010 |
|---|---|---|---|
| **Sources of Funds** | | | |
| Shareholders' Funds | | | |
| Share Capital | 1 | 442,673 | 442,673 |
| Reserves & Surplus | 2 | 1,699,221 | 1,629,384 |
| | | 2,141,894 | 2,072,057 |
| Loan Funds | | | |
| Secured Loans | 3 | 770,526 | 686,845 |
| Unsecured Loans | 4 | 227,316 | 185,323 |
| | | 997,842 | 872,168 |
| Deferred tax liability | | 3,174 | 4,153 |
| Total | | 3,142,910 | 2,948,378 |
| | | | |
| **Application of Funds** | | | |
| Fixed Assets | 5 | | |
| Gross Block | | 1,958,643 | 1,615,031 |
| Less: Accumulated Depreciation | | (816,015) | (619,687) |
| Net Block | | 1,142,628 | 995,344 |
| | | | |
| Goodwill on consolidation | | 1,015,750 | 1,015,750 |
| Investments | 6 | 121,230 | 121,230 |
| | | | |
| Current Assets, Loans & Advances | | | |
| Sundry Debtors | 7 | 512,397 | 495,045 |
| Cash & Bank balances | 8 | 84,669 | 79,926 |
| Loans & Advances | 9 | 478,968 | 489,293 |
| | | 1,076,034 | 1,064,264 |
| Less: Current Liabilities & Provisions | 10 | 212,732 | 248,210 |
| Net Current Assets | | 863,302 | 816,054 |
| | | | |
| Total | | 3,142,910 | 2,948,378 |
| 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
Firm Registration No. 004006S

**MC Srikanth**
Partner
Membership No.018588

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

**TN Rajendran**
Partner
Membership No.028778

Chennai
28 February 2012

For and on behalf of the Board of Directors

**GV Kumar**
Managing Director

**D Sudhakar Reddy**
Director

**GP Srinath**
Vice-President (Finance) &
Company Secretary

# Consolidated profit & loss account

(₹ 000s)

| for the year ended 31 December | Schedule | 2011 | 2010 |
|---|---|---|---|
| **Income** | | | |
| Revenues | | 1,503,661 | 1,679,055 |
| Other Income / (Expenses) | 11 | 72,077 | 13,871 |
| Total Income | | 1,575,738 | 1,692,926 |
| | | | |
| **Expenditure** | | | |
| Personnel cost | 12 | 578,091 | 561,917 |
| Operating expenses | 13 | 589,762 | 621,775 |
| Finance cost | 14 | 97,830 | 151,477 |
| Depreciation | 5 | 129,016 | 143,426 |
| Total Expenditure | | 1,394,699 | 1,478,595 |
| | | | |
| **Profit** | | | |
| Profit before tax | | 181,039 | 214,331 |
| Less: Taxes | 15 | 6,121 | (2,733) |
| Profit after tax | | 174,918 | 217,064 |
| Balance brought forward | | 1,109,951 | 892,887 |
| Profit available for appropriation | | 1,284,869 | 1,109,951 |
| | | | |
| **Appropriations** | | | |
| Balance carried to Balance Sheet | | 1,284,869 | 1,109,951 |
| | | 1,284,869 | 1,109,951 |
| | | | |
| Earnings per share (equity shares, par value ₹ 10 each) | | | |
| Basic (₹) | | 3.95 | 4.90 |
| Diluted (₹) | | 3.87 | 4.90 |
| Number of shares used in computing | | | |
| Basic | | 44,267,293 | 44,267,293 |
| Diluted | | 45,165,293 | 44,267,293 |
| | | | |
| 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
Firm Registration No. 004006S

**MC Srikanth**
Partner
Membership No.018588

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

**TN Rajendran**
Partner
Membership No.028778

Chennai
28 February 2012

For and on behalf of the Board of Directors

**GV Kumar**
Managing Director

**D Sudhakar Reddy**
Director

**GP Srinath**
Vice-President (Finance) &
Company Secretary

# Consolidated cash flow statement

(₹ 000s)

| for the year ended 31 December | 2011 | 2010 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit / (Loss) before taxation | 181,039 | 214,331 |
| Adjustments for: | | |
| Depreciation & Amortisation | 129,016 | 143,426 |
| Loss / (Profit) on sale / discard of Fixed Assets | 4,419 | 5,584 |
| Employees Stock Compensation expense | - | (14,413) |
| Provision for retirement benefits | 1,953 | 3,583 |
| Exchange differences on translation (net) | 29,055 | 40,127 |
| Provision for Doubtful Debts | 48,632 | 39,135 |
| Interest received | (213) | (5,416) |
| Finance cost | 97,830 | 151,477 |
| Operating profit before working capital changes | 491,731 | 577,834 |
| (Increase) / Decrease in Sundry Debtors | (65,984) | 379,942 |
| (Increase) / Decrease in Loans & Advances | 12,522 | 122,274 |
| (Decrease) / Increase in Current Liabilities | (40,091) | (323,889) |
| Taxes paid during the year | (6,637) | (1,843) |
| Net cash provided by operating activities | 391,541 | 754,318 |
| | | |
| **Cash flows from investing activities** | | |
| Purchase / acquisition of Fixed Assets | (280,719) | (42,702) |
| Proceeds from sale / impairment of Fixed Assets | - | 350,000 |
| Interest received | 213 | 5,416 |
| Net Cash used for investing activities | (280,506) | 312,714 |
| | | |
| **Cash flows from financing activities** | | |
| Business Reconstruction Reserve | - | (1,625) |
| Repayment of long-term borrowings | - | (790,094) |
| Unsecured (other) loans - borrowings / (repayments) | 10,382 | 28,283 |
| Increase / (Decrease) in working capital / demand loans | (18,844) | (337,788) |
| Finance cost | (97,830) | (151,477) |
| Net cash provided by financing activities | (106,292) | (1,252,701) |
| | | |
| Net increase in cash & cash equivalents | 4,743 | (185,669) |
| Cash & Cash equivalents at the beginning of the year | 79,926 | 265,595 |
| Cash & Cash equivalents at the end of the year | 84,669 | 79,926 |

As per our Report of even date attached

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

**MC Srikanth**
Partner
Membership No.018588

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

**TN Rajendran**
Partner
Membership No.028778

Chennai
28 February 2012

For and on behalf of the Board of Directors

**GV Kumar**
Managing Director

**D Sudhakar Reddy**
Director

**GP Srinath**
Vice-President (Finance) &
Company Secretary

# Schedules to the consolidated financial statements

(₹ 000s)

| as at 31 December | | 2011 | 2010 |
|---|---|---|---|
| 1 | **Share Capital** | | |
| | Authorised | | |
| | 75,000,000 Equity Shares of ₹ 10 each | 750,000 | 750,000 |
| | | 750,000 | 750,000 |
| | Issued, Subscribed & Paid-up | | |
| | 44,267,293 Equity Shares of ₹ 10 each fully paid-up | 442,673 | 442,673 |
| | | 442,673 | 442,673 |
| | [Out of the above:<br>(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;<br>(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<br>(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] | | |
| 2 | **Reserves & Surplus** | | |
| | **Securities Premium** | | |
| | As per last Balance Sheet | 25,066 | 25,066 |
| | | 25,066 | 25,066 |
| | **Foreign Currency Translation Reserve** | | |
| | As per last Balance Sheet | (44,626) | (71,442) |
| | Movement during the year | (105,081) | 26,816 |
| | | (149,707) | (44,626) |
| | **Employee Stock Options** | | |
| | Employee Stock Options outstanding | | |
| | As per last Balance Sheet | - | 15,711 |
| | Deletions / adjusted during the year | - | (15,711) |
| | | - | - |
| | Less: Deferred Compensation Expense | | |
| | As per last Balance Sheet | - | 1,298 |
| | Amortised / adjusted during the year | - | (1,298) |
| | | - | - |
| | | - | - |
| | **General Reserve** | | |
| | As per last Balance Sheet | 536,855 | 886,865 |
| | Less: Loss on sale / disposal of property | - | (350,010) |
| | | 536,855 | 536,855 |
| | **Business Reconstruction Reserve** | | |
| | As per last Balance Sheet | 2,138 | 3,763 |
| | Net of realisation on disposal of IT Services ('BlueAlly') Division | - | (1,625) |
| | | 2,138 | 2,138 |
| | **Profit & Loss Account** | | |
| | Balance in Profit & Loss Account | 1,284,869 | 1,109,951 |
| | | 1,284,869 | 1,109,951 |
| | | 1,699,221 | 1,629,384 |
| 3 | **Secured Loans** | | |
| | Foreign Currency Loan from Bank | 639,192 | 536,668 |
| | Working Capital / Demand loan from Banks | 126,686 | 149,363 |
| | Vehicle Loans | 4,648 | 814 |
| | | 770,526 | 686,845 |
| | [Refer Note No.2 of Schedule 17] | | |
| 4 | **Unsecured Loans** | | |
| | From bodies corporate | 227,316 | 185,323 |
| | | 227,316 | 185,323 |

## 5 Fixed Assets

(₹ 000s)

| Particulars | Gross Block | | | | Depreciation | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Cost as at 1-Jan-2011 | Additions | Deletions / Adjustments* | Cost as at 31-Dec-2011 | As at 1-Jan-2011 | For the year | On Deletions /Adjustments | Total as at 31-Dec-2011 | As at 31 December 2011 | As at 31 December 2010 |
| Land & Land development | 431,709 | - | - | 431,709 | - | - | - | - | 431,709 | 431,709 |
| Plant & Machinery | 17,563 | 271 | - | 17,834 | 3,418 | 1,118 | - | 4,536 | 13,298 | 14,145 |
| Computer systems & Software | 1,231,447 | 102,100 | - | 1,333,547 | 616,419 | 132,420 | - | 748,839 | 584,708 | 615,028 |
| Furniture & Fittings | 41,805 | 10 | - | 41,815 | 24,271 | 1,559 | - | 25,830 | 15,985 | 17,534 |
| Vehicles | 18,814 | 4,029 | - | 22,843 | 17,641 | 739 | - | 18,380 | 4,463 | 1,173 |
| Intellectual Property Rights | 6,800 | - | - | 6,800 | 6,800 | - | - | 6,800 | - | - |
| Patents | 268 | 97,398 | - | 97,666 | 268 | 4,870 | - | 5,138 | 92,528 | - |
| Total | 1,748,406 | 203,808 | - | 1,952,214 | 668,817 | 140,706 | - | 809,523 | 1,142,691 | 1,079,589 |
| Exchange fluctuation on Consolidation | (133,375) | 139,804 | - | 6,429 | (49,130) | 55,622 | - | 6,492 | (63) | (84,245) |
| Total | 1,615,031 | 343,612 | - | 1,958,643 | 619,687 | 196,328 | - | 816,015 | 1,142,628 | 995,344 |
| Previous year | 2,388,708 | 13,581 | (787,258) | 1,615,931 | 573,735 | 133,201 | (87,249) | 619,687 | 995,344 | |

(₹ 000s)

| as at 31 December | 2011 | 2010 |
|---|---|---|
| **6 Investments** | | |
| Trade (Unquoted) - at cost | | |
| In other companies | | |
| Keystone Wireless, LLC, USA | 121,230 | 121,230 |
| A Company incorporated in USA | | |
| 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 | 247,505 | 192,187 |
| considered doubtful | 234,348 | 185,717 |
| Other debts - unsecured, considered good | 264,892 | 302,858 |
| | 746,745 | 680,762 |
| Less : Provision for doubtful debts | (234,348) | (185,717) |
| | 512,397 | 495,045 |
| | | |
| **8 Cash & Bank balances** | | |
| Cash in hand | 435 | 39 |
| Balance with Scheduled Banks: | | |
| In Current Accounts | 3,864 | 4,475 |
| In Deposit Accounts | 6,540 | 10,627 |
| Balance with Non-Scheduled Banks | | |
| In Current Accounts | 73,830 | 61,257 |
| In Deposit Accounts | - | 3,528 |
| | 84,669 | 79,926 |
| | | |
| **9 Loans & Advances** | | |
| (Unsecured, considered good) | | |
| Advances recoverable in cash or in kind or for value to be received | 434,094 | 441,983 |
| Deposits | 14,584 | 19,217 |
| Advance Income-tax | 30,290 | 28,093 |
| | 478,968 | 489,293 |
| | | |
| **10 Current Liabilities & Provisions** | | |
| **Current Liabilities** | | |
| Sundry Creditors | | |
| for goods / services | 56,680 | 77,051 |
| for accrued salaries and benefits | 2,190 | 3,807 |
| Other Liabilities | 37,468 | 68,444 |
| Unclaimed Dividends | 2,337 | 2,916 |
| Interest accrued but not due | 64,549 | 51,097 |
| | 163,224 | 203,315 |
| **Provisions** | | |
| Provision for retirement benefits | 14,464 | 12,511 |
| Provision for taxation (net) | 35,044 | 32,384 |
| | 49,508 | 44,895 |
| | 212,732 | 248,210 |

(₹ 000s)

| | for the year ended 31 December | 2011 | 2010 |
|---|---|---|---|
| 11 | Other Income / (Expenses) | | |
| | Miscellaneous Income | - | 47,623 |
| | Interest received | 213 | 5,416 |
| | Net Foreign Exchange gain / (loss) | 71,864 | (39,168) |
| | | 72,077 | 13,871 |
| | | | |
| 12 | Personnel cost | | |
| | Salaries & Bonus including overseas staff expenses | 444,102 | 385,900 |
| | Contribution to Provident & Other Funds | 11,116 | 8,606 |
| | Social security and other benefit plans for overseas employees | 20,541 | 22,153 |
| | Employees Welfare expenses | 16,000 | 9,794 |
| | Employees Stock compensation expense | - | (14,413) |
| | | 491,759 | 412,040 |
| | Software Development expenses | 86,332 | 149,877 |
| | | 578,091 | 561,917 |
| | | | |
| 13 | Operating expenses | | |
| | Rent | 29,710 | 40,968 |
| | Rates & Taxes | 5,926 | 12,866 |
| | Communication expenses | 168,835 | 216,596 |
| | Travel & Conveyance | 57,351 | 84,181 |
| | Insurance | 25,292 | 24,577 |
| | Power & Fuel | 28,612 | 34,259 |
| | Repairs & Maintenance | | |
| | Machinery | 61,502 | 94,254 |
| | Others | 2,771 | 7,514 |
| | Printing & Stationery | 3,791 | 5,841 |
| | Loss / (Profit) on sale / discard of Fixed Assets | 4,419 | 5,584 |
| | Business Development expenses | 32,939 | 33,590 |
| | Legal & Professional expenses | 21,113 | 16,934 |
| | Auditors' remuneration | 1,736 | 1,856 |
| | Rebates & Discounts | 72,441 | - |
| | Miscellaneous expenses | 3,528 | 3,620 |
| | Bad debts written-off | 21,164 | - |
| | Provision for doubtful debts | 48,632 | 39,135 |
| | | 589,762 | 621,775 |
| | | | |
| 14 | Finance charges | | |
| | Interest on Foreign Currency Loan | 29,246 | 81,253 |
| | Interest on Working Capital / Demand Loans | 14,997 | 33,074 |
| | Interest on Other Loans | 27,137 | 19,322 |
| | Other Finance Charges | 26,450 | 17,828 |
| | | 97,830 | 151,477 |
| | | | |
| 15 | Taxes | | |
| | Current tax | 6,345 | 7,043 |
| | Deferred tax expense / (benefit) | (979) | 25,867 |
| | Earlier year tax | 755 | (35,643) |
| | | 6,121 | (2,733) |

## 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  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 wholly owned subsidiary companies | 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 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, sehemes, present and future, of the company.

(ii) Vehicles are hypothecated to the Banks / Financial Institutions as security for the amounts borrowed by the Company. Amount repayable within one year is ₹ 1,404,875 (Previous year - ₹ 4,99,270).

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

The foreign currency loan of US$ 12 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. Amount repayable within one year is US$ 7 million (Previous year - Nil).

**(3) Deferred Taxation**

*(₹ 000s)*

| as at 31 December | 2011 | 2010 |
|---|---|---|
| Deferred tax comprise | | |
| Fixed Assets | 12,413 | 18,309 |
| Retirement benefits | (4,781) | (4,253) |
| Provision for doubtful debts | (4,458) | (9,903) |
| Net deferred tax liability / (asset) (timing difference) | 3,174 | 4,153 |

**(4) Goodwill on consolidation**

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

*(₹ 000s)*

| as at 31 December | 2011 | 2010 |
|---|---|---|
| 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

Innovative Water Solutions Limited, NMR Property Develolpment Private Limited, Sannareddy Holdings Private Limited, SR heritage Farms private Limited, SRB Infrastructure Private Limited, Sri City Infrastructure Development private Limited, Sri City Private Limited, Sri City Property Development Private Limited, Sri City E-World Private Limited, Sricity Holdings India Private Limited, Sricity Projects Private Limited, Sricity Utility Services Private Limited, Suparani Farms Private Limited.

Directors & Key Management personnel

GV Kumar & D Sudhakar Reddy

*(₹ 000s)*

| | for the year ended 31 December | | as at 31 December | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Associates | | | | |
| Reimbursement of common expenses received | 1,144 | 1,053 | | |
| Due to / (from) | | | (319) | (219) |
| Directors & Key Management Personnel | | | | |
| Remuneration to Executive Directors | 6,408 | 9,541 | | |
| Commission to Non-Executive Directors | 1,000 | 1,000 | | |
| Directors' sitting fees | 325 | 185 | | |

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 | 2011 | 2010 |
|---|---|---|
| **Business Segment (Primary)** | | |
| Revenues | | |
| Telecom | 1,503,661 | 1,679,055 |
| | 1,503,661 | 1,679,055 |
| Segment result profit | | |
| Telecom | 335,808 | 495,363 |
| | 335,808 | 495,363 |
| Less: Operating expenses (unallocable) | - | - |
| Less: Finance charges | 97,830 | 151,477 |
| Less: Depreciation and Amortisation | 129,016 | 143,426 |
| Other Income / (Expenses) | 72,077 | 13,871 |
| Profit before taxes | 181,039 | 214,331 |
| Less: Taxes | 6,121 | (2,733) |
| Profit after taxes | 174,918 | 217,064 |
| | | |
| **Geographical Segment (Secondary)** | | |
| Revenues | | |
| India | - | 703 |
| Americas | 1,194,881 | 1,581,694 |
| Latam | 193,393 | 31,523 |
| EMEA | 26,934 | 9,142 |
| Asia-Pacific | 88,454 | 55,993 |
| | 1,503,662 | 1,679,055 |
| Carrying amount of segment assets | | |
| India | 873,081 | 863,942 |
| Americas | 1,235,334 | 1,083,013 |
| Latam | 96,589 | 2,225 |
| EMEA | 55,785 | 30,593 |
| Asia-Pacific | 24,173 | 51,743 |
| | 2,284,962 | 2,031,516 |
| Addition to Fixed Assets | | |
| India | 25,306 | 29,799 |
| Americas | 255,335 | 12,903 |
| Latam | - | - |
| EMEA | - | - |
| Asia-Pacific | 78 | - |
| | 280,719 | 42,702 |

**(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 | 2011 | 2010 |
|---|---|---|
| Options outstanding at the beginning of the year | - | 297,500 |
| Expired / Cancelled during the year | - | 297,500 |

(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 | 2011 | 2010 |
|---|---|---|
| Options outstanding at the beginning of the year | 2,645,000 | 1,350,000 |
| Options granted during the year | - | 2,645,000 |
| Exercised during the year | - | - |
| Expired during the year | 135,000 | 1,350,000 |
| Options outstanding at the end of the year | 2,510,000 | 2,645,000 |
| Exercisable at the end of the year | 898,000 | - |

The company granted stock options to the Managing Director and the Officers on 6 August 2011 at the market price of ₹25 per equity share of ₹ 10 each.

**(8) Earnings per share**

*(₹ 000s)*

| for the year ended 31 December | 2011 | 2010 |
|---|---|---|
| **Basic** | | |
| Profit after tax | 174,918 | 217,064 |
| Weighted average number of equity shares outstanding | 44,267,293 | 44,267,293 |
| Earnings per share - Basic (₹) | 3.95 | 4.90 |
| **Diluted** | | |
| Profit after tax | 174,918 | 217,064 |
| Weighted average number of equity shares outstanding | 44,267,293 | 44,267,293 |
| Dilutive effect of stock options outstanding | 898,000 | - |
| Weighted average number of equity shares outstanding | 45,165,293 | 44,267,293 |
| Earnings per share - Diluted (₹) | 3.87 | 4.90 |

**(9) Commitments & Contingencies**

*(₹ 000s)*

| as at 31 December | 2011 | 2010 |
|---|---|---|
| Contingent liabilities including bank guarantees, letter of credits, etc. | 26,813 | 62,749 |

**(10) Corporate Guarantees**

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

**(11) Foreign exchange rates**

Foreign exchange rates adopted for balance sheet purposes is USD = ₹ 53.266 as at 31 December 2011 and USD = ₹ 44.7223 as at 31 December 2010. The income and expenses accounts of the overseas subsidiaries have been translated at the annual average rate of USD = ₹ 47.0322 and USD = ₹ 45.7195 for the financial year 2011 and 2010, respectively. The balance sheet is to be read considering the effect of the significant USD rate variations between the two periods.

**(12) 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.

**(13) 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.

# MEGASOFT LIMITED
(Standalone Financial Statements)

for the year ended 31 December 2011

# Auditors' report

To the Members of Megasoft Limited

We have audited the attached Balance Sheet of Megasoft Limited ("the Company") as at 31 December 2011 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 2011, and taken on record by the Board of Directors, none of the directors is disqualified as on 31 December 2011 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 2011;
    (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
    (iii) in the case of 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.018588

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

**TN Rajendran**
Partner
Membership No.028778

Chennai
28 February 2012

## 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 2011]**

(i) (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) During the year the Company had not disposed off any assets.

(ii) 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.

(iii) 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, sub clauses (iii)(b), (iii)(c), (iii)(d), (iii)(f) and (iii)(g) of clause 3 of paragraph 4 of the Order are not applicable.

(iv) 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.

(v) (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.

(vi) 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.

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

(viii) 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.

(ix) (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 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 statutory dues were outstanding as at 31 December 2011 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.

(x) 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.

(xi) In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to banks.

(xii) 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.

(xiii) 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.

(xiv) 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.

(xv) 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.

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

(xvii) 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.

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

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

(xx) 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.018588

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

**TN Rajendran**
Partner
Membership No.028778

Chennai
28 February 2012

# Balance sheet

(₹ 000s)

| as at 31 December | Schedule | 2011 | 2010 |
|---|---|---|---|
| **Sources of Funds** | | | |
| Shareholders' Funds | | | |
| Share Capital | 1 | 442,673 | 442,673 |
| Reserves & Surplus | 2 | 1,253,018 | 1,197,760 |
| | | 1,695,691 | 1,640,433 |
| Loan Funds | | | |
| Secured Loans | 3 | 131,334 | 150,177 |
| Unsecured Loans | 4 | 15,850 | 19,850 |
| | | 147,184 | 170,027 |
| Deferred tax liability | | 3,167 | 4,153 |
| Total | | 1,846,042 | 1,814,613 |
| **Application of Funds** | | | |
| Fixed Assets | 5 | | |
| Gross Block | | 902,032 | 876,726 |
| Less: Accumulated Depreciation | | (362,894) | (321,966) |
| Net Block | | 539,138 | 554,760 |
| Investments | 6 | 130,224 | 130,224 |
| Current Assets, Loans & Advances | | | |
| Sundry Debtors | 7 | 448,505 | 393,142 |
| Cash & Bank balances | 8 | 10,926 | 15,200 |
| Loans & Advances | 9 | 810,150 | 836,899 |
| | | 1,269,581 | 1,245,241 |
| Less: Current Liabilities & Provisions | 10 | 92,901 | 115,612 |
| Net Current Assets | | 1,176,680 | 1,129,629 |
| Total | | 1,846,042 | 1,814,613 |
| 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
Firm Registration No. 004006S

**MC Srikanth**
Partner
Membership No.018588

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

**TN Rajendran**
Partner
Membership No.028778

Chennai
28 February 2012

For and on behalf of the Board of Directors

**GV Kumar**
Managing Director

**D Sudhakar Reddy**
Director

**GP Srinath**
Vice-President (Finance) &
Company Secretary

# Profit & Loss account

(₹ 000s)

| for the year ended 31 December | Schedule | 2011 | 2010 |
|---|---|---|---|
| **Income** | | | |
| Revenues | | | |
| Exports | | 500,823 | 623,204 |
| Domestic | | - | 703 |
| Total Revenues | | 500,823 | 623,907 |
| Other Income / (Expenses) | 11 | 71,991 | (24,525) |
| Total Income | | 572,814 | 599,382 |
| | | | |
| **Expenditure** | | | |
| Personnel cost | 12 | 328,874 | 297,704 |
| Operating expenses | 13 | 113,772 | 124,602 |
| Finance cost | 14 | 28,213 | 70,195 |
| Depreciation | 5 | 40,928 | 56,678 |
| Total Expenditure | | 511,787 | 549,179 |
| | | | |
| **Profit** | | | |
| Profit before tax | | 61,027 | 50,203 |
| Less: Taxes | 15 | 5,769 | (2,778) |
| Profit after tax | | 55,258 | 52,981 |
| Balance brought forward | | 633,701 | 580,720 |
| Profit available for appropriation | | 688,959 | 633,701 |
| | | | |
| **Appropriations** | | | |
| Balance carried to Balance Sheet | | 688,959 | 633,701 |
| | | 688,959 | 633,701 |
| Earnings per share (equity shares, par value ₹ 10 each) | | | |
| Basic (₹) | | 1.25 | 1.20 |
| Diluted (₹) | | 1.22 | 1.20 |
| Number of shares used in computing | | | |
| Basic | | 44,267,293 | 44,267,293 |
| Diluted | | 45,165,293 | 44,267,293 |
| 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
Firm Registration No. 004006S

**MC Srikanth**
Partner
Membership No.018588

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

**TN Rajendran**
Partner
Membership No.028778

Chennai
28 February 2012

For and on behalf of the Board of Directors

**GV Kumar**
Managing Director

**D Sudhakar Reddy**
Director

**GP Srinath**
Vice-President (Finance) &
Company Secretary

# Cash Flow statement

(₹ 000s)

| for the year ended 31 December | 2011 | 2010 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit / (Loss) before taxation | 61,027 | 50,203 |
| Adjustments for: | | |
| Depreciation & Amortisation | 40,928 | 56,678 |
| Provision for Doubtful Debts | 48,632 | 39,135 |
| Employees Stock compensation expense | - | (14,413) |
| Provision for retirement benefits | 1,953 | 3,583 |
| Interest received | (212) | (3,388) |
| Finance cost | 28,213 | 70,195 |
| Operating profit before working capital changes | 180,541 | 201,993 |
| (Increase) / Decrease in Inventories | - | - |
| (Increase) / Decrease in Sundry Debtors | (103,955) | 253,879 |
| (Increase) / Decrease in Loans & Advances | 31,553 | (396,350) |
| Increase / (Decrease) in Current Liabilities | (29,258) | (14,889) |
| Income taxes paid during the year | (6,965) | (1,844) |
| Net cash provided by operating activities | 71,876 | 42,789 |
| | | |
| **Cash flows from investing activities** | | |
| Purchase / acquisition of Fixed Assets | (25,306) | (29,800) |
| Proceeds from sale / impairment of Fixed Assets | - | 350,000 |
| Interest received | 212 | 3,388 |
| Net Cash used for investing activities | (25,094) | 323,588 |
| | | |
| **Cash flows from financing activities** | | |
| Business Reconstruction Reserve | - | (1,625) |
| Unsecured (other) loans - borrowings / (repayments) | (4,000) | (86,000) |
| Increase / (Decrease) in working capital / demand loans | (18,843) | (283,976) |
| Finance cost | (28,213) | (70,195) |
| Net cash provided by financing activities | (51,056) | (441,796) |
| | | |
| Net increase in cash & cash equivalents | (4,274) | (75,419) |
| Cash & Cash equivalents at the beginning of the year | 15,200 | 90,619 |
| Cash & Cash equivalents at the end of the year | 10,926 | 15,200 |

As per our Report of even date attached

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

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

**MC Srikanth**
Partner
Membership No.018588

**TN Rajendran**
Partner
Membership No.028778

Chennai
28 February 2012

For and on behalf of the Board of Directors

**GV Kumar**
Managing Director

**D Sudhakar Reddy**
Director

**GP Srinath**
Vice-President (Finance) &
Company Secretary

# Schedules to the financial statements

*(₹ 000s)*

| as at 31 December | 2011 | 2010 |
|---|---|---|
| **1 Share Capital** | | |
| Authorised | | |
| 75,000,000 Equity Shares of ₹ 10 each | 750,000 | 750,000 |
| | 750,000 | 750,000 |
| Issued, Subscribed & Paid-up | | |
| 44,267,293 Equity Shares of ₹ 10 each fully paid-up | 442,673 | 442,673 |
| | 442,673 | 442,673 |
| [Out of the above:<br>(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;<br>(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<br>(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] | | |
| **2 Reserves & Surplus** | | |
| **Securities Premium** | | |
| As per last Balance Sheet | 25,066 | 25,066 |
| | 25,066 | 25,066 |
| | | |
| **Employee Stock Options** | | |
| Employee Stock Options outstanding | | |
| As per last Balance Sheet | - | 15,711 |
| Deletions / adjusted during the year | - | (15,711) |
| | - | - |
| Less: Deferred Compensation Expense | | |
| As per last Balance Sheet | - | 1,298 |
| Amortised / adjusted during the year | - | (1,298) |
| | - | - |
| | - | - |
| | | |
| **General Reserve** | | |
| As per last Balance Sheet | 536,855 | 886,865 |
| Less: Loss on sale / disposal of property | - | (350,010) |
| | 536,855 | 536,855 |
| | | |
| **Business Reconstruction Reserve** | | |
| As per last Balance Sheet | 2,138 | 3,763 |
| Nett of realisation on disposal of IT Services ('BlueAlly') Division | - | (1,625) |
| | 2,138 | 2,138 |
| | | |
| **Profit & Loss Account** | | |
| Balance in Profit & Loss Account | 688,959 | 633,701 |
| | 1,253,018 | 1,197,760 |
| | | |
| **3 Secured Loans** | | |
| Working Capital / Demand loan from Banks | 126,686 | 149,363 |
| Vehicle Loans | 4,648 | 814 |
| | 131,334 | 150,177 |
| [Refer Note No.1 of Schedule 17] | | |
| | | |
| **4 Unsecured Loans** | | |
| From bodies corporate | 15,850 | 19,850 |
| | 15,850 | 19,850 |

## 5 Fixed Assets

(₹ 000s)

| Particulars | Gross Block | | | | Depreciation | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Cost as at 1-Jan-2011 | Additions | Deletions / Adjustments* | Cost as at 31-Dec-2011 | As at 1-Jan-2011 | For the year | On Deletions /Adjustments | Total as at 31-Dec-2011 | As at 31 December 2011 | 2010 |
| Land & Land development | 431,709 | - | - | 431,709 | - | - | - | - | 431,709 | 431,709 |
| Plant & Machinery | 17,545 | 271 | - | 17,816 | 3,403 | 1,116 | - | 4,519 | 13,297 | 14,142 |
| Computer systems & Software | 373,418 | 20,997 | - | 394,415 | 283,217 | 37,514 | - | 320,731 | 73,684 | 90,201 |
| Furniture & Fittings | 28,173 | 10 | - | 28,183 | 10,638 | 1,559 | - | 12,197 | 15,986 | 17,535 |
| Vehicles | 18,813 | 4,028 | - | 22,841 | 17,640 | 739 | - | 18,379 | 4,462 | 1,173 |
| Intellectual Property Rights | 6,800 | - | - | 6,800 | 6,800 | - | - | 6,800 | - | - |
| Patents | 268 | - | - | 268 | 268 | - | - | 268 | - | - |
| Total | 876,726 | 25,306 | - | 902,032 | 321,966 | 40,928 | - | 362,894 | 539,138 | 554,760 |
| Previous year | 1,634,185 | 29,799 | (787,259) | 876,725 | 352,537 | 56,678 | (87,249) | 321,966 | 554,759 | |

(₹ 000s)

| | as at 31 December | 2011 | 2010 |
|---|---|---|---|
| 6 | **Investments** | | |
| | Trade (Unquoted) - at cost | | |
| | In wholly owned subsidiary companies | | |
| | Megasoft Consultants Pte Ltd<br>A Company incorporated in Singapore | 2,631 | 2,631 |
| | 100,000 ordinary shares of S$ 1 each fully paid | | |
| | Megasoft Consultants Sdn Bhd<br>A Company incorporated in Malaysia | 6,363 | 6,363 |
| | 500,000 ordinary shares of MR 1 each fully paid | | |
| | XIUS Holding Corp (formerly Boston Communications Group, Inc.)<br>A Company incorporated in USA | - | - |
| | 1,000 ordinary shares of US$ 0.001 each fully paid | | |
| | Trade (Unquoted) - at cost | | |
| | In other companies | | |
| | Keystone Wireless, LLC<br>A Company incorporated in 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 | 247,505 | 190,345 |
| | considered doubtful | 234,348 | 185,717 |
| | Other debts - unsecured, considered good | 201,000 | 202,797 |
| | | 682,853 | 578,859 |
| | Less: Provision for doubtful debts | (234,348) | (185,717) |
| | | 448,505 | 393,142 |
| | | | |
| 8 | **Cash & Bank balances** | | |
| | Cash in hand | 435 | 31 |
| | Balance with Scheduled Banks: | | |
| | In Current Accounts | 3,864 | 4,316 |
| | In Deposit Accounts | 6,540 | 10,627 |
| | Balance with Non-Scheduled Banks | | |
| | In Current Accounts | 87 | 226 |
| | | 10,926 | 15,200 |
| | [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 | 45,536 | 47,196 |
| | Loan to subsidiary companies | 719,779 | 750,454 |
| | Deposits | 14,545 | 13,763 |
| | Advance Income-tax | 30,290 | 25,486 |
| | | 810,150 | 836,899 |
| | | | |
| 10 | **Current Liabilities & Provisions** | | |
| | **Current Liabilities** | | |
| | Sundry Creditors | | |
| | for goods / services | 17,012 | 20,308 |
| | for accrued salaries and benefits | 2,186 | 3,787 |
| | Other Liabilities | 18,971 | 21,426 |
| | Unclaimed Dividends | 2,337 | 2,916 |
| | Interest accrued but not due | 3,263 | 24,590 |
| | | 43,769 | 73,027 |
| | **Provisions** | | |
| | Provision for retirement benefits | 14,464 | 12,511 |
| | Provision for taxation (net) | 34,668 | 30,074 |
| | | 49,132 | 42,585 |
| | | 92,901 | 115,612 |

(₹ 000s)

| | for the year ended 31 December | 2011 | 2010 |
|---|---|---|---|
| 11 | Other Income / (Expenses) | | |
| | Miscellaneous Income | - | 9,229 |
| | Interest received [tax deducted at source ₹ 33 (previous year ₹ 331)] | 212 | 3,388 |
| | Net Foreign Exchange gain / (loss) | 71,779 | (37,142) |
| | | 71,991 | (24,525) |
| 12 | Personnel cost | | |
| | Salaries & Bonus including overseas staff expenses | 215,283 | 181,196 |
| | Contribution to Provident & Other Funds | 11,116 | 8,605 |
| | Employees Welfare expenses | 15,974 | 8,648 |
| | Employees Stock compensation expense | - | (14,413) |
| | | 242,373 | 184,036 |
| | Software Development expenses | 86,501 | 113,668 |
| | | 328,874 | 297,704 |
| 13 | Operating expenses | | |
| | Rent | 7,519 | 9,316 |
| | Rates & Taxes | 199 | 6,659 |
| | Communication expenses | 6,758 | 5,416 |
| | Travel & Conveyance | 22,014 | 27,297 |
| | Insurance | 7,100 | 3,406 |
| | Power & Fuel | 7,070 | 8,597 |
| | Repairs & Maintenance | | |
| | Machinery | 2,606 | 12,674 |
| | Others | 2,756 | 2,844 |
| | Printing & Stationery | 1,020 | 1,167 |
| | Business Development expenses | 2,100 | 1,225 |
| | Legal & Professional expenses | 905 | 1,541 |
| | Auditors' remuneration | 1,565 | 1,705 |
| | Miscellaneous expenses | 3,528 | 3,620 |
| | Provision for doubtful debts | 48,632 | 39,135 |
| | | 113,772 | 124,602 |
| 14 | Finance charges | | |
| | Interest on Working Capital / Demand Loans | 14,997 | 33,074 |
| | Interest on Other Loans | 902 | 19,322 |
| | Other Finance Charges | 12,314 | 17,799 |
| | | 28,213 | 70,195 |
| 15 | Taxes | | |
| | Current tax | 6,000 | 7,000 |
| | Deferred tax expense / (benefit) | (986) | 25,865 |
| | Earlier year tax | 755 | (35,643) |
| | | 5,769 | (2,778) |

## 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) Vehicles are hypothecated to the Banks / Financial Institutions as security for the amounts borrowed by the Company. Amount repayable within one year is ₹ 1,405 (Previous year - ₹ 499).

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

The foreign currency loan of US$ 12 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. Amount repayable within one year is US$ 7 million (Previous year - Nil).

### (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 | 2011 | 2010 |
|---|---|---|
| Not later than one year | 1,405 | 499 |
| Later than one year and not later than five years | 3,243 | 342 |
| Total | 4,648 | 841 |
| Less: Amounts representing interest | (1,142) | (71) |
| Present value of minimum lease payments | 3,506 | 770 |
| Less : Amount due not later than one year | (746) | (413) |
| Amounts due later than one year and not later than five years | 2,760 | 357 |

(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 | 2011 | 2010 |
|---|---|---|
| Deferred tax comprise | | |
| Fixed Assets | 12,406 | 18,309 |
| Retirement benefits | (4,781) | (4,253) |
| Provision for doubtful debts | (4,458) | (9,903) |
| Net deferred tax liability / (asset) (timing difference) | 3,167 | 4,153 |

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

*(₹ 000s)*

| as at 31 December | 2011 | 2010 |
|---|---|---|
| Balance with non-scheduled banks: | | |
| In Current Accounts | | |
| United Bank, Virginia, USA | 71 | 226 |
| Maximum balance with non-scheduled banks: | | |
| In Current Accounts | | |
| United Bank, Virginia, USA | 1,683 | 1,198 |

### (5) Loans and advances

(i) The erstwhile VisualSoft had entered into an agreement with Andhra Pradesh Industrial Infrastructure Corporation Limited ("APIIC") to acquire land admeasuring 0.751 acres at Madhapura 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.

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

## (6) Managerial Remuneration

(₹ 000s)

| for the year ended 31 December | 2011 | 2010 |
|---|---|---|
| (i) Managing Director | | |
| Salaries & Allowances | 3,505 | 6,634 |
| Contribution to provident & other funds | 343 | 606 |
| Perquisites * | 1,345 | 1,245 |
| | 5,193 | 8,485 |
| (ii) Whole-time Director | | |
| Salaries & Allowances | 741 | 624 |
| Contribution to provident & other funds | 89 | 75 |
| Perquisites * | 386 | 357 |
| | 1,216 | 1,056 |
| (iii) Non whole-time Directors | | |
| Commission | 1,000 | 1,000 |
| Sitting Fees | 325 | 185 |
| | 1,325 | 1,185 |
| Total Managerial Remuneration | 7,734 | 10,726 |

* 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.

Above amount does not include remuneration paid by wholly owned subsidiary company to Managing Director of the company aggregaing to ₹ 3,913 (Previous year Nil) in terms of section 314 of the companies act, 1956 with due approval of the shareholders at the annual general meeting held on 17 June 2011.

**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 | 2011 | 2010 |
|---|---|---|
| Profit after tax | 55,258 | 52,981 |
| Add: | | |
| Managerial Remuneration | 7,734 | 10,726 |
| Depreciation / impairment as per books | 40,928 | 56,678 |
| Provision for doubtful debts | 48,632 | 39,135 |
| Loss on sale / Discard of Fixed Assets | - | - |
| Provision for taxation | 5,769 | (2,778) |
| | 103,063 | 103,761 |
| | | |
| Less : | | |
| Depreciation as per Section 350 of the Act | 40,928 | 56,678 |
| Profit on which commission is payable | 117,393 | 100,064 |
| | | |
| Commission to Non-Executive Directors | | |
| Maximum allowed 1% as per the Companies Act, 1956 | 1,174 | 1,001 |
| Commission approved by the Board | 1,000 | 1,000 |
| | | |
| Managerial remuneration to Executive Directors | | |
| Maximum allowed 10% as per the Companies Act, 1956 | 11,739 | 10,006 |
| Managerial Remuneration paid | 6,409 | 9,541 |

(₹ 000s)

| for the year ended 31 December | 2011 | 2010 |
|---|---|---|
| **(7) Payments to Auditors** | | |
| Audit fees (including service tax) | 1,324 | 1,323 |
| Out of pocket expenses | 76 | 23 |
| Tax matters (including service tax) | 138 | 276 |
| Others (including service tax) | 28 | 83 |
| | 1,566 | 1,705 |
| | | |
| **(8) CIF value of imports** | | |
| Capital goods | 12,580 | - |
| Others | - | - |
| | | |
| **(9) Expenditure in foreign currency** | | |
| Travel expenses | 13,645 | 13,526 |
| Software Development expenses | 83,178 | 54,150 |
| Other expenses | 3,172 | 11,717 |
| | 99,995 | 79,393 |
| | | |
| **(10) Earnings in foreign exchange** | | |
| Software development services | 500,823 | 623,204 |

**(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**

Profit for taxation has been made after taking into consideration the appropriate exemptions available for operations till 31 March 2011

**(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 | 2011 | 2010 |
|---|---|---|
| Options outstanding at the beginning of the year | - | 297,500 |
| Expired / Cancelled during the year | - | 297,500 |

### (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 | 2011 | 2010 |
|---|---|---|
| Options outstanding at the beginning of the year | 2,645,000 | 1,350,000 |
| Options granted during the year | - | 2,645,000 |
| Exercised during the year | - | - |
| Expired / Cancelled during the year | 135,000 | 1,350,000 |
| Options outstanding at the end of the year | 2,510,000 | 2,645,000 |
| Exercisable at the end of the year | 898,000 | - |

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 | 2011 | 2010 |
|---|---|---|
| Basic | | |
| Profit / (loss) after tax | 55,258 | 52,981 |
| Weighted average number of equity shares outstanding | 44,267,293 | 44,267,293 |
| Earnings per share (₹) | 1.25 | 1.20 |
| Diluted | | |
| Profit / (loss) after tax | 55,258 | 52,981 |
| Weighted average number of equity shares outstanding | 44,267,293 | 44,267,293 |
| Dilutive effect of stock options outstanding | 898,000 | - |
| Weighted average number of equity shares outstanding | 45,165,293 | 44,267,293 |
| Earnings per share (₹) | 1.22 | 1.20 |

## (17) Related party transactions

Wholly owned Subsidiary companies

Megasoft Consultants Sdn Bhd, Malaysia, Megasoft Consultants Pte Ltd, Singapore, XIUS Holding Corp, (formerly Boston Communications Group, Inc.,), USA, Xius Corp (formerly Cellular Express, Inc.,) USA, BCGI Wireless Private Limited

Associates - Entities controlled by Director/s
S Ravindra Babu HUF

Innovative Water Solutions Limited, NMR Property Develolpment Private Limited, Sannareddy Holdings Private Limited, SR heritage Farms private Limited, SRB Infrastructure Private Limited, Sri City Infrastructure Development private Limited, Sri City Private Limited, Sri City Property Development Private Limited, Sri City E-World Private Limited, Sricity Holdings India Private Limited, Sricity Projects Private Limited, Sricity Utility Services Private Limited, Suparani Farms Private Limited.

Directors & Key Management personnel
GV Kumar & D Sudhakar Reddy

*(₹ 000s)*

| | for the year ended 31 December | | as at 31 December | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Wholly owned Subsidiary companies | | | | |
| Revenues | 450,331 | 293,733 | | |
| Receivables | | | 185,482 | 109,539 |
| Software development expenses | 83,178 | 54,150 | | |
| Investments in subsidiary companies | - | - | 8,994 | 8,994 |
| Loan to subsidiary companies | (30,675) | 453,087 | 719,779 | 750,454 |
| Corporate Guarantees for foreign currency loan from bank | - | - | 639,192 | 536,668 |
| Associates | | | | |
| Reimbursement of common expenses received | 1,144 | 1,053 | | |
| Due to / (from) | | | (319) | (219) |
| Directors & Key Management Personnel | | | | |
| Remuneration to Executive Directors | 6,409 | 9,541 | | |
| Commission to Non-Executive Directors | 1,000 | 1,000 | | |
| Directors' sitting fees | 325 | 185 | | |

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)*

| | 2011 | 2010 |
|---|---|---|
| Subsidiary companies | | |
| Revenues | | |
| Megasoft Consultants Sdn Bhd | 63,144 | 26,116 |
| XIUS Corp | 387,187 | 267,617 |
| Software development expenses | | |
| XIUS Corp | 83,178 | 54,150 |
| Loan to subsidiary companies | | |
| Granted during the year | | |
| XIUS Holding Corp | - | 453,087 |
| Repaid / adjusted during the year | | |
| XIUS Holding Corp | 30,675 | - |

Details of loans and advances in the nature of loans (as required by clause 32 of the listing agreement with stock exchanges) *(₹ 000s)*

| | 2011 | 2010 |
|---|---|---|
| Balance at the end of the year | | |
| XIUS Holding Corp | 727,980 | 757,074 |
| Maximum amount outstanding during the year | | |
| XIUS Holding Corp | 727,980 | 757,074 |

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

As per actuarial valuations as on 31 December 2011 and recognised in the financial statements in respect of employee benefit schemes.

| as at 31 December | Gratuity (Unfunded) | | Leave encashment (Unfunded) | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | % | % | % | % |
| (i) Assumptions | | | | |
| Discount Rate | 8.75 | 8.40 | 8.75 | 8.40 |
| Rate of Return on Plan Assets | 8.75 | 8.40 | 8.75 | 8.40 |
| Salary Escalation | 6.00 | 6.00 | 6.00 | 6.00 |
| Attrition rate | 2.00 | 1.00 | 2.00 | 1.00 |
| | | | | |
| | ₹ 000s | ₹ 000s | ₹ 000s | ₹ 000s |
| (ii) Table showing change in Benefit Obligation | | | | |
| Liability at the beginning of the year | 8,074 | 5,774 | 4,437 | 3,154 |
| Interest Cost | 678 | 476 | 373 | 260 |
| Current Service Cost | 2,386 | 1,804 | 834 | 584 |
| Benefit Paid | (961) | (1,015) | (1,058) | (1,667) |
| Actuarial (gain) / loss on obligations | 141 | 1,035 | (440) | 2,106 |
| Liability at the end of the year | 10,318 | 8,074 | 4,146 | 4,437 |
| (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 | 961 | 1,015 | 1,058 | 1,667 |
| Benefit Paid | (961) | (1,015) | (1,058) | (1,667) |
| Actuarial gain / (loss) on Plan Assets | - | - | - | - |
| Fair value of Plan Assets at the end of the year | - | - | - | - |
| Total actuarial gain / (loss) to be recognised | (141) | (1,035) | 440 | (2,106) |
| (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 | 10,318 | 8,074 | 4,146 | 4,437 |
| Fair value of plan assets at the end of the year | - | - | - | - |
| Difference | 10,318 | 8,074 | 4,146 | 4,437 |
| Amount recognised in the Balance Sheet | 10,318 | 8,074 | 4,146 | 4,437 |
| (vi) Expenses recognised in the Income Statement | | | | |
| Current Service Cost | 2,386 | 1,804 | 834 | 584 |
| Interest Cost | 678 | 476 | 373 | 260 |
| Expected Return on Plan Assets | - | - | - | - |
| Net actuarial (gain) / loss to be recognised | 141 | 1,035 | (440) | 2,106 |
| Expense Recognised in Profit & Loss A/c | 3,205 | 3,315 | 767 | 2,950 |
| (vii) Amount Recognised in the Balance Sheet | | | | |
| Opening net liability | 8,074 | 5,774 | 4,437 | 3,154 |
| Expense as above | 3,205 | 3,315 | 767 | 2,950 |
| Employers Contribution paid | (961) | (1,015) | (1,058) | (1,667) |
| Closing net Liability | 10,318 | 8,074 | 4,146 | 4,437 |

### (19) Commitments & Contingencies

*(₹ 000s)*

| as at 31 December | 2011 | 2010 |
|---|---|---|
| Contingent liabilities including bank guarantees, letter of credits, etc. | 26,813 | 62,749 |

### (20) Corporate Guarantees

The company has given a corporate guarantee for the foreign currency loan of US$ 12 million from Axis Bank, Hong Kong to XIUS Holding Corp., USA.

### (21) Forward contracts

Foreign exchange forward contracts outstanding at the end of the year USD 4 million approx. ₹ 193,500 (Previous year - Nil).

### (22) Foreign exchange rates

Foreign exchange rates adopted for balance sheet purposes is USD = ₹ 53.266 as at 31 December 2011 and USD = ₹ 44.7223 as at 31 December 2010. The income and expenses accounts of the overseas subsidiaries have been translated at the annual average rate of USD = ₹ 47.0322 and USD = ₹ 45.7195 for the financial year 2011 and 2010, respectively. The balance sheet is to be read considering the effect of the significant USD rate variations between the two periods.

### (23) Dues to micro, small and medium enterprises

As at 31 December 2011, 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 circular dated 8 February 2011 has exempted the companies from attaching the financial statements of the company's subsidiaries along with the company's accounts for the financial year ended 31 December 2011.

## Balance Sheet Abstract & company's general business profile

| | | | | |
|---|---|---|---|---|
| I | **Registration Details** | | | |
| | Registration No. | L72200TN1999PLC042730 | | |
| | Balance Sheet Date | 12/31/2011 | | |
| | State Code | 18 | | |
| 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 | 1,846,042 | Total Assets | 1,846,042 |
| | Source of Funds | | Application of Funds | |
| | Paid-up capital | 442,673 | Net Fixed Assets | 539,138 |
| | Reserves & Surplus | 1,253,018 | Investments | 130,224 |
| | Secured Loans | 131,334 | Net Current Assets | 1,176,680 |
| | Unsecured Loans | 15,850 | Miscellaneous Expenditure | - |
| | Deferred tax liability / (asset) | 3,167 | Accumulated Losses | - |
| IV | **Performance of Company (Amount in Rupees Thousands)** | | | |
| | Turnover | 572,814 | Total Expenditure | 511,787 |
| | Profit before Tax | 61,027 | Profit after Tax | 55,258 |
| | Earnings per Share (₹) | 1.25 | Dividend Rate % | 0% |
| V | **Generic name of principal product / service of Company** | | | |
| | (as per monetary terms) | | | |
| | ITC Code | 85,249,113 | | |
| | Product Description | Computer software | | |

For and on behalf of the Board of Directors

**GV Kumar**
Managing Director

**D Sudhakar Reddy**
Director

**GP Srinath**
Vice-President (Finance) &
Company Secretary

Chennai
28 February 2012

# 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-2011 | 500,000 of MR 1 each | 100% | - | 1,537 | - | (1,470) |
| Megasoft Consultants Pte Ltd | Singapore | SD | 31-Dec-2011 | 100,000 of SD 1 each | 100% | - | (672) | - | 492 |
| XIUS Holding Corp (formerly Boston Communications Group, Inc.) | USA | USD | 31-Dec-2011 | 1,000 of US$ 0.001 each | 100% | - | (45,110) | - | (2,164,050) |
| Xius Corp (formerly Cellular Express, Inc.) | USA | USD | 31-Dec-2011 | 100 of US$ 0.01 each | 100% | - | 174,295 | - | 1,431,635 |
| BCGI Wireless Private Limited | India | INR | 31-Dec-2011 | 280,000 of ₹10 each | 100% | - | - | - | 29,450 |

For and on behalf of the Board of Directors

**GV Kumar**
Managing Director

**D Sudhakar Reddy**
Director

**GP Srinath**
Vice-President (Finance) &
Company Secretary

Chennai
28 February 2012

## 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 2011 | 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 | 16.7368 | 8,368 | 67 | 20,144 | 11,709 | - | 91,505 | 1,920 | 383 | 1,537 | - |
| Megasoft Consultants Pte Ltd | Singapore | SD | 40.8543 | 4,085 | (181) | 4,174 | 269 | - | - | (672) | - | (672) | - |
| XIUS Holding Corp (formerly Boston Communications Group, Inc.) | USA | USD | 53.2660 | - | (2,164,050) | - | (2,209,160) | - | - | (45,110) | - | (45,110) | - |
| Xius Corp (formerly Cellular Express, Inc.) | USA | USD | 53.2660 | - | 1,560,820 | 2,203,229 | 597,299 | - | 1,645,161 | 174,295 | - | 174,295 | - |
| BCGI Wireless Private Limited | India | INR | 1 | 2,800 | 29,450 | 35,643 | 3,393 | - | - | - | - | - | - |

For and on behalf of the Board of Directors

**GV Kumar**
Managing Director

**D Sudhakar Reddy**
Director

**GP Srinath**
Vice-President (Finance) &
Company Secretary

Chennai
28 February 2012

Note:
In terms of general exemption granted by the Ministry of Corporate Affairs vide its circular no. 02/2011 dated 8 February 2011 and approval of the Board of Directors of the Company at its meeting held on 28 February 2012, the annual accounts of the subsidiary companies and the related detailed information will be made available upon request by the investors of the Company and of its subsidiary companies. These documents will also be available for inspection by any investor at the Registered Office of the Company at No.85, Kutchery Road, Mylapore, Chennai 600004, and that of the subsidiary companies concerned.

# NOTICE of the annual general meeting

Notice is hereby given that the 12th Annual General Meeting of the Members of Megasoft Limited will be held on Friday the 29th day of June 2012 at 10.00 AM at The Music Academy, Kasturi Srinivasan Hall (Mini Hall), 168, TTK Road, Royapettah, Chennai 600014 to transact the following business:

## Ordinary Business

(1) To receive, consider and adopt the audited Balance Sheet as at 31 December 2011 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 R Janardhana, who retires by rotation and being eligible, offers himself for re-election.

(3) To appoint a Director in place of Mr Anish Mathew, 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 Mr SV Ramkumar, who was co-opted as an Additional Director of the company by the Board of Directors, who holds office under Section 260 of the Companies Act, 1956, until the date of the Annual General Meeting and in respect of whom the company has received a notice in writing proposing his candidature for the office of a Director, be and is hereby appointed as a Director of the company, liable to retire by rotation.

(6) 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 309 and other applicable provisions, if any, of the Companies Act, 1956 a sum not exceeding 1% per annum of the net profits of the company calculated in accordance with the provisions of Section 198, 349 and 350 of the Companies Act, 1956 be paid to and distributed amongst the directors of the company or some or any of them (other than the managing director and the whole-time directors) in such amounts or proportions and in such manner and in all respects as may be decided by the Board of Directors and such payments shall be made in respect of the profits of the company for each year for a period of five years commencing from 1 January 2012 to 31 December 2016.

(7) 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.

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

**GP Srinath**
Vice-President (Finance) &
Company Secretary

Chennai
28 February 2012

## 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 25th to 29th June 2012 (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 am. to 3.00 pm. 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.
(15) Request you to please note that going forward the documents like Notice calling the Annual General Meeting, Corporate Governance Report, Directors' Report, Audited Financial Statements, Auditors' Report, etc. shall be circulated to the members in electronic form to the e-mail address provided by you and made available to us by the Depository/Registrar & Share Transfer Agents (RTA). Request you to please register your e-mail ID with RTA/your Depository to enable us to send the documents in electronic form or let us know in case you wish to receive the above documents in paper mode.

## Explanatory Statement

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

### Item No.5

Mr SV Ramkumar was co-opted as an Additional Director of the company on 28 February 2012 pursuant to Section 260 of the Companies Act, 1956. He holds the office of Director up to the date of the Annual General Meeting. The company has received notice in writing from a member of the company along with the prescribed fee proposing the candidature of Mr SV Ramkumar for the office of Director in terms of the provisions of Section 257 of the Companies Act, 1956.
None of the Directors of the company other than Mr SV Ramkumar are interested in the resolution. Your Directors recommend the Ordinary Resolution for approval of the Members.

### Item No.6

Section 309 of the Companies Act, 1956 provides that a director who is neither in the whole-time employment of the company nor a managing director may be paid remuneration by way of commission, if the company by special resolution, authorizes such payment. The Company has non executive directors who have been making invaluable contributions to the company's growth. The Company intends to compensate them by way of commission. The proposed resolution would allow the company to make payment by way of commission to the non-executive directors till the period ending 31 December 2016.
All the directors other than Managing / Whole-time Directors of the company are deemed to be interested in the resolution to the extent of the commission payable to them in accordance with the proposed resolution.The Board recommends the resolution for approval of shareholders.

### Item No.7

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.

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

**GP Srinath**
Vice-President (Finance) &
Company Secretary

Chennai
28 February 2012

## Additional Information on directors seeking appointment / re-appointment at the 12th 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 / appointed at Sl. Nos. 2, 3 and 5 of the Notice of the AGM as required under Clause 49 of the Listing Agreement are given below:

| Name of the Director | R Janardhana | Anish Mathew | SV Ramkumar |
|---|---|---|---|
| Date of Birth | 31 May 1951 | 19 August 1965 | 30 November 1970 |
| Date of Appointment | 31 January 2009 | 31 January 2009 | 28 February 2012 |
| Qualification | Fellow Member of the Institute of Chartered Accountants of India | Bachelor of Commerce (Hons) from the University of Delhi and a PGDM from the Xavier Institute of Management | Bachelor of Science from Madras University<br>Associate Member of the Institute of Chartered Accountants of India |
| Experience in Specific-functional area | Over three decades with Indian Overseas Bank and was Head of the Accounts Department of the Bank for about 5 years | Over two decades of experience in investing in Indian and international capital markets | Over 17 years of experience in consulting and industry, started his career in audit and consulting and has experience in Agri commodities and software industries. In the recent past he was responsible for M&A and capital raising including infra, construction, engineering and real estate. |
| List of companies in which directorship held in other companies | NIL | Wealth Management Asia Consultants Pte Ltd, Singapore<br>Synergia Bio Sciences Pte Ltd, Singapore | Sumedha Estates Private Limited<br>Haripuram Developers Private Limited<br>Gamaa Developers Private Limited |
| Chairman / Members of the Committee of the Board of companies in which he is Director | Chairman of Audit Committee of the company<br>Member of Remuneration / Compensation Committee of the company<br>Member of Share Transfer / Investors' Grievance Committee of the company | Member of Audit Committee of the company<br>Member of Remuneration / Compensation Committee of the company | NIL |
| Shareholding in the company (equity shares of ₹ 10 each) | 400 | 107,570 | NIL |

MEGASOFT

# 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 **12th ANNUAL GENERAL MEETING** of the Company to be held at The Music Academy, Kasturi Srinivasan Hall (Mini Hall), 168, TTK Road, Royapettah, Chennai 600014 at 10.00 AM on Friday, the 29th day of June 2012 and at any adjournment(s) thereof.

Signed this ........................................................... day of June 2012.

Affix ₹ 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

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 **12th ANNUAL GENERAL MEETING** of the Company at The Music Academy, Kasturi Srinivasan Hall (Mini Hall), 168, TTK Road, Royapettah, Chennai 600014 at 10.00 AM on Friday, the 29th day of June 2012.

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

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 **offices**

### INDIA

**Megasoft Limited**
85, Kutchery Road
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

### UNITED STATES

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

**XIUS Holding Corp**
500 West Cummings Park
Suite 2100, Woburn
MA 01801
Phone: +1 781-904-5000
Fax: +1 781-904-5601

**XIUS Corp**
500 West Cummings Park
Suite 2100, Woburn
MA 01801
Phone: +1 781-904-5000
Fax: +1 781-904-5601

### SINGAPORE

**Megasoft Consultants Pte Ltd**
Level 30
Six Battery Road
Singapore 049909
Phone : +65 6769 9748

### MALAYSIA

**Megasoft Consultants Sdn Bhd**
Suite 7-3A, Wangsa Link
JalanWangsaDelima 10
53300 Kuala Lumpur, Malaysia
Phone: +603 4105 4476
Fax: +603 4147 4144

Registered office: Megasoft Limited, 85 Kutchery Road, Mylapore, Chennai 600 004