



“Hello.
Can you hear me?”

How Megasoft began to transform its destiny in 2009

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 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.



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“Loud and clear”

We were loss-making once.

We embarked on the process of turning around in 2009.

We now enjoy predictable income streams, attractive margins,
growing customer base and rising per customer revenues.

Going ahead, these factors are expected to return the company
to sustained profitability.

Megasoft is a trans-national intellectual property-driven, product-based mobile technology company in the operation support system (OSS) space.



What we do

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 survive and succeed in this challenging environment: 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.

Quality policy

Consistent commitment to quality and application of well-established methodologies, tools and techniques, backed by stringent quality processes, to enhance customer value.

Quality objectives

1. Achieve and sustain customer satisfaction
2. Adopt appropriate technologies and methodologies
3. Monitor, measure and continually improve processes



Locations

Headquartered in Chennai, Tamil Nadu, with key corporate offices in Hyderabad (India), and Woburn (MA, USA) and regional offices in Singapore and Kuala Lumpur, Malaysia

Listing

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

Background

Established in 1994 in Virginia (USA) and listed on BSE in 2001, Megasoft, a publicly listed company, operates out of offices in Asia, the Americas and Europe.

Division

XIUS-bcgi, the telecom division of Megasoft, is a leading global provider of Advanced Roaming, OSS and Convergent Service Delivery Infrastructure and Mobile commerce solutions for Wireless Network Operators and Service Providers.

Partnerships

The company enjoys strong partnerships with global leaders like HP, Tata Communications (Teleglobe) and Oracle. These have afforded XIUS-bcgi with the reach and credibility to build a customer base with over 65 active commercial installations across Asia, the Americas, Europe and the Middle East.

Highlights, 2009

- Divested IT services (BlueAlly) in October 2009 to enabled its focus on the high-margin telecom products business
- Optimised operations in the telecom division (XIUS-bcgi) in the US
- Focused on customer wins in Far East countries

Post-balance sheet financials

	2010 Q1	2009 Q1
	Rs million	Rs million
Revenues	393	752
EBIDTA	128	86
PAT	42	1
Cash profit	81	70
EPS (Rs)	0.95	0.04

We were an IT services-cum-product based mobile telecom software company till 2009.

Post divestment of IT services, we are a product-based mobile telecom software company.

In 2009, Megasoft changed its strategic direction.



((The proportion of Megasoft's revenues from managed services increased from 25% in 2005 to 75% in 2009 and is likely to increase further in 2010.))

The company sold its IT services business (BlueAlly) – this included the company's overseas subsidiary Megasoft Consultants, Inc., USA and Megasoft Consultants Limited, UK – to mobilise adequate resources and focus on its core competence in the area of mobile telecom software services.

This decision was based on evident realities. While on the one hand, the software services space was marked by a number of large companies with deep pockets, resulting in competitive clutter; on the other, the market for managed telecom services was protected from rampant competition through sophisticated domain understanding and growing room for customised services where the company enjoys an industry and technology advantage.

The time for making this transition was just right. An increasing number of mobile telephony carriers focused on reducing their fixed costs by outsourcing technology services to companies like Megasoft, leaving them with adequate managerial bandwidth to invest in branding and marketing to grow their businesses.

Megasoft's end-to-end services on a single platform enabled its customers to accelerate the launch of their services, following periodic customisation while responding to evolving market needs. This ability to provide a complete service range made it possible for Megasoft to attract new customers faster, grow their respective accounts and graduate to the technology-intensive, value-added end.

Megasoft's competence was visibly showcased during an assignment for a US carrier. The company created a prepaid platform for this customer in a mere four months as opposed to the prevailing US industry standard of 12 months. This enabled the customer to launch its service quicker and widen its subscriber base faster. In turn, this enabled Megasoft to account for a larger share of the customer's technology needs and grow its business.

The result: The proportion of Megasoft's revenues from managed services increased from 25% in 2005 to 75% in 2009 and is likely to increase further in 2010.





Earlier we generated a majority of our revenues in our telecom division from licensing.

Now we derive a majority of our revenues from managed telecom services.

Following the acquisition of bcgi in the US in 2008 and 2009, we restructured our revenue model.

« Around 80% of revenues were derived from small carriers in 2007; around 80% of revenues were derived from large carriers in 2009. »

Earlier, the company's revenues transpired in fits and starts. The absence of any clear quarterwise revenue visibility affected investor confidence. The company altered its customer engagement and revenues from a one-time licensing model towards ASP annuity contracts marked by predictable cash flows.

The company did so with the know-how added through the acquisition of begi by entering into business relationships with large telecom carriers. This translated into recurring subscriber-per-month billings and transaction-based services that were predictable, growing and spin-off, starting a virtuous cycle of reinvestment and business sustainability.

Concurrently, the company evolved its focus from small to large Tier I carriers. Around 80% of revenues were derived from small carriers in 2007; around 80% of revenues were derived from large carriers in 2009. The advantages: contract sizes got larger, cross-sale opportunities increased, peripheral services marketing widened and inflow predictability strengthened.

The result: Megasoft reported a nominal profit in the fourth quarter of 2009, which was enlarged in the first quarter of 2010 (at the time of reporting) and is likely to generate even stronger numbers going ahead.



We possessed a weak
balance sheet until 2009.

We improved our balance
sheet in 2009.



((This evolution resulted in a stronger balance sheet that will enable the company to scale revenues faster and profitably over the foreseeable future.))

We enhanced our viability through the following initiatives:

- Rationalised operational costs in our telecom division ('XIUS-bcgi')
- Rationalised the operating cost of data centres by shifting a majority of our back-office functions to India
- Utilised the proceeds from the sale of our IT services (BlueAlly) business for debt reduction
- Reduced receivables from a peak of over 240 days of turnover equivalent in 2008 to around 110 days
- Reduced outstanding debt from Rs 221 cr in 2008 to Rs 175 cr in 2010-Q1, interest outflow declined from Rs 27 cr in 2009 to Rs 4.50 cr in 2010-Q1 (annualised Rs 18 cr) which strengthened our interest cover
- Transformed a negative operational cash flow to positive in 2009

This evolution resulted in a stronger balance sheet that will enable the company to scale revenues faster and profitably over the foreseeable future.



We focused on marketing
block services to mobile
carriers earlier.

We are increasing the
share of transaction-led
revenues now.



Unrestricted by a single network, XIUS-bcgi's infrastructure is adaptable to GSM, CDMA, 3G, 4G, VoIP, IMS and WLAN.

Megasoft is in the right place at the right time with the right competencies. The company is already a leader in the US pre-paid segment with ready-made hosted pre-paid infrastructure that makes it possible for carriers to launch pre-paid offerings instantly without engaging in time-consuming installation procedures and operational training. The company's competence is reflected in its customer accretion: 20 carrier customers in the US for its prepaid service with revenues growing month-on-month.

There are other attractive realities. A number of mobile carriers are offering wider services – advertising on mobile included – to counter a decline in average revenue per user (ARPU). Mobile advertising is poised to capitalise on the back of opportunities presented by the diffusion of advanced Smartphone devices and 3G networks. Mobile payments and mobile wallet applications have been launched commercially with high growth coming out of large carriers present in India, Latin America and emerging markets.

With the company's brand XIUS-bcgi and its Mobile Services Platform (MSP), mobile operators can create a complete end-to-end infrastructure solution for their mobile business or choose specific services of the platform that can easily integrate with their existing infrastructure and third-party applications. XIUS-bcgi Mobile Services Platform, thanks to years of R&D effort, utilises an intelligent network-based architecture that simultaneously supports a variety of operational models and handles multiple heterogeneous wireless technologies. Unrestricted by a single network, XIUS-bcgi's infrastructure is adaptable to GSM, CDMA, 3G, 4G, VoIP, IMS and WLAN.

The company is poised to benefit from high market growth in the US prepaid market, global mobile commerce, mobile payment markets, mobile advertising (large Tier 1 carrier focus) and the small carrier infrastructure market, going forward.

The growth story has just begun.



Our enduring strengths



Focus: Rich and more than a decade's experience in developing telecom network platforms and applications with a corresponding focus on mobile telecom markets

Brand: Strong brand recognition across the US and Latin American markets for providing cutting-edge technologies and solutions to the wireless industry

Intellectual property: Apart from a rich basket of patents, the company possesses rich intellectual property in hosting operations 24x7 through an integrated backing gateway.

Research: Applied for over 64 patents, of which 19 were granted by the USPTO

Predictability: Steady quarterly revenues of around Rs 40 cr in early 2010 with 30%-plus EBIDTA




Team: Comprises multinational members with diverse competencies and covering various geographic responsibilities

Culture: Combines best practices of both cultures (the US and India), creating a high quality and cost-effective entity

Respect: Brand XIUS-bcgi recognised for cutting-edge pre-paid technologies, real-time service control platforms, mobile payments and mobile commerce, advanced roaming and core network infrastructure solutions to wireless operators and service providers.

Clients: Leading Tier I US clients for the company's products

Bridge: Corporate management, marketing, strategy, product management, client relations and hosted services located in the US; Asia sales office, software development and engineering, operations and back-office in India



“The most effective way to cope
with change is to help create it.”

- L. W. Lynett

Megasoft Limited

10th Annual Report

Board of Directors

S Ravindra Babu, Chairman
GV Kumar, Managing Director
D Sudhakar Reddy, Whole-time Director
P Mukunda Reddy
Anil Kumar Sood
Anish Mathew
R Janardhana

VP (Finance) & Company Secretary

GP Srinath

Auditors

Srikanth & Shanthy 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 2009.

Financial Results

	Rs million			
	Standalone		Consolidated	
For the year ended 31 December	2009	2008	2009	2008
Revenues	887	1238	3030	3262
Total Expenditure	460	1108	2644	2772
Finance Cost	134	84	228	219
Depreciation	143	164	243	260
Operating Profit / (Loss)	150	(118)	(85)	11
Profit / (Loss) before tax	(5)	178	(250)	368
Less: Taxes	(29)	42	(29)	42
Profit / (Loss) after tax	24	136	(221)	326
Earnings per share (equity shares, par value Rs 10 each)				
Basic (Rs)	0.55	3.08	(4.99)	7.36
Diluted (Rs)	0.54	3.10	(4.89)	7.33

Overview

During the financial year ended 31 December 2009, your company recorded consolidated revenues of Rs 3030 million compared to Rs 3262 million in the previous financial year. The Profit / (Loss) before tax at (Rs 250) million was lower compared with Rs 368 million in 2008.

Dividend

Your Directors do not recommend any dividend on equity shares for the year under review as the company's consolidated financials resulted in a loss.

FCCB

Your company issued 8,000 1.5% Foreign Currency Convertible Bonds ("FCCB") of US\$ 1,000 each on a preferential basis on 16 September 2005 in terms of the approval of the shareholders of the Company at the Extra-ordinary General Meeting held on 26 August 2005 aggregating US\$ 8 million. Following the conversion of FCCBs aggregating US\$ 6 million into equity shares during earlier year, the balance FCCB aggregating US\$ 2 million payable to the FCCB holders on redemption was negotiated and settled during the year.

Divestment of IT Services ('BlueAlly') division

The Board of Directors of your company at its meeting on 19 August 2009 approved the divestment of the company's IT Services Division to an overseas company and in this regard the approval of the shareholders was sought and obtained through a postal ballot process. Your company disposed the IT Services division with effect from 1 October 2009 following the approval of shareholders.

Subsequent to the divestment of the IT Services division, the Board

of Directors at a meeting held on 24 October 2009 approved the creation of a Business Reconstruction Reserve Account of Rs 1250 Million by appropriating Rs 450 million from the Securities Premium Account and Rs 800 million from General Reserve. The creation of the reserve account was to provide for diminution in the value of investments, impairment in the value of assets (including goodwill) and offsetting a loss from the sale of investments.

The Scheme of Arrangement was approved by the equity shareholders of the company at the Extraordinary General Meeting (Court Convened) of the company held on 4 January 2010. Pursuant to the petition filed by the company, the High Court of Judicature at Madras sanctioned the Scheme on 30 March 2010. The Appointed Date under the Scheme was 31 December 2008 and became effective on the date of filing the Court Order with the Registrar of Companies, Tamilnadu on 30 March 2010. The scheme has been duly given effect to in the accounts and the Board of Directors of the Company at its meeting held on 31 March 2010 has approved the utilization of the reserve to the extent of Rs 1246 Million for the year ended 31 December 2009.

Outlook

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

Subsidiary Companies

In accordance with the provisions laid down in Section 212 of the Companies Act, 1956 your company is required to attach the Directors' Report, Balance Sheet and Profit and Loss Account of

the subsidiary companies to its Balance Sheet. As per the requirements under Section 212(8) of the Companies Act, 1956, your company had made the necessary application to the Central Government which has been conferred with the power to grant exemption from the aforesaid requirement. In this regard, your company has received an approval from the Government of India, Ministry of Corporate Affairs, vide their letter no.47/722/2009-CL-III dated 7 January 2010 granting an exemption from attaching the audited accounts of the subsidiary companies to this Annual Report for the financial year ended 31 December 2009. A statement, as directed by the Ministry, furnishing particulars of the subsidiary companies, forms part of this Annual report. Audited Accounts of all the subsidiary companies are available at the registered office of the company for inspection by members. The company will make available these documents upon request by any member of the company.

Corporate Governance

In accordance with clause 49 of the Listing Agreement with the Stock Exchanges, a separate report on Corporate Governance and Management 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 requires a very low level of energy consumption.
- (b) Research and Development (R&D): Your company is actively engaged in the research and development of Software.
- (c) Technology Absorption: Your company has not imported any technology during the year.
- (d) Foreign Exchange Earnings and Outgo: The details of foreign exchange earnings (Rs 882 million) and outgo (Rs 4 million) are given in note no.11 & 10 of Schedule 17 - Notes to Accounts, forming part of the Balance Sheet and Profit & Loss Account of your company.

Particulars of Employees

We present the abridged accounts under Section 219 of the Companies Act, 1956. Pursuant to the Rules and Forms read with Section 219 of the Companies Act, 1956, the particulars of employees as required by Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employee) Rules, 1975) have not been provided in this report. These details are set out in the Annexure to the Directors' Report, forming part of the complete version of Annual Report and are available for inspection at the Registered Office of the Company and upon written request from a shareholder, we will arrange to mail these details.

Fixed Deposits

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

Explanation to observation by auditors in their report

In respect of the auditors' observation on delays in repayment of dues to a bank in their annexure to the auditors' report at clause 11, your directors wish to state that, during the year your company

faced cash flow constraints due to the adverse global economic scenario which resulted in delayed payments to the bank. However, the company has no overdue as on the date of this report.

Directors

Mr D Sudhakar Reddy and Mr P Mukunda Reddy, directors of the company, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

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 judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit of the company for the year;
- (iii) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; and
- (iv) the Directors had prepared the annual accounts on a "going concern basis".

Employee Stock Option Schemes

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

Acknowledgements

Your directors take this opportunity to thank investors, customers, vendors, banks, regulatory and Government authorities for their sustained support. Your Directors also wish to place on record their appreciation of the contribution made by employees at all levels.

For and on behalf of the Board of Directors

Chennai
31 March 2010

GV Kumar
Managing Director

S Ravindra Babu
Chairman

Annexure to the Directors' Report

Employees Stock Option Plans

Particulars	ASOP 2004	ESOS 2007
Options outstanding as at the beginning of the year	385,000	1,350,000
(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.	Options have been granted at a discount to the latest available market price as on the date of grant.
(c) Options Vested**	110,500	900,000
(d) Options Exercised**	—	—
(e) Total no. of shares arising as result of exercise of Options	—	—
(f) Options lapsed *	87,500	—
(g) Variation in terms of Options	—	—
(h) Money realised by exercise of Options	—	—
(i) Total number of options in force**	297,500	1,350,000
** The number of options have been reported as on 31 December 2009		
* Lapsed Options includes options cancelled/lapsed		
(j) Employee wise details of options granted to:		
- Senior Management	—	GV Kumar - 1350000
- any other employee who received a grant in any one year of option amounting to 5% or more of option granted during the year	—	GV Kumar - 1350000
- employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding warrants and conversions) of the company at the time of grant	—	GV Kumar - 1350000
(k) Diluted earnings per share pursuant to issue of shares on exercise of option calculated in accordance with AS 20 'Earnings per Share' (Rs)	0.54	
(l) Pro Forma Adjusted Net Income and Earning Per Share		
Particulars	Rs Millions	
Net Income		
As Reported	24.44	
Add: Intrinsic Value Compensation Cost	1.46	
Less: Fair Value Compensation Cost	15.30	
Adjusted Proforma Net Income	10.60	
Earning Per Share: Basic		
As Reported (Rs)	0.55	
Adjusted Pro Forma (Rs)	0.24	
Earning Per Share: Diluted		
As Reported (Rs)	0.54	
Adjusted Pro Forma (Rs)	0.23	

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

Report on Corporate Governance

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	2,688,768	6.07
GV Kumar	Executive	Managing Director	01/09/2004	2,197,348	4.96
D Sudhakar Reddy	Executive	Whole-time Director	06/03/2000	—	—
P Mukunda Reddy	Independent Non-Executive	Director	16/06/2000	12,600	0.03
Anil Kumar Sood	Independent Non-Executive	Director	28/04/2007	—	—
Anish Mathew *	Independent Non-Executive	Director	31/01/2009	107,570	0.24
R Janardhana *	Independent Non-Executive	Director	31/01/2009	400	0.00
LS Venkataramanan #	Independent Non-Executive	Director	22/12/1999	400	0.00
S Sadagopan #	Independent Non-Executive	Director	28/04/2007	—	—

* appointed at the meeting of the board of directors on 31 January 2009

resignation accepted at the meeting of the board of directors on 31 January 2009

The Board met six times on January 31, March 31, April 25, July 30, August 19 and October 24 during the financial year ended 31 December 2009.

Name of Director	No. of Meetings attended		Attendance at AGM held on 30 June 2009	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	6	3	Yes	—	—	—
GV Kumar	6	6	Yes	—	—	—
D Sudhakar Reddy	6	6	Yes	—	—	—
P Mukunda Reddy	6	5	Yes	—	—	—
Anil Kumar Sood	6	1	No	—	—	—
Anish Mathew *	6	2	No	—	—	—
R Janardhana *	6	4	Yes	—	—	—
LS Venkataramanan #	1	—	NA	NA	NA	NA
S Sadagopan #	1	—	NA	NA	NA	NA

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.

Report on Corporate Governance

(3) AUDIT COMMITTEE

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

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

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

The Audit Committee met four times on March 31, April 25, July 30 and October 24 during the financial year ended 31 December 2009.

Composition of the Audit Committee as on 31 December 2009 and related information is given below:

Director	No of Meetings held	No of Meetings attended
R Janardhana, Chairman	4	3
Anish Mathew	4	2
Anil Kumar Sood	4	1
P Mukunda Reddy	4	3

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.

There were no meetings held during the financial year ended 31 December 2009.

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

Composition of the Remuneration / Compensation Committee as on 31 December 2009 and related information is given below:

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

The members at the AGM held on 23 June 2008 have approved payment of commission to the Non-Executive Directors 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.

Report on Corporate Governance

The details of remuneration paid to directors of the company during the year are given below:

(Rs 000s)

Director	Sitting fees	Salary	Perquisites	Commission	Total
S Ravindra Babu	—	—	—	—	—
GV Kumar	—	6130	1571	—	7701
D Sudhakar Reddy	—	624	376	—	1000
Anil Kumar Sood	10	—	—	250	260
P Mukunda Reddy	50	—	—	250	300
R Janardhana	45	—	—	—	45
Anish Mathew	20	—	—	—	20
LS Venkataramanan	—	—	—	250	250
S Sadagopan	—	—	—	250	250

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

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

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

GV Kumar was granted 1,350,000 stock options on 7 July 2007 at Rs 128 per option convertible into equivalent equity shares of Rs 10 each in three equal tranches at the end of first, second and third year from the date of grant.

(5) SHARE TRANSFER / INVESTORS GRIEVANCE COMMITTEE

The Committee oversees the share transfers and takes care of investor grievances. The Committee met two times on March 31 and May 4 during the financial year ended 31 December 2009.

Composition of the Share Transfer / Investors' Grievance Committee as on 31 December 2009 and related information is given below:

Director	No of Meetings held	No of Meetings attended
P Mukunda Reddy, Chairman	2	2
D Sudhakar Reddy	2	2
R Janardhana	2	2

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 twelve 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 requests for transfers are generally completed within a period of fifteen working days.

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

Report on Corporate Governance

(6) GENERAL BODY MEETINGS

Annual General Meetings (AGM)

Year	AGM	Location	Date	Time
2009	9th	Hotel Ramada Raj Park-Chennai 180, TTK Road, Alwarpet, Chennai 600018	30 June 2009	10.30 AM
2008	8th	Hotel Ramada Raj Park-Chennai 180, TTK Road, Alwarpet, Chennai 600018	23 June 2008	10.30 AM
2007	7th	Hotel Ramada Raj Park-Chennai 180, TTK Road, Alwarpet, Chennai 600018	27 June 2007	10.30 AM

The company has passed special resolutions at the above referred AGM's. No special resolutions were passed through postal ballot at the last AGM. The resolutions were passed on show of hands with requisite majority. No special resolutions are proposed through postal ballot at the ensuing AGM.

Extra-ordinary General Meetings (EGM)

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

Postal Ballot

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

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

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

Sl. No.	Subject	Resolution	Votes for the resolution		Votes against the resolution	
			No. of shares	%	No. of shares	%
1	Postal Ballot Notice dated 19 August 2009, results declared on 23 September 2009 Resolution under Section 293(1)(a) of the Companies Act, 1956, for transfer, sale and / or disposal of the company's IT Services Division known as 'BlueAlly'	Ordinary	16,041,578	99.95	8,683	0.05

(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.

Report on Corporate Governance

(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 31st December 2009 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 3 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 one month of the end of the quarter. 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 three months of the end of the last quarter in terms of the Listing Agreement with the Stock Exchanges. For the financial year ended 31 December 2009, the audited annual financial results announced on 31 March 2010. 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 4.30 PM on Tuesday the 29th day of June 2010 at Hotel Ramada Raj Park-Chennai, 180, TTK Road, Alwarpet, Chennai 600018.

■ Financial calendar for 2010

1 January to 31 December

Unaudited quarterly results for 2010

First quarter - 2nd fortnight of April 2010

Second quarter - 2nd fortnight of July 2010

Third quarter - 2nd fortnight of October 2010

Annual results for the year ending 31 December 2010 - February / March 2011

Annual General Meeting for the year ending 31 December 2010 - May / June 2011

■ Date of book closure

23rd to 29th day of June 2010 (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.

Report on Corporate Governance

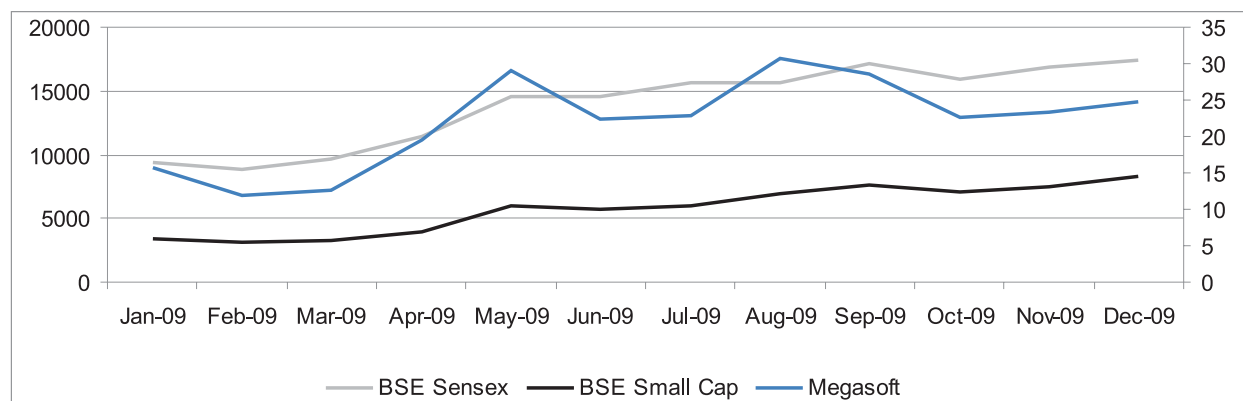
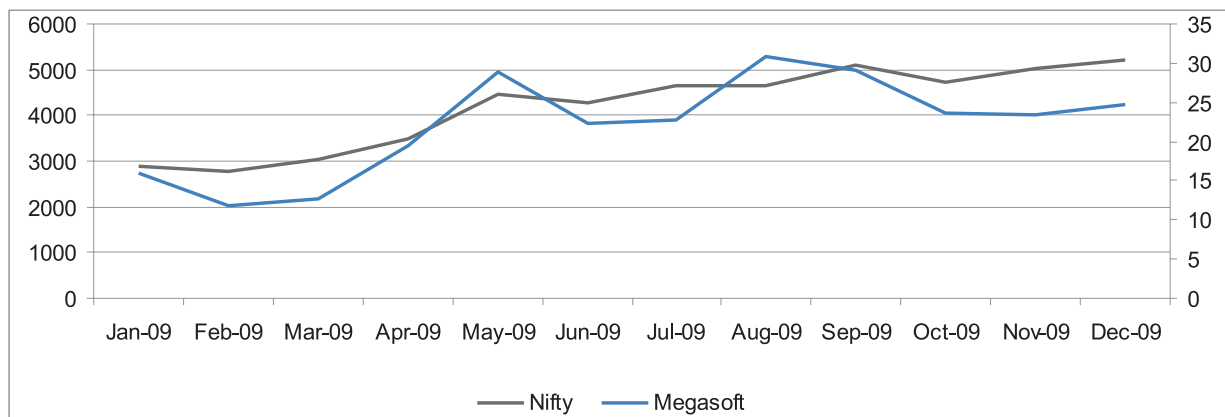
Stock Code

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

Stock market data

Months	Bombay Stock Exchange Limited				National Stock Exchange of India Limited			
	High	Low	Close	Volume	High	Low	Close	Volume
	Rs	Rs	Rs	Nos	Rs	Rs	Rs	Nos
January	23.70	13.80	15.75	831,878	23.60	13.35	16.00	760,962
February	17.20	11.60	11.85	347,646	17.20	11.35	11.90	459,975
March	13.05	9.00	12.53	1,371,939	12.80	10.20	12.65	1,570,741
April	22.00	12.20	19.45	1,443,664	21.80	12.00	19.40	1,853,143
May	34.00	19.00	28.95	897,393	33.25	18.20	28.80	1,003,552
June	31.50	20.80	22.30	669,555	32.35	20.80	22.35	799,794
July	26.80	17.50	22.95	2,420,366	26.20	17.50	22.80	2,690,763
August	33.70	22.00	30.70	8,948,264	33.55	21.50	30.95	8,916,716
September	33.90	25.40	28.65	1,416,863	33.70	25.55	29.00	1,304,195
October	29.35	22.15	22.65	336,050	29.45	22.45	23.60	374,444
November	25.45	20.85	23.25	242,427	25.35	20.70	23.30	264,467
December	26.55	23.00	24.85	357,540	26.60	23.05	24.80	469,147

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



Report on Corporate Governance

- **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		
2002-2003	September 17, 2003	October 24, 2010
2003-2004	September 16, 2004	October 23, 2011
2004-2005	September 16, 2005	October 23, 2012
Dividend declared by Megasoftware Limited		
2006	June 27, 2007	August 2, 2014
2007	June 23, 2008	July 30, 2015

- (v) **Dividend remitted to IEPF during the last 3 years**

Financial Year	Rs
Dividend of erstwhile VisualSoft Technologies Limited	
2009	256,034
2008	341,088
2007	124,974

- (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.

Report on Corporate Governance

■ Distribution of shareholding as on 31 December 2009

No of Shares held	No of Shareholders	% of Shareholders	No of Shares	% of Shareholding
1-500	28,589	89.35%	3,075,759	6.95%
501-1000	1752	5.48%	1,360,186	3.07%
1001-5000	1272	3.97%	2,781,186	6.28%
5001-10000	172	0.54%	1,268,246	2.86%
10001-50000	150	0.47%	2,905,616	6.57%
50001-100000	25	0.08%	1,907,162	4.31%
100001-1000000	26	0.08%	8,031,627	18.14%
1000001 & Above	11	0.03%	22,937,511	51.82%
Total	31,997	100.00%	44,267,293	100.00%

■ Categories of shareholders

Category	No of Shareholders	No of Shares held	% of Shareholding
A Shareholding of Promoter and Promoter Group			
1 Indian			
Individuals / HUF	4	3,203,956	7.24
Sub-Total A(1)	4	3,203,956	7.24
2 Foreign			
Individuals (NRI / Foreign individuals)	—	—	—
Sub-Total A(2)	—	—	—
Total Shareholding of Promoter Group (A)=A(1)+A(2)	4	3,203,956	7.24
B Public Shareholding			
1 Institutions			
Mutual Funds / UTI	3	2,247,011	5.07
Financial Institutions / Banks	1	12	0.00
Venture Capital Funds	1	3,762,375	8.50
Insurance Companies	1	30,478	0.07
Foreign Institutional Investors	9	6,506,658	14.70
Sub Total B(1)	15	12,546,534	28.34
2 Non-institutions			
Bodies Corporate	885	6,502,600	14.69
Individuals	29,984	16,444,251	37.15
Others:			
Directors & their Relatives	6	2,361,620	5.33
HUF	722	365,337	0.82
Trusts	7	3,263	0.01
Foreign Company	1	1,747,872	3.95
NRI	308	1,048,865	2.37
OCB	1	31	0.00
Clearing Members	64	42,964	0.10
Sub Total B(2)	31,978	28,516,803	64.42
Total Public Shareholding (B)=B(1)+B(2)	31,993	41,063,337	92.76
Total (A+B)	31,997	44,267,293	100.00

Report on Corporate Governance

■ Dematerialisation of shares

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

Over 89.6% of outstanding equity shares of the company have been dematerialised as on 31 December 2009.

Category	Number of shareholders	Number of shares	% to total equity
Demat mode			
NSDL	23,072	35,914,657	81.13
CDSL	8,066	3,771,854	8.52
Total	31,138	39,686,511	89.65
Physical mode	859	4,580,782	10.35
Grand Total	31,997	44,267,293	100.00

■ 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

Report on Corporate Governance

(11) SHARE CAPITAL HISTORY

Date of Allotment	Shares	Consideration	Paid up Capital	Remarks
	Nos		Rs	
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 Rs 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 Rs 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 Rs 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 Rs 25 (premium of Rs 15) per share.

\$ Preferential issue of 207,075 equity shares at Rs 70 (premium of Rs 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 Rs 10 each of the company allotted in exchange of 4,132,250 equity shares of Rs 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 Rs 10 each of the company allotted in exchange of 19,975,680 equity shares of Rs 10 each to the shareholders of VisualSoft Technologies Limited in the ratio of 5:8 on 17 May 2007.

Management Discussion and Analysis

1. Business overview

The financial statements were prepared in compliance with the requirements of the Companies Act, 1956, and Generally Accepted Accounting Principles (GAAP) in India. The management of the company accepts responsibility for the integrity and objectivity of these financial statements as well as for various estimates and judgments used in preparing these financial statements.

Adverse global economic conditions prevailed in 2009. The company's markets were impacted, marked by reduced capital spending by customers and negative economic growth in all the company's major markets especially the USA.

The company sustained its 'cash and caution' approach, which reconciled business strengthening and cost optimization. The company resolved to focus on the telecom business and exit from IT services ('BlueAlly' division) following the approval of shareholders through a postal ballot process. This IT services business and operating subsidiary Megasoft Consultants Inc. was divested to an overseas company from 1 October 2009. These and other initiatives combined to turn the business around with a profit in the last quarter of 2009.

The company also strengthened its business through the launch of new telecom products in late 2009. Going ahead, the company will focus on growth, technology and product innovation marked by customer-centricity and cash flow-driven revenues.

2. Financial results

The company reported a turnover of Rs 3030 million in 2009. While this generated a EBIDTA of Rs 386 million, the company considered it prudent to provide Rs 118 million for doubtful debts / bad debts and Rs 104 million for foreign exchange fluctuation losses following rupee appreciation. The result was an overall loss of Rs 221 million for the financial year under review.

The sale of the BlueAlly division and cost-cutting helped the company rationalize debts from Rs 2211 million in 2008 to Rs 1972 million by end 2009. The company reduced its debtors' days from over 200 days of turnover equivalent in 2008 to around 110 days by end 2009; this is expected to decline in 2010 following improved collections.

The adverse business environment notwithstanding, the company's telecom business grew 11% in 2009, indicative of the potential of its mobile telephony platforms and applications. With new contract wins from mobile operators in the USA, Latin America and Asia Pacific likely to sustain into 2010, the company is poised for robust growth.

3. Business outlook and industry

The company is a leading provider of cutting-edge technologies and solutions for the global wireless industry. Its XIUS-bcgi brand is respected as a leading global provider of pre-paid technologies, real-time service control platforms, mobile payments, mobile commerce, advanced roaming and core network infrastructure solutions to wireless operators and service providers.

Even as the adverse global downturn affected the global wireless industry, the industry continued to grow horizontally and vertically. It entered new business segments and touched traditional industries. While traditional voice, data and messaging segments continued to attract more subscribers

(more than 3 billion worldwide), 'mobile'ization extended across traditional industries like banking, payments, health care, transportation, entertainment and content distribution. With most global markets now fully liberalized, operators encountered growing competition. This made the introduction of new innovative services imperative for business survival and success. In turn, this expanded the mobile telephony market and this trend is expected to sustain.

The company focused on the fast growing mobile commerce and mobile advertising segments. It launched new applications and technologies in these industry spaces. The company's revenues from these segments are expected to grow rapidly. Besides, the rapidly growing US prepaid industry presents the company with a unique near and medium-term opportunity.

Mobile commerce and Mobile banking

The growing incidence of money transfers and consumer mobile payments represents a major global opportunity. This global money transfer business is estimated to grow from \$350 billion in 2007 to \$1 trillion in 2014 (source: GSMA Mobile Money Transfer 2009). Interestingly, mobile-induced money transfers are expected to account for a significant market portion. Several operators launched mobile money transfer services in Asia, Middle East and other markets. In line with this growth, consumer mobile payment volumes are expected to touch \$ 587 billion by end 2011 (source: Juniper Research). Similarly, mobile banking is being increasingly preferred in extending banking services to un-banked population clusters and increasing patronized by emerging market governments.

Mobile advertising

Average revenue per user (ARPU) is declining in most markets on account of weakening tariff for conventional voice, data and messaging services. Advertising on the mobile presents a growing revenue opportunity for mobile telephony operators and a targeted audience for advertisers. Mobile advertising is also expected to emerge as the next 'wave', leveraging opportunities presented by advanced Smartphone devices and expanding 3G networks.

US prepaid industry

The economic downturn and US credit squeeze have prompted controlled consumer spends. One of the ways in which this has visibly manifested is the faster growth of prepaid and fixed bucket mobile telephony consumer plans, which controls unrestricted telephony spends. According to market research, the US prepaid market, which constituted only 8% of the overall US mobile telephony base, is poised to grow to 20% by 2012. In line with this growing trend, US mobile telephony operators are launching innovative prepaid and bucket plans.

Megasoft is attractively placed to capitalize on this transition. It derives a majority of its revenues from this prepaid segment and is already an established pre-paid service provider in the US market. The company expects to leverage its state-of-the-art hosted pre-paid infrastructure to capitalize on this boom.

The company is attractively placed to capitalize on this emerging trend for another reason: it possesses a deep competence in telecom R&D, a growing number of patents, and a rich insight into technology and solutions successfully launched. In view of this domain competence, the company is poised to benefit from projected sectoral growth. The products and solutions are outlined in the next section.

Management Discussion and Analysis

4. XIUS-bcgi products, solutions and business overview

A. Solutions

INfinet™ Prepaid: XIUS-bcgi is a leading provider of real-time billing solutions that facilitate prepaid and hybrid wireless services. The real-time rating, call processing and subscriber management capabilities of XIUS-bcgi's prepaid platform helped drive profitable prepaid services growth. XIUS-bcgi helps operators - traditional prepaid services or hybrid services - in mature and developing markets reach new segments and regions. The company derives more than 60% of revenues from this segment, engaged in technology innovation and feature-functionality improvements. Its convergent pre-paid platform continues to set wireless industry standards. This platform is now being positioned into enterprise, broadband and upcoming segments.

Payment Manager™: The global spread of prepaid wireless service and m-commerce are increasing the need for advanced payment capabilities. Subscribers need to fund wireless accounts whenever and however they find convenient. The creation of multiple payment channels helps drive overall usage and is an effective way for mobile operators to differentiate their service.

XIUS-bcgi 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 includes support for real-time payment processing, international re-charge, mobile money transfer, multi-level settlement capabilities, sophisticated payment loyalty functionality and fraud prevention tools. The Platform possesses advanced mobile banking, mobile commerce and m-wallet capabilities. It added NFC capability in late 2009. With key Tier-1 North and South American carriers deploying the Payment Manager platform, this product line is expected to lead to significant growth.

AdValue: AdValue is an end-to-end mobile advertising platform. It enables management, real-time advertisement delivery and account subsidization. This permits mobile operators to leverage their expertise, infrastructure and key subscriber information to enhance revenues on the one hand, and reduce churn, increase customer loyalty and enhance ARPU on the other. AdValue facilitates targeted advertising for voice-based, content based, pop-up and text-based advertisements in a manner unmatched by data-only and off-deck campaigns. This solution puts the mobile operator in control of advertisements integrated with billing and other infrastructure, resulting in quick launch advertising services.

RoamFree™: RoamFree is a suite of roaming solutions customised to the needs of mobile operators who need to increase revenues while minimising capital and operational expenses. RoamFree comprises several different roaming services like prepaid roaming, temporary roaming number, steering of roaming etc. from which a carrier can pick and choose. RoamFree is backed by rich XIUS-bcgi experience in configuring, launching, and managing roaming services for mobile operators. Apart from providing an instant global roaming footprint, RoamFree offers mobile operators a comprehensive solution that improves revenue and network roaming use.

Infrastructure: Mobile Services Platform (MSP): In 2009, several new carriers were launched. This comprised next-gen providers, cable operators, mobile data network operators and new MVNOs serving niche markets. These new entrants focused on service differentiation and brand marketing, partnering with specialised agencies to assure efficient, flexible and low-cost back-office operations.

The XIUS-bcgi Mobile Services Platform (MSP) empowers mobile operators to create an end-to-end mobile infrastructure solution or choose specific services of the platform that can easily integrate with their existing infrastructure and third-party applications. XIUS-bcgi Mobile Services Platform leverages years of R&D and utilises an Intelligent Network-based architecture that supports various operational models and handles multiple heterogeneous wireless technologies. Unrestricted by a single network, XIUS-bcgi's infrastructure is adaptable to GSM, CDMA, 3G, 4G, VoIP, IMS and WLAN. MSP is targeted at small regional and rural carriers, MVNEs and MVNOs and niche wireless carriers. It presents carriers with a strong infrastructure value proposition.

B. Business strategy and strategic priorities for 2010

The company returned to growth after two challenging years and will focus on revenue growth in 2010. A significant portion (over 70%) of the company's revenues was derived from stable managed services (annuity) in 2009. The company will focus on the US prepaid market, the global mobile commerce and mobile payment segments, mobile advertising (both focused on large Tier 1 carriers) and the small carrier infrastructure market. The company will focus on a managed services-revenues model to build on the annuity opportunity. It already operates such an infrastructure in five countries and will expand to others in Central America, South America, India and Asia.

C. Operational priorities

- **Operational efficiencies and infrastructure upgrade:** The company is upgrading and expanding its managed services infrastructure in the US. XIUS-bcgi will deliver services in a more cost-efficient and optimised manner without compromising quality. The company reinforced its Operations team, US data centres and India back-office with a state of the art 24/7 Network Operations Centre.
- **Customer centricity and customer satisfaction:** A Customer Delivery Unit and XIUS-bcgi will strengthen customer relationships and aim for new wins. Besides, product road maps and operational processes will be aligned to specific customer needs. XIUS-bcgi intends to increase customer satisfaction through stronger processes, team and infrastructure.

D. Sources of revenues

XIUS-bcgi derives revenues through the following revenue models:

- **Hosted managed Services (ASP):** The company operates its platform end-to-end on data centres and gets paid monthly based on a revenue-share or per-subscriber transaction fee model around a multi-year contract. This accounts for more than 70% of revenues. The company also charges an up-front technology implementation fee from ASP customers.

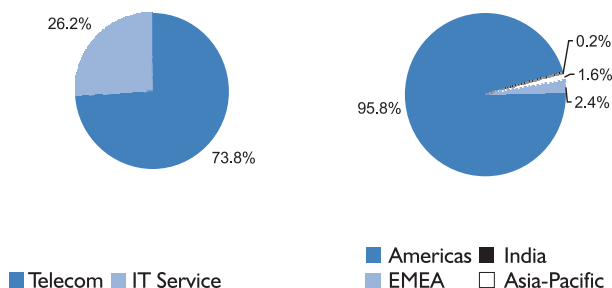
Management Discussion and Analysis

- **Software licensing:** The company offers platforms on a capacity licensing basis to carriers, wherein its platforms are installed in the carrier's premises in return for a one-time license fee for a stated subscriber capacity.
- **Maintenance and customisation:** The Company also realises revenues derived out of the customisation of its platforms to suit specific service needs of carrier customers. It is remunerated on the basis on work assessment and statement of work (SOW) submission. This is a steady revenue source and together with AMC (Annual Maintenance Contracts) offers another stream of annuity-based revenues.

5. Divestment of IT Services ('BlueAlly') division

The company divested its IT Services (BlueAlly) division to an overseas company in 2009 with effect from 1 October 2009 following due approval from shareholders. Subsequently, pursuant to the Scheme of Arrangement under sections 391 to 394 of the Companies Act 1956 ("the Scheme") between the company and its equity shareholders duly approved by the Hon'ble High Court of Madras, a separate reserve account titled Business Reconstruction Reserve (BRR) was created by transferring the balance standing to the credit of Securities Premium Account and General Reserve of the company for adjustments as prescribed therein. Accordingly, Rs 1250 million was transferred to BRR and Rs 1246 million was adjusted against the same as per the Scheme during the year.

6. Segment-wise Performance



7. Outlook

Megasoft is optimistic about opportunities, offerings and its business strategy. The global telecom industry is passing through a transition in terms of technologies, subscriber expectations and mobile commerce. The company is attractively placed to capitalise on these realities through the following: new wins for many platforms, entry into new geographies, new mobile advertising and mobile-commerce / mobile-wallet product launches.

8. Risks and concerns

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

- 8.1 **Market risk:** Megasoft's growth is dependent on the growth of the wireless telecom industry. The telecom industry has historically suffered from an extended sales cycle and high debtors' position, detrimental to cash flows. The year 2010 is expected to be a turn-around one for the global economy, with correspondingly positive implications for the company.
- 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 has applied for 64 patents in the last few years, of which 19 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. 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 arising from the export of software, products and solutions. A majority of the company's revenues are US dollar-denominated; the continued appreciation of the Indian rupee vis-à-vis the USD can depress revenues and margins. The fact that a major part of the company's expenditure is in US dollars serves as a natural hedge. The company did not enter into any derivative transactions during the year under review.

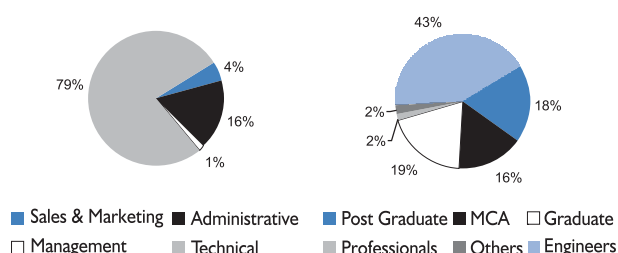
9. Internal control

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

In addition to the above, the company, in 2009, 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 Asset

The company enjoys cordial relationships with employees. It endeavours 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.



Management Discussion and Analysis

Year under Review

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

Financial performance (consolidated)

Share capital

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

Reserves and surplus

The company divested its IT services (BlueAlly) division to an overseas company during the year following due approval from shareholders with effect from 1 October 2009. Subsequently, pursuant to the Scheme of Arrangement under sections 391 to 394 of the Companies Act 1956 ("the Scheme") between the company and its equity shareholders duly approved by the Hon'ble High Court of Madras, a separate reserve account titled as Business Reconstruction Reserve ("BRR") has been created by transferring the balance standing to the credit of Securities Premium Account and General Reserve of the company for adjustments as prescribed therein. Accordingly, Rs 1250 million was transferred to BRR and Rs 1246 million was adjusted against the same as per the Scheme during the year.

The movement in Foreign Currency Translation Reserve was Rs 28 million during the financial year under review.

Secured loans

Secured loans declined on account of the repayment of rupee term loans of Rs 20 million, reduction / repayment in rupee working capital / demand loan facilities of Rs 200 million and the repayment of foreign currency loans of USD 10.34 million by the company's subsidiaries. During the year under review, the company's subsidiary availed of an additional foreign currency loan of USD 13 million from a bank.

Unsecured loan

The balance FCCB aggregating US\$ 2 million payable to the FCCB holders on redemption was negotiated and settled during the year under review.

Deferred tax liability / asset

The company recognised the deferred tax credit of Rs 35 million during the year mainly arising on account of an impairment of assets in terms of the Scheme of Arrangement duly approved by the Hon'ble High Court of Madras. Accordingly, the deferred tax asset was Rs 22 million as at the end of the financial year under review.

Fixed assets

The reduction in the gross block of fixed assets was mainly on account of the impairment of assets in terms of the Scheme of Arrangement duly approved by the Hon'ble High Court of Madras. The company possessed fixed assets worth Rs 414 million 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. The reduction in goodwill during the year was on account of the divestment of the IT Services (BlueAlly) division, which included the company's overseas subsidiary Megasoft Consultants, Inc., USA and Megasoft Consultants Limited, UK.

Investments

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

Sundry debtors

Sundry debtors (net of provisions) stood at Rs 914 million against Rs 2677 million in the previous year. The company made an additional provision for doubtful debts of Rs 96 million and in aggregate the provision for doubtful debts at the end of the year was Rs 147 million. Further, the reduction in the debtors included the divestment effect of the IT Services (BlueAlly) division.

Cash and bank balances

The increase in Cash and Bank Balances from Rs 117 million in 2008 to Rs 266 million in 2009 was experienced in the normal course of business.

Loans and advances

The decline in Loans and Advances from Rs 970 million in 2008 to Rs 626 million in 2009 included the divestment effect of the IT Services (BlueAlly) division.

Current Liabilities and Provisions

The decrease in Current Liabilities from Rs 634 million in 2008 to Rs 518 million in 2009 included the divestment effect of the IT Services (BlueAlly) division.

The decrease in Provisions from Rs 114 million in 2008 to Rs 95 million in 2009 included the divestment effect of the IT Services ('BlueAlly') division.

Results of Operation (Consolidated)

(Rs Million)

	2009	2008
Revenues	3030	3262
EBIDTA	386	470
Finance Cost	228	219
Depreciation	243	260
Profit before tax	(250)	368
Less: Taxes	(29)	42
Profit after tax	(221)	326

Revenues

The company's consolidated revenues declined from Rs 3262 million in 2008 to Rs 3030 million in 2009. The reduction in revenues was on account of the divestment of the IT Services (BlueAlly) division with effect from 1 October 2009.

Other Income / (Expenses)

The company suffered a foreign exchange loss (net) of Rs 104 million due to rupee appreciation in 2009 as against a foreign exchange income (net) of Rs 369 million in the previous financial year.

Personnel cost

The movement in Personnel Costs from Rs 1973 million in 2008 to Rs 2005 million in 2009 was in the normal course of business.

Operating expenses

The decline in Operating Expenses from Rs 799 million in 2008 to Rs 639 million in 2009 was on account of the divestment of IT Services (BlueAlly) division with effect from 1 October 2009 and on account of various economic measures implemented during the year by the company's management due to cash flow constraints.

The company made a provision for doubtful debts / write-off of debtors aggregating Rs 118 million in 2009 as against Rs 20 million in 2008.

Finance charges

The increase in Finance charges from Rs 219 million in 2008 to Rs 228 million in 2009 was in the normal course of business.

Management Discussion and Analysis

Depreciation

Depreciation was charged on a pro-rata basis on fixed assets purchased / sold during the year. Depreciation on assets acquired under finance lease / hire purchase was provided using the straight-line method over the shorter of the lease / hire purchase term and useful life of the asset. The depreciation charge of Rs 243 million in 2009 (Rs 260 million in 2008) was in the normal course of business.

Financial Performance (Standalone)

Share Capital

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

Reserves and Surplus

The company divested its IT Services (BlueAlly) division to an overseas company during the year with due approval from the shareholders of the company with effect from 1 October 2009. Subsequently, pursuant to the Scheme of Arrangement under sections 391 to 394 of the Companies Act 1956 ("the Scheme") between the company and its equity shareholders duly approved by the Hon'ble High Court of Madras, a separate reserve account titled as Business Reconstruction Reserve ("BRR") was created by transferring the balance standing to the credit of Securities Premium Account and General Reserve of the company for adjustments as prescribed therein. Accordingly, Rs 1250 million was transferred to BRR and Rs 1246 million adjusted against the same as per the Scheme during the year under review.

Secured Loan

Secured Loans declined on account of the repayment of a rupee term loan of Rs 20 million and reduction / repayment in rupee working capital / demand loan facilities of Rs 200 million.

Unsecured Loan

The balance FCCB aggregating US\$ 2 million payable to the FCCB holders on redemption was negotiated and settled during the year under review.

Deferred tax liability

The company recognised the deferred tax credit of Rs 35 million during the year under review mainly arising on account of the impairment of assets in terms of the Scheme of Arrangement duly approved by the Hon'ble High Court of Madras. Accordingly, the deferred tax asset was Rs 22 million as at the end of the financial year under review.

Fixed Assets

The reduction in the gross block of fixed assets was mainly on account of the impairment of assets in terms of the Scheme of Arrangement duly approved by the Hon'ble High Court of Madras. The company added fixed assets worth Rs 24 million in the normal course of business.

Investments

During the year, the company divested its IT Services (BlueAlly) division, which included the company's overseas subsidiary Megasoft Consultants, Inc., USA and Megasoft Consultants Limited, UK. This resulted in a reduction in investments during the year. The company made an additional investment in its Malaysian subsidiary to meet capital requirements as per local laws.

Sundry Debtors

Sundry Debtors (net of provisions) were Rs 686 million as against Rs 1809 million in the previous year. The company made an additional provision for doubtful debts of Rs 96 million and in aggregate the provision for doubtful debts at the end of the year was Rs 147 million. Further, the reduction in the debtors included the divestment effect of the IT Services (BlueAlly) division.

Cash and Bank Balances

The increase in the Cash and Bank Balances from Rs 17 million in 2008 to Rs 91 million in 2009 was in the normal course of business.

Loans and Advances

The decline in Loans and Advances to Rs 455 million in 2009 from Rs 722 million in 2008 included the divestment effect of the IT Services (BlueAlly) division.

Current Liabilities and Provisions

The decrease in Current Liabilities from Rs 134 million in 2008 to Rs 79 million in 2009 included the divestment effect of the IT Services (BlueAlly) division.

The decrease in Provisions from Rs 112 million in 2008 to Rs 92 million in 2009 included the effect of the divestment of the IT Services (BlueAlly) division.

Results of Operation (Standalone)

(Rs Million)

	2009	2008
Revenues	887	1238
EBIDTA	427	111
Finance Cost	134	84
Depreciation	143	164
Profit before tax	(5)	178
Less: Taxes	(29)	42
Profit after tax	24	136

Revenues

Revenues were lower at Rs 887 million in 2009 as against Rs 1238 million in 2008 on account of the divestment of the IT Services (BlueAlly) division with effect from 1 October 2009.

Other Income/(Expenses)

The company suffered a foreign exchange loss (net) of Rs 95 million due to rupee appreciation in 2009 as against a foreign exchange income (net) of Rs 315 million in 2008.

Personnel Cost

The decline in Personnel Cost from Rs 980 million in 2008 to Rs 355 million in 2009 was on account of the divestment of IT Services (BlueAlly) division with effect from 1 October 2009 and a reduction in expenses.

Operating Expenses

The decline in Operating Expenses from Rs 127 million in 2008 to Rs 105 million in 2009 was on account of the divestment of IT Services (BlueAlly) division with effect from 1 October 2009 and on account of various austerity measures due to cash flow constraints experienced on account of the global economic slowdown.

The company made a provision for doubtful debts / write-off of debtors aggregating Rs 117 million in 2009 as against Rs 20 million in the year 2008.

Finance charges

The increase in Finance charges from Rs 84 million in 2008 to Rs 134 million in 2009 was on account of short-term borrowings due to a cash flow mismatch in 2009 given the global economic slowdown.

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 of Rs 143 million was against Rs 164 million in the previous year and incurred in the normal course of business.

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 2009, 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

for **TN Rajendran & Co.**

Chartered Accountants
Firm Registration No.005080S

MC Srikanth

Partner
Membership No.18588

Chennai
31 March 2010

TN Rajendran

Partner
Membership No.28778

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 2009 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
31 March 2010

GV Kumar
Managing Director

G P Srinath
VP (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(l)(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 2009.

Chennai
31 March 2010

GV Kumar
Managing Director

Auditors' Report on the consolidated financial statements

To the Board of Directors of Megasoft Limited

We have examined the attached consolidated balance sheet of Megasoft Limited ("the Company") and its subsidiary companies (collectively called "the Megasoft Group") as of 31 December 2009 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 Rs 2141 million as at 31 December 2009 and total revenues of Rs 2961 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 2009;
- (ii) the consolidated profit and loss account gives a true and fair view of the consolidated results of operations of the Megasoft Group for the year ended on that date; and
- (iii) the consolidated cash flow statement gives a true and fair view of the consolidated cash flows of the Megasoft Group for the year ended on that date.

for **Srikanth & Shanthi Associates**

Chartered Accountants
Firm Registration No.004006S

MC Srikanth

Partner
Membership No.18588

Chennai

31 March 2010

for **TN Rajendran & Co.**

Chartered Accountants
Firm Registration No.005080S

TN Rajendran

Partner
Membership No.28778

Consolidated Balance Sheet

As at 31 December

(Rs 000s)

	Schedule	2009	2008
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	442,673	442,673
Reserves & Surplus	2	1,751,552	3,209,882
		2,194,225	3,652,555
Loan Funds			
Secured Loans	3	1,814,727	1,971,119
Unsecured Loans	4	157,040	240,542
		1,971,767	2,211,661
Deferred tax liability		--	12,803
		4,165,992	5,877,019
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	5	2,388,708	2,463,128
Less: Accumulated Depreciation		(573,735)	(765,640)
Net Block		1,814,973	1,697,488
Goodwill on consolidation		1,015,750	1,043,300
Investments	6	121,230	121,230
Deferred tax asset		21,712	--
Current Assets, Loans & Advances			
Sundry Debtors	7	914,122	2,677,105
Cash & Bank balances	8	265,595	117,386
Loans & Advances	9	626,323	969,705
		1,806,040	3,764,196
Less: Current Liabilities & Provisions	10	613,713	749,195
Net Current Assets		1,192,327	3,015,001
		4,165,992	5,877,019
Significant Accounting policies	16		
Notes to Accounts	17		

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

As per our Report of even date attached
for **Srikanth & Shanthi Associates**
Chartered Accountants

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

For and on behalf of the Board of Directors

MC Srikanth
Partner
Membership No.18588

TN Rajendran
Partner
Membership No.28778

GV Kumar
Managing Director

D Sudhakar Reddy
Director

Chennai
31 March 2010

GP Srinath
VP (Finance) & Company Secretary

Consolidated Profit & Loss Account

For the year ended 31 December

(Rs 000s)

	Schedule	2009	2008
INCOME			
Revenues		3,029,865	3,261,597
Other Income / (Expenses)	11	(46,509)	377,385
Total Income		2,983,356	3,638,982
EXPENDITURE			
Personnel cost	12	2,004,666	1,972,657
Operating expenses	13	757,566	818,932
Finance cost	14	228,061	219,400
Depreciation		242,715	260,408
Total Expenditure		3,233,008	3,271,397
PROFIT			
Profit / (Loss) before tax		(249,652)	367,585
Less: Taxes	15	(28,659)	41,930
Profit / (Loss) after tax		(220,993)	325,655
Balance brought forward		1,131,915	821,260
Profit available for appropriation		910,922	1,146,915
APPROPRIATIONS			
Transfer to General Reserve		--	15,000
Balance carried to Balance Sheet		910,922	1,131,915
		910,922	1,146,915
Earnings per share (equity shares, par value Rs.10 each)			
Basic (Rs)		(4.99)	7.36
Diluted (Rs)		(4.89)	7.33
Number of shares used in computing			
Basic		44,267,293	44,267,293
Diluted		45,167,293	44,717,293
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

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

For and on behalf of the Board of Directors

MC Srikanth
Partner
Membership No.18588

TN Rajendran
Partner
Membership No.28778

GV Kumar
Managing Director

D Sudhakar Reddy
Director

Chennai
31 March 2010

GP Srinath
VP (Finance) & Company Secretary

Consolidated Cash Flow Statement

(Rs 000s)

For the year ended 31 December	2009	2008
Cash flows from operating activities		
Profit / (Loss) before taxation	(249,652)	367,585
Adjustments for:		
Depreciation & Amortisation	242,715	260,408
Loss on sale / Discard of Fixed Assets	5,419	(5,749)
Employees Stock Compensation expense	1,530	4,120
Provision for retirement benefits	(24,908)	8,965
Exchange differences on translation	(27,562)	(22,180)
Interest received	(786)	(6,830)
Finance cost	228,061	219,400
Operating profit before working capital changes	174,817	825,719
(Increase) / Decrease in Inventories	--	873
(Increase) / Decrease in Sundry Debtors	* 766,062	(592,140)
(Increase) / Decrease in Loans & Advances	* 350,795	(720,437)
Increase / (Decrease) in Current Liabilities	* (115,880)	73,964
Taxes paid during the year	(9,985)	(9,606)
Net cash provided by operating activities	1,165,809	(421,627)
Cash flows from investing activities		
Purchase / acquisition of Fixed Assets	(398,418)	(196,493)
Goodwill on consolidation	* (134,760)	25,534
Minority Interest	--	5,521
Proceeds from sale of Fixed Assets / Impairment	* 11,516	--
Interest received	786	6,830
Net Cash used for investing activities	(520,876)	(158,608)
Cash flows from financing activities		
Business Reconstruction Reserve	* (28,769)	--
Foreign Exchange translation difference on FCCB	--	18,340
Proceeds from long-term borrowings	605,020	323,666
Repayment of loans	(685,177)	(20,000)
Proceeds from Unsecured (other) loans	43,200	136,482
Increase / (Decrease) in working capital / demand loans	(202,937)	285,125
Dividend paid	--	(53,121)
Finance cost	(228,061)	(219,400)
Net cash provided by financing activities	(496,724)	471,092
Net increase in cash & cash equivalents	148,209	(109,143)
Cash & Cash equivalents at the beginning of the year	117,386	226,529
Cash & Cash equivalents at the end of the year	265,595	117,386

* Net off adjustments as envisaged in the Scheme of Arrangement between the company and the equity shareholders duly approved by the Hon'ble High Court of Madras.

As per our Report of even date attached

for **Srikanth & Shanthi Associates**
Chartered Accountants

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

For and on behalf of the Board of Directors

MC Srikanth
Partner
Membership No.18588

TN Rajendran
Partner
Membership No.28778

GV Kumar
Managing Director

D Sudhakar Reddy
Director

Chennai
31 March 2010

GP Srinath
VP (Finance) & Company Secretary

Schedules to the consolidated financial statements

(Rs 000s)

As at 31 December	2009	2008
1 SHARE CAPITAL		
Authorised		
75,000,000 Equity Shares of Rs 10 each	750,000	750,000
Issued, Subscribed & Paid-up		
44,267,293 Equity Shares of Rs 10 each fully paid-up	442,673	442,673
[Out of the above:		
(1) 5,150,500 Equity Shares of Rs 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;		
(2) 10,330,625 Equity Shares of Rs 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		
(3) 12,484,800 Equity Shares of Rs 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]		

Schedules to the consolidated financial statements

(Rs 000s)

As at 31 December	2009	2008
2 RESERVES & SURPLUS		
Securities Premium		
As per last Balance Sheet	475,066	475,066
Less: Transfer to Business Reconstruction Reserve	(450,000)	-
	25,066	475,066
Foreign Currency Translation Reserve		
As per last Balance Sheet	(43,880)	(21,700)
Movement during the year	(27,562)	(22,180)
	(71,442)	(43,880)
Employee Stock Options		
Employee Stock Options outstanding		
As per last Balance Sheet	17,904	26,774
Additions during the year	-	-
Deletions / adjusted during the year	(2,193)	(8,870)
	15,711	17,904
Less: Deferred Compensation Expense		
As per last Balance Sheet	5,021	18,011
Additions during the year	-	-
Amortised / adjusted during the year	(3,723)	(12,990)
	1,298	5,021
	14,413	12,883
General Reserve		
As per last Balance Sheet	1,686,865	1,643,065
Less: Transfer to Business Reconstruction Reserve	(800,000)	-
Transfer on forfeiture of warrants	-	28,800
Transfer from Profit & Loss A/c	-	15,000
	886,865	1,686,865
Business Reconstruction Reserve		
Transfer from Securities Premium	450,000	-
Transfer from General Reserve	800,000	-
Nett of realisation on disposal of IT Services Division	(1,246,237)	-
	3,763	-
[Refer Note No.12 of Schedule 17]		
Profit & Loss Account		
Balance in Profit & Loss Account	910,922	1,131,915
Accumulated profit / (loss) on the date of acquisition / disposal of subsidiary companies regrouped	(18,035)	(52,967)
	892,887	1,078,948
	1,751,552	3,209,882
3 SECURED LOANS		
Term loan from Bank	-	20,225
Foreign Currency Loan from Bank	1,380,574	1,311,660
Working Capital / Demand loan from Banks	431,408	634,345
Vehicle Loans	2,745	4,889
	1,814,727	1,971,119
[Refer Note No.2 of Schedule 17]		
4 UNSECURED LOANS		
Foreign Currency Convertible Bonds	-	97,160
Others	157,040	143,382
	157,040	240,542
[Refer Note No.3 of Schedule 17]		

Schedules to the consolidated financial statements

5 FIXED ASSETS

(Rs 000s)

Particulars	Gross Block			Depreciation			Net Block		
	Cost as at 1-Jan-2009	Additions	Deletions/ Adjustments*	Cost as at 31-Dec-2009	As at 1-Jan-2009	For the year	On Deletions/ Adjustments*	Total as at 31-Dec-2009	
Land & Land development	701,304	—	—	701,304	—	—	—	—	701,304
Buildings	516,278	—	—	516,278	48,401	18,150	—	66,551	449,727
Plant & Machinery	95,101	78	(80,122)	15,057	56,217	15,884	(68,655)	3,446	11,611
Computer systems & Software	980,723	426,837	(323,397)	1,084,163	561,173	173,439	(278,853)	455,759	628,404
Furniture & Fittings	141,217	7,114	(107,404)	40,927	81,960	30,220	(90,265)	21,915	19,012
Vehicles	17,958	1,489	(103)	19,344	14,129	1,223	(103)	15,249	4,095
Intellectual Property Rights	6,800	—	—	6,800	6,800	—	—	6,800	—
Patents	268	—	—	268	268	—	—	268	—
Total	2,459,649	435,518	(511,026)	2,384,141	768,948	238,916	(437,876)	569,988	1,814,153
Exchange fluctuation on Consolidation	3,479	1,088	—	4,567	(3,308)	7,055	—	3,747	820
Total	2,463,128	436,606	(511,026)	2,388,708	765,640	245,971	(437,876)	573,735	1,814,973
Previous year	2,224,427	261,170	(22,469)	2,463,128	468,773	314,350	(17,483)	765,640	1,697,488

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

Schedules to the consolidated financial statements

(Rs 000s)

As at 31 December	2009	2008
6 INVESTMENTS		
Trade (Unquoted) - at cost		
In other companies		
Keystone Wireless, LLC	121,230	121,230
A company incorporated in USA represents 5% of the total capital		
	121,230	121,230
7 SUNDRY DEBTORS		
Debts outstanding for a period exceeding six months considered good	230,842	1,975,613
considered doubtful	146,581	50,701
Other debts - unsecured, considered good	683,280	701,492
	1,060,703	2,727,806
Less : Provision for doubtful debts	(146,581)	(50,701)
	914,122	2,677,105
8 CASH & BANK BALANCES		
Cash in hand	27	1,097
Balance with Scheduled Banks:		
In Current Accounts *	99,138	6,844
In Deposit Accounts	83,806	12,096
Balance with Non-Scheduled Banks		
In Current Accounts	79,269	93,938
In Deposit Accounts	3,355	3,411
	265,595	117,386
* includes balance in unclaimed dividend accounts		
9 LOANS & ADVANCES		
(Unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received	557,359	900,658
Deposits	17,985	27,503
Advance Income-tax	50,979	41,544
	626,323	969,705
10 CURRENT LIABILITIES & PROVISIONS		
Current Liabilities		
Sundry Creditors		
for goods / services	386,311	249,576
for accrued salaries and benefits	3,721	8,512
Other Liabilities	125,572	373,390
Unclaimed Dividends	3,470	3,476
	519,074	634,954
Provisions		
Provision for retirement benefits	8,928	33,836
Provision for taxation (net)	85,711	80,405
	94,639	114,241
	613,713	749,195

Schedules to the consolidated financial statements

(Rs 000s)

For the year ended 31 December	2009	2008
11 OTHER INCOME / (EXPENSES)		
Miscellaneous Income	9,224	1,279
Interest received	786	6,830
Gain on redemption of Foreign Currency Convertible Bonds	47,760	–
Net Foreign Exchange gain / (loss)	(104,279)	369,276
	(46,509)	377,385
12 PERSONNEL COST		
Salaries & Bonus including overseas staff expenses	977,731	1,379,615
Contribution to Provident & Other Funds	40,429	63,334
Employees Welfare expenses	20,093	92,460
Employees Stock compensation expense	1,530	4,120
	1,039,783	1,539,529
Software Development expenses	964,883	433,128
	2,004,666	1,972,657
13 OPERATING EXPENSES		
Rent	91,488	92,615
Rates & Taxes	15,350	12,641
Communication expenses	207,940	140,448
Travel & Conveyance	91,811	137,191
Insurance	38,490	46,693
Power & Fuel	44,254	67,116
Purchase of hardware and software for System Integration	–	862
Repairs & Maintenance		
Machinery	36,919	161,359
Others	3,161	14,241
Printing & Stationery	12,517	9,639
Loss on sale / Discard of Fixed Assets	5,419	(5,749)
Business Development expenses	18,203	59,290
Legal & Professional expenses	51,686	30,368
Auditors' remuneration	1,421	2,866
Directors' remuneration	9,877	10,653
Directors' sitting fees	125	130
Miscellaneous expenses	10,949	18,569
Bad debts written-off	22,076	–
Provision for doubtful debts	95,880	20,000
	757,566	818,932
14 FINANCE CHARGES		
Interest on Term Loans	1,273	4,424
Interest on Foreign Currency Loan	88,853	135,317
Interest on FCCB	–	1,519
Interest on Working Capital / Demand Loans	97,875	68,025
Interest on Other Loans	26,862	4,947
Other Finance Charges	13,198	5,168
	228,061	219,400
15 TAXES		
Current tax	5,355	10,163
Fringe benefit tax	500	5,027
Deferred tax expense / (benefit)	(34,514)	21,366
Earlier year tax	–	5,374
	(28,659)	41,930

Schedules to the consolidated financial statements

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

Schedules to the consolidated financial statements

16 SIGNIFICANT ACCOUNTING POLICIES (contd...)

commitment and / or is a highly probable forecast transaction, the premium or discount arising at the inception of the contract is amortised as expense or income over the life of the contract.

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

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

7 Retirement benefits

India

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

Subsidiary companies

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

8 Borrowing cost

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

9 Taxes

Current tax

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

Deferred tax

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

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

Schedules to the consolidated financial statements

17 NOTES TO ACCOUNTS

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

1 Description of the Group

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

Name of the subsidiary company	Country of Incorporation	% of holding	
		2009	2008
Direct subsidiary			
Megasoft Consultants Sdn Bhd	Malaysia	100%	100%
Megasoft Consultants Pte Ltd	Singapore	100%	100%
Megasoft Consultants, Inc.	USA	NA	100%
Boston Communications Group, Inc.	USA	100%	100%
Indirect subsidiary			
Megasoft Consultants Limited	UK	NA	100%
Cellular Express, Inc.	USA	100%	100%
Boston Communications Group de Mexico, S.R.L.	Mexico	NA	100%
BCGI Wireless Pvt Ltd	India	100%	100%

2 Secured loans / borrowings

(a) For borrowings by the company

- (i) The term loan and working capital loan facilities from Axis Bank are secured by a first charge on entire current assets and fixed assets (except company's land and building at Kundanbagh, Begumpet, Hyderabad, and assets acquired under hire purchase scheme), present and future, of the Company. Additionally, secured by a second charge on company's land and building situate at Kundanbagh, Begumpet, Hyderabad. Term loan repayable within one year is Nil (Previous year - Rs 20,000).
- (ii) The demand loan facility from Tamilnad Mercantile Bank is secured by a first charge on company's immovable property at Vizag. The loan repayable within one year is Rs 180,000 (Previous year - Rs 300,000).
- (iii) Vehicles are hypothecated to the Banks / Financial Institutions as security for the amounts borrowed by the Company. Amount repayable within one year is Rs 2,494 (Previous year - Rs 3,052).

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

- (i) The foreign currency loan (balance outstanding) of US\$ 16.67 million from Axis Bank, Dubai to Boston Communications Group, Inc., USA, ("BCGI") is secured by a pari passu first charge on the assets of BCGI and the company's land and building situate at Kundanbagh, Begumpet, Hyderabad. The loan repayable within one year is US\$ 8.33 million (Previous year - US\$ 8.33 million).
- (ii) The foreign currency loan of US\$ 13.00 million from Axis Bank, Hong Kong to Boston Communications Group, Inc., USA, ("BCGI") against the SBLC from Axis Bank, Hyderabad, India, is secured by a pari passu first charge on the assets of BCGI and company's land and building situate at Kundanbagh, Begumpet, Hyderabad. The loan repayable within one year Nil (Previous year - Nil).

3 Unsecured loans

- (i) The company issued 8,000 1.5% Foreign Currency Convertible Bonds ("FCCB") of US\$ 1,000 each on preferential basis on 16 September 2005 in terms of the approval of the shareholders of the Company at the Extra-ordinary General Meeting held on 26 August 2005 aggregating to US\$ 8 million. Post conversion of FCCB aggregating to US\$ 6 million into equity shares during earlier year, the balance FCCB aggregating to US\$ 2 million payable to the FCCB holders on redemption was negotiated and settled in full by making payment of US\$ 1 million during the year.
- (ii) The company had issued 2,250,000 warrants of Rs 128 each on 22 June 2007 to M/s Ravindra Babu S (HUF), Promoter (amount received Rs 288 lakhs, being 10% of the face value of warrants), where each warrant was convertible into one equity share of Rs 10 each within a period of eighteen months from the date of issue of warrants. The funds received was utilised for the purpose for which it was raised. As the option for conversion of warrants was not exercised, the 10% of the money paid by the said promoter was forfeited in the previous year.

Schedules to the consolidated financial statements

17 NOTES TO ACCOUNTS (contd...)

4 Deferred Taxation

(Rs 000s)

As at 31 December	2009	2008
Deferred tax comprise		
Fixed Assets	(21,712)	12,803
Net deferred tax liability / (asset) (timing difference)	(21,712)	12,803

5 Goodwill on consolidation

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

(Rs 000s)

As at 31 December	2009	2008
Megasoft Consultants, Inc., USA		
Excess consideration paid	—	27,313
Boston Communications Group, Inc., USA		
Accumulated losses on the date of becoming subsidiary i.e. 30 August 2007	1,015,750	1,015,987
	1,015,750	1,043,300

6 Related party transactions

Associates - Entities controlled by Director/s

S Ravindra Babu HUF

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

Directors & Key Management personnel

GV Kumar & D Sudhakar Reddy

(Rs 000s)

	For the year ended 31 December		As at 31 December	
	2009	2008	2009	2008
Associate companies				
Lease rentals paid	—	—	—	1,233
Lease rentals received	300	720		
Reimbursement of common expenses received	1,441	1,202		
Due to / (from)	—	—	(614)	(684)
Loan received	—	—	—	10
Loan outstanding (maximum)	—	10	—	—
Warrants money forfeited	—	28,800		
Directors & Key Management Personnel				
Remuneration to Executive Directors	8,701	9,445		
Commission to Non-Executive Directors	1,000	1,000		
Directors' sitting fees	125	130		

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.

Schedules to the consolidated financial statements

17 NOTES TO ACCOUNTS (contd...)

7 Segmental Information

The Group's operations were focussed on IT Services and Telecom services. Subsequent to the divestment of the IT Services ('BlueAlly') division w.e.f. 1 October 2009, the company has a single reportable segment, that of Telecom. Accordingly, these business divisions comprise the primary basis for the segmental information set out in these financial statements. 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.

Fixed assets used in the Company's business or liabilities contracted have not been identified to any of the reportable segments, as they are used interchangeably between segments. Accordingly, no disclosure relating to total segment assets and liabilities have been made.

(Rs 000s)

For the year ended 31 December	2009	2008
Business Segment (Primary)		
Revenues		
IT Services	794,298	1,339,617
Telecom	2,235,567	1,921,980
	3,029,865	3,261,597
Segment result profit		
IT Services	95,900	224,435
Telecom	264,887	691,684
	360,787	916,119
Less: Operating expenses (unallocable)	197,433	76,835
Less: Finance charges	228,061	219,400
Less: Depreciation and Amortisation	242,715	260,408
Other Income / (Expenses)	57,770	8,109
Profit before taxes	(249,652)	367,585
Less: Taxes	(28,659)	41,930
Profit after taxes	(220,993)	325,655
Geographical Segment (Secondary)		
Revenues		
India	5,213	3,686
North & South America	2,902,784	3,126,168
EMEA	48,765	105,195
Asia-Pacific	73,103	26,548
	3,029,865	3,261,597
Carrying amount of segment assets		
India	328,134	1,542,964
North & South America	2,663,957	3,290,504
EMEA	277,734	300,541
Asia-Pacific	300,209	286,130
	3,570,034	5,420,139
Addition to Fixed Assets		
India	31,682	64,216
North & South America	57,673	132,277
EMEA	—	—
Asia-Pacific	—	—
	89,355	196,493

Schedules to the consolidated financial statements

17 NOTES TO ACCOUNTS (contd...)

8 Employees Stock Option Plans

The company has three 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) Employees Stock Option Plan (VisualSoft) 2007

In terms of the scheme of amalgamation duly approved by the High Courts, the shareholders of the company in the AGM held on 27 June 2007 approved an Employees Stock Option Plan (ESOP-Visualsoft).

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

As at 31 December	2009	2008
Options outstanding at the beginning of the year	—	192,187
Expired during the year	—	192,187

(ii) 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 Rs 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	2009	2008
Options outstanding at the beginning of the year	385,000	738,000
Options granted during the year	—	—
Exercised during the year	—	—
Expired / Cancelled during the year	87,500	353,000
Options outstanding at the end of the year	297,500	385,000
Exercisable at the end of the year	—	—

(iii) 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 Rs 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	2009	2008
Options outstanding at the beginning of the year	1,350,000	1,350,000
Options granted during the year	—	—
Exercised during the year	—	—
Expired during the year	—	—
Options outstanding at the end of the year	1,350,000	1,350,000
Exercisable at the end of the year	900,000	450,000

Schedules to the consolidated financial statements

17 NOTES TO ACCOUNTS (contd...)

9 Earnings per share

(Rs 000s)

For the year ended 31 December	2009	2008
Basic		
Profit after tax	(220,993)	325,655
Weighted average number of equity shares outstanding	44,267,293	44,267,293
Earnings per share - Basic (Rs)	(4.99)	7.36
Diluted		
Profit after tax	(220,993)	325,655
Add: Interest expense on FCCB	—	1,519
Add: Tax relating to Interest expense	—	511
Profit / (loss) after tax attributable to equity shareholders	(220,993)	327,685
Weighted average number of equity shares outstanding	44,267,293	44,267,293
Dilutive effect of stock options outstanding	900,000	450,000
Weighted average number of equity shares outstanding	45,167,293	44,717,293
Earnings per share - Diluted (Rs)	(4.89)	7.33

10 Commitments & Contingencies

(Rs 000s)

As at 31 December	2009	2008
Estimated amount of contracts pending execution on capital account	—	—
Contingent liabilities including bank guarantees, letter of credits, etc.	115,600	208,707

11 Corporate Guarantees

- The company has given a corporate guarantee for the foreign currency loan of NIL (Previous year - US\$ 2 million) from Axis Bank, Singapore to Megasoft Consultants, Inc., USA, ("MCI").
- The company has given a corporate guarantee for the foreign currency loan of US\$ 16.67 (Previous Year - US\$ 25.00) million from Axis Bank, Dubai to Boston Communications Group, Inc., USA, ("BCGI").
- The company has given a corporate guarantee for the foreign currency loan of US\$ 13.00 (Previous Year - Nil) million from Axis Bank, Hong Kong to Boston Communications Group, Inc., USA, ("BCGI").

12 Divestment of IT Services ('BlueAlly') Division

- The company has completed the sale / transfer of the IT Services ('BlueAlly') division to an overseas company w.e.f. 1st October 2009, as approved by the members by a postal ballot process.
- The Company has formulated a scheme of business restructuring to deal with the divestment of the IT Services Division. Accordingly, as per a Scheme of Arrangement under sections 391 to 394 of the Companies Act 1956 ("the Scheme") between the Company and its equity shareholders approved by the High Court of Judicature at Madras vide its Order dated 30 March 2010 duly filed with the Registrar of Companies on 30 March 2010 (effective date), a separate reserve account titled as Business Reconstruction Reserve ("BRR") has been created by transferring balance standing to the credit of Securities Premium Account and the General Reserve of the Company for adjustment of certain expenses as prescribed therein. Accordingly, Rs 1,250,000 has been transferred to BRR and Rs 1,246,237 has been set-off.
- Any reversal of any such set-off at any time later would be adjusted to the same Business Reconstruction Reserve.

13 Previous year comparatives

Previous years' figures have been regrouped, reclassified / rearranged wherever necessary to conform to current year's presentation. Current years' figures are without IT Services Division w.e.f. 1 October 2009 and hence are not comparable.

14 Cash flows

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

Auditors' Report on abridged financial statements

To the Members of Megasoft Limited

We have examined the abridged Balance Sheet of Megasoft Limited ('the Company') as at 31 December 2009 and the abridged Profit and Loss account and the Cash Flow statement for the year ended on that date, together with the notes thereon (hereafter collectively referred to as "abridged financial statements").

These abridged financial statements have been prepared by the Company pursuant to Rule 7A of the Companies (Central Government's) General Rules and Forms, 1956 and Clause 32 of the Listing Agreement and are based on the complete set of financial statements of the Company for the year ended 31 December 2009 prepared in accordance with Schedule VI to the Companies Act, 1956 and covered by our report dated 31 March 2010 to the members of the Company which report is attached.

for **Srikanth & Shanthy Associates**

Chartered Accountants
Firm Registration No.004006S

for **TN Rajendran & Co.**

Chartered Accountants
Firm Registration No.005080S

MC Srikanth

Partner
Membership No.18588

TN Rajendran

Partner
Membership No.28778

Chennai

31 March 2010

Auditors' Report

To the Members of Megasoft Limited

We have audited the attached Balance Sheet of Megasoft Limited ("the Company") as at 31 December 2009 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 2009, and taken on record by the Board of Directors, none of the directors is disqualified as on 31 December 2009 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 2009;
 - (ii) in the case of the Profit and Loss Account, of the loss 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

for **TN Rajendran & Co.**

Chartered Accountants
Firm Registration No.005080S

MC Srikanth

Partner
Membership No.18588

Chennai
31 March 2010

TN Rajendran

Partner
Membership No.28778

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 2009]

- (1) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
 - (b) The Company has a phased programme of physical verification of its fixed assets which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. In accordance with such programme, the Management has physically verified certain fixed assets during the year and no material discrepancies were noticed on such verification.
 - (c) Fixed assets disposed off during the year were not substantial and therefore do not affect the going concern assumption. The deletion of assets, in majority, represent removal of impaired assets which were adjusted against 'Business Reconstruction Reserve' in terms of the Scheme of Arrangement between the company and the equity shareholders duly approved by the Hon'ble High Court of Madras.
- (2) In our opinion and according to the information and explanations given to us, in view of the nature of activities of the Company, the provisions of Clause 4(ii) relating to inventory is not applicable to the Company.

- (3) The Company has neither granted nor taken any loans, secured or unsecured, to / from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956 ("the Act"). Consequently, clauses (iii)(b), (iii)(c), (iii)(d), (iii)(f) and (iii)(g) of paragraph 4 of the Order are not applicable.
- (4) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of fixed assets and the sale of services. We have not observed any major weakness in the internal control system during the course of the audit.
- (5) (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register maintained under that section.
 (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements exceeding Rs 5 lakhs in respect of any party during the year, which have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
- (6) The Company has not accepted any deposits from the public and hence the directives issued by the Reserve Bank of India and the provisions of Sections 58A, 58AA or any other relevant provisions of the Act and the Companies (Acceptance of Deposit) Rules, 1975 with regard to the deposits accepted from the public are not applicable.
- (7) In our opinion, the Company has an internal audit system, commensurate with its size and the nature of its business.
- (8) According to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records under Section 209(1)(d) of the Act in respect of services carried out by the Company.
- (9) (a) According to the information and explanations given to us, and on the basis of our examination of the books of account, the Company has been generally regular in depositing with the appropriate authorities undisputed statutory dues including provident fund, employees' state insurance, income-tax, wealth tax, service tax, sales-tax, customs duty, cess and other material statutory dues applicable to it.
 (b) According to the information and explanations given to us, no undisputed dues payable in respect of provident fund, employees' state insurance, income-tax, wealth tax, service tax, sales-tax, customs duty, cess and other material statutory dues were outstanding as at 31 December 2009 for a period of more than six months from the date they became payable.
 (c) According to the information and explanations given to us there are no such statutory dues that have not been deposited with the appropriate authorities on account of any dispute.
- (10) The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year.
- (11) In our opinion and according to the information and explanations given to us, *the Company has delayed repayment of dues aggregating to Rs 170 million to a bank for a period of three to four months.*
- (12) According to the information and explanations given to us, the Company has not given any loans and advances on the basis of security by way of pledge of shares, debentures and other securities and hence the question of maintenance of adequate records for this purpose does not arise.
- (13) In our opinion and according to the information and explanations given to us, the Company is not a chit fund, nidhi, mutual benefit fund or a society.
- (14) In our opinion and according to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
- (15) According to the information and explanations given to us, the Company has given corporate guarantees for foreign currency loans taken by wholly-owned subsidiaries from a bank. The terms and conditions of such guarantees are not prejudicial to the interest of the Company.
- (16) According to the information and explanations given to us, the Company has not availed any new term loan during the year.
- (17) According to the information and explanations given to us, and on an overall examination of the Balance Sheet of the Company, funds raised on short-term basis have, prima-facie, not been used for long term investment.
- (18) During the year, the Company has not made any preferential allotment of securities to companies / firms / parties covered in the register maintained under section 301 of the Act.
- (19) The Company has not raised any money by public issues during the year.
- (20) To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

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

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

MC Srikanth
 Partner
 Membership No.18588

TN Rajendran
 Partner
 Membership No.28778

Chennai
 31 March 2010

Abridged Balance Sheet

Statement containing salient features of Balance Sheet as per Section 219(1)(b)(iv) of the Companies Act, 1956

(Rs 000s)

As at 31 December		2009	2008
I SOURCES OF FUNDS			
1	Shareholders' Funds		
a	Capital		
	Equity	442,673	442,673
b	Reserves & Surplus		
i	Securities Premium	25,066	475,066
ii	Employee Stock Options	14,413	12,883
iii	General Reserve	886,865	1,686,865
iv	Business Reconstruction Reserve	3,763	-
v	Surplus in Profit & Loss Account	580,720	556,282
		1,953,500	3,173,769
2	Loan Funds		
a	Secured Loans	434,153	659,459
b	Unsecured Loans	105,850	99,660
c	Foreign Currency Convertible Bonds	-	97,160
		540,003	856,279
3	Deferred tax liability	-	12,803
	Total (1 to 3)	2,493,503	4,042,851
II APPLICATION OF FUNDS			
1	Fixed Assets		
	Net Block	1,281,648	1,448,973
2	Investments		
i	In Subsidiary Companies (Unquoted)	8,995	170,293
ii	In Others (Unquoted)	121,230	121,230
		130,225	291,523
3	Deferred tax asset	21,712	-
4	I Current Assets, Loans & Advances		
a	Sundry Debtors	686,156	1,809,495
b	Cash & Bank balances	90,619	17,054
c	Loans & Advances		
i	To Subsidiary Companies	297,367	595,770
ii	Others	157,937	126,189
		1,232,079	2,548,508
	II Less: Current Liabilities & Provisions		
a	Current Liabilities	79,786	134,370
b	Provisions	92,375	111,783
		172,161	246,153
	Net Current Assets (I - II)	1,059,918	2,302,355
	Total (1 to 4)	2,493,503	4,042,851

Notes to abridged financial statements form an integral part of the Abridged Financial Statements.

As per our Report of even date attached

for **Srikanth & Shanthi Associates**
Chartered Accountants

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

For and on behalf of the Board of Directors

MC Srikanth
Partner
Membership No.18588

TN Rajendran
Partner
Membership No.28778

GV Kumar
Managing Director

D Sudhakar Reddy
Director

Chennai
31 March 2010

GP Srinath
VP (Finance) & Company Secretary

Abridged Profit & Loss Account

Statement containing salient features of Profit & Loss Account as per Section 219(1)(b)(iv) of the Companies Act, 1956

(Rs 000s)

For the year ended 31 December	2009	2008
I INCOME		
Revenues	887,013	1,238,321
Other Income / (Expenses)	57,737	790
Total Income	944,750	1,239,111
II EXPENDITURE		
Salaries & other employee benefits	346,495	540,102
Software development expenses	7,546	440,801
Managerial Remuneration	9,701	10,445
Auditors' Remuneration	1,245	1,595
Provision / write-off of debtors	117,321	20,000
Selling, Administrative & Other General expenses	95,274	114,749
Net Foreign Exchange (gain) / loss	95,229	(314,833)
Finance cost	133,723	83,651
Depreciation	142,792	164,426
Total Expenditure	949,326	1,060,936
III Profit / (Loss) before tax	(4,576)	178,175
IV Less: Provision for taxation	(29,014)	41,745
V Profit after tax	24,438	136,430
Less: Provision for diminution in value of investments / loan	-	12,057
Balance brought forward	556,282	446,909
Profit available for appropriation	580,720	571,282
VI Dividend		
Proposed Dividend on Equity Shares	-	-
Taxes on Dividend	-	-
VII Transfer to Reserves / Surplus	580,720	571,282
Earnings per share (equity shares, par value Rs.10 each)		
Basic (Rs)	0.55	3.08
Diluted (Rs)	0.54	3.10
Number of shares for calculating EPS		
Basic	44,267,293	44,267,293
Diluted	45,167,293	44,717,293

Notes to abridged financial statements form an integral part of the Abridged Financial Statements.

As per our Report of even date attached

for **Srikanth & Shanthi Associates**
Chartered Accountants

MC Srikanth
Partner
Membership No.18588

Chennai
31 March 2010

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

TN Rajendran
Partner
Membership No.28778

For and on behalf of the Board of Directors

GV Kumar **D Sudhakar Reddy**
Managing Director Director

GP Srinath
VP (Finance) & Company Secretary

Cash Flow Statement

(Rs 000s)

For the year ended 31 December	2009	2008
Cash flows from operating activities		
Profit / (Loss) before taxation	(4,576)	178,175
Adjustments for:		
Depreciation & Amortisation	142,792	164,426
Loss on sale / Discard of Fixed Assets	(20)	532
Employees Stock compensation expense	1,530	4,120
Provision for retirement benefits	(24,908)	8,965
Provision for diminution in value of investments / loan	–	(12,057)
Interest received	(777)	(790)
Finance cost	133,723	83,651
Operating profit before working capital changes	247,764	427,022
(Increase) / Decrease in Sundry Debtors	* 126,418	(330,098)
(Increase) / Decrease in Loans & Advances	* 274,068	(317,874)
Increase / (Decrease) in Current Liabilities	* (54,584)	(66,275)
Income taxes paid during the year	(9,436)	(8,408)
Net cash provided by operating activities	584,230	(295,633)
Cash flows from investing activities		
Purchase / acquisition of Fixed Assets	(31,682)	(64,216)
(Investment) / Disinvestment in subsidiary / others	* (1,012)	–
Proceeds from sale of Fixed Assets / Impairment	* 20	–
Interest received	777	790
Net Cash used for investing activities	(31,897)	(63,426)
Cash flows from financing activities		
Business Reconstruction Reserve	* (28,769)	
Foreign Exchange translation difference on FCCB	–	18,340
Proceeds from long-term borrowings	–	(2,744)
Repayment of loans	(156,539)	(20,000)
Proceeds from Unsecured (other) loans	43,200	92,760
Increase / (Decrease) in working capital / demand loans	(202,937)	363,945
Dividend paid	–	(53,121)
Finance cost	(133,723)	(83,651)
Net cash provided by financing activities	(478,768)	315,529
Net increase in cash & cash equivalents	73,565	(43,530)
Cash & Cash equivalents at the beginning of the year	17,054	60,584
Cash & Cash equivalents at the end of the year	90,619	17,054

* Net off adjustments as envisaged in the Scheme of Arrangement between the company and the equity shareholders duly approved by the Hon'ble High Court of Madras.

As per our Report of even date attached

for **Srikanth & Shanthi Associates**
Chartered Accountants

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

For and on behalf of the Board of Directors

MC Srikanth
Partner
Membership No.18588

TN Rajendran
Partner
Membership No.28778

GV Kumar
Managing Director

D Sudhakar Reddy
Director

Chennai
31 March 2010

GP Srinath
VP (Finance) & Company Secretary

Notes to the Abridged Financial Statements

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

1 Important Ratios

	2009	2008
Sales to Total Assets	0.33	0.29
Operating Profit / Average Capital Employed	-1.91%	4.74%
Return on Net Worth	1.25%	4.30%
PAT to Sales	2.76%	11.02%

2 Commitments & Contingencies (Note No.20 of the annual standalone financial statements)

(Rs 000s)

As at 31 December	2009	2008
Estimated amount of contracts pending execution on capital account	—	—
Contingent liabilities including bank guarantees, letter of credits, etc.	115,600	208,707

3 Managerial Remuneration (Note No.7 of the annual standalone financial statements)

(Rs 000s)

For the year ended 31 December	2009	2008
(i) Managing Director		
Salaries & Allowances	6,130	6,407
Contribution to provident & other funds	562	683
Perquisites *	1,009	1,329
	7,701	8,419
(ii) Whole-time Director		
Salaries & Allowances	624	624
Contribution to provident & other funds	75	75
Perquisites *	301	327
	1,000	1,026
(iii) Non whole-time Directors		
Commission	1,000	1,000
Sitting Fees	125	130

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

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

(Rs 000s)

For the year ended 31 December	2009	2008
Profit after tax	24,438	136,430
Add:		
Remuneration to executive directors	8,701	9,445
Commission payable to non-executive directors	1,000	1,000
Directors' sitting fees	125	130
Provision for doubtful debts	95,880	20,000
Loss on sale / Discard of Fixed Assets	(20)	532
Provision for taxation	(29,014)	36,371
	76,672	67,478
Less:		
Provision for diminution in value of investments	—	12,057
Profit on which commission is payable	101,110	191,851
Maximum allowed as per the Companies Act, 1956	1,011	1,919
Commission provided for	1,000	1,000

Notes to the Abridged Financial Statements

4 Related party transactions (Note No.18 of the annual standalone financial statements)

Name of the subsidiary company	Country of Incorporation	% of holding	
		2009	2008
Direct subsidiary			
Megasoft Consultants Sdn Bhd	Malaysia	100%	100%
Megasoft Consultants Pte Ltd	Singapore	100%	100%
Megasoft Consultants, Inc.	USA	NA	100%
Boston Communications Group, Inc.	USA	100%	100%
Indirect subsidiary			
Megasoft Consultants Limited	UK	NA	100%
Cellular Express, Inc.	USA	100%	100%
Boston Communications Group de Mexico, S.R.L.	Mexico	NA	100%
BCGI Wireless Pvt Ltd	India	100%	100%

Associates - Entities controlled by Director/s

S Ravindra Babu HUF

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

Directors & Key Management personnel

GV Kumar & D Sudhakar Reddy

(Rs 000s)

	For the year ended 31 December		As at 31 December	
	2009	2008	2009	2008
Subsidiary companies				
Revenues	818,144	806,795		
Receivables			348,551	321,228
Software development expenses	--	451,484		
Investments in subsidiary companies	--	--	8,995	170,293
Loan to subsidiary companies (net)	(298,403)	306,542	297,367	595,770
Provision for diminution of Investments / loan	--	12,057		
Corporate Guarantees for foreign currency loan from bank	604,971	--	1,768,376	1,311,660
Associates				
Lease rentals paid	--	--	--	1,233
Lease rentals received	300	720		
Reimbursement of common expenses received	1,441	1,202		
Due to / (from)			(614)	(684)
Loan outstanding	--	--	--	10
Loan outstanding (maximum)	--	10		
Warrants money forfeited	--	28,800		
Directors & Key Management Personnel				
Remuneration to Executive Directors	8,701	9,445		
Commission to Non-Executive Directors	1,000	1,000		
Directors' sitting fees	125	130		

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 except for investment / loan to Megasoft Consultants, Inc., USA (previous year - beam AG, Germany) as envisaged in the Scheme of Arrangement between the company and the equity shareholders duly approved by the Hon'ble High Court of Madras.

Notes to the Abridged Financial Statements

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:

(Rs 000s)

	2009	2008
Subsidiary companies		
Revenues		
Megasoft Consultants Sdn Bhd	35,930	–
Megasoft Consultants, Inc.	18,356	278,602
Boston Communications Group, Inc.	763,858	528,193
Software development expenses		
Megasoft Consultants, Inc.	–	15,558
Boston Communications Group, Inc.	–	435,926
Loan to subsidiary companies		
Granted during the year		
Megasoft Consultants, Inc.	98,939	222,712
Boston Communications Group, Inc.	51,190	182,574
Repaid / adjusted during the year		
Megasoft Consultants, Inc.	401,372	–
Boston Communications Group, Inc.	29,568	12,470

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

(Rs 000s)

	2009	2008
Balance at the end of the year		
Megasoft Consultants, Inc.	–	309,455
Boston Communications Group, Inc.	303,988	293,049
Maximum amount outstanding during the year		
Megasoft Consultants, Inc.	401,372	309,455
Boston Communications Group, Inc.	303,988	293,049

The Ministry of Corporate Affairs (“MCA”) vide its letter No.47/722/2009-CL-III dated 7 January 2010 issued under Section 212(8) of the Companies Act, 1956 has exempted the company from attaching the financial statements of the company's subsidiaries along with the company's accounts for the financial year ended 31 December 2009.

Notes to the Abridged Financial Statements

- 5 Divestment of IT Services ('BlueAlly') Division** (Note No.22 of the annual standalone financial statements)
- (a) The company has completed the sale / transfer of the IT Services ('BlueAlly') division to an overseas company w.e.f. 1st October 2009, as approved by the members by a postal ballot process.
- (b) The Company has formulated a scheme of business restructuring to deal with the divestment of the IT Services Division. Accordingly, as per a Scheme of Arrangement under sections 391 to 394 of the Companies Act 1956 ("the Scheme") between the Company and its equity shareholders approved by the High Court of Judicature at Madras vide its Order dated 30 March 2010 duly filed with the Registrar of Companies on 30 March 2010 (effective date), a separate reserve account titled as Business Reconstruction Reserve ("BRR") has been created by transferring balance standing to the credit of Securities Premium Account and the General Reserve of the Company for adjustment of certain expenses as prescribed therein. Accordingly, Rs 1,250,000 has been transferred to BRR and Rs 1,246,237 has been set-off.
- (c) Any reversal of any such set-off at any time later would be adjusted to the same Business Reconstruction Reserve.
- 6 FCCB** (Note No.3(i) of the annual standalone financial statements)
The company issued 8,000 1.5% Foreign Currency Convertible Bonds ("FCCB") of US\$ 1,000 each on preferential basis on 16 September 2005 in terms of the approval of the shareholders of the Company at the Extra-ordinary General Meeting held on 26 August 2005 aggregating to US\$ 8 million. Post conversion of FCCB aggregating to US\$ 6 million into equity shares during earlier year, the balance FCCB aggregating to US\$ 2 million payable to the FCCB holders on redemption was negotiated and settled in full by making payment of US\$ 1 million during the year.
- 7 Quantitative details** (Note No.12 of the annual standalone financial statements)
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.
Consumption particulars are given below:

(Rs 000s)

For the year ended 31 December	2009	2008
Computers and allied peripherals used for Systems integration	—	862

- 8 Dues to micro, small and medium enterprises** (Note No.23 of the annual standalone financial statements)
As at 31 December 2009, 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.
- 9 Previous year comparatives** (Note No.24 of the annual standalone financial statements)
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 w.e.f. 1 October 2009 and hence are not comparable.

Balance Sheet abstract & Company's general business profile

I Registration Details			
Registration No.	42730 [CIN No.L72200TN1999PLC042730]		
Balance Sheet Date	31/12/2009		
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	2,493,503	Total Assets	2,493,503
Source of Funds		Application of Funds	
Paid-up capital	442,673	Net Fixed Assets	1,281,648
Warrants	–	Investments	130,225
Reserves & Surplus	1,510,827	Net Current Assets	1,059,918
Secured Loans	434,153	Miscellaneous Expenditure	–
Unsecured Loans	105,850	Accumulated Losses	–
Deferred tax liability / (asset)	–	Deferred tax (liability) / asset	21,712
IV Performance of Company (Amount in Rupees Thousands)			
Turnover	849,521	Total Expenditure	854,097
Profit / (Loss) before Tax	(4,576)	Profit after Tax	24,438
Earnings per Share (Rs)	0.55	Dividend Rate %	0%
V Generic name of principal product / service of Company (as per monetary terms)			
ITC Code	85249113		
Product Description	Computer software		

For and on behalf of the Board of Directors

Chennai
31 March 2010

GV Kumar
Managing Director

D Sudhakar Reddy
Director

GP Srinath
VP (Finance) & Company Secretary

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
Rs 000s									
Megasoft Consultants Sdn Bhd	Malaysia	MR	31-Dec-2009	500,000 of MR 1. each	100%	--	315	--	(2,589)
Megasoft Consultants Pte Ltd	Singapore	SD	31-Dec-2009	100,000 of SD 1. each	100%	--	1,972	--	(818)
Boston Communications Group, Inc.	USA	USD	31-Dec-2009	1,000 of US\$ 0.001 each	100%	--	(629,309)	--	(49,768)
Cellular Express, Inc.	USA	USD	31-Dec-2009	100 of US\$ 0.01 each	100%	--	430,023	--	607,565
BCGI Wireless Private Limited	India	INR	31-Dec-2009	280,000 of Rs.10 each	100%	--	(4,061)	--	32,786

For and on behalf of the Board of Directors

Chennai
31 March 2010

GV Kumar Managing Director
D Sudhakar Reddy Director
GP Srinath VP (Finance) & Company Secretary

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 2009	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
Megasoft Consultants Sdn Bhd	Malaysia	MR	13.5912	6,796	(2,275)	15,687	11,166	-	72,390	315	-	315	-
Megasoft Consultants Pte Ltd	Singapore	SD	33.1979	3,320	1,153	4,700	227	-	-	1,972	-	1,972	-
Boston Communications Group, Inc.	USA	USD	46.5362	0	(679,077)	785,244	1,464,321	-	-	(629,309)	-	(629,309)	-
Cellular Express, Inc.	USA	USD	46.5362	0	1,037,588	1,442,845	405,257	-	2,030,068	430,365	342	430,023	-
BCGI Wireless Private Limited	India	Rs	1	2,800	28,724	38,629	7,105	-	-	(4,061)	-	(4,061)	-

For and on behalf of the Board of Directors

Chennai
31 March 2010

GV Kumar
Managing Director

D Sudhakar Reddy
Director

GP Srinath
VP (Finance) & Company Secretary

Note:

Information on subsidiary companies is provided in compliance with The Ministry of Corporate Affairs approval vide their letter No.47/722/2009-CL-III dated 7 January 2010. We undertake to make available the audited annual accounts and related information of subsidiary companies, where applicable, upon request by any of the company's shareholders. The annual accounts will also be available for inspection during business hours at our registered office in Chennai, India.



Notice of the Annual General Meeting

Notice is hereby given that the Ninth Annual General Meeting of the Members of Megasoft Limited will be held on Tuesday the 29th day of June 2010 at 4.30 PM at Hotel Ramada Raj Park-Chennai, 180, TTK Road, Alwarpet, Chennai 600018 to transact the following business:

Ordinary Business

- (1) To receive, consider and adopt the audited Balance Sheet as at 31 December 2009 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 D Sudhakar Reddy, who retires by rotation and being eligible, offers himself for re-election.
- (3) To appoint a Director in place of Mr P Mukunda Reddy, who retires by rotation and being eligible, offers himself for re-election.
- (4) To appoint auditors to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration:

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

Special Business

- (5) To consider and if thought fit, to pass, with or without modification(s), the following resolution as Ordinary Resolution:
RESOLVED that pursuant to the provisions of Section 228 and other applicable provisions, if any, of the Companies Act, 1956, the Board of Directors of the company be and is hereby authorised to appoint Branch Auditors of any branch office of the company, whether existing or which may be opened / acquired hereafter, in India or abroad, in consultation with the company's Auditors, any person(s) qualified to act as Branch Auditor within the provisions of the said Section 228 and to fix their remuneration.

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

Chennai
31 March 2010

GP Srinath
Company Secretary

Notice of the Annual General Meeting

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 23rd to 29th June 2010 (both days inclusive) in connection with the Annual General Meeting.
- (5) The Register of Directors' Shareholding, maintained under Section 307 of the Companies Act, 1956, will be available for inspection by the members at the AGM.
- (6) The Register of Contracts, maintained under Section 301 of the Companies Act, 1956 will be available for inspection by the members at the Registered Office of the company.
- (7) The Certificate from the Auditors of the company certifying that the company's Employee Stock Option Schemes is being implemented in accordance with the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and in accordance with the resolution of the Members passed in the general meeting, will be available for inspection by the Members at the AGM.
- (8) All documents referred to in the Notice and Explanatory Statements are open for inspection at the Registered Office of the company on all working days from 11.00 a.m. to 4.00 p.m. up to the date of the Meeting except holidays.
- (9) Members desirous of obtaining any information / clarification concerning the accounts and operations of the company are requested to address their queries in writing to the Company Secretary at least 10 days before the AGM, so that the information required may be made available at the AGM.
- (10) Members who are holding physical shares in more than one Folio are requested to intimate to the company / Registrar & Share Transfer Agents the details of all their Folio numbers for consolidation into a single Folio.
- (11) Shareholders holding shares in physical form are requested to intimate the Income Tax Permanent Account Number (PAN), which is mandatory for transfer of shares.
- (12) Members whose shareholding is in the electronic mode are requested to direct change of address notifications and updates of savings bank account details to their respective depository participants.
- (13) Members wishing to claim dividends, which remain unclaimed, are requested to correspond with the Company Secretary, at the company's registered office. Members are requested to note that dividends not encashed or claimed within seven years from the date of transfer to the Company's Unpaid Dividend Account, will, as per Section 205A of the Companies Act, 1956, be transferred to the Investor Education and Protection Fund.
- (14) Members are requested to address all correspondences, including dividend matters, to the Registrar and Share Transfer Agents, Cameo Corporate Services Limited, Subramanian Building, No.1, Club House Road, Chennai 600002, India.

Explanatory Statement

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

Item No.5

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

No Director is in any way concerned or interested in the Resolution.

The Board recommends the resolution for approval of the Members.

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

Chennai
31 March 2010

GP Srinath
Company Secretary

Notice of the Annual General Meeting

Additional Information on directors seeking appointment / re-appointment at the 10th Annual General Meeting pursuant to Clause 49 of the Listing Agreement

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

Name of the Director	D Sudhakar Reddy	P Mukunda Reddy
Date of Birth	15 June 1958	10 August 1965
Date of Appointment	06 March 2000	16 June 2000
Qualification	Fellow Member of The Institute of Chartered Accountants of India	Graduate in Science
Experience in Specific-functional area	He was in practice for over fifteen years and is experienced in the areas of Finance, Accounts, Tax and Corporate Laws	A professional and an experienced business man
List of companies in which directorship held in other companies	Megasoft Consultants Pte Ltd, Singapore, Megasoft Consultants Sdn Bhd, Malaysia, NMR Property Development Private Limited, Sri City Infrastructure Development Private Limited, Sri City Property Development Private Limited, Sricity Holdings India Private Limited, Manapad Power Generation Private Limited, Sricity Utility Services Private Limited, Sricity Electricity Company Private Limited, Sansri Powers Private Limited, Suprani Farms Private Limited & Sri City Private Limited.	SR Modern Structures Private Limited, SRB Infrastructure Private Limited, Sri City Infrastructure Development Private Limited, Sri City Property Development Private Limited, Sricity E-World Private Limited, Sricity Utility Services Private Limited, Sricity Electricity Company Private Limited & Sri City Private Limited
Chairman / Members of the Committee of the Board of companies in which he is Director	Member of the Share Transfer / Investors' Grievance Committee of the company	Chairman of the Share Transfer / Investors' Grievance Committee of the company Member of the Audit Committee and the Compensation Committee
Shareholding in the company (equity shares of Rs 10 each)	Nil	12,600



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 **TENTH ANNUAL GENERAL MEETING** of the Company to be held at Hotel Ramada Raj Park-Chennai, 180, TTK Road, Alwarpet, Chennai 600018 at 4.30 PM on Tuesday, the 29th day of June 2010 and at any adjournment(s) thereof.

Signed this day of June 2010.

Signature

Affix
Re. 1/-
Revenue
Stamp

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.



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 **TENTH ANNUAL GENERAL MEETING** of the Company at Hotel Ramada Raj Park-Chennai, 180, TTK Road, Alwarpet, Chennai 600018 at 4.30 PM on Tuesday, the 29th day of June 2010.

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.



INDIA

Megasoft Limited
85, Kutchery Road
Millennium Centre
Mylapore
Chennai 600004

Phone: +91 44 24616768
Fax: +91 44 24617810
Email: contactin@megasoft.com

“Megasoft Towers”
6-3-1192/2/1, Kundanbagh
Begumpet

Hyderabad 500016
Phone: +91 40 40330000
Fax: +91 40 40133555
Email: contactin@megasoft.com

“Reliance Classic”
Road No 1, Banjara Hills
Hyderabad 500034
Phone: +91 40 66664646
Fax: +91 40 23390419

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

UNITED STATES

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

Boston Communications Group, Inc.
400 Trade Center,
Suite 2890, Woburn,
MA 01801-7458
Phone: +1 781-904-5000
Fax: +1 781-904-5601

Cellular Express, Inc.
400 Trade Center,
Suite 2890, Woburn,
MA 01801-7458
Phone: +1 781-904-5000
Fax: +1 781-904-5601

SINGAPORE

Megasoft Consultants Pte Ltd
Level 30
Six Battery Road
Singapore 049909

MALAYSIA

Megasoft Consultants Sdn Bhd
Suite 7-3A, Wangsa Link
Jalan Wangsa Delima 10
53300 Kuala Lumpur, Malaysia



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