

**Annual Report
2010 - 2011**

EXPERTISE

Collaborating with the global financial sector
to foster defect free, business ready systems

Thinksoft Global Services Limited Board of Directors



Mr. K KUMAR
Non-Executive and Independent Director



Ms. VANAJA ARVIND
Executive Director



Mr. MOHAN PARVATIKAR
Whole Time Director



Dr. S RAJAGOPALAN
Non-Executive and Independent Director



Mr. A V ASVINI KUMAR
Chairman and Managing Director



Mr. C N MADHUSUDAN
Non-Executive and Independent Director

Corporate Information

| | |
|-------------------------------------|---|
| Board of Directors | VANAJA ARVIND Executive Director |
| | Dr. S RAJAGOPALAN Director |
| | MOHAN PARVATIKAR Whole Time Director |
| | C N MADHUSUDAN Director |
| | K KUMAR Director |
| | A V ASVINI KUMAR Chairman and Managing Director |
| Company Secretary | V RAJKUMAR |
| Auditors | PKF Sridhar and Santhanam Chartered Accountants, Chennai 600004 |
| Internal Auditors | A Murali & Associates Chartered Accountants, Chennai 600094 |
| Bankers | The Lakshmi Vilas Bank Ltd. Cathedral Road, Chennai 600086 |
| | ICICI Bank Ltd T. Nagar, Chennai 600017 |
| | Citibank NA Anna Salai, Chennai 600002 |
| Legal Advisors | SRS Associates, Chennai 600004 |
| Registrar and Share Transfer Agents | Karvy Computershare Private Limited Cyber Villa, Plot No. 17-24, Vittalrao Nagar Madhapur, Hyderabad 500081 |
| Facilitators | Madras Export Processing Zone (MEPZ) Tambaram, Chennai 600045 |
| | Software Technology Park (STPI) Chennai 600041 |
| | Tidel Park Limited Taramani, Chennai 600113 |
| | Velankani Tech Park Electronic City, Bangalore 560100 |
| Registered Office | Type II, Unit-5, Dr. VSI Estate Thiruvanmiyur, Chennai 600041 |
| Website | www.thinksoftglobal.com |

Contents

| | |
|--|----|
| Chairman's Letter | 3 |
| Performance Highlights: Decade at a glance | 4 |
| Directors' Report | 5 |
| Management Discussion and Analysis | 14 |
| Report on Corporate Governance | 17 |
| Financial Statements – Stand Alone | 29 |
| Financial Statements – Consolidated | 55 |

Chairman's Letter

Dear Shareholders,

I trust that the Annual Report for the year (2010-11) just gone by is now with you. A review of the numbers and figures shows that not only did we have a flat year in terms of revenue growth but also a lower net profit quantum. Revenues were affected due to delays in customer project starts and a slower pace of new customer acquisitions, while profits took a hit due to lower employee utilization levels, higher sales expenses, higher payroll costs and one time infrastructure expenses.

The silver lining is that our delivery margins were maintained and we managed to make a humble profit for the year.

I am happy to report that the outlook for the coming year looks optimistic, going by the trends in projects starts, customer budget commitments and as evidenced by the steady pace of customer enquiries and proposal requests.

This will serve, to a certain extent, as an antidote to all the above challenges excepting for burgeoning payroll costs. The latter needs to be managed both in terms of seeking better pricing for projects/rates and also by prudently balancing the company's talent and resource mix model.

According to the recently released 2011 NASSCOM report on the Software Testing Industry, independent testing services from India are poised to grow at an yearly rate of 15.5% from the current USD 3.4 billion in 2010 to USD 14.3 billion in 2020. Further, the share of the 'independent BFSI testing' market may be roughly projected as growing 411% - from USD 800 million to about USD 4.3 billion in the same period, an yearly rate of 17.7%.

However, the best news for your company's prospects would be emanating from the 30% annual growth rate which can be extrapolated for the "specialized offerings component" of the industry for the next decade, as we are already positioned well in this segment.

Some of our key focused efforts, to capitalize on these prospects, would relate to:

1. Leveraging and incorporating new tech trends like cloud computing
2. Developing new super specialized offerings for automated testing for leading products
3. Expanding into the mobile apps testing space
4. Branding and positioning the company as a unique service provider to BFSI sector
5. Exploring newer engagement models, alliances and partnerships

I would also like to bring to your attention the following significant milestones achieved during this year:

- MEPZ Delivery Centre: As per plan, we have completed our infrastructure project in MEPZ (Madras Export Processing Zone) and it is now a fully fledged delivery centre and expected to bring in steady cost benefits in future years.
- PCI DSS/BITS AUP: To pro-actively meet our clients' expectations, we are among a few select organizations world-wide, to have successfully initiated and completed these compliance/certifications, which will enable us to meet stringent global standards in information security, data privacy and customer data security.

In conclusion then, I would like to quote the famous lines from H W Longfellow:

"Let us then be up and doing,
With a heart for any fate,
Still achieving, still pursuing,
Learn to labor and to wait"

On behalf of the Board of Directors, I take this opportunity to express our appreciation towards all our stakeholders, who have reposed their trust in us and looking forward to your continued support in the coming year.

Yours Sincerely,

A V Asvini Kumar
Chairman & Managing Director

Performance Highlights: Decade at a glance

(INR in million)

| Particulars | 2010-11 | 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | 2004-05 | 2003-04 | 2002-03 | 2001-02 |
|------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Gross Revenue | 829.27 | 828.63 | 922.62 | 749.24 | 588.62 | 366.91 | 217.37 | 123.79 | 156.01 | 133.34 |
| E B I D T A | 60.87 | 105.08 | 178.73 | 122.16 | 122.36 | 48.59 | 27.04 | (0.56) | 38.22 | 34.23 |
| Profit Before Tax | 32.04 | 90.64 | 160.62 | 108.15 | 103.57 | 40.07 | 18.90 | (11.91) | 28.02 | 25.41 |
| Profit After Tax | 18.72 | 82.33 | 144.89 | 99.65 | 94.61 | 36.22 | 15.62 | (11.87) | 24.94 | 23.20 |
| Fixed Assets: Gross Block | 194.18 | 101.16 | 90.15 | 88.51 | 69.89 | 63.78 | 44.19 | 41.53 | 28.54 | 28.15 |
| Fixed Assets: Net Block | 111.50 | 42.44 | 33.49 | 28.17 | 22.13 | 27.73 | 11.44 | 11.16 | 6.58 | 14.29 |
| Share Capital | 100.52 | 100.52 | 87.02 | 76.63 | 72.45 | 70.68 | 70.68 | 70.68 | 70.66 | 70.66 |
| Reserves and surplus | 599.17 | 592.17 | 381.94 | 246.55 | 160.03 | 82.05 | 53.89 | 43.11 | 59.77 | 42.81 |
| Net worth | 699.68 | 692.68 | 468.96 | 328.99 | 232.48 | 152.73 | 124.57 | 113.79 | 130.43 | 113.47 |
| Sundry Debtors | 228.96 | 159.31 | 238.57 | 203.70 | 186.43 | 98.50 | 59.80 | 24.61 | 55.24 | 19.71 |
| Cash and Bank Balances | 400.33 | 513.95 | 265.60 | 147.25 | 76.56 | 47.36 | 58.40 | 116.67 | 70.24 | 77.81 |
| Current Assets | 762.18 | 789.18 | 600.34 | 419.98 | 291.00 | 184.08 | 139.25 | 164.03 | 145.49 | 111.67 |
| Current Liabilities | 183.32 | 149.27 | 171.09 | 122.58 | 81.98 | 59.84 | 25.09 | 18.18 | 21.49 | 11.00 |
| Working Capital | 578.87 | 639.90 | 429.24 | 297.40 | 209.02 | 124.24 | 113.26 | 145.85 | 124.00 | 100.67 |
| No of Equity Shares ('000) | 10,052 | 10,052 | 8,702 | 7,663 | 7,245 | 7,068 | 7,068 | 7,068 | 7,066 | 7,066 |
| Earnings Per Share (Diluted) (INR) | 1.86 | 8.83 | 17.62 | 13.38 | 13.21 | 5.12 | 2.21 | (1.68) | 3.53 | 4.87 |
| Book Value per Share (INR) | 69.61 | 68.91 | 53.89 | 42.93 | 32.09 | 21.61 | 17.63 | 16.10 | 18.46 | 16.06 |

Directors' Report

To the Members,

We are presenting the report on our business and operations for the year ended March 31, 2011.

1. Financial highlights for the year ended March 31, 2011

(INR in million)

| Description | Consolidated | | Stand Alone | |
|--|-------------------------|--------------------------|-------------------------|--------------------------|
| | 2010-11 Current Year | 2009-10 Previous Year | 2010-11 Current Year | 2009-10 Previous Year |
| Export Revenues | 775.39 | 782.92 | 559.25 | 699.88 |
| Domestic Revenues | 53.88 | 45.71 | 53.88 | 45.71 |
| Total Revenue | 829.27 | 828.63 | 613.13 | 745.59 |
| Delivery expenses | 557.10 | 507.04 | 432.50 | 464.82 |
| Funds from Operations | 272.17 | 321.59 | 180.63 | 280.77 |
| Selling and Marketing expenses | 119.16 | 111.95 | 44.31 | 92.41 |
| General and Administrative expenses | 125.64 | 115.79 | 109.11 | 100.83 |
| Profit before Interest, Depreciation & Taxes | 27.37 | 93.85 | 27.21 | 87.53 |
| Less: Depreciation | 27.88 | 12.78 | 27.56 | 12.78 |
| Operating Profit Before Taxes | (0.51) | 81.07 | (0.35) | 74.75 |
| Other Income | 32.55 | 9.57 | 26.44 | 9.57 |
| Net profit before taxes | 32.04 | 90.64 | 26.09 | 84.32 |
| Provision for taxation | (12.30) | (12.42) | (7.62) | (8.42) |
| Deferred Tax | (1.02) | 4.11 | (1.02) | 4.11 |
| Net Profit after tax | 18.72 | 82.33 | 17.45 | 80.01 |
| Profit brought forward from previous year | 413.34 | 350.76 | 379.02 | 318.78 |
| Profit available for appropriation | 432.06 | 433.09 | 396.48 | 398.79 |
| Appropriations: Interim Dividend | — | 10.05 | — | 10.05 |
| Transfer to General Reserve | — | 8.00 | — | 8.00 |
| Proposed Final Dividend | 10.05 | — | 10.05 | — |
| Tax on Dividend | 1.67 | 1.71 | 1.67 | 1.71 |
| Profit carried to Balance sheet | 420.34 | 413.33 | 394.81 | 379.03 |
| EPS basic | 1.86 | 8.83 | 1.74 | 8.58 |
| EPS diluted | 1.86 | 8.83 | 1.74 | 8.58 |

2. Business and Operations review - Consolidated

- Total revenues increased, in Rupee terms by 0.1%, to INR 829.27 million this year, from INR 828.63 million last year (In US dollar terms this amounts to an increase in revenues of 4%).
- Profit after tax at INR 18.72 million constituted 2.26% of revenues as against INR 82.33 million (9.94%) for the previous year. 'Exchange Gain' contributed to INR 15.05 million.
- Geographically, 53.64% of the revenues came from Europe (last year 43.09%), 31.11% from IMEA (last year 39.78%), 15.25% from America (last year 17.13%).
- The proportion of onsite to offshore revenues stood at 44.35%/55.65% compared to 59.47%/40.53% last year. This is reflected in a decrease of 25% in onsite Revenue from INR 492.82 million to INR 367.78 million during the year.
- Delivery expenses have increased to 67.18% against 61.19% in last year. This is a result of a combination of higher proportion of revenues from onsite projects and also lower offshore utilization factors. The overall utilization decreased to 66.9%, compared to 71.8% in the previous year.
- The Gross Profit (Funds from Operations) at INR 272.17 million worked out to 32.82% of total revenues (excluding other income) compared with 38.81% last year, while the PBITDA was at 3.30% as against 11.33% for the previous year. After Tax profits (including other income decreased to 2.26% (last year 9.94%).

- General and Admin Expenses registered a increased in absolute terms. It was INR 125.64 million and 15.15% as against INR 115.79 million and 13.97% last year.
- The company increased its investments in S&M activity, consequently, sales and marketing costs increased in absolute terms at INR 119.16 million and 14.37% versus 111.95 million and 13.51% recorded last year.
- Revenues from repeat business increased to 90% compared to 72% in the previous year
- Employee strength was 661 (women 29.8%) at the end of the year compared to 499 last fiscal. The attrition rate registered an increase of 31.2% for the year ended March 2011, compared to 17.90% during the previous year.

3. Capital expenditure

During the year, we capitalized INR 79.36 million to our gross block comprising of INR 19.37 million on technology infrastructure, INR 13.85 million on physical infrastructure, 46.14 addition on intangible assets, as against capitalization to our gross block of INR 14.21 during the previous year comprising of INR 4.01 million on technology infrastructure, INR 10.20 million on physical infrastructure.

4. Utilization of IPO proceeds

The shareholders had approved the revised utilisation of IPO Proceeds vide Postal Ballot resolution passed on May 14, 2010 as detailed below:

| (INR in lakhs) | |
|---|-----------------|
| Description | Cost of Project |
| Public Issue Expenses | 155.99 |
| Setting up of new Testing centres | 679.23 |
| Towards normal Capital Expenditure and Working Capital requirements of the Company. | 852.28 |
| Total | 1,687.50 |

Out of INR 1531.51 lakhs raised through IPO, INR 963.61 lakhs has been utilized for setting up the testing facility at TIDEL Park and MEPZ, Chennai as on March 31, 2011 and balance amount INR 567.90 lakhs is available in bank as fixed deposits.

(Note: The TIDEL Park facility with a capacity of 281 seats has been functioning from September 30, 2010 while the MEPZ Delivery facility with a capacity of 278 seats, is operational from May 31, 2011)

5. Liquidity

The company continues to be debt-free, and maintain sufficient cash to meet our strategic objectives. The liquid assets at the end of the year stood at INR 629.29 million (as against INR 673.26 million last years). Year end Account Receivables stood at INR 228.96 million (101 days sales).

6. Share capital

As at the end of the financial year the Company's Equity Share Capital stands at INR 100.52 million, consisting of 10,051,581 fully paid up Equity Shares of INR 10 each.

7. Net worth

The net worth of the Company rose to INR 699.68 million as at March 31, 2011 from INR 692.68 million at the end of the previous fiscal.

8. Dividend

Your Board has recommended a final dividend of INR 1/= per share for the fiscal 2010-11, subject to the approval of the Shareholders in the ensuing Annual General Meeting.

9. Subsidiaries

The company is having its global presence through its subsidiaries, branches and places of business.

The company has the following five wholly owned subsidiaries

- a. Thinksoft Global Services Pte. Ltd., Singapore
- b. Thinksoft Global Services Inc., USA
- c. Thinksoft Global Services (Europe) GmbH, Germany
- d. Thinksoft Global Services UK Limited, UK (incorporated on April 1, 2010)
- e. Thinksoft Global Services FZE, UAE *(incorporated on June 15, 2010)

* The wholly owned subsidiary in UAE is yet to commence the operations.

Winding up of Thinksoft (India) Services Private Ltd:

The Office of the Registrar of Companies vide their notice under section 560 (5) of the Companies Act 1956, dated January 1, 2011, confirmed striking off the name of the wholly owned subsidiary, Thinksoft (India) Services Private Ltd, from the Register of Companies under the 'Easy Exit Scheme 2010'.

10. Financial statements of subsidiaries

As per Section 212 of the Companies Act, 1956, your Company required to attach the Directors' Report, Balance Sheet, and Profit and Loss account of our subsidiaries. Ministry of Corporate Affairs vide its General Circular no. 02/2011 dated February 8, 2011, exempted Companies from attaching the Financial Statements of Subsidiary Companies (refer Annexure I). However, as per said circular the Companies are required to provide consolidated financial statement in the Annual Report. Accordingly, the Annual Report contain the consolidated financial statements. The Audited Annual Accounts and related information of subsidiaries, which ever applicable, will be made available to shareholders upon request and will also be available for inspection during business hours at the registered office.

11. Changes in tax benefits:

The Company was enjoying tax holiday for its export earnings under section 10A of the Income tax Act 1961 till the financial year 2009-10 by virtue of being 100% Export Oriented Unit registered under Software Technology Parks of India. However the unit situated in SEZ may continue to get its tax benefits as applicable.

12. Directors

Mr. C N Madhusudan, Director who was appointed as a Director on September 17, 2008, is liable to retire by rotation at the ensuing Annual General Meeting and being eligible offers for re-appointment as Director.

13. Auditors

M/s. PKF Sridhar & Santhanam, Chartered Accountants, Chennai retire as the Auditors of the Company at conclusion of the ensuing Annual General Meeting and being eligible offers themselves for re-appointment. The Audit Committee in their meeting held on April 29, 2011 has recommended the re-appointment of M/s. PKF Sridhar & Santhanam, Chartered Accountants, Chennai.

14. Conservation of energy, research and development, technology absorption, foreign exchange earnings and outgo.

The particulars as prescribed under Sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the report of the Board of Directors) Rules, 1988, are provided in the Annexure 2 to the Directors' Report section.

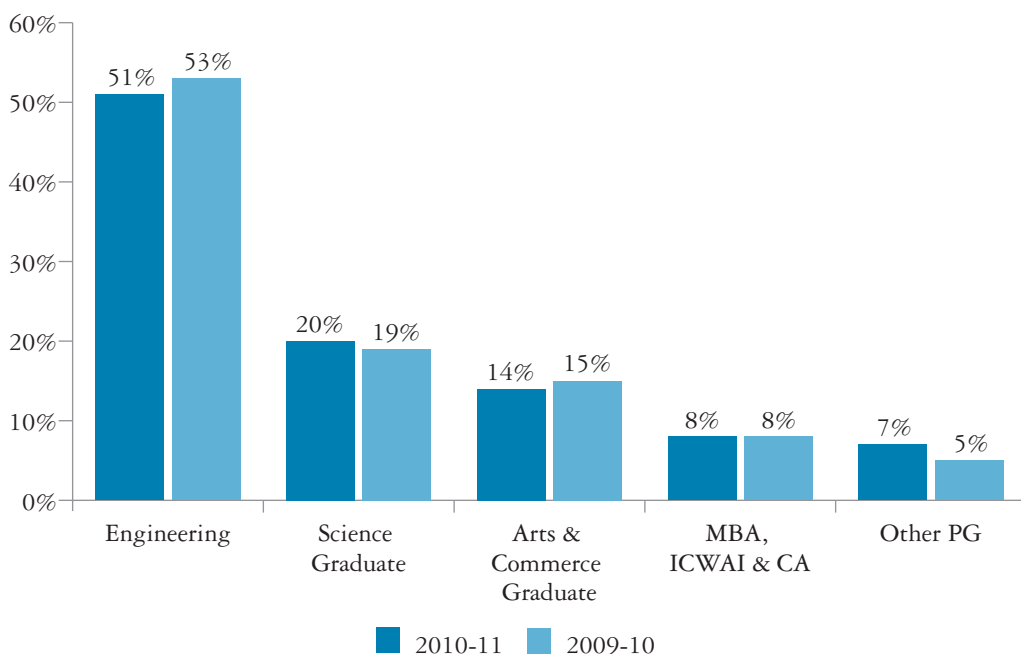
15. Particulars of employees

In terms of provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended from time to time, none of our employees are covered under the above section.

16. Human potential:

The overall employee strength increased from 500 to 660 during the end of the year.

Education profile of the employees



The Company strongly believes that organisational effectiveness can be significantly enhanced by focusing on the human side of the enterprise.

As part of its ongoing regular training programs, during the year, about 117 training programs were conducted for the employees, clocking an average of 43 hours training per employee per year.

The company further endeavours through its special talent management initiatives, to make its key employees result oriented and business savvy.

A Resource Management group is mandated with the task of optimising the deployment of resources across practices and geographies.

The table below shows the average distribution of resources by practice and regions for the year.

| Practices | % |
|------------------------------|-------------|
| Banking | 24% |
| Credit Cards | 53% |
| Capital Markets and Treasury | 15% |
| Insurance | 7% |
| Total | 100% |

17. Quality, technology and systems

Thinksoft's offshore TCoE (Testing Centre of Excellence) in Tidel Park, Chennai has become compliant during this year 2010 -2011, the following:

BITS AUP: Banking Industries Technology Secretariat – Agreed upon Procedures requirements

The BITS AUP Shared Assessments Program being pursued by more than 60 different organizations, it is the most trusted single program that is referred to whilst making large-scale outsourcing decisions. It is now used as a standardized framework that rates organisational capability in comparison with the industry's leading information security best practices

PCI DSS: Payment Card Industry Data Security Standard