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Virinchi
Technologies Limited

Report Junction



17th
Annual Report
2005 - 2006

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Annual General meeting on Friday, September 29, 2006 at Padmashali Kalyana Mandapam, 2-12-66, Nehru Nagar, West Marredpally, Secunderabad – 500 026. As a measure of economy, copies of the Annual Report will not be distributed at the Annual General Meeting. Shareholders are requested to bring their copies to the Meeting.

Board of Directors

Viswanath Kompella	- Chairman& Managing Director
Datuk Santha Kumar S.	- Director
Datuk Kunasingam Sittampalam	- Director
KVSN.Kumar	- Director
Jagadish K.Rao	- Director
K. Jagan Mohan Rao	- Director
K.S.K. Prasad	- Director
Sreenivasa Sreekanth Uppuluri	- Additional Director
Anil Kumar Pinapala	- Additional Director
Dr. Venugopal	- Additional Director
Steve Clevenger	- Additional Director
Samad A.Momin	- Additional Director

Company Secretary

Ravindranath Tagore Kolli

Bankers:

Canara Bank
Overseas Branch, Hyderabad

**Auditors:**

M/s. P. Murali & Co.,
Chartered Accountants
6-3-655/2/3, Somajiguda,
Hyderabad - 500 082.
Ph : 23326666, 23312554.

Registered Office and Development Centre:

10, SRK Colony,
West Marredpally
Secunderabad-500026
Ph Nos: 27803608, 27803610
Fax No: 27803612
Website: www.virinchi.com

Corporate Office:

A-1, 3rd Floor, Surabhi Plaza
Vikrampuri Colony, Kharkana
Secunderbad-500009
Ph Nos: 27890662-65
Fax No: 27890669

Registrar and Share transfer Agents:

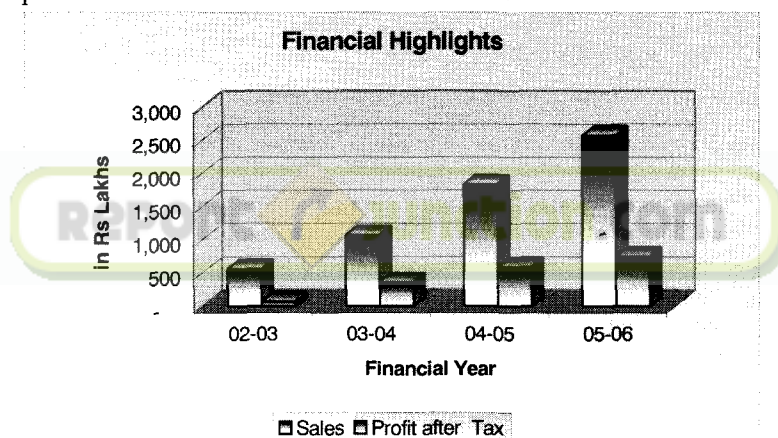
M/s. Aarthi Consultants Private Ltd
1-2-285, Domalguda,
Hyderabad-500029
Ph Nos: 27634445, 27638111
Fax No: 27632184

LETTER TO SHAREHOLDERS:

Dear Investor,

It gives me great pleasure to share with you the highlights of our company's performance in the financial year 2005-06 by stating that **Virinchi is now one of the largest providers of IT Solutions to the Retail Micro Lending Industry in the world.**

Your company has made great strides in the past year and is positioned for a quantum leap over the next few years. We have achieved 53.27% growth recording a net profit of Rs.8.29 Crores for the year 2005-06 as against Rs5.40 Crores in the previous financial year 2004-05. The company's revenue stood at Rs. 25.70 Crores in 2005-06 showing a growth of 40.43% compared to previous year 2004-05. Once the K-Soft acquisition is completed the revenues will increase substantially your company has now built a slew of products that can provide sustainable revenues both from Licensing and Service. In the Retail Micro Lending Industry your company has evolved an annuity-based ASP delivery model that provides our customers immense value and ensures continuous and sustainable revenue.



The company's North American sales have strengthened substantially, entrenching our presence in the world's largest software market.

Your Company has strengthened its market position in the Retail Micro Lending domain and now caters to 3 of the top 5 players in this industry firmly establishing itself as the global leader for providing IT and Business solutions. The micro lending industry is classified as unsecured loans under USD 1000, provided as one-time loan advanced for a period of 45 days or an installment loan for a period less than 12 months, primarily aimed at sub-prime borrowers. The US Retail Micro Lending Industry, with more than 25,000 retail outlets, offers a business potential for IT services in excess of \$60 million per annum. The industry is growing annually at 25 per cent on YoY terms in North America. With a firm objective of maintaining leadership, your company is building a suite of new products catering to this domain as well as expanding its market reach into UK, Europe and Canada for this industry.

Your company offers out-of-the-box software solutions in the domains of Supply Chain, Micro-Lending, and Market Research. Your company has added new products in the Domains of Service Level Management, Insurance Investigation, to the existing product portfolio. The new products have good potential in the US and the European markets.

Your company places even focus on both products and services. In order to de-risk dependence on product revenues, your company has evolved matured service practices in Custom Application Development, Product Support and Maintenance, Customization Services, Data Warehousing, Data Migration, among others. Your company is expanding its domain knowledge in further service domains. After the completion of K-Soft acquisition, your company will further expand its service offerings and domain expertise giving it even more breadth to offer more value to its customers.

Marketing

Your company's success in marketing is evident from the new and large customers we have acquired this year. Further, we have expanded our marketing initiatives from a primarily Network or Channel-based to more active and direct marketing. As part of the marketing initiative your company continuously attends relevant trade exhibitions in North American region to promote our products and undertaking some mass communication in the niche industry media. Your company is also reaching out to new geographical areas and industry domains.

People and Process

Your company has now entered a rapid growth phase and the same can be seen in addition of over 50 new employees in the last fiscal year. The total human resource strength has crossed 200 as on March 31, 2006. We will be continuing this rapid growth phase and add more resources to match our requirements for delivery. As the company grows, employees who have grown with the company will play a more important and critical role in shaping the organizations' future. We will be implementing organizational changes and other management reforms to make the company rapid-growth capable and dynamic.

To keep pace with the growth, your company is strengthening its infrastructure and started developing its own campus. The campus that will accommodate about 1,000 employees will be ready in the next 24 months.

Your company has been on a continuous path of process innovation that ensures consistency and repeatability in delivery. I am pleased to inform that we have renewed our ISO 9001: 2000 certification for another 3 years and the process maturity will be further underlined with the CMMi certification that should be achieved in the next fiscal year.

Value

Your company is focused on providing Customer Delight, Continuous Product & Process Innovation, Employee Welfare and Shareholder Wealth Maximization. The company has tremendous potential for growth and with Intellectual Property of various products there is already a lot of value to be unlocked in the company. The strong sales team and the efficient delivery team should ensure sustenance of the current revenue and profit growth.

It's your company's stated objective to look at both organic and in-organic growth strategies and is actively evaluating various acquisition targets operating in complementary technology and industry domains. This will further enhance the value of your organization. I certainly hope 2007 will be a far more exciting year and we indeed take that quantum leap to reach the next level.

I thank you for all the support you have given and assure you that your company will continue to march ahead with the objective of attaining new levels of achievement putting us on par or above the best in the industry.



Viswanath Kompella
Chairman and Managing Director
Virinchi Technologies Limited

NOTICE

NOTICE is hereby given that the 17th Annual General Meeting of the Members of the Company will be held on Friday, the 29th day of September, 2006, at 11.00 A.M. at Padmashali Kalyana Mandapam, 2-12-66, Nehru Nagar, West Marredpally, Secunderabad - 500 026 to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Profit & Loss Account for the year ended March 31, 2006; Balance Sheet as on that date along with the Schedules forming part of it, notes to accounts and the Reports of the Directors' and Auditors' thereon.
2. To declare dividend for the financial year 2005-06
3. To appoint a Director in place of K. Jagan Mohan Rao, who retires by rotation, and being eligible, offers him self for re-appointment.
4. To appoint a Director in place of KVS N Kumar, who retires by rotation.
5. To appoint M/s. P. Murali & Co., Chartered Accountants, Hyderabad as Auditors of the Company to hold office from the conclusion of this meeting till the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS :

6. To Consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary resolution:
"RESOLVED THAT Sreenivasa Sreekanth Uppuluri, Who was appointed as an Additional Director of the company with effect from 30th August, 2006, who holds office under Section 260 of the Companies Act, 1956, up to the date of the ensuing Annual General Meeting and in respect of whom the Company has received notice in writing proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, not liable to retire by rotation."
7. To Consider and if thought fit, to pass,, with or without modification(s), the following resolution as an Ordinary resolution:
"RESOLVED THAT Anil Kumar Pinapala, Who was appointed as an Additional Director of the company with effect from 30th August, 2006, who holds office under Section 260 of the Companies Act, 1956, up to the date of the ensuing Annual General Meeting and in respect of whom the Company has received notice in writing proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, not liable to retire by rotation."
8. To Consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary resolution:
"RESOLVED THAT Samad. A. Momin, Who was appointed as an Additional Director of the company with effect from 30th August, 2006, who holds office under Section 260 of the Companies Act, 1956, up to the date of the ensuing Annual General Meeting and in respect of whom the Company has received notice in writing proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, not liable to retire by rotation."
9. To Consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary resolution:
"RESOLVED THAT Steve Clevenger, Who was appointed as an Additional Director of the company with effect from 30th August, 2006, who holds office under Section 260 of the Companies Act, 1956, up to the date of the ensuing Annual General Meeting and in respect of whom the Company has received notice in writing proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."
10. To Consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary resolution:
"RESOLVED THAT Dr. Venugopal, Who was appointed as an Additional Director of the company with effect from 6th October, 2005, who holds office under Section 260 of the Companies Act, 1956, up to the date of the ensuing Annual General Meeting and in respect of whom the Company has received notice in writing proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."
11. Issue and allotment of warrants on preferential basis to Strategic Investors
To Consider and if thought fit, to pass, with or without modifications, the following resolution as a Special resolution:

"RESOLVED THAT pursuant to the provisions of Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956(Act) (including any statutory modification or re-enactment thereof for the time being in force) and in accordance with the provisions of Articles of Association of the Company, the Listing Agreement entered into between the Company and the Various stock exchanges, the Guidelines for Preferential Issues contained in the Securities and Exchange Board of India(Disclosure and Investor Protection) Guidelines,2000 (SEBI Guidelines), rules and regulations framed by Reserve Bank of India(RBI) and other statutory/regulatory authorities, and subject to all applicable norms, guidelines, regulations in force, and statutory approvals, consents, permissions or sanctions as may be necessary, of appropriate authorities, institutions or bodies and subject to such conditions as the authorities may impose at the time grating their approvals/consents/permissions/sanctions and which may be agreed to by the Board of Directors of the Company (the "Board", which expression shall include any committee thereof constituted/to be constituted by the Board for exercising the powers conferred on the Board by this Resolution) if it thinks fit in the interest of the Company, consent of the Company be and is hereby accorded to the Board to create, offer, issue and allot 40,00,000 (Forty Lacs) warrants("warrants for brevity) to the strategic investors at a price of Rs. 40/- (Rupees Forty Only) per warrant, the details of which are mentioned in the Explanatory Statement annexed hereto, on preferential allotment basis, in one or more tranches, on such terms and conditions and in such manner as the Board may think fit, whether or not they are members of the Company each warrant entitling the holder thereof to apply for and be allotted one equity share per warrant of Rs40/- each and which conversion shall be made within a period not exceeding 18(Eighteen) months from the date of allotment of the warrants in accordance with the SEBI(Disclosure & Investor Protection)Guidelines, 2000 and other applicable guidelines.

"RESOLVED FURTHER THAT

- a) The relevant date for the purpose of pricing of the warrants as above, in accordance with the SEBI Guidelines is 30th August, 2006 being the 30th day prior to 29th September, 2006 (i.e. the 30th days prior to the date on which the meeting of the general body of shareholders is held, in terms of Section 81(1A) of the Companies Act, 1956 to consider the proposed issue.)
- b) The equity shares to be issued on conversion of the warrants in pursuance of this resolution shall rank *pari passu* with the then existing equity shares of he company in all respects.
- c) The warrants to be offered and allotted shall be subject to the provisions of the Memorandum and Articles of association of the Company.
- d) For the purpose of giving effect to this resolution, the Board is hereby authorized to issue and allot such number of equity shares as may be required to be issued and allotted upon conversion of Warrants, as may be necessary in accordance with the terms of the offer and subject to the provisions of the Company's Articles of Association"

"RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board be and is hereby authorized to do all such acts, deeds and things as the Board may, in its absolute discretion, consider necessary, expedient, usual, proper or incidental and to settle any question, remove any difficulty or doubt that may arise from time to time in relation to the offer, issue and allotment of the warrants and the utilization of the issue proceeds thereof, to effect any modification (s) to the foregoing (including any modifications to the terms of the issue) in the best interests of the Company and its shareholders and to execute all such writings and instrument(s) as the Board may in its absolute discretion deem necessary or desirable.

"RESOLVED FURTHER THAT the Board be and is hereby authorized to delegate all or any of its powers to any committee of Directors of the Company to give effect to the aforesaid resolution".

12. To Consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution.

"RESOLVED THAT the exercise price and/or pricing formula for the stock options granted or to be granted by the company to the employees and directors of the company under Virinchi Employees Stock Option Scheme, 2004 ("VESOS, 2004) approved by the shareholders at the 15th Annual General Meeting of the Company held on 29th September, 2004 be and is hereby amended to issue them at free of cost.

BY ORDER OF THE BOARD
For VIRINCHI TECHNOLOGIES LIMITED

PLACE : HYDERABAD
DATE : 30.08.2006

K. Ravindranath Tagore
Company Secretary

NOTES:

- a) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself/herself and the proxy need not be a member of the company. The instrument of proxy in order to be effective, must be deposited at the registered office of the Company, duly completed and signed not less than 48 hours before the meeting.
- b) The relevant Explanatory Statement in respect of the Special Business set out above, as required by Sec.173 (2) of the Companies Act, 1956 is annexed hereto.
- c) The Register of Members / Register of Beneficiaries and Share Transfer books of the Company will remain closed from 25th September, 2006 to 29th September 2006 (both days inclusive) in connection with the payment of dividend for the financial year 2005-06.
- d) Dividend, if declared, at the Annual General Meeting, will be payable to those members whose names appear on the Company's Register of Members as on 29th September, 2006. Dividend Warrants are scheduled to be posted on or after 4th October, 2006. Dividend Warrant is valid for payment by the Company's Bankers for three months from the date of issue. Thereafter, please contact our share registrars, M/s. Aarthi Consultants Pvt Ltd, 1-2-285, Domalguda, Hyderabad -500029 for revalidation of the warrants.

You are advised to encash your dividend warrants immediately as the dividend amount remaining unclaimed/unpaid at the expiry of 7 years from the date that becomes due for payment are required to be transferred by the company to the Investor Education and Protection Fund established under section 205C in terms of section 205A of the Companies Act, 1956.

It may be noted that no claim will lie against the company or the investor education and protection fund in respect of the said unclaimed dividend amount transferred to the fund.

- e) Payment of Dividend through Electronic Clearing Service (ECS)

The Securities and Exchange Board of India (SEBI) has advised the Companies to mandatorily use ECS facility, wherever available, for distributing dividends or other cash benefits etc, to the investors. This facility provides instant credit of dividend amount to your Bank account electronically at no extra cost. ECS also eliminates the delay in postal transit and fraudulent encashment of warrants.

Under this facility the amount of dividend payable to you would be directly credited to your bank account. Your bank's branch will credit your account and indicate the credit entry as 'ECS' in your pass book/statement account. We would be issuing an advice to you directly after the transaction is effected.

In case you wish to have your dividends paid through ECS and are holding the Company's shares in electronic form, you may kindly fill in the enclosed ECS mandate form and submit it to your **Depository Participant**. However, in case you are holding the company's shares in physical form and wish to have your future dividends paid through ECS, you may kindly return the said ECS mandate form duly completed and signed by you at our registered office mentioned elsewhere in this report.

If you do not wish to opt for ECS facility, we strongly recommend that you provide the details of your Bank's Name, Branch, type of Account and Account Number to your depository participant in cases where shares are held in electronic form and to us in cases where shares are held in physical form for printing the same on the dividend warrants which will be dispatched to you. In the event of any change or correction in the details that might have been provided by you earlier, kindly send revised particulars to your depository participant or to us, as the case may be, at an early date.

We request you to kindly submit the ECS/Bank details latest by 25th September, 2006 to enable us to include the same for the payment of the current year's dividend.

Annexure to the Notice**Explanatory statement pursuant to Section 173(2) of The Companies Act, 1956****Item#6**

Mr. Sreenivasa Sreekanth Uppuluri was appointed as an Additional Director of the company as per the provisions of Section 260 of the Companies Act, 1956("the Act") in the Board Meeting held on 30th August, 2006. Pursuant to Section 260 of the Companies Act, 1956 Mr. Sreenivasa Sreekanth Uppuluri holds office of Director up to the date of the ensuing Annual General Meeting. The Company has received a notice in writing under section 257 of the Companies Act, 1956, along with a deposit of Rs.500/- from a member signifying his intention to propose the name of Mr. Sreenivasa Sreekanth Uppuluri as a candidate for the office of Director. The profile of the Director is given hereto under the head 'Additional Information'

The Board recommends the resolution for the members' approval in the Annual General Meeting. None of the Directors except Mr. Sreenivasa Sreekanth Uppuluri is concerned or interested in the resolution.

Item# 7

Mr. Anil Kumar Pinapala was appointed as an Additional Director of the company as per the provisions of Section 260 of the Companies Act, 1956("the Act") in the Board Meeting held on 30th August, 2006. Pursuant to Section 260 of the Companies Act, 1956 Mr. Anil Kumar Pinapala holds office of Director up to the date of the ensuing Annual General Meeting. The Company has received a notice in writing under section 257 of the Companies Act, 1956, along with a deposit of Rs.500/- from a member signifying his intention to propose the name of Mr. Anil Kumar Pinapala as a candidate for the office of Director. The profile of the Director is given hereto under the head 'Additional Information'

The Board recommends the resolution for the members' approval in the Annual General Meeting. None of the Directors except Mr. Anil Kumar Pinapala is concerned or interested in the resolution.

Item# 8

Mr. Samad A. Momin was appointed as an Additional Director of the company as per the provisions of Section 260 of the Companies Act, 1956("the Act") in the Board Meeting held on 30th August, 2006. Pursuant to Section 260 of the Companies Act, 1956 Mr. Samad A.Momin holds office of Director up to the date of the ensuing Annual General Meeting. The Company has received a notice in writing under section 257 of the Companies Act, 1956, along with a deposit of Rs.500/- from a member signifying his intention to propose the name of Mr. Samad A.Momin as a candidate for the office of Director. The profile of the Director is given hereto under the head 'Additional Information'

The Board recommends the resolution for the members' approval in the Annual General Meeting. None of the Directors except Mr. Samad A.Momin is concerned or interested in the resolution.

Item# 9

Mr. Steve Clevenger was appointed as an Additional Director of the company as per the provisions of Section 260 of the Companies Act, 1956("the Act") in the Board Meeting held on 30th August, 2006. Pursuant to Section 260 of the Companies Act, 1956 Mr. Steve Clevenger holds office of Director up to the date of the ensuing Annual General Meeting. The Company has received a notice in writing under section 257 of the Companies Act, 1956, along with a deposit of Rs.500/- from a member signifying his intention to propose the name of Mr. Steve Clevenger as a candidate for the office of Director. The profile of the Director is given hereto under the head 'Additional Information'

The Board recommends the resolution for the members' approval in the Annual General Meeting. None of the Directors except Mr. Steve Clevenger is concerned or interested in the resolution.

Item# 10

Dr. Venugopal was appointed as an Additional Director of the company as per the provisions of Section 260 of the Companies Act, 1956("the Act") in the Board Meeting held on 6th October, 2005. Pursuant to Section 260 of the Companies Act, 1956 Dr. Venugopal holds office of Director up to the date of the ensuing Annual General Meeting. The Company has received a notice in writing under section 257 of the Companies Act, 1956, along with a deposit of Rs.500/- from a member signifying his intention to propose the name of Dr. Venugopal as a candidate for the office of Director. The profile of the Director is given hereto under the head 'Additional Information'

The Board recommends the resolution for the members' approval in the Annual General Meeting. None of the Directors except Dr.Venugopal is concerned or interested in the resolution.

Item# 11

The company proposes to issue 4,000,000 (Four millions Only) Warrants of Rs40/- each to strategic investors as detailed hereunder;

The warrant recipients shall have right to convert each warrant into one Equity Share of Rs.10/-each. A sum of Rs 4/- (Rupees Four) per warrant is payable at the time of allotment and the balance of Rs36 (Rupees Thirty Six Only) is payable within 18 months from the date of allotment. The issue price of Rs40/- per Warrant has been determined as per the guidelines framed by SEBI in this regard.

The warrants to be issued pursuant to the above will be subject to lock-in as stipulated under the applicable SEBI guidelines.

The proposed allotment of Warrants on preferential basis as envisaged above will not result in change in Control/ Management of the Company. The Company is in the process of developing new campus, developing new software products in addition to its line of existing products and proposes to intensify marketing in North America and Europe. The funds raised through the issue of preferential allotment of warrants will be used towards part funding of the above

Disclosures, which are required to be made pursuant to Clause 13.1A of the Securities and Exchange Board of India(Disclosure & Investor Protection) Guidelines, 2000.

(i) The objects of the issue through preferential offer

To part fund campus development, new product development, intensify marketing in North America and augment working capital source

(ii) The intention of the promoters/directors/key management persons to subscribe to the offer.

The promoters are not making any subscription to the present offer. Mr. Anil Kumar Pinapala who is now a director on the Board is only subscribing to this present offer in order to show his commitment towards the company and make available funds to the company's proposed growth plans.

(iii) Share holding pattern of the Company before and after conversion of proposed issue of Warrants pursuant to the resolution at item # 11

Sl.No	Category	Pre – issue		Post Issue	
		No. of Equity Shares	Percentage(%)	No. of Equity Shares	Percentage(%)
1	Promoters Holding	3201453	22.95	3201453	17.83
2	Institutional Investors a)Mutual Funds & UTI b)Banks, FI, FIIs,	-	-	-	-
3	Private Corporate Bodies	1179600	8.45	1179600	6.57
4	Indian Public	9570947	68.60	9570947	53.32
5	(*)Select Investors	NIL	NIL	4000000	22.28
		13952000	100.00	17952000	100.00

(*) After taking into account the conversion of 40,00,000 (Forty Lacs) warrants being proposed to issue to the other investors under the present preferential issue.

iv) Proposed time within which allotment will be completed

The allotment of the Warrants being issued on preferential basis is proposed to be made within 15 days from the date of passing of the resolution by the Members, provided that when the allotment on preferential basis is pending on account of pendency of any approval for such allotment by any regulatory authority or the Central Government, the allotment shall be completed within 15 days from the date of receipt of such approval.