Emerge... Empower Evolve...

Zylog
SYSTEMS LIMITED

CROSSING FRONTIERS,

CREATING BENCHMARKS.

ANNUAL REPORT 2010-11

CROSSING FRONTIERS,
CREATING BENCHMARKS.

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Corporate information

Board of Directors

Sudarshan Venkatraman
Chairman and
Chief Executive Officer

Ramanujam Sesharathnam
Managing Director and
Chief Operating Officer

P Srikanth
Executive Director

S Rajagopal
Director

M Gajhanathan
Director

A P Vasanthakumar
Director

v k Ramani
Director

Commitees

Audit Committee

S Rajagopal
A P Vasanthakumar
P Srikanth

Investors' Grievance Committee

M Gajhanathan
Sudarshan Venkatraman
P Srikanth

Remuneration Committee

V K Ramani
S Rajagopal
M Gajhanathan

Global Chief Financial Officer
S P Srihari

Finance Controller
Sriram R Chakrapani

Company Secretary
S Akila

Statutory Auditors
M/s. Brahmayya & Co

Branch Auditors
M/s. Ketan Pathak CPA

Internal Auditors
M/s. L U Krishnan & Co

Registered Office
155 Thiruvalluvar Salai
Kumaran Nagar
Sholinganallur
Chennai 600119

USA Headquarters
85 Lincoln Highway
Edison NJ 08820

Branches
Hyderabad, India
Bangalore, India
Mumbai, India
Fairfax, Virginia
New York, New York
Chicago, Illinois
Houston, Texas
Fremont, California

Bankers
Union Bank of India
Syndicate Bank
ICICI Bank Ltd
PNC Bank
Wachovia Bank
Commerce Bank
JP Morgan Chase Bank
CITI Bank
HSBC

Registrars & Tranfer Agents
M/s Cameo Corporate
Services Limited,
"Subramanian Buildings"
No.1, Club House Road
Chennai 600002, India
Email: cameo@cameoindia.com

Website: www.zsl.com

"The art of progress is to preserve order amid change and to preserve change amid order"

- Alfred North Whitehead

Almost every century has borne witness to the birth of a seminal idea or invention that changed the world in far-reaching ways. In the 15th century, it was the printing press which had a dramatic effect on European civilization. Its most important feature was its ability to disseminate information quickly and accurately. This had a profound impact on the growth of science. By enabling scientists in different parts of Europe to print their work and share their findings with each other, the printing press made the Scientific Revelation of the Enlightenment possible. This, in turn, radically altered the way Europeans perceived the universe. Thanks to the printing press and the numerous books and journals it helped to spawn, the light of knowledge spread to the farthest corners of the globe ushering in progress and birthing the modern era.

Crossing Frontiers, Creating Benchmarks.

ZYLOG SYSTEMS LIMITED

Regd. Off. : 155, Thiruvalluvar Salai, Kumaran Nagar, Sholinganallur, Chennai - 600119

NOTICE

Notice is hereby given that the Sixteenth Annual General Meeting of Zylog Systems Limited will be held on Thursday, 29th September 2011 at 10.00 a.m at Esthell Continental Hotels and Resorts, No.1, Royal Enclave, Besant Avenue, Adyar, Chennai – 600020 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Profit and Loss Account for the year ended March 31, 2011 and the Balance Sheet as at that date together with the Schedules and Notes attached thereto, along with the Reports of the Board of Directors' and Auditors' thereon.
2. To declare final dividend of ₹8/- per equity share of face value of ₹10/- for the year 2010-11.
3. To appoint a Director in place of Mr. M.Gajhanathan, who is liable to retire by rotation and is eligible for re-appointment.
4. To appoint Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration. M/s. Brahmayya & Co, Chartered Accountants, Chennai the retiring auditors, are eligible for re-appointment.

SPECIAL BUSINESS

To consider and if thought fit, to pass with or without modification(s), the following Resolutions:-

5. As an Ordinary Resolution:

   RESOLVED THAT pursuant to provisions of Sub –Section 3 of Section 228 and other applicable provisions, if any, of the Companies Act, 1956, the Board of Directors be and is hereby authorized to re-appoint M/s Ketan Pathak, CPA, USA as the USA Branch Auditors to hold office from the conclusion of this Meeting to the conclusion of the next Annual General Meeting and to fix their remuneration for auditing the accounts of the Company's branch office at USA for the year ended March 31, 2012.

6. As an Ordinary Resolution:

   RESOLVED THAT Mr.V.K.Ramani, whose term of office as an Additional Director, pursuant to Section 260 of the Companies Act, 1956 expires at this Annual General Meeting and in respect of whom the Company has received a notice under section 257 of the Companies Act, 1956, proposing his candidature for the office of a Director, be and is hereby appointed a Director of the Company, whose period of office shall be liable to determination by retirement of Directors by rotation.

By order of the Board of Directors
For Zylog Systems Limited

Sd/-
S.AKILA
Company Secretary

Place: Chennai
Date: 27th May 2011

NOTES:

(a) **A member entitled to attend and vote at the annual general meeting is entitled to appoint a proxy to attend and vote instead of himself/herself and such proxy need not be a member of the company. A proxy in order to be effective must reach the registered office of the Company atleast 48 hours before the scheduled time of the meeting. A blank proxy form is attached.**

(b) Members / proxies should bring duly-filled Attendance Slips sent herewith to attend the meeting.

(c) The Register of Members and Transfer Books of the Company will be closed from September 20, 2011 to September 29, 2011 (both days inclusive) for the purpose of Dividend.

(d) The Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, relating to Special Business to be transacted at the meeting, is annexed hereto.

(e) Corporate Members intending to send their authorized representatives to attend the Meeting are requested to send to the Company a certified true copy of the Board Resolution authorizing their representative to attend and vote on their behalf at the Meeting.

(f) The relevant details as required by Clause 49 of the Listing Agreements entered with the Stock Exchanges, of person seeking re-appointment as Director under Item no.3 of the Notice is provided in the Report on Corporate Governance forming part of the Annual Report.

(g) Subject to the provisions of Section 206A of the Companies Act, 1956, dividend as recommended by the Board of Directors, if declared at the meeting, will be paid on or before October 29, 2011 to those members whose names appear on the Register of Members as on September 19, 2011

(h) 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. Members are encouraged to utilize the Electronic Clearing System (ECS) for receiving dividends

(i) Members wishing to claim dividends, which remain unclaimed, are requested to correspond with Company Secretary at the Company's Registered Office or the Registrar and Share Transfer Agents, Cameo Corporate Services Private Limited. Members are requested to note that dividends not encashed or claimed within seven years from the date of transfer of 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.

(j) Any query relating to the Accounts must be sent to the Company's Registered office at least seven days before the date of the Meeting.

(k) MEMBERS MAY PLEASE NOTE THAT NO GIFTS/GIFT COUPONS SHALL BE DISTRIBUTED AT THE VENUE OF THE MEETING.

By order of the Board of Directors
For Zylog Systems Limited

Sd/-
S.Akila
Company Secretary

Place: Chennai
Date: 27th May 2011

ANNEXURE TO THE NOTICE

Explanatory Statements pursuant to Section 173 (2) of the Companies Act, 1956

Item no.5:

The Company has a branch office in USA. The Company had appointed M/s Ketan Pathak, CPA, USA as auditors of the USA branch as per requirements of USA Law until conclusion of this Annual General Meeting. It is proposed to re-appoint them as the Auditors for US Branch. M/s Ketan Pathak, CPA have confirmed their willingness to act as auditors, if appointed.

None of the Directors of the Company are interested or concerned in the resolution.

The Board accordingly recommends the resolution as set out in item no.5 of the Notice for approval of the members.

Item no.6:

Mr.V.K.Ramani was co-opted as an Additional Director of the Company with effect from February 07, 2011 pursuant to Section 260 of the Companies Act, 1956 read with Article 94 of the Articles of Association of the Company. Mr.V.K.Ramani holds office upto the date of the Annual General Meeting. The Company has received notice in writing from a Member, along with a deposit of ₹ 500/-, proposing the candidature of Mr.V.K.Ramani for the office of Director under the provisions of Section 257 of the Companies Act, 1956.None of the Directors other than Mr. V.K.Ramani is interested or concerned in the resolution.

The Board accordingly recommends the resolution as set out in item no.6 of the Notice for approval of the members.

By order of the Board of Directors
For Zylog Systems Limited

Sd/-
S.Akila
Company Secretary

Place: Chennai
Date: 27th May 2011

Performance highlights - consolidated

₹ in lakhs except per share data

For the period ended March 31,	2007	2008	2009	2010	2011
Operating Revenue	40,747.96	60,908.82	75,103.91	97,994.17	191,567.76
PBDIT	7,034.77	11,025.52	12,358.23	17,852.61	29,783.86
PBDIT / operating revenue	17.26%	18.10%	16.45%	18.22%	15.55%
PBDT	6,630.86	10,579.29	11,753.52	16,403.53	25,730.37
PBT	5,662.47	9,449.19	9,652.97	13,001.02	20,565.74
PAT	5,485.66	8,214.11	8,455.55	10,245.68	14,490.27
PAT / Revenue	13.44%	13.34%	10.55%	10.41%	7.54%
Share capital, reserves & surplus	21,834.50	40,891.91	48,925.22	57,876.07	70,913.55
Paid up share capital	1,284.64	1,644.64	1,644.64	1,644.64	1,644.64
Reserves and surplus	20,549.86	39,247.26	47,280.58	56,231.42	69,268.91
Total assets	30,017.57	41,715.69	71,528.00	111,762.81	144,734.57
Other assets	1,016.00	2,899.00	831.00	19,589.24	22,189.46
Capital employed	27,772.27	46,571.98	64,612.63	101,208.66	127,861.26
Return on average capital employed	28.57%	24.85%	17.61%	17.03%	21.29%
Net worth	21,834.50	40,891.91	48,925.22	57,876.07	70,913.55
Return on networth	33.98%	26.19%	18.83%	19.19%	22.50%
Book value per share	169.97	248.64	297.48	351.91	431.18
Earning per share	42.70	49.94	51.41	62.30	88.11
Cash accruals	6,631	10,579	11,754	16,404	25,730
Rate of dividend	25.00%	30.00%	30.00%	60.00%	80.00%
Dividend outflow	252.94	493.39	493.39	986.79	1,316.00

"The only difference between a rut and a grave is their dimensions"

- Ellen Glasgow

Change is a fact of life. Day becomes night, night becomes day, spring gives way to summer and autumn gives way to winter. As the world changes, so do we. From horse-driven carts to aeroplanes, we have come a long way from the worlds inhabited by our ancestors. But what drives this change? It is nothing but the human desire for perfection. Man, as a species, is hardwired to constantly dream up better ways of being. No frontier is too sacrosanct for him. For what lies beyond is infinitely more intriguing and worth possessing than what exists here and now. This willingness to redraw frontiers by challenging to explore uncharted territory is the story of every man-made invention that has changed the world and nudged it towards modernity. We, at Zylog, love change. For us, the grass is always greener on the other side. So we keep going forward, marking new frontiers, curious to explore, experiment and evolve. And yes, we too dream…of changing the world.

Crossing Frontiers. Creating Benchmarks

Letter to the members

Dear Members

I am very pleased to welcome you to the sixteenth Annual General Meeting of your company.

We have had a very successful year. The consolidated revenue for the year ended 31 March 2011 stands at ₹ 1,916 crores, an increase of 95% over the prior year. EBITDA stands at ₹ 298 crores, an improvement of 66% over the previous year.Net Profit after tax has reached ₹ 145 crores – growth of 42% over the previous 12 months.

We have a suite of 35 solutions that have been built up over the years from inception of the company. We see increasingly more traction created by this part of our business which has contributed ₹ 674 crores, 35.2% of the total revenue for the year ended March 2011. To make this rate of progress possible, we have been continuously investing substantially in R&D efforts. So today, we stand as one of the few products and solutions- based companies that have presence in many verticals and the core of these products and solutions emanate from our business knowledge, not just the technology knowledge.

Our Products & Solutions business is steaming ahead and armed with ever-expanding competencies, it is able to navigate a course for Zylog that defines our differentiated pitch in the market place for IT products, solutions and services.This segment is now at a mature stage of development of products & solutions and delivering superior profit margins in contrast to rudimentary IT services.Therefore, our business model has always taken cognizance of this fact and effectively tried to marry the two wings of our business, i.e. products & solutions and IT services in a mutually complementary fashion. One of the enablers of our products & solutions business in its development and reach is our existing client relationships.We have already commenced doing business in newer regions such as Saudi Arabia, Trinidad & Tobago, South Africa and Australia and this was made possible by arranging tie-ups with companies with a local presence.

When we enter newer areas of the world or lines of business, it transpires to us of many opportunities to bring our tremendous experience and brand to bear. This applies equally, be it a particular niche space hitherto uncovered in our portfolio or a different geographical region with its own unique norms of work culture, ethos etc. In such cases, ours has always been a methodology with its core values defined by partnerships and partnering arrangements. Few of our acquisitions in recent years underwent such working arrangements prior to coming on our books as fully-fledged subsidiaries. This methodology has been extremely effective in helping us to decide whether these businesses can fit in with Zylog's philosophy and work culture. A certain degree of conservatism in the modus operandi coupled with very aggressive intent to fully exploit the latest cutting edge technological tools, strategic fit of offerings and unique access to markets, is the route chosen by your company in all its endeavors.

One of the reasons for the buoyancy in our growth as illustrated in the above numbers is due to acquisitions made by your company in the previous year. It has been the first complete year following the acquisition of Brainhunter Inc, Canada. This company is now fully recognized under the brand of Zylog Systems (Canada) Limited. We have engineered and put into place a complete turnaround in the operations and sound financial housekeeping. Zylog Canada has made EBITDA and PAT of CAD 4.2 Mn and CAD 524,000 respectively for FY 2011, compared to losses for 5 consecutive years prior to Zylog's takeover. We approached the first year as one of consolidation and the plan is to take appropriate steps to cross sell our products & solutions services in due course and gradually build up the profitability of the business. A local company, Mindwire Inc. was acquired during the year for CAD 1.25 Mn which would greatly help with access to doing business with Government Departments which account for 30% of revenue.

There has been tremendous growth in offshore part of our business. We have carried out major recruitment of staff resources this year. Over 80% of employee additions during the year have been in offshore – be it Chennai, Bangalore or Hyderabad. We have contracted to take on 27,000 sq. ft. of additional office space in a SEZ location in Siruseri, Chennai. This underpins our core belief that offshore optimization remains the key to many of our long term objectives and overall profitability of the company but it has to be done in a structured manner. High onsite presence, in proportional terms, is essential and will continue as it remains the central plank of your company's vision.

Our Wi5 business in India is surging ahead in line with expectations. We are now present in 170 towns across the states of Tamil Nadu, Andhra Pradesh, Karnataka, Gujarat, Punjab and Goa with a clientele numbering 30,000 subscribers. This includes retail customers, corporate customers, hotels, as well as universities and colleges where our broadband devices have met with huge appetite. As described above, we are focusing on several revenue streams within the broadband space, though concentration is most acute on the retail population and especially in rural and semi-urban areas of the country. This was the result of our strategic business model of going into secondary towns, where the ARPU (average revenue per user) is much higher and the towns represent a much better entry point in terms of profitability and optimization of hardware investment. Very shortly, it will be offering a bouquet of added value services like for example, Antivirus software, Web builder services etc. We are on course to achieve 100,000 subscribers by the end of current financial year, as Wi5 is committed to expand its retail operations to 3 more states by then.

In E-Governance, Zylog has a strong global and Indian presence in the fields of Home affairs and Police, Immigration, Healthcare, tourism and Road Transport sector. In the Indian Sphere, Zylog takes pride in its implementation strength.

In India, Zylog has successfully implemented complete system integrating 55 RTOs in Karnataka and till date have issued around 2 million smart card based driving licences and Registration Certificates in a period of one year. In Gujarat, through our Subsidiary we have integrated 28 RTOs and have been issuing smart card based driving licences. We have implemented RSBY Project (Rashtriya Swasthya Bima Yojna) in the States of Kerala, Karnataka, UP and Haryana.

We have also signed an MOU with the Gujarat Urban Development Corporation during the Vibrant Gujarat programme for implementing a project to provide necessary infrastructure to create an accounting database in and integrate all the urban bodies that state.

Overall, as can be clearly seen from the above synopsis, your company is on a mission to go from strength to strength. Our focus, drive and determination backed up by resourcefulness are legendary. We have every reason to believe FY 2012 will be hugely successful and lay the path for sustained prosperity to all the stakeholders of the company in the coming years.

Warm Regards

Sudarshan Venkatraman
Chairman and Chief Executive Officer

"THE ILLITERATES OF THE 21ST CENTURY WILL NOT BE THOSE WHO CANNOT READ AND WRITE, BUT THOSE WHO CANNOT LEARN, UNLEARN AND RELEARN"

- ALVIN TOFFLER

Since the time a human learns to walk, he yearns to fly. In literature, flight is a metaphor for freedom, transcendence and achievement. Perhaps, some day, human evolution would have reached a stage where we may have our own wings to fly with. But until then, we have a different set of wings to conquer the skies, thanks to the efforts of two brothers, Wilbur and Orville Wright. Originally printers and bicycle builders, the brothers were passionate self-trained engineers who, armed with a successful research strategy, overcame challenge after challenge to realize their dream of inventing the aeroplane. They finally developed a practical flying machine after working their way through seven experimental aircraft which included one kite, three gliders and three powered aeroplanes. By 1905, after several test flights, the machine became capable of being in the air for long periods of time, and under the full control of the pilot. The invention of the aeroplane accelerated the pace of technological progress. Travel and commerce were revolutionized. Mankind had outgrown terra firma. Now we could walk, run…and fly!

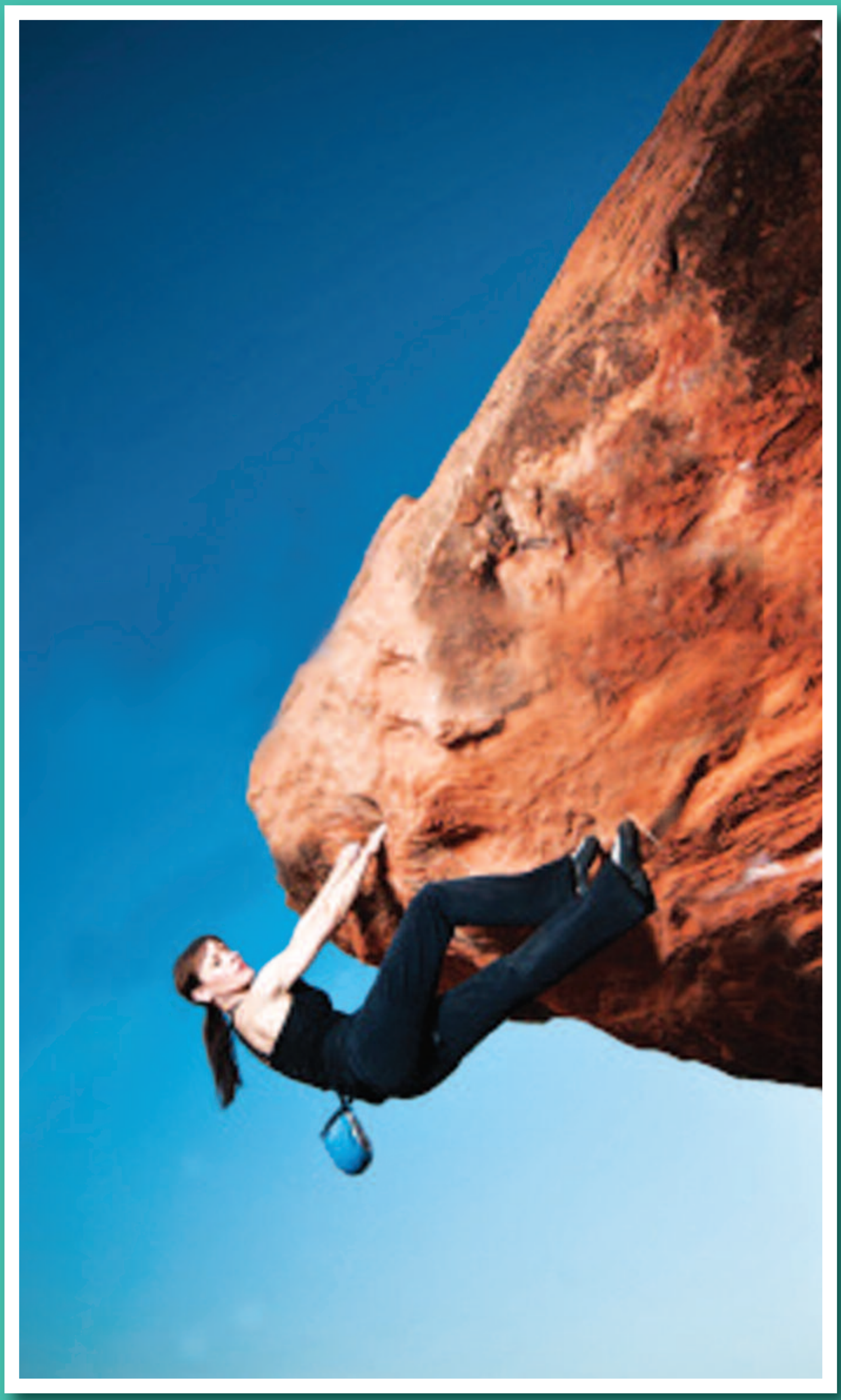
CROSSING FRONTIERS, CREATING BENCHMARKS.

"CHANGE ALWAYS COMES BEARING GIFTS"

- PRICE PRITCHETT

Among the many inventions that changed the world, the telephone occupies a special place for it connects two people in the most intimate manner without actual physical proximity. The instrument has undergone many mutations since the days of Graham Bell but its importance in our lives remains undiminished. It has connected estranged lovers, reunited families, healed political rifts, brought hope, cheer and solace to millions of people whose lives sometimes dangled on the flimsiest of threads like the unseen wires that connect two telephones. More than the aeroplane, the telephone killed distances. A person in Africa could connect to a person in America within seconds, without moving from his seat. In the history of the world's technological progress, the telephone occupies pride of place. It is one of the most important milestones in the world's march towards modernity.

CROSSING FRONTIERS, CREATING BENCHMARKS.



To the Members,

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

FINANCIAL RESULTS

₹ in lakhs except per share data

Year ended March 31,	Standalone		Consolidated	
	2011	2010	2011	2010
Operating revenue	91,584.34	78,352.16	1,91,567.76	97,994.17
Other Income	240.11	439.40	491.88	459.92
Operating Profit (PBDIT)	22,665.50	15,825.66	29,783.86	17,955.12
Interest	2,371.70	1,167.97	4,053.49	1,449.08
Depreciation	3,023.20	2,842.36	5,150.86	3,370.39
Prior period adjustments	-	-	13.76	32.13
Profit before tax (PBT)	17,270.60	11,815.33	20,565.74	13,103.52
Taxes	5,158.68	2,600.70	6,075.47	2,857.85
Profit after tax (PAT)	12,111.93	9,214.63	14,490.27	10,245.68
Less: Minority interest	-	-		153.54
Add: Share of profit of associate	-	-	24.35	-
Net Profit for the year	12,111.93	9,214.63	14,514.62	10,092.14
Dividend recommended	1,315.71	986.79	1,315.71	986.79
Dividend tax	218.53	167.70	218.53	167.70
Transferred to general reserve	1,500.00	1,000.00	1,500.00	1,000.00
Balance carried forward to balance sheet	39,077.37	29,999.68	42,411.89	30,931.50
Paid up capital	1,644.64	1,644.64	1,644.64	1,644.64
Reserves & Surplus	65,639.67	55,061.98	69,268.91	55,886.27
Net Worth	67,284.31	56,706.63	70,913.55	57,876.07
Earnings per Share	73.64	56.03	88.25	62.30

RESULTS OF OPERATION

During FY 2010-11, the company posted an excellent financial performance, both at the standalone and consolidated level. The prospects for the company have improved immeasurably in spite of challenging global economic climate. The full effect of the two acquisitions, namely Brainhunter Inc, Canada and Matrix Primus Partners Inc, USA during the tail end of the previous financial year was fully brought out in the consolidated numbers, as total income almost doubled from ₹ 979.94 crores in the previous year to ₹ 1915.68 crores in the year ended March 2011. Net Profit at the consolidated level has galloped at the rate of 44% from ₹ 100.92 crores in the previous year to ₹ 145.15 crores. Total Revenue for Zylog Systems Limited was ₹ 915.84 crores as against ₹ 783.52 crores in the previous year, representing a growth of 17%.

At standalone level, our profit after tax amounted to ₹ 121.12 crores (13.22% of revenue) as against ₹ 92.15 crores (11.76% of revenue), thus representing an increase of 31.44% over the previous year. On consolidated basis, our profit after tax amounted to ₹ 145.15 crores (7.58% of revenue) as against ₹ 100.92 crores (10.29% of revenue). The net worth of the company has increased to ₹ 672.84 crores from ₹ 567.07 crores whereas the group net worth has increased to ₹ 709.14 crores from ₹ 578.76

crores. The EPS has improved to ₹ 73.64 (₹ 56.03 PY) for standalone and ₹ 88.25 (₹ 62.30 PY) for the group.

The Company continues to be a 100% Export Oriented Unit ("EOU") registered with the Software Technology Parks of India ("STPI"). The Company also proposes to take up an office space at Siruseri, SIPCOT, Chennai (a SEZ Unit) for its operation. The Company was enjoying tax holiday for its export earnings under Section 10B of the Income tax 1961 till the financial year 2010-11 by virtue of being 100% EOU registered with STPI. However the unit proposed to be set up in SEZ may get its tax benefits as applicable. Funds raised during the IPO of the company has been fully utilized towards the objects of the issue as per the prospectus dated July 31st ,2007.

SUBSIDIARIES

As per Section 212 of the Companies Act, 1956, we are required to attach the Directors' report, Balance Sheet, and Profit and Loss account of our subsidiaries. The Ministry of Corporate Affairs, Government of India vide its circular no.2/2011 dated February 8, 2011 has provided an exemption to Companies from complying with Section 212, provided such companies publish the audited consolidated financial statements in the Annual Report. Accordingly, the Annual Report 2010-11 does not contain the financial statements of our subsidiaries. The audited annual accounts and related information of our subsidiaries, where applicable, will be made available upon request. These documents will also be available for inspection during business hours at our registered office in Chennai, India.

The Company has eight subsidiaries. A brief description of the performance of subsidiaries is given below:

- **Vishwa Vikas Services Limited**

  Vishwa Vikas Services Limited has generated revenue of ₹ 322.67 lakhs (PY ₹ 254.74 lakhs) with a net profit of ₹ 25.04 lakhs (PY ₹ 20.03 lakhs).

- **Zylog Systems (Europe) Limited**

  Zylog Systems (Europe) Limited has recorded revenue of ₹ 5,134.36 lakhs (PY ₹ 4,115.45 lakhs) with a net profit of ₹ 477.73 lakhs (PY ₹ 169.36 lakhs). During the year an investment of ₹ 29, 09,672 was made as Share capital of the Subsidiary.

- **Zylog Systems (India) Limited**

  Zylog Systems (India) Limited has achieved revenue of ₹ 4,560.86 lakhs (PY ` 1,163.35 lakhs) with a net profit of ₹ 322.19 lakhs (PY ₹ 39.92 lakhs). During the year the paid up share capital of Zylog Systems (India) Limited was increased by ₹ 3,140 lakhs and the authorized share capital was increased to ₹ 500 Llkhs.

- **Zylog Systems Asia Pacific Pte Limited**

  Zylog Systems Asia Pacific Pte Limited has generated revenue of ₹ 1,218.04 lakhs (PY ₹ 884.84 lakhs) with a net profit of ₹ 94.25 lakhs (PY ₹ 79.98 lakhs).

- **Zylog BV Limited**

  Zylog BV Limited has generated revenue of ₹ 6,665.22 lakhs (PY ₹ 2,578.50 lakhs) with a net profit of ₹ 133.28 lakhs (PY ₹ 418.74 lakhs).

- **Matrix Primus Partners Inc, USA**

  Matrix Primus Partners Inc, USA has recorded revenue of ₹ 9,123.39 lakhs (PY ₹ 810.06 lakhs) with a net profit of ₹ 133.28 lakhs (PY ₹ 93.18 lakhs).

- **Algorithm Solutions Private Limited**

  Algorithm Solutions Private Limited has recorded revenue of ₹ 558.84 lakhs (PY ₹ 0.06 lakhs) with a net profit of ₹ 18.97 lakhs (PY net loss ₹ 0.04 lakhs).

- **Zylog Systems (Canada) Limited**

  Zylog Systems (Canada) Limited has generated revenue of ₹ 76,481.44 lakhs (PY ₹ 10,325.81 lakhs) with a net profit of ₹ 236.73 lakhs (PY ₹ 184.44 lakhs).

  The statement of subsidiaries under Section 212 (1)(e) has been attached as Annexure to the Directors' Report.

SHARE CAPITAL

At the end of the financial year the Company's Equity Share Capital stands at ₹ 1,644.64 Lakhs consisting of 1,64,46,420 Equity Shares of ₹ 10/- each.

DIVIDEND

Your Directors recommend a dividend of 80% i.e. ₹ 8 per Equity Share for the year ended March 31, 2011 on 1,64,46,420 fully paid up Equity Shares of ₹ 10 each (PY ₹ 6 per share on 1,64,46,420). If the recommended Dividend is approved by the Members at the forthcoming Annual General Meeting, the Dividend including the Dividend Tax will absorb ₹ 15.34 crores (₹ 11.54 crores PY).

TRANSFER TO RESERVES

Your Directors propose to transfer a sum of ₹ 15 crores to General Reserves (₹ 10 crores PY) out of the amount available for appropriation and a sum of ₹ 390.77 crores (₹ 299.99 crores PY) is carried forward in the profit and loss account for standalone and a sum of ₹ 424.12 crores (₹ 309.32 crores PY) at the group level.

STRATEGIC INVESTMENTS & ACQUISITIONS

One of the largest acquisitions of the Company during the previous year was M/s. Brainhunter Inc, Canada. The benefits that were envisaged include access to new clients, new geographical areas and new service and product offerings. This company was endowed with a superb client base to which Zylog could market and sell its own products and solutions. The other main plus point of the acquisition was that Canada represented a stable and prosperous economy into which any business that had a significant presence in the US like Zylog would want to add its own footprint in Canada as a natural extension of its operations. Integration of Brainhunter indeed had its own challenges which have been successfully overcome, as the synergy of leveraging Zylog's top management, business development, marketing and other operational expertise has been fully put into practice. The 'Brainhunter' business that was acquired was purely an asset purchase and not an equity purchase. This purchase was through our wholly owned subsidiary, Zylog Systems (Canada) Limited. The business is now recognized under the name of Zylog Systems (Canada) Limited. Once the Company completely leverages Brainhunter's customer base to cross-sell its own products and services, the benefits will accrue in subsequent periods. This is entirely in line with Zylog's strategic vision that seeks out target companies for acquisition which have substantial untapped potential in their business prospects or have some operational, financial or geographical constraints. During the year, Zylog Systems (Canada) Limited has acquired 100% of the share capital of Mindwire Inc. for a net consideration amounting to ₹ 5,83,68,125. This was an operational decision implemented to facilitate the running of Business with Government Departments which contribute 30% of total revenues of the subsidiary. Mindwire was a locally registered Canadian company which had an excellent track record in conducting business with Government Departments in Canada. One other acquisition during the previous year, M/s Matrix Primus Partners Inc., USA has also performed well contributing revenue of ₹ 91.23 cr with a net profit of ₹ 10.95 cr.

Your company has been doing well in various acquisitions from previous financial years and has successfully integrated the acquired products, solutions and services into its suite of offerings. These acquisitions have helped the Company to penetrate the market deeper and cross-sell its newly-acquired offerings to complementary markets, thus enlarging its reach. Your Company continues to look out for suitable acquisitions that shall be a leading edge in business and has potential to yield substantial business benefits. Acquiring a company in a niche space will have its own attractions amongst existing offerings. Also, building up economies of scale in our product and service capabilities proves to be a very important strategy as we target larger size contracts with premier companies and governments around the world.

CORPORATE GOVERNANCE

Your Directors benchmark its corporate governance policies with the best in the world. Your directors have reiterated your company's philosophy on corporate governance. The increasing diversity of the investing community and the integrated nature of global capital markets render corporate governance a vital issue for investors. A separate section on Corporate Governance forming part of the Directors Report and the certificate from the Companys auditors confirming compliance of Corporate Governance norms as stipulated in Clause 49 of the Listing Agreement with National Stock Exchange of India (NSE) and Bombay Stock Exchange of India (BSE) is included in the Annual Report.

MANAGEMENT DISCUSSION AND ANALYSIS

Pursuant to clause 49 of the Listing Agreement with the Stock Exchanges, we annex herewith a Statement on Management Discussion and Analysis which forms part of the Directors report.

A cautionary note: Certain statements in the Management Discussion and Analysis section may be forward looking and are stated as required by applicable laws and regulation. Many factors may affect the actual results, which could be different from what we envisage in terms of future performance and outlook.

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.

PARTICULARS OF EMPLOYEES

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

ADVISORY COMMITTEE

The Advisory Committee of the Company is headed by Mr.S. Rajagopal, who is also an Independent Director of the Company and comprises of eminent persons viz., Mr. Ratnakar Hegde, former Executive Director of Union Bank of India, Mr. T. Valliappan, Director, Oriental Bank of Commerce Ltd. and Mr.Nanjappa, former Executive Director, Reserve Bank of India. The Advisory Committee met 4 times during the current fiscal to review the business.

QUALITY INITIATIVES

Quality and best practices define the foundation of a company. Your company is an ISO 9001:2008 qualities certified Company and are being assessed for CMMI Level 4. Your company continuously leverages cutting edge tools, methodologies and benchmark standards to exceed the expectations of our customers. We, as an IT Solution provider, will continue to strive for excellence in all areas of business, guarantee the quality of its software products at all stages of development and build the highest quality standards. Your Company follows the most widely used paradigms for QA management, PDCA (Plan-Do-Check-Act) approach, also known as the Shewhart cycle. The main goal of QA is to ensure that the product / service fulfills or exceeds customer expectations. An independent audit team, who reports directly to the Managing Director, ensures proper implementation of all the control functions. The audit team conducts regular internal audits, intimates the non-conformities found during such audits, ensures that necessary corrective and preventive actions are taken and furnishes necessary summary reports to the Senior Management.

We have developed and implemented control systems for software development, for information security and for managerial functions. Policies, processes and procedures have been developed for each control system and these are placed in the company's network to ensure their availability to all the employees at all times.

AWARDS AND RECOGNITION

In 2010-11, awards and recognition marked our accomplishments in various fields.

- Won NJTC's Mid-Atlantic Innovation Award for its Knowledge Management & Collaboration Solution.
- Recognized on the Everything Channel CRN Fast Growth 100 List. The ranking is based on two years' growth of net sales and the Company is winning this award 4 years in row.
- Earned a Spot on 2010 InformationWeek 500 List of Top Technology Innovators Across America for the Business Technology Innovation Leadership.
- Named as one of the "30 Cloud VARs That Get It" by Everything Channel's CRN Magazine
- ZSL Inc. was honored with the prestigious Judges Award for its Wound Care Mobile Assistant, an app that replaces the manual process of taking measurements of wounds and lesions and updating the patient record. NJTC also recognized the company's SmartPrise BI Mobile app, which brings enterprise business analytics to a mobile environment.
- The Company's Enterprise Mobile Applications Suite won Mobile Innovation Award from Research In Motion (RIM) and NJTC.

FIXED DEPOSITS

We have not accepted any fixed deposits and, as such, no amount of principal or interest was outstanding as of the Balance Sheet date.

DIRECTORS

In accordance with Article 99 of the Articles of Association, Mr. M. Gajhanathan, Director is liable to retire by rotation at the ensuing Annual General Meeting and being eligible offers for reappointment as Director.

The Board inducted Mr.V. K. Ramani into the Board of Directors. We seek your support in confirming his appointment as director liable to retire by rotation.

Mr. A. V. Rajwade has resigned as a Member of the Board and the Board of Directors considered and accepted his resignation with effect from 03rd August 2010 .We place on record our deep sense of appreciation for the services rendered by Mr. A.V. Rajwade as a Board member.

Mr. V. Chandramouly has resigned as a Member of the Board and the Board of Directors considered and accepted his resignation with effect from 31.03.2011. We place on record our deep sense of appreciation for the services rendered by Mr. V. Chandramouly as a Board member.

DIRECTORS' RESPONSIBILITY STATEMENT AS REQUIRED UNDER SECTION 217 (2AA) OF THE COMPANIES ACT, 1956

Pursuant to Section 217(2AA) of the Companies Act, 2000, the Directors confirm that:

(i) they accept responsibility for the integrity and objectivity of these accounting statements;

(ii) the financial statements are prepared in accordance with the guidelines and standards of the ICAI and Companies Act 1956, to the extent applicable. There are no material departures from the above-mentioned standards;

(iii) such standard accounting policies have been applied consistently, except as otherwise stated;

(iv) the judgments and estimates have been made on a reasonable and prudent basis so that the financial statements provide a true and fair view of the state of affairs of the Company at the end of the financial year;

(v) the directors have 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;

(vi) the Annual Accounts are prepared on a going concern basis and on an accrual basis.

AUDITORS

M/s Brahmayya & Co., Chartered Accountants, Chennai retire as the Auditors of the Company at the conclusion of the ensuing Annual General Meeting and being eligible pursuant to Section 224 (1B) of the Companies Act, 1956, have expressed willingness to accept office, if re-appointed .The Audit Committee in their meeting held on May 27, 2011 has recommended the re-appointment of M/s Brahmayya & Co., Chartered Accountants, Chennai.

HUMAN RESOURCES

As this is a people business, employees are vital and most valuable assets possessed by the company. Your company continues to attract highly talented individuals possessing skill sets with an 'x' factor. Your company rightly appeals to young, qualified people who want to make a difference in their contribution and be at the forefront of change which is very much the hallmark that we pursue to the highest degree, as we cross several pioneering frontiers in our pursuit of perfection. Employee strength was 4302 at the end of the year compared to 3394 last fiscal and continues to be on an upward trend, given the challenges we have set ourselves. The effective and optimal utilisation of precious onsite and offshore staff resources remains one of the key near term objectives, going forward.

ENVIRONMENTAL AWARENESS

"Go Green" initiatives to conserve resources has been initiated in the Company. Steps required for conserving power across all delivery centres are being undertaken. The Company has also taken initiatives within its office buildings to reduce electrical power, water and paper consumption. These initiatives shall be taken forward at a sustained pace.

ACKNOWLEDGEMENTS

Your directors profusely thank the clients, vendors, investors and bankers for their continued support of Company's growth. Your directors place on record their immense appreciation of the contribution made by every employee at all levels, who through their commitment, competency, hard work, solidarity, cooperation and support have enabled the company to achieve this growth. Your directors sincerely thank the Government of India, particularly the Department of Electronics, the Customs and Excise Departments, Software Technology Park – Chennai, the Ministry of Commerce, Reserve Bank of India, Department of Telecommunications, State Government and other Government agencies for their support during the year, and look forward to their continued support in the future.

For and on behalf of the Board of Directors
of Zylog Systems Limited

Sudarshan Venkatraman
Chairman & CEO

Ramanujam Sesharathnam
Managing Director & COO

Place : Chennai
Date : 27th May 2011

Statement of Subsidiaries under Section 212 of the Companies Act, 1956

Amount in ₹

Particulars	Vishwa Vikas Services Limited	Zylog Systems (Europe) Limited	Zylog Systems (India) Limited	Zylog Systems Asia Pacific Pte Limited	Zylog BV Limited	Zylog Systems (Canada) Limited	Algorithm Solutions Private Limited	Matrix Primus Partners, Inc
The Financial Year of the Subsidiary Company ended on	March 31, 2011	March 31, 2011	March 31, 2011	March 31, 2011	March 31, 2011	March 31, 2011	March 31, 2011	March 31, 2011
Holding Company	Zylog Systems Limited	Zylog Systems Limited	Zylog Systems Limited	Zylog Systems Limited	Zylog Systems Limited	Zylog Systems Limited	Zylog Systems Limited	Zylog Systems Limited
Holding Company Interest	100%	100%	100%	100%	100%	100%	100%	100%
Shares held by the holding Company in the Subsidiary Company	2,50,000	15,64,701	3,15,00,000	19,06,389	125,000	70,00,000	10,000	10,03,750
Net aggregate amount of profit / (Losses) of the subsidiary so far as it concerns the members of holding company and is not dealt with in the Accounts of Holding Company								
(a) For the Financial year ended on March 31, 2011	25,04,149	4,77,72,981	3,22,18,927	94,24,885	1,33,28,252	2,36,72,966	18,97,013	10,94,50,374
(b) For the previous financial years of the subsidiary since it became a Subsidiary.	20,03,089	1,69,36,146	39,92,493	79,98,101	4,18,74,469	1,84,44,353	(4,000)	93,17,737

ANNEXURE TO THE DIRECTORS' REPORT
INFORMATION RELATING TO SUBSIDIARIES

Disclosure of information relating to the Subsidiary companies as per the requirement of the Ministry of Corporate Affairs, Government of India

₹ *in lakhs*

Particulars	Vishwa Vikas Services Limited	Zylog Systems (Europe) Limited	Zylog Systems (India) Limited	Zylog Systems Asia Pacific Pte Limited	Zylog BV Limited	Zylog Systems (Canada) Limited	Algorithm Solutions Private Limited	Matrix Primus Partners, Inc
Financial year of the Subsidiary	March 31, 2011	March 31, 2011	March 31, 2011	March 31, 2011	March 31, 2011	March 31, 2011	March 31, 2011	March 31, 2011
1. Share capital	25.00	1065.65	3150.00#	625.99	62.99	3093.87	1.00	451.99
2. Reserves and surplus	399.96	501.85	3,574.08	238.95	165.07	421.17	18.44	1,187.68
3. Total assets	811.95	3,082.92	13,750.61	2,041.19	7,593.22	27,196.38	632.13	9,203.12
4. Total liabilities	386.99	1,453.28	7,026.53	1,161.03	7,325.12	21,579.50	612.69	4,330.78
5. Details of investments including goodwill	-	-	231.09	594.92	3,956.20	-	-	-
6. Net Sales including other income	322.67	5,134.36	4,566.99	1,232.96	6,707.06	76,669.60	559.55	9,123.39
7. Profit/(loss) before tax	43.32	529.23	487.40	74.04	225.84	427.37	27.45	1,480.48
8. Provision for taxation	18.28	51.50	165.21	4.14	92.56	190.64	8.48	385.98
9. Profit/(loss) after Tax	25.04	477.73	322.19	69.90	133.28	236.73	18.97	1,094.50
10. Proposed dividend	-	-	-	-	-	-	-	-
11. Reporting currency	INR	GBP	INR	SGD	USD	CAD	INR	USD
12. Exchange rate	-	72.79	-	33.25	45.40	46.69	-	45.40

The Financial Statements of Subsidiaries whose reporting currencies are other than Indian Rupees were converted into Indian Rupees on the basis of appropriate exchange rates.

includes share application money.

Annexure 2

PARTICULARS PURSUANT TO COMPANIES

(DISCLOSURE OF PARTICULARS IN THE REPORT OF DIRECTORS) RULES, 1988

A. Details of Conservation of Energy

The Company is aware of the need to conserve resources, reduce its carbon emissions and create sustainable alternatives wherever feasible.

Even though the operations do not warrant high energy consumption, the Company continuously takes measures to optimize energy usage, for example, replacement of flat monitors in the place of CRT monitors, switching over to CFL lightings, switching off the air conditioners on a budgeted hours basis.

B. Technology Absorption

1. Special Areas in which R & D carried out by the Company.

The Company has a Research, Analysis & Development wing, namely, "IDEA (Innovative Development of Enterprise Applications) Lab" breeding innovation to meet the growing market demands.

IDEA Lab assist the Independent Software Vendors (ISVs), Solution Providers (SPs) and our partners by offering

Research & Development – The dedicated R&D unit is involved in exploring the hundreds of new emerging technologies in compliance with changing market trends helping clients to take advantage of opportunities, to serve their customers rapidly and economically keeping pace with trends, emerging customers as distinguished performer from their competitors

Product Re-Engineering – Helps in re-inventing and re-building a product suitable to fluxing and demanding market environment

Product Lifecycle Management (PLM) – Company's deep expertise coupled with quality software deliverable capability help ISVs and SPs to reach their customers faster at lower cost. IDEA Lab's PLM helps businesses to create an integrated product development environment across the enterprise in diversified industries such as High Tech, Healthcare, Banking, Insurance, Telecommunication, Manufacturing, Automotive, Retail, Consumer Electronics and more.

2. Benefits derived as a result of above R&D

- New innovative and State-of-the-art technology products on a less TCO.
- Quicker ROI
- Product development is based on modular, flexible, scalable delivery mechanisms
- Customer centric approach in delivering Quality Solutions.
- Aimed at providing solutions to dynamic business concerns.
- Holistic approach in providing cutting edge technology.
- Quickly customizable, adaptable offerings.
- Very Quick Time to Market.
- Subject Matter Experts with immense knowledge on latest technologies and tools.

- Faster implementation and simple configuration procedures.
- Highly secure and scalable
- 24x7x365 customer support
- Less maintenance and support cost

3. Future plan of action

To continue the focus is in doing R&D, developing Prototype and POCs (Proof of Concepts) by aligning the emerging enterprise technologies to the business requirements.

4. Expenditure on R&D

Expenditure incurred on research and development is charged off to Profit & Loss Account as incurred till the time the techno-commercial viability is established.

C. Foreign Exchange Earnings and outgo

1. Activities relating to export initiatives taken to increase export developments of new markets for product and services and export plans.

The geography concentration of the Company is mainly USA contributing to 51.1% and Canada contributing to 39.9% of the revenue. The plans to continue concentrating on the development of Export business.

2. Total Foreign Exchange used and earned FOB

a) Total Foreign Exchange Earned ₹ 899.11 crores (₹ 778.13 crores)

b) Total Foreign Exchange Used ₹ 689.76 crores (₹ 578.93 crores)

For and on behalf of Board of Directors

of Zylog Systems Limited

Sudarshan Venkatraman
Chairman & CEO

Ramanujam Sesharathnam
Managing Director & COO

Place : Chennai

Date : 27th May 2011

CROSSING FRONTIERS,
CREATING BENCHMARKS.

"WE MUST BECOME THE CHANGE WE WANT TO SEE"

- MAHATMA GANDHI

Globalization, as a word, gained currency with the arrival of the internet age. It heralded the rise of the 'global village', with people collaborating across geographical boundaries to create a globalized economy where ideas and money flowed freely between nations and continents. And all one needed was a computer at home. The birth of internet led to the dot.com revelation which created several millionaires almost overnight. Though the boom didn't last long, the exciting possibilities of the internet are here to stay, waiting to be tapped by those with vision and talent. The best thing about the internet is that it can be used to benefit anyone and everyone…from the humble farmer to the business tycoon. It has the power to make each of us the arbiter of our own destiny. Used intelligently, it is a tool which can unlock our secret potential and change our lives.

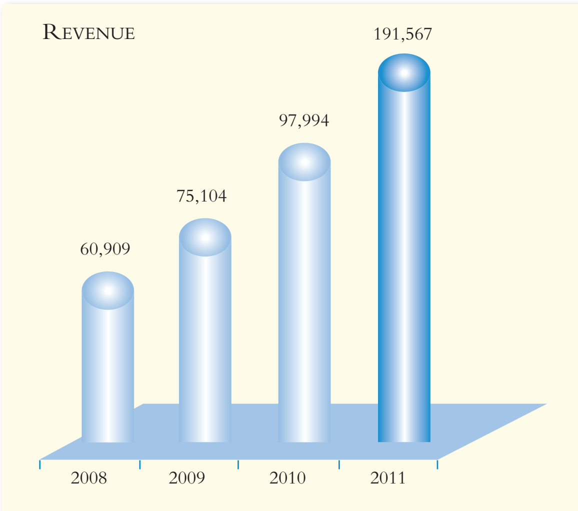
At a glance - consolidated

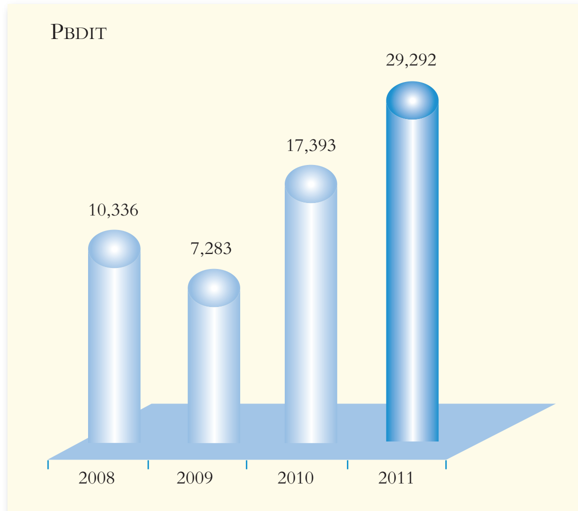
₹ in lakhs except per share data

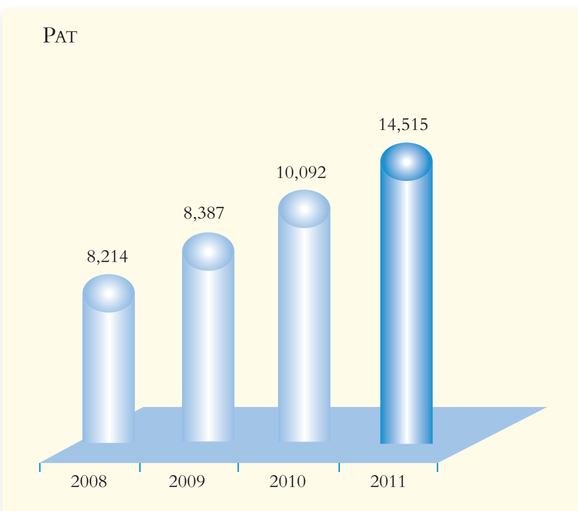
For the period ended March 31,	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenue	72,95,478	1,40,07,220	7,72,02,020	15,85,84,674	40,64,23,691	64,83,65,889	96,55,08,872	146,71,97,409	271,18,34,454	408,11,55,042	615,97,92,651	801,79,58,048	984,54,08,517	1920,59,63,588
PBDIT (Operating Income)	55,60,426	81,30,564	3,06,45,298	7,51,77,152	10,32,20,431	15,91,72,015	16,23,89,712	23,65,11,940	51,84,53,270	70,34,77,069	110,25,51,942	123,58,22,911	178,52,61,349	297,83,85,668
Operating Income / Revenue	76.22%	58.05%	39.69%	47.41%	25.40%	24.55%	16.82%	16.12%	19.12%	17.24%	17.90%	15.41%	18.13%	15.51%
PBDT	50,26,672	72,69,557	2,77,09,035	7,18,09,191	9,87,72,185	15,63,85,185	15,87,43,638	26,46,09,686	49,64,10,306	66,30,85,779	105,79,29,032	117,53,51,860	164,03,53,461	257,30,36,752
PBT	27,83,142	40,24,738	1,51,82,783	5,47,82,348	8,45,35,629	13,85,68,244	12,48,48,282	19,67,94,250	40,13,16,349	56,62,46,558	94,49,19,451	96,52,97,299	130,01,01,685	205,65,74,239
PAT	27,83,142	40,24,738	1,51,02,783	5,44,66,420	5,68,51,116	9,54,62,447	11,62,20,569	18,31,52,631	38,27,58,174	54,85,66,140	82,14,10,647	84,55,55,310	102,45,67,514	144,90,27,156
PAT / Sales	38.15%	28.73%	19.56%	34.35%	13.99%	14.72%	12.04%	12.48%	14.11%	13.44%	13.34%	10.55%	10.41%	7.54%
Share capital, reserves & surplus	99,61,701	2,36,70,399	10,03,85,287	16,15,44,757	31,63,12,378	40,48,53,698	51,23,93,662	68,12,86,664	104,54,92,711	218,34,49,897	408,91,90,632	489,25,21,707	578,76,06,608	709,13,54,871
Paid up share capital	43,50,000	1,58,55,000	2,99,00,000	4,14,69,900	4,14,69,900	5,21,07,100	10,42,14,200	10,42,14,200	10,42,14,200	12,84,64,200	16,44,64,200	16,44,64,200	16,44,64,200	16,44,64,200
Reserves and surplus	56,11,701	78,15,399	7,04,85,287	12,00,74,857	27,48,42,478	35,27,46,598	40,81,79,462	57,70,72,464	94,12,78,511	205,49,85,697	392,47,26,432	472,80,57,507	562,31,42,408	692,68,90,671
Total assets	1,47,29,865	3,67,43,277	11,82,64,974	19,10,37,622	32,83,97,178	42,75,49,648	62,33,94,396	83,82,81,610	158,81,77,873	300,17,56,850	417,15,68,732	715,27,64,593	1117,77,66,924	1447,34,57,483
Other assets			16,30,689	8,80,80,875	6,62,16,769	11,55,59,349	7,73,80,642	3,89,78,013	14,44,64,072	10,16,35,957	28,92,10,779	78,30,75,119	195,89,23,639	221,89,46,064
Capital employed	99,61,701	2,36,70,399	11,82,64,974	19,10,37,622	32,83,97,178	42,75,49,648	62,33,94,396	83,82,81,610	142,49,86,548	277,72,27,361	465,71,97,968	646,12,63,129	1012,08,65,876	1278,61,25,967
Return on Average Capital Employed	55.88%	23.93%	25.53%	37.09%	34.03%	37.09%	21.86%	28.00%	36.49%	28.57%	24.85%	17.61%	17.03%	21.29%
Net Worth	99,61,701	2,36,70,399	10,03,85,287	16,15,44,757	31,63,12,378	40,48,53,698	51,23,93,662	68,12,86,664	104,54,92,711	218,34,49,897	408,91,90,632	489,25,21,707	578,76,06,608	709,13,54,871
Return on Average Networth	55.88%	23.93%	24.35%	41.59%	23.79%	26.47%	25.34%	30.69%	44.33%	33.98%	26.19%	18.83%	19.19%	22.50%
Book Value per share	22.90	14.93	33.03	17.71	60.31	55.52	41.74	61.63	86.46	162.05	231.05	249.87	232.80	431.18
Earning Per Share	6.40	2.54	5.05	13.13	13.71	22.80	15.10	17.57	36.73	51.67	77.37	51.41	62.30	88.25
Cash Accruals	50,26,672	72,69,557	2,77,09,035	7,18,09,191	9,87,72,185	15,63,85,185	15,87,43,638	26,46,09,686	49,64,10,306	66,30,85,779	105,79,29,032	117,53,51,860	164,03,53,461	257,30,36,752
Rate of Dividend	-	10.00%	12.50%	0.00%	5.00%	15.00%	10.00%	12.00%	15.00%	25.00%	30.00%	30.00%	60.00%	80.00%
Dividend Outflow	-	8,04,060	24,70,143	-	20,73,495	70,17,485	86,80,606	1,25,05,704	1,56,32,130	2,52,93,800	4,93,39,260	4,93,39,260	98,678,520	131,571,360

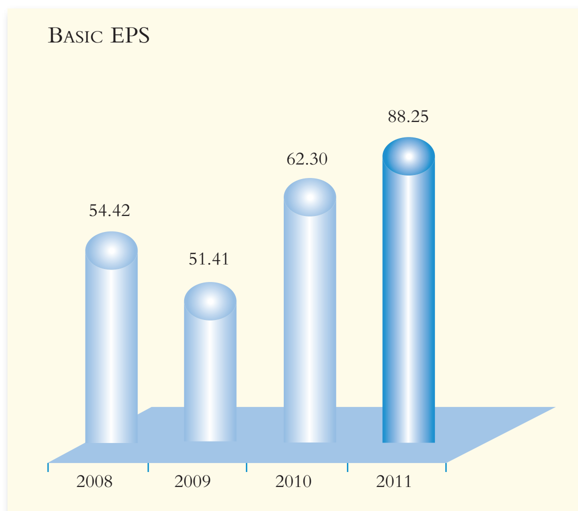
Financial highlights - consolidated

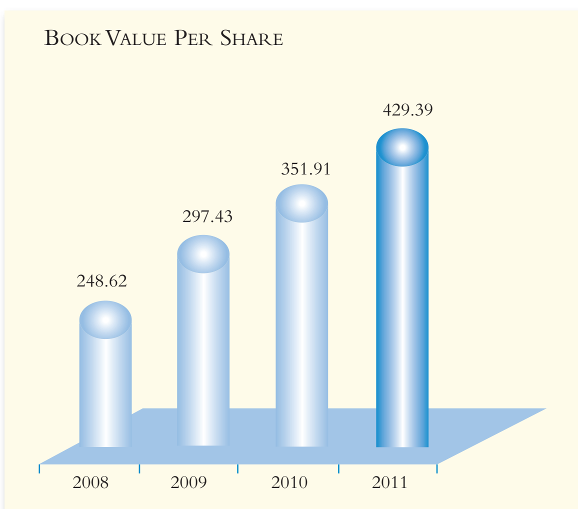
₹ in lakhs except per share data











IN ADDITION TO HISTORICAL INFORMATION, THIS ANNUAL REPORT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINITIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO THOSE DISCUSSED IN THE "MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE" AND ELSEWHERE IN THIS REPORT. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT'S ANALYSIS ONLY AS OF THE DATE HEREOF.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE

The financial statements have been prepared in compliance with the requirement of Companies Act 1956, guidelines issued by Securities and Exchange Board of India (SEBI) and Generally Accepted Accounting Principles (GAAP) in India. The management of Zylog Systems Limited accepts responsibility for the integrity and objectivity of these financial statements, as well as for various estimates and judgments used therein. The estimates and judgments relating to financial statements have been made on prudent and reasonable basis, in order that the financial statements reflect in true and fair manner the form and substance of transaction, and reasonably present the company's state of affairs and profit for the year.

OVERVIEW

Zylog is an IT service provider that offers differentiated services and is adept in delivering specific business and technology solutions. The Company's strength lies in its innate ability to understand the requirements of its clients and to continuously build the competence and capability to provide integrated solutions. The Company empowers clients with specialized knowledge in emerging technologies with a proven delivery methodology, being trusted advisors to respected leaders in banking and finance, pharmaceutical, healthcare and life sciences, telecom, retail, utilities and transportation, consumer electronics, recycling, high-tech and computer software industries. The Company is a niche IT services player with a focus on products, solutions and mobile technologies. Zylog is making substantial investments in expanding its base of people and world-class state of the art facilities.

Rapidly changing economic and business condition is creating an increasingly competitive environment that is driving companies to transform their operations globally. When the demand scenario in the world is under pressure, there is a greater need for global companies to look for specialist with experience to drive their company's strategic goals and objectives. Over the years, this industry has continued to expand geographically, added new service lines and created new business models. Customers are serviced in over 80 countries and significant amount of intellectual property and new products and solutions have been created by the young and bright professionals. In some manners, the IT industry has also become the face of the new, vibrant India.

Increasing offshore services

Outsourcing the software development services and maintenance of technology services and solutions has become preferred and obvious choice of anyone for various factors:

Low cost of delivery- India offers the lowest cost of delivery as compared to other off shore locations, with Tier-I locations offering savings of over 70 per cent over source locations, Tier-II/III cities in India offer a still larger benefit.

High caliber talent pool - Availability of skilled talent has been India's foremost attraction as a global sourcing country. India's graduate outturn has more than doubled in the past decade, with addition of 3.7 million graduates in FY2010, a scale unmatched by any other country. While some gaps in talent suitability exist, they are being addressed through strong provider-level initiatives and industry-led programmers.

Robust process delivery - The industry has been extremely quality focused, with India-based centers accounting for the largest number of quality certifications achieved by any country. The industry has also set standards in the establishment and maintenance of best practices in corporate governance, and leads in customer satisfaction.

Business environment and infrastructure - Timely government policies and increased public private participation have played a key role in developing an enabling business environment for the Indian IT-BPO sector. India's strong education framework ensured ample supply of technical and non technical talent, while the establishment of Software

Technology Parks of India (STPI) and later SEZs provided an enabling ecosystem for the industry to flourish. Infrastructure development has been addressed by both public and private sector, leading to the development of world class facilities in select cities.

Growing Indian market - India has become, in purchasing power parity terms, the fourth largest economy in the world. India's economic growth since 1980 has been rapid. Real average household income has roughly doubled since 1985. With rising incomes, household consumption has soared and a new middle class has emerged. It is expected that India will go through a major transformation over the next decade and emerge as the fifth largest consumer market provided it continues its high growth path.

Transformational capabilities - The industry has been enhancing its abilities to transform client businesses through increased R&D spend, focus on IP creation, development of new technologies incorporating process and business model innovation and increased domain expertise.

Global footprint - Increased focus on global delivery has required the industry to enhance its global footprint, which has in turn helped the industry reach out to new customer segments and offer new services. Over the last two years, there has been a 32 per cent increase in the number of global delivery centers with outreach expanding to 12 new countries. Focus on sustainable growth- Going green has become the motto of the industry as it seeks to develop a business model that is not only competitive but sustainable with minimum ecological impact. In addition, technology companies are also recognizing the benefits of offshore technology service providers in software research and development, and related support functions and are outsourcing a greater portion of these activities. This has also increased diversification in the range of services delivered offshore.

Impact of IT-BPO Sector on India

The impact of the IT-BPO sector is multi-pronged as elucidated below:

- Contribution to India's economy- In addition to a high contribution to the country's GDP and share of exports, the industry and employees contribute about USD 4.2 billion to the exchequer. Additionally, the downstream effect of the industry's operating and capital expenditure was estimated to be around USD 30 billion, while consumer spending effect from its employees amounted to USD 21 billion in FY2009.
- Enabling regional development-Also, the industry has played a key role in regional development with IT-BPO intensive states accounting for over 14 per cent of respective state GDPs, with 58 per cent of engineering graduates, and 62 per cent of engineering colleges. IT-BPO intensive states have 100 per cent higher broadband penetration and 50 per cent higher tele-density than the India average, and also account for 75 per cent of SEZs.
- Empowering diverse human assets- The industry has played its part in empowering a diverse set of human assets – 30 per cent of employment in the age group 18-25 yrs, 4 per cent of employment for economically backward people, over 30 per cent of total employee base are women, 60 per cent of companies offer employment to differently-abled people, while 58 per cent of total employment are originally from Tier-II/III cities.
- Enabling environment for innovation- The industry has been at the forefront of creating an enabling environment for innovation, with a 29 fold increase in patents over FY2005-FY2008, and average R&D spend of ~1 per cent of revenues.
- Enhancing the brand image of India- The industry has played a key role in enhancing the brand image of India, by accounting for over 10 per cent of total FDI in the last decade, over 200 cross border acquisitions between FY2005-FY2009, and establishment of over 900 MNC captives in the last decade.
- Facilitating social development- The industry has imbibed a strong sense of social responsibility with over USD 50 million spent in FY2009 towards CSR activities mainly focused on education, health awareness and ecological development.

Industry forecast

The sector is estimated to aggregate revenues of USD 88.1 billion in FY2011, with the IT software and services sector (excluding hardware) accounting for USD 76.1 billion of revenues. During this period, direct employment is expected to reach nearly 2.5 million, an addition of 240,000 employees, while indirect job creation is estimated at 8.3 million. As a proportion of national GDP, the sector revenues have grown from 1.2 per cent in FY1998 to an estimated 6.4 per cent in FY 2011. Its share of total Indian exports (merchandise plus services) increased from less than 4 per cent in FY1998 to 26 per cent in FY2011.

➢ Exports market: Export revenues are estimated to gross USD 59 billion in FY2011 accounting for a 2 million workforce.

➢ Geographic focus: The year was characterized by a consistent demand from the US, which increased its share to 61.5 per cent. Emerging markets of Asia Pacific and Rest of the world also contributed significantly to overall growth.

➢ Vertical Markets: While the sector's vertical market mix is well balanced across several mature and emerging sectors, FY2011 was characterised by broad based demand across traditional segments such as Banking, Financial Services and Insurance (BFSI), but also new emerging verticals of retail, Healthcare, Media and Utilities.

➢ Service Lines: Within exports, IT Services segment was the fastest growing segment, growing by 22.7 per cent over FY2010, and aggregating export revenues of USD 33.5 billion, accounting for 57 per cent of total exports. Indian IT service offerings have evolved from application development and maintenance, to emerge as full service players providing testing services, infrastructure services, consulting and system integration. The coming of a new decade heralds a strategic shift for IT services organizations, from a 'one factory, one customer' model to a 'one factory, all customers' model. Central to this strategy is the growing customer acceptance of Cloud-based solutions which offer best in class services at reduced capital expenditure levels.

The BPO segment grew by 14 per cent to reach USD 14.1 billion in FY2011. The year also witnessed the next phase of BPO sector evolution - BPO 3.0 - characterised by greater breadth and depth of services, process re-engineering across the value chain, increased delivery of analytics and knowledge based services through platforms, strong domestic market focus and SMB centric delivery models. During the year, the BPO sector growth was affected by delayed decision making and deal restructuring in the first half of the year, though it picked up momentum in the second half. Changing demand patterns led to revamp of operations for service providers - high focus on client relationships, mining existing clients and restructured operations to provide focused vertical solutions. Further, the industry focused on achieving excellence in business process management, and delivering strong transformational benefits creating revenue impact for clients.

The engineering design and products development segments generated revenues of USD 9 billion in FY2011; growing by 13.6 per cent, driven by increasing use of electronics, fuel efficiency norms, convergence of local markets, and localised products. Increasing confidence in relationships between customers and service providers successfully executing a variety of activities across low-medium-high complexity projects has led to increasingly larger sizes of projects being sourced from India.

Domestic market: Domestic IT-BPO revenues excluding hardware are expected to grow at almost 16 per cent to reach ₹787 billion in FY2011. Strong economic growth, rapid advancement in technology infrastructure, increasingly competitive Indian organisations, enhanced focus by the government and emergence of business models that help provide IT to new customer segments are the key drivers for increased technology adoption in India.

- IT services is one of the fastest growing segment in the Indian domestic market, rising by 16.8 per cent to reach ₹501 billion, driven by localised strategies designed by service providers.
- Domestic BPO segment is expected to grow by 16.9 per cent in FY2011, to reach ₹ 127 billion, driven by demand from voice based services, in addition to adoption from emerging verticals, new customer segments, and value based transformational outsourcing platforms.
- Indian software product segment is estimated to grow by 14 per cent to reach ₹157 billion, fueled by replacement of in-house software applications to standardised products from large organizations and innovative start-ups.
- Government sector is a key catalyst for increased IT adoption- through sectors reforms that encourage IT

acceptance, National eGovernance Programmes (NeGP), and the Unique Identification Development Authority of India (UIDAI) programme that creates large scale IT infrastructure and promotes corporate participation.

Indian IT-BPO Value Proposition

India has retained its' position as the leading global shoring destination with a 55 per cent share of global ITO and BPO market in 2010, and been able to increase its market share in spite of competitive challenges presented by emerging off shoring destinations. This has been only possible due to the development of a set of factors unique to India, that multiply India's value proposition manifold. While the cost advantage is unparalleled, India has the world's largest pool of employable talent, service delivery infrastructure across multiple geographically dispersed locations within the country, and a supportive policy regime. However, the Indian global sourcing industry is no longer hinging its value proposition on cost, talent, infrastructure and processes which are considered as basic tools to operate in the global sourcing landscape. With customers also pushing for more collaborative contracts where there is business metric performance measurement and greater risk-reward sharing, Indian industry is increasingly being driven by the following four factors:

1. Transformational Business impact – Client business transformation happening through–

   Verticalised solutioning: A number of organisations have restructured themselves around verticals and Centres of Excellences - so as to develop and deliver end to end services keeping in mind customer needs, creating products aimed at growing emerging markets and creating a substantial revenue impact for them. These verticalised business units act as a source of innovation and development of proof of concept solutions.

   Technology enablement: Development of solutions around platforms, cloud based products integrating business intelligence, and application development tools are proving to be game changers for an increasing set of customers. This is also prompting customers to move from CAPEX to OPEX based models.

   Process innovation/re-engineering: Coupled with automation and six sigma skills, incremental set of enhancements imbibing best in class learning and practices in established service delivery processes also have the ability to create wide ranging transformation for clients

2. Service Delivery maturity: India is the most mature outsourcing market, with Indian service providers having developed end to end service delivery capabilities around all verticals. Further, there is increased globalisation in service delivery, cross border collaboration and partnerships to enhance service offerings, and reengineering of the talent pool for greater productivity and efficiency.

3. Scalability – India's scale and flexibility is unique- a vast labour pool, network of Tier II/III cities offering further cost reduction and increased infrastructure spend are the cornerstones to this advantage offered by India over other locations. The demand side has also been maturing gradually, moving away from commoditised services at lowest possible cost to demand for higher end solutions and measurable business value. There is a highly rationalised and competent provider base which is again one factor where India scores over other countries.

4. Sustainability – Industry focusing on sustainable practices – including diversity, green and corporate social responsibility.

Future Outlook

The underlying theme of 2010 has been the steady recovery from recession. Worldwide GDP, which had declined by 0.6 per cent in 2009, grew 5 per cent in 2010 and is expected to stablise at about 4.4 per cent in 2011. Developing nations continue to grow faster than the developed countries by at least three times. IT spend is directly linked to growth in GDP and in line with this trend, IT spend in 2011 is expected to grow nearly 4 per cent. Worldwide IT spending will also benefit from the accelerated recovery in emerging markets, which will generate more than half of all new IT spending worldwide in 2011. In 2011, growth will reflect new demand for IT goods and services, not pent-up demand from prior years. 2011 will also see a major surge in the use of private and public cloud and mobile computing on a variety of devices and through a range of new apps. Hardware is likely to grow the fastest at about 7 per cent, led by the refresh cycle in the Government sector. Shipments of app-capable, non-PC mobile devices (smartphones, media tablets) are expected to outnumber PC shipments.

IT services is expected to grow by about 3.5 per cent in 2011 and 4.5 per cent in 2012. While focus on cost control and efficiency/productivity remain, customers are also evaluating how investments in IT impact can further business goals – ROI led transformation - leading to an increase in project-based spending. Services such as virtualisation, consolidation, and managed services that focus on ROI in the short term will drive opportunities in the market. Emerging Asian enterprises across multiple industries will continue to accelerate services spending in their efforts to challenge existing global MNCs. Organisations will look for alternative IT models - Cloud, on-demand services and SaaS – in order to reduce hardware infrastructure costs and provide scalability on demand.

Worldwide packaged software revenue is estimated to reach USD 297 billion in 2011, a Y-o-Y growth of over 5 per cent, led by emerging regions, such as APAC and LATAM. These regions are expected to invest heavily in enterprise software initiatives as they continue to round out the IT infrastructure necessary to do business. Business Process Outsourcing spending is expected to be driven by analytical services, F&A and industry-specific BPO solutions.

In the future, the global IT-BPO industry is likely to go through a paradigm shift across five parameters–

Markets – Growth will be driven by new markets – SMBs, Asia, public sector and government-influenced entities which will become a priority customer base.

Customers – Customers will demand 'transformative' value propositions, that go beyond lower-cost replication; as technology creates virtual supply chains, customers will require a seamless experience across time zones and geographies; increasing demand for innovation and end-to-end transformation.

Service Offerings – Offerings that are high-end, deeply embedded in customer value chains will emerge. Services and delivery will become location-agnostic leading to new opportunities such as design services in manufacturing, Remote Infrastructure Management (RIM), etc. Solutions for the domestic market will be a key focus area.

Talent – Government pressures to create local jobs and the need for local knowledge will alter the employee mix - a higher proportion of non-Indians with multilingual and localised capabilities. There will be a much greater focus on ongoing development of specialized skills and capabilities.

Business models – Driven by a focus on expertise and intellectual property, offerings will shift from piecemeal, technology-centric applications to a range of integrated solutions and higher-end services, spanning new service lines (e.g., green IT).

While developed markets constitute the largest share of IT spend, increasingly emerging markets are spearheading growth as a large consumer base becomes increasingly tech-savvy and enterprises adopt IT solutions to improve their global competitiveness. Given this scenario, the Indian supply base has begun to explore market opportunities beyond US and UK. By 2020, new segments (SMBs), new verticals (Public sector and Defence, Healthcare, Utilities, Printing and Publishing) and new geographies (BRIC) will account for 50-55 per cent growth in the addressable market. India supply base is well placed to tap this potential, with their two decade long experience, mature service capabilities, presence in almost all verticals, global footprint and an abundant talent pool.

Suitably exploiting these emerging opportunities both in the global and domestic markets can help India reach USD 130 billion in IT-BPO revenues by FY2015, a CAGR of 14 per cent. By FY2015, the Indian IT-BPO industry is expected to contribute about 7 per cent to annual GDP and create about 14.3 million employment opportunities (direct and indirect).

Further, the India supply base has also begun to look for expansion across various non-metros both to control costs and have access to a large talent pool. This expansion has resulted in the development of a local talent pool and the physical and social infrastructure. The industry is now moving to rural areas creating employment, improving living standards, positively impacting career and personal development, empowering women and developing a social infrastructure, thus leading to balanced regional growth.

The government will be a key driver for increased adoption of IT-based products and solutions. It has embarked on various IT-enabled initiatives including in Public services (Government to citizen services, citizen identification, public distribution systems), Healthcare (telemedicine, remote consultation, mobile clinics), Education (eLearning, virtual classrooms, etc) and Financial service (mobile banking/payment gateways), etc. These initiatives are expected to substantially improve the economic conditions of a large, under-served population, thereby reducing the government's fiscal burden.

However, to realize this opportunity, all stakeholders – Industry, Government, Academia and NASSCOM – will need to jointly take decisive action to develop a high caliber talent pool, continue to harness technology for inclusive growth, foster a sustainable ecosystem for research and innovation, actively work to establish India as a trusted global hub for professional services, catalyze growth in the domestic market, and ensure adequate policy support to keep the momentum strong.

B. Consolidated Financial Condition

1. Share capital, reserves and surplus

The paid up share capital of the company is ₹1,644.64 lakhs. Out of the profit for the year ended March 31, 2011 a sum of ₹1,500.00 lakhs has been transferred to general reserve, a sum of ₹ 1,534.24 lakhs has been provided for dividend (including dividend tax) and the remaining amount of ₹ 42,411.89 lakhs has been retained in profit & loss account. The balance in reserves and surplus account including share premium account has increased to ₹ 68,974.19 lakhs as at March 31, 2011 from ₹ 55,993.81 lakhs as at March 31, 2010.

Our equity shares are currently listed in the National and Mumbai Stock Exchanges. Our market capitalization for the current year is ₹ 68,713 lakhs as against last year ₹ 68,894 lakhs based on NSE price. The total number of shareholders as at March 31, 2011 is 23,113 and the shares held by promoters 36.68%, Bodies Corporate – 15.06%, Trust – 6.99%, Foreign Corporate Bodies – 2.01%, Financial Institutions/Banks – 1.29%, Foreign Institutional Investor – 0.66%, Individuals – 35.07% and others – 2.24%.

2. Secured loans

Secured Loans at the end of the fiscal were ₹55,033.37 lakhs as against ₹41,520.63 lakhs at the end of the previous fiscal.

- Working capital facilities

  The Company enjoys a working capital limit of ₹ 18,700 lakhs with Union Bank of India and Syndicate Bank under consortium arrangement. Also our Canadian subsidiary is enjoying a working capital facility of ₹ 7,761.19 lakhs from ICICI Bank, Canada. Working capital facilities are secured by hypothecation of book debts and collaterally secured by way of first charge on the entire fixed assets of the respective companies.

  Term loans – Parent company

- During 2005-06, the Company had availed a foreign currency term loan of US$1.32 million from Union Bank of India towards acquisition of office space and a guest house in New Jersey, the United States head quarters. The loan is repaid in full during the year.
- During the year 2006-07 the company has been sanctioned with another foreign currency term loan of ₹1,675 lakhs by Union Bank of India for construction of Offshore Development Centre at Sholinganallur, Chennai on 1.1 acre of land purchased by the Company. The Company has utilized a sum of ₹1,275 lakhs out of the sanctioned limit. The amount outstanding as at March 31, 2011 stood at ₹307.34 lakhs. This loan is secured by hypothecation of underlying properties and the assets acquired.
- During the year 2008-09, the company has been sanctioned with third foreign currency term loan of US$ 4,073,000 by Union Bank of India for acquiring business of a US based data mining company. The amount outstanding as at March 31, 2011 stood at ₹1,186.48 lakhs. This loan is secured by hypothecation of underlying properties and the assets acquired.
- During the year 2009-10, the company has been sanctioned with an ECB loan of US$12,470,000 by Union Bank of India, Hong Kong Branch for taking over of business of a US based company and to acquire shares of a Singapore-based Malaysian listed company. The amount outstanding as at March 31, 2011 stood at ₹ 5,449.21 lakhs. This loan is secured by pledge of shares of the companies and hypothecation of fixed and current assets of the acquired US Company.

  The above facilities, barring the working capital facility to our subsidiary, Zylog Systems (Canada) Limited are additionally secured by personal guarantee of two promoter directors of the company

Term loans – Subsidiary companies

- During the year 2008-09, Zylog BV Limited, the wholly owned subsidiary has availed a foreign currency term loan of US$ 8,000,000 from ICICI Bank PLC, UK for acquiring business of a Dubai based company. During the year the outstanding balance amount was taken over by State Bank of India, Frankfurt from ICICI Bank, UK. The amount outstanding as at March 31, 2011 is ₹ 2,011.94 lakhs. This loan is secured by pledge of shares of the borrower & the acquired company and guaranteed by the parent company.
- During the year 2009-10, Zylog Systems (Canada) Limited, the wholly owned subsidiary has availed a term loan facility of CAD 12 mn from ICICI Bank UK PLC for taking over of business of the Canadian company. The loan has been taken over by ICICI Bank, Canada. The amount outstanding as at March 31, 2011 is ₹ 4,233.97 lakhs. This loan is secured by pledge of shares of the borrower and guaranteed by the parent company.
- During the year 2009-10, Zylog Systems (India) Limited, the wholly owned subsidiary has availed a term loan of ₹ 6,150 lakhs from Union Bank of India to create infrastructure for providing broadband services across India. The amount outstanding as at March 31, 2011 stood at ₹ 5,614.05 lakhs. This loan is secured by first charge on the current and fixed assets of the company.

Leased facility – Parent company

- The company has purchased computer equipment and peripherals on finance lease, the amount outstanding as at March 31, 2011 is ₹ 7928.05 lakhs.

3. Fixed assets

Tangible assets

₹ *in lakhs*

As of March 31	2011	2010
Land & building	3,495.40	3,367.46
Plant & machinery	3,966.53	2,252.58
Computer equipment	8,369.35	6,977.51
Furniture and fittings	968.85	810.40
Interior decoration	684.79	639.11
Electrical fittings	487.51	470.40
Office equipments	329.74	312.95
Vehicles	232.46	231.38
Total	18,534.63	15,061.79
Less: Accumulated depreciation	8,420.13	6,493.95
Net block	10,114.50	8,567.84

Additions to gross block

The total additions to the gross block during the year were to the tune of ₹ 3,503.86 lakhs. This comprises of:

i. ₹127.94 lakhs investment in land & building
ii. ₹1,713.95 lakhs investment in plant & machinery
iii. ₹1,421.13 lakhs in computer equipment
iv. ₹159.66 lakhs in furniture and fittings
v. ₹45.68 lakhs in interior decoration
vi. ₹17.11 lakhs in electrical fittings
vii. ₹17.30 lakhs in office equipments
viii. ₹1.09 lakhs in vehicles

Intangible assets

₹ *in lakhs*

As of March 31	2011	2010
Business acquisition	13,973.40	11,340.53
Computer software	6,258.85	6,234.52
Licence fee	138.54	138.54
Product development cost	5,932.83	4,001.34
Trade mark & brand	4,479.85	4,479.85
Total	30,783.47	26,194.78
Less: Accumulated amortization	8,594.01	6,115.52
Net block	22,189.46	20,079.26

Additions to gross block

The total additions to the gross block during the year were to the tune of ₹ 4,588.68 lakhs. This comprises of:

i. ₹ 2,632.86 lakhs in goodwill

ii. ₹ 24.33 lakhs investment in computer software

iii. ₹ 1,931.49 lakhs in product development cost

₹ 1,931.49 lakhs was spent on account of upgrading our flagship products & solutions.

Leased assets

The company has purchased Computer Equipment and Peripherals on financial lease; the net balance as at 31-Mar-2011 is ₹ 1306.20 lakhs.

4. **Investments**

Investments primarily consist of the strategic investment made by Zylog Systems Asia Pacific Pte Ltd, the wholly owned subsidiary, in Singapore based Malaysian listed company in the year 2009-10.

The revenue, net profit & net worth of our subsidiaries are given below:

₹ *in lakhs*

As of March 31	Revenue	Net profit	Net worth
Zylog Systems (Europe) Limited	5,134.36	477.73	1,629.64
Vishwa Vikas Services Limited	322.67	25.04	424.96
Zylog Systems (India) Limited	4,560.86	322.19	6,724.08
Zylog Systems Asia Pacific Pte Ltd	1,218.04	94.25	880.16
Zylog BV Limited	6,665.22	133.28	268.10
Algorithm Solutions Private Ltd	558.84	18.97	19.44
Zylog Systems (Canada) Limited	76,481.44	236.73	5,616.88
Matrix Primus Partners Inc	9,123.39	1,094.50	4,872.35
Total	1,04,064.82	2,402.69	20,435.61

5. **Sundry debtors**

Sundry debtors net of provision for doubtful debts amounting to ₹ 54,553.52 lakhs for the year ended March 31, 2011 as compared to ₹ 39,085.18 lakhs at March 31, 2010. These are considered good and realizable.

Provisions are generally made for all debtors outstanding for more than 180 days based on various factors which include the collectability of dues, risk perception of the industry, general economic factors etc.

Debtors are at 28.48% of revenue for the year ended March 31, 2011 as compared to 39.89% for the year ended March 31, 2010 representing an average outstanding days of 89 (125days). The drastic reduction in the debtors in mainly on account of Zylog Systems (Canada) Limited where the average debtors days is 62.

The age profile of debtors is given below:

Figures in %

As at March 31	2011	2010
0-60	42.0	48.9
61-120	38.7	34.7
121-180	16.9	15.7
More than 180	2.4	0.7
	100.0	100.0

The unbilled revenue as of March 31, 2011 and 2010 amounted to ₹ 8,573.74 lakhs and ₹7,120.26 lakhs respectively.

6. Cash and cash equivalents

The bank balances in India include both rupee and foreign currency accounts. The bank balances in overseas current accounts are maintained to meet the expenditure of overseas branches & subsidiaries and onsite project related expenditure overseas.

₹ *in lakhs*

As at March 31	2011	2010
Cash balance	10.13	5.59
Balances with scheduled banks :		
Current account	1,519.94	5,051.07
Deposit account	15,699.67	15,460.28
Unclaimed dividend account	18.96	14.03
Balances with overseas banks	12,715.55	6,615.64
Total cash and bank balances	29,964.25	27,146.61
Deposits reported under loans & advances	317.57	148.18
Total cash and cash equivalents	30,281.82	27,294.79
Cash and cash equivalents as a % of total assets	20.9	24.4
Cash and cash equivalents as a % of total revenue	15.8	27.9

The deposit includes the interest accrued and outstanding as on the balance sheet date.

Post acquisition of Brainhunter in Canada the consolidated outflow towards the salary commitments, administrative and marketing expenses leading to a substantial outflow of cash every month. Considering the huge monthly cash outflow globally, the cash maintained by the Company works out to slightly over 2 months of operating expenses. Besides, our Company continued with its newer business investments in technology / solutions / practices / acquisitions to take the early movers advantage in the areas like WiFi, e-governance and technology solutions. We will continue to invest in the newer solutions and practices and also acquisitions to continue with the growth mode in the coming years.

7. Loans and advances

₹ *in lakhs*

As at March 31	2011	2010
Unsecured, considered good		
Advances :		
For supply of goods and rendering services	6,119.97	1,604.78
Others	821.80	600.90
Unbilled revenue	8,573 74	7,120.26
Advance income tax (Net of provision)	-	553.53
Prepaid expenses	4,774.38	2,591.01
Deposits	317.57	148.18
Total	20,607.46	12,618.66

Advances are primarily towards amounts spent for the value and services to be received in future. Unbilled revenue comprises the revenue recognized in relation to efforts incurred on fixed price and time and material contracts not billed as of the year-end. Advance income tax represents payment made towards tax liability of the company, including refund due for previous years netted off with the provision for estimated income tax liabilities of the company. The company is liable to pay income tax in the countries it operates through branch and subsidiaries where the software services are provided. Provision for taxation for the current year is ₹ 5,981.03 lakhs as against ₹ 2,741.05 lakhs for the year ended March 31, 2010. Minimum Alternate Tax (MAT) has been considered while working out the tax liability of the company payable in India which can be set off against future tax liabilities of the company. The company's liability for income tax is fully provided for. Others include the advances paid to employees, rent advance etc.

Prepaid expenses primarily consists of the following components

i. Expenses incurred by the parent company Zylog Systems Limited to the extent of ₹ 1,843.32 lakhs for processing of H1/L1 visas happened in the last quarter of the current year. Since the recruitment is intended for the year 2011-12, expenses incurred in relation to the processing of visas were booked under prepaid expenses. This will be charged to expenses in the year 2011-12.

ii. Our subsidiary Zylog Systems (India) Limited has negotiated price of software (to be incorporated within the nodes for providing broadband WiFi services) with the vendor at USD 200 per node with an arrangement that the company will pay upfront for the software to be utilized in 20,000 nodes (which is estimated to be used over a period) and the vendor will give the software free of cost over 20,000 nodes. Accordingly, the amount of USD 4,000,000 was paid upfront and the software was used only in the installed nodes. During the year 2010-11, an amount of ₹ 1951.27 lakhs was proportionately capitalized and the remaining amount was kept in prepaid expenses.

iii. Rent paid by our subsidiary Zylog Systems (India) Limited to property owners for fixing nodes and towers in various locations, including rural and city alike for providing broadband services. The amount of ₹ 56.97 lakhs shown under prepaid expenses is for the FY 2011-12.

iv. An amount of ₹ 733.05 lakhs incurred during the year by our subsidiary Matrix Primus Partners Inc for various expenses pertains to the year 2011-12. Hence the amount spent is kept under prepaid expenses and will be charged during 2011-12.

8. Current liabilities

₹ *in lakhs*

As at March 31	2011	2010
Sundry creditors	12,894.76	8,389.97
Provisions for expenses	748.49	683.42
Provision for taxation	1329.33	–
Provisions for gratuity	146.44	99.79
Proposed dividend and dividend tax	1,534.24	1,154.49
Total	16,653.26	10,327.66

Sundry creditors for supplies and services are the amount payable to vendors for the services rendered and goods supplied. Provision for expenses includes accrued payroll and benefits payable to employees), other accrued operational expenses and withholding taxes. Gratuity has been provided based on the actuarial valuation. Proposed dividend recommended is ₹ 8/- per share to the stakeholders of the company which is 33% increase when compared to the previous year which was at ₹ 6/- per share. Upon approval of the stakeholders the dividend will be paid after the Annual General Meeting. Provision for dividend tax is the tax payable on dividend recommended for the year. The increase in current liability & provisions is in line with the overall increase in the business.

C. Results of operation

Summary of financial results for the year ended March 31, 2011 and 2010 is as follows:

₹ *in lakhs*

As at March 31	2011	2010
Income from software services & solutions	1,91,567.76	97,994.17
Software development expenses	1,38,121.06	62,940.34
Gross profit	53,446.70	35,053.83
Selling and marketing expenses	10,208.46	8,885.54
General and administrative expenses	13,946.25	8,673.09
Operating profit (EBIDTA)	29,291.98	17,495.20
Interest	4,053.49	1,449.08
Depreciation	5,150.86	3,370.39
Operating profit after interest & depreciation	20,087.63	12,675.73
Other income	478.12	427.79
Profit before tax	20,565.76	13,103.52
Provision for taxes	6,075.47	2,857.85
Add: Share of profit of associates	24.35	–
Less: Minority interest	–	153.54
Profit after tax	14,514.62	10,092.14

1. Income

a) Income from software services & products

₹ in lakhs

As at March 31	2011	2010
Overseas	1,88,353.81	96,819.49
Domestic	3,213.95	1,174.68
Total	1,91,567.76	97,994.17

The company's revenue is generated principally from software services on fixed cost, time and material basis and products & solutions. Revenue from software services on fixed cost contracts is recognized as per the proportionate completion method or milestones reached. On time and material contracts, revenue is recognized as the related services are rendered. Products & solutions segment covers the license fee for the particular customized solutions provided together with the necessary integration work carried out. This segment typically carries superior profit margin on account of the level of innovation, design work, customization etc. Annual technical services revenue and revenue from fixed cost maintenance contracts are recognized on completion of the service.

The revenue from the domestic businesses, mainly from the wifi business and e-governance, has taken a stride during the year.

- Zylog has successfully implemented orders for smart cards from RTOs in Gujarat and Karnataka. As demand for e-Governance increases, this segment too is expected to show good growth in the coming years.
- Zylog has been successful in completing issuance of smart cards to the below-poverty-line population covering their medical insurance under the Rashtriya Swasthya Bima Yojna project (RSBY) in the states of Kerala, Karnataka, Uttar Pradesh & Haryana.
- Zylog has invested in establishing a Wi-Fi network in various rural towns in Tamil Nadu, Karnataka, Andhra Pradesh, Gujarat and Punjab. We are presently servicing in 170 towns across these states and the results have been very encouraging from the financial front and the Company would continue to get into newer towns more aggressively during the next financial year and we expect this segment to deliver substantially to the topline in the near future.

The company has been servicing government departments across the globe – US, Singapore, Malaysia, Thailand, Middle East, Brunei and India and has impressive credentials and solution offering across various Government verticals.

The acquisition of Ducont, Fairfax, Matrix, Brainhunter and a strategic stake in Nova has positioned the Company for a strong growth in the current and coming years. Though the margins of the acquired Canadian company are low, this acquisition has opened up cross-selling and up-selling opportunities to the existing clients of Brainhunter. Brainhunter and other acquisitons made by the company in the past also provide the company with new areas of growth as well as entrance into new geographies.

Each acquisition done by the company in the past is providing the company for new areas of growth. For e.g. Ducont and Brainhunter helped the company to establish a foothold in the Middle East and Canadian market respectively. Anodas gave the company an end to end insurance product. Ducont is very strong in mobile banking solutions whereas Brainhunter is specialized in staffing solutions. Fairfax strengthened the company's position in the Pharma and healthcare sector.

The segmentation of software service is as follows:

Revenue by contract type

Figures in %

As at March 31	2011	2010
Fixed price (includes Support & Maintenance)	23.0	35.3
Time and material	41.8	55.4
Products and solutions	35.2	9.3
Total	100.0	100.0

The company's revenue is also segmented into onsite (includes onsite and offsite) and offshore revenues. Onsite revenues are those services, which are performed at client sites as part of software projects. Offsite revenues are those services rendered from our office premises located abroad while offshore services are those services which are performed at the company's software development centers located in India. The details of software services and products are as follows:

Revenue by location

Figures in %

As at March 31	2011	2010
Onsite	82.9	81.6
Offshore	17.1	18.4
Total	100.0	100.0

In general, the services performed onsite, offsite typically generate higher revenues per capita, but lower gross margins (in %) as compared to the services performed at the offshore facilities. Therefore any increase in the onsite effort impacts the margins of the company. However this is a generic analysis, it could vary from one project to another.

b) Industry concentration

Last financial year, your company recognized its business units to focus on growing key verticals. Experts with domain-specific skills were aligned across business units to develop specific solutions. Several global cross-functional teams continue to work within the vertical focused business units to identify solutions and design go-to-market strategies.

Revenue by Industry

Figures in %

As at March 31	2011	2010
Banking & BFSI services	24.3	31.2
Telecom industries	21.6	24.9
Retail market	14.2	9.9
Manufacturing	11.3	7.2
Pharma/Healthcare	8.4	8.9
Government	13.1	1.6
Other services	7.1	16.3
Total	100.0	100.0

c) Technology concentration

Due to the inherent nature of each service, individually, they pose different risks to the predictability, sustainability and profitability of your company's business. Changes in the service mix can potentially impact the company's overall performance. As some services are relatively competitive than the others, balancing of mix is also essential to ensure that we invest in developing services that give us more competitive advantage.

d) Revenue by offerings

Figures in %

As at March 31	2011	2010
Solutions & products	45.2	39.5
IT Services	5.6	38.8
Consulting	49.2	21.7
Total	100.0	100.0

e) Service concentration

Figures in %

As at March 31	2011	2010
Consulting	49.2	18.4
Development	21.6	48.6
Package implementation	7.1	15.7
Maintenance	5.1	7.9
Testing	0.4	3.5
Others	16.6	5.9
Total	100.0	100.0

f) Client concentration

Figures in %

As at March 31	2011	2010
Top client contribution to revenue	7.0	5.8
Top 5 clients contribution to revenue	22.9	18.7
Top 10 clients contribution to revenue	30.6	29.1
Repeat business as proportion of total	88.5	88.3

g) Geography concentration

Figures in %

As at March 31	2011	2010
United States of America	51.1	78.3
Canada	39.9	10.3
Europe	2.7	4.1
Middle East	3.1	4.8
Asia Pacific	3.2	2.5
	100.0	100.0

h) Other income

₹ in lakhs

As at March 31	2011	2010
Interest	227.59	432.83
Dividend income	0.14	3.17
Miscellaneous income	264.15	23.93
Total	491.88	459.93

Interest income represents the interest on fixed deposits maintained with banks. Dividend income represents the dividend on current investments invested by the Company during the year. Miscellaneous income primarily consists of rental income and writes back of some expenses during the year.

2. Expenditure

a) Software development expenditure

₹ in lakhs

As at March 31	2011	2010
Staff cost	37,011.14	34,585.08
Technical consultants on contract	8,459.19	11,633.34
Staff welfare	501.05	758.32
Project cost	92,149.68	15,963.60
	1,38,121.06	62,940.34

Staff cost consists of salaries and employee benefits incurred for employees. Technical consultants on contract represent the cost of software professionals engaged on contract for onsite and offshore projects. The company normally uses these consultants to augment certain skill sets that are required in various projects. Your company will continue to use external consultants for some of its project work on need basis. Project cost includes all other direct expenses relating to the projects like travel expenses, software packages & tools procured for meeting the needs of software development.

During the year the company incurred 72.1% on the operating revenue compared to 64.2% during the previous year. The steep increase is mainly on account of Canadian subsidiary where the gross profit margin is only around 10%. We have substantially increased the profit margin of Zylog Canada which has made a profit this year, compared to losses for 5 consecutive years prior to Zylog's takeover. The company is constantly making efforts to improve the gross margin of Zylog Canada which will indirectly increase the gross profit of the company at the global level.

Gross profit

During the year the gross profit was ₹ 53,446.70 representing 27.9% of revenue as compared to ₹ 35,053.83 representing 35.8% of revenues in the previous year. The decrease in the profit margin is for the reasons explained in the previous paragraph.

b) Administrative expenses

₹ in lakhs

As at March 31	2011	2010
Administrative salary	5,728.02	523.12
Directors' remuneration	490.68	1,004.00
Recruitment expenses	311.69	349.50
Office rent	924.39	524.95
Visa processing related expenses	782.85	271.42
Communication expenses	554.29	300.80
Professional charges	734.27	743.15
Loss on foreign exchange fluctuations	1,781.66	3,034.08
Repairs and maintenance	890.51	841.65
Others	1,747.90	1,080.42
	13,946.26	8,673.09

We incurred administrative expenses at 7.3% of our revenue, as compared to 8.8% during the previous year. Administrative salary represents the salary and employee benefits paid to the administrative employees. In absolute terms, the administrative salary has increased multi fold which is due to taking on Zylog Systems (Canada) Limited into our books. Directors' remuneration paid during the year is based on the resolution passed in the Annual General Meeting held last year. Visa related expenses increased due to booking of the expenses relating to processing of H1B visas for the candidates recruited for onsite assignments during previous year. There is a dip in the forex loss compared to previous year because the degree of movement of US dollar against rupee has been less pronounced. Increase in rent and communication expenses are in line with the growth of the business activities. Other expenses include printing & stationary, repairs & maintenance, electricity, bank charges, general travelling expenses etc.

As major operations of the company are denominated in USD terms, the company enjoys a natural hedge vis-à-vis income and expenditure, thereby protecting the company from the fluctuations. However, for reporting purposes, in accordance with the Accounting Standard 11 – "The effects of change in foreign exchange rates" issued by the Institute of Chartered Accountants of India, the financials have to be converted to the reporting currency (INR) hence precipitating a gain or loss on translation.

d) Selling & marketing expenses

₹ in lakhs

As at March 31	2011	2010
Marketing salary	2,129.28	1,745.69
Business consultancy	2,419.46	1,314.19
Sales commission	4,450.01	4,610.14
Trade show	373.02	354.69
Travel expenses	453.40	395.88
Advertisement	341.55	269.93
Entertainment	41.04	195.01
Total	10,208.46	8,885.54

We incurred selling and marketing expenses at 5.3% of our revenue, as compared to 9.1% during the previous year. The decrease is mainly due to Zylog Systems (Canada) Limited whose revenue is mainly from consulting business where there is not much selling & marketing expenses involved. Business consultancy consists of consultancy charges payment made to the consultants (both individuals & corporate). During the year the company engaged consultants on contract basis for procuring business for the company. Sales commission consists of commission paid to the marketing employees as a % on the revenue.

3. Taxes

For the year ended March 31, 2011, 100% of the software revenue generated out of India by the parent company came from the unit operating under Software Technology Park Scheme. Due to the imposition of MAT by the income tax authorities in India, taxes have been provided accordingly for the profits generated out of STP unit. We pay taxes in all our places of operations except Dubai, on the income that is sourced in those countries. For these reasons the tax provision for the year ended March 31, 2011 has been estimated at ₹ 6075.47 lakhs, as against ₹ 2,857.85 lakhs in the year ended March 31, 2010.

The details of tax are given below:

₹ in lakhs

As at March 31	2011	2010
Income tax	5,989.67	2,795.56
Deferred tax	85.80	62.28
	6,075.47	2,857.84

4. Net profit

Our net profit amounted to ₹ 14,514.62 lakhs and ₹ 10,092.14 lakhs for the years ended March 31, 2011 and 2010. This represents 7.6% and 10.3% of total revenue of the respective years. The drop in profitability is due to the much lower profit margins from the Canada business vis-à-vis the parent company's margins.

5. Liquidity

Our growth has been financed largely through cash generated from the operations and through the working capital & term loans funding from Union Bank of India. The Company continues to have a very strong and liquid balance sheet that can be leveraged to achieve its strategic objectives. Our policy is to maintain sufficient cash in the balance sheet to fund the ongoing capex requirements, the operational expenses and other strategic initiatives and to maintain business continuity in case of exigencies. As on 31st March 2011, the Company had cash and cash equivalents amounting to ₹ 30,281.82 lakhs. These funds have been invested in safe deposits with banks. The Company enjoys a PCFC limit of ₹ 18,700 lakhs (as on 31st March 2011) and ₹ 7,761.19 lakhs by our wholly owned subsidiary Zylog Systems (Canada) Limited for the working capital requirements. The company has also availed foreign currency term loans totaling ₹ 18,803 lakhs to provide infrastructure offshore development centre in Chennai, India, to acquire businesses and for strategic investment in a Singapore-based company. These facilities are primarily with Union Bank of India, ICICI Bank and State Bank of India.

6. Internal Control Systems and their adequacy

The Company has proper and adequate systems of internal control to ensure protection of assets, proper financial & operating functions and compliance with the policies and procedures applicable to Acts and Rules. The Company's internal controls are supplemented by sound internal audit practices. The Audit committee at their meetings regularly reviews the financial, operating, internal audit & compliance reports to improve the performance. The heads of various monitoring /operating divisions / departments are present for Audit Committee meetings to answer queries raised by Audit Committee.

7. Related party transactions

These have been discussed in detail in notes to the financial statements.

8. Events occurred after the Balance sheet date

There were no significant events occurred after the balance sheet date.

9. Strengths, Strategy & Competition

Increasingly competitive business environment, companies have become dependent on technology not only on day to day operations, but also as a strategic tool to enable them to re-engineer business processes, restructuring, regulatory and speed with the change emergent in technology areas. As systems continually become more complex and cost efficient, companies increasingly turn into external IT service providers to develop and implement new technologies and integrate them with existing applications in which a company may have made considerable investments.

OUR STRENGTHS

We believe the following aspects of our business help our customers address the challenges posed by today's business and information technology environment.

➢ Solutions based customer entry approach

ZSL's forte is evolving IT Services and Consulting into business solutions to meet the needs and goals of clients, leveraging accumulated knowledge of subject matter experts and best practices in numerous fields. We empower the businesses in several domains by integrating our Best Practices in both Business and Technology through our Rapid Application Frameworks and Latest Technologies to create real Solutions. When your business depends on leveraging the right technology at the right budget, ZSL's portfolio of proven applications can take you where you need to go, in budget and on time.

The Company offers value to our customers and market place through value-added research and development, product engineering, and end-to-end product lifecycle management (PLM) solutions from conceptualization, prototyping, development, integration with enterprise applications, migration, porting, performance tuning, application upgrade, testing and maintenance.

The Company's business applications are created with leading industry experts and experienced developers to help propel legacy systems and processes to fully leverage the current market technology.

- E-waste & compliance framework[Manufacturing]
- Vesalius – HIS [Pharma]
- Phoenix , M-Banking , M-Wallet[BFSI]
- Smart card solutions (RTO, Healthcare, Agriculture) , E-Police system [E-Governance]

- Wi5, Field force automation [Telecom]
- E-Enablement[Retail]

➢ Inorganic growth strategy

Inorganic growth strategy has strengthened our offerings and client base. The Company, being a niche IT services player, has strengthened its offerings and reach through strategic acquisitions made over the past three years. We have successfully integrated the acquired products, solutions and services into its suite of offerings. These acquisitions have helped Zylog penetrate the market deeper and cross-sell its newly-acquired offerings to complementary markets. Zylog's success in integrating its target companies can be largely attributed to its ability to assimilate products and services into its suite of offerings and cross-sell them to complementary markets.

➢ Chasing Diversified Growth Opportunities

Zylog is currently pursuing various new initiatives for growth in the IT services and telecom space. These include:

- The acquisition of Brainhunter, one of the leading Canadian staffing companies, Ducont, banking and Telecom Product and Solutions Company and the strategic stake in Nova Msc Berhad, a Malaysian listed Company specializing in Healthcare and E-Governance products and solutions.
- Various e-governance projects in the transportation, healthcare, agriculture sectors, and related to below poverty line population;
- Wi-Fi-based internet service offerings in the tier-I and tier-II cities in southern India, where it has a deep-rooted presence. We believe that these initiatives position Zylog well for strong growth.

➢ Global Delivery Model

The overseas operations are taken care of by the overseas branch offices setup across USA with the US head quarters located at New Jersey. With the acquisition of Brainhunter we now have a substantial presence in Canada which could help us in getting more offshore projects from the clients in that region. Also subsidiaries have been set up in Singapore and United Kingdom to take care of the operations pertaining to the respective regions. This has greatly helped us to use a low-risk Global Delivery Model (GDM) to accelerate schedules with a high degree of time and cost predictability. Over the past decade, we have developed our onsite and offshore execution capabilities to deliver high quality and scalable services. In doing so, we have made substantial investments in our processes, infrastructure and systems, and have refined our Global Delivery Model to effectively integrate onsite and offshore technology services.

To date, we are successful in identifying large clients on a global basis who can take advantage of our in house expertise and our partnership with technology majors. All of this combined effort in charting our course through challenging economic conditions worldwide is now gradually coming to fruition. Year on year, we are able to forge ahead with our mission to make a difference to our clients. Thus, despite our relative size, we are convinced of our unique positioning in our product and service capabilities that we are able to bring to the market.

Specialization

We have robust technology management practices specializing in Mobile/Wireless Computing, Replacement Technology, Enterprise Reporting, Business Intelligence, Content Management and Enterprise Application Integration.

➢ Commitment to quality and process execution

We have developed a sophisticated project management methodology to ensure timely, consistent and accurate delivery of superior quality solutions to maintain a high level of client satisfaction. We constantly benchmark our services and processes against globally recognized quality standards. The company's ISO certified quality practices ensure consistent quality standards without compromising on project-scheduled timelines.

➢ Long-standing client relationships

We have long-standing relationships with large multi-national corporations built on successful prior engagements with them. Our track record of delivering high quality solutions across the entire software life cycle and our strong domain expertise help us to solidify these relationships and gain increased business from our existing clients. As a result, we have a history of client retention and derive a significant proportion of revenues from repeat clients. Credible endorsements translated into repeat business from existing customers to the extent of 88.5% of the company's revenue during the current fiscal.

➢ Ability to Scale

We have successfully managed our growth by investing in infrastructure and by rapidly recruiting, training and deploying new professionals. We currently have 3 global development centers, the biggest of which is located in India. We are in the process of increasing the offshore capacity. Our financial position allows us to make investments in infrastructure and personnel required for continuous growth of our business. We have also been allotted 5 acres of land by ELCOT at the IT Park, Trichy which would be used for future expansion plans.

➢ Business Development

The Company has a full-fledged team to focus on business development and marketing activities headed by a vice-president. Further we have plans to focus on region specific business development & Marketing team and this shall be implemented during the current year.

➢ Our Presence in the US and diversification into Canadian and middle eastern region

Our presence in the US and the entry into Canadian and Middle Eastern region in a big way allows us to achieve the required customer interaction, leading to higher customer satisfaction enhancing the potential for long-term revenue generation. A key means of advancing the competitiveness is our knowledge management system and organization. This capability captures and shares our best practices, while filling critical knowledge voids. A unique integration of people, processes, and technology provides a powerful learning continuum, which allows us to leverage the value of our organizational experience to continuously improve our ability to serve clients.

OUR STRATEGY

We seek to further strengthen our position as a leading global technology services company by successfully differentiating our service offerings and increasing the scale of our operations. To achieve these goals, we seek to:

➢ Increasing our offshore business

Acquiring IT service companies that provides industry specific technology solutions predominantly onsite based (who do not have much of offshore exposure) in US and European markets. More than 90% of these clients have not leveraged the offshore delivery model. This gives Zylog a major scope for increasing the offshore component. We would continue to follow the present proven three tier (onsite-offsite-offshore) delivery model, wherein the development happens out of the offshore and the project management upto the design phase happens out of onsite-offsite combination, to increase the offshore component in the near future.

➢ Increase business from existing and new clients

Our goal is to build enduring relationships with both existing and new clients. With existing clients, we aim to expand the nature and scope of our engagements by increasing the size and number of projects and extending the breadth of our service offerings. For new clients, we seek to provide value-added solutions by leveraging our in-depth industry expertise and expanding the breadth of services offered to them beyond those in the initial engagement. We manage first-time engagements by educating clients about the offshore model, taking on smaller projects to minimize client risk and demonstrating our superior execution capabilities. We plan to increase our recurring business with clients by providing software re-engineering, maintenance, infrastructure management and business process management services, which are long-term in nature and require frequent client contact.

➢ Strategic acquisitions

We intend to selectively pursue acquisitions that augment our existing skill sets, industry expertise, client base or geographical presence. We are constantly on the lookout for Targets that meet our acquisition strategies viz deepening our Domain Competence

- Expanding or Filling out our Service Lines
- Obtaining Access to New Market / Verticals
- Enhancing Technology Footprints

An acquisition in the US has been targeted for the year 2011-12.

➢ Expand geographically

We seek to selectively expand our global presence to enhance our ability to service clients. We plan to accomplish this by establishing new sales and marketing offices, representative offices and global development centers to expand our geographical reach. We intend to increase our presence in Asia Pacific through Zylog Systems Asia Pacific Limited, in the Europe directly through Zylog Systems UK Limited and in South & East Asia through Zylog Systems India Limited. We intend to use our operations in these regions to eventually support clients in the local market as well as our global clients.

➢ Continue to invest in infrastructure and employees

We intend to continue investing in physical and technological infrastructure to support our growing worldwide development and sales operations and to increase our productivity. To enhance our ability to hire and successfully deploy increasingly greater numbers of technology professionals, we intend to continue investing in recruiting, training and maintaining a challenging and rewarding work environment.

➢ Partnering / alliances

We intend to continue to develop alliances that complement our core competencies. Our alliance strategy is targeted at partnering with leading technology providers, which allows us to take advantage of emerging technologies in a mutually beneficial and cost-competitive manner.

COMPETITION

The IT services market is highly competitive. Competitors include large global consulting firms, sub-division of large multinational technology firms. IT outsourcing firms, Indian IT services firms, software firms and in-house IT departments of large corporations.

The increasing attractiveness of the Global Delivery Model is forcing the overseas-based competitors to expand their base in India. In the future we expect competition from firms establishing and building their offshore presence and firms in countries with lower personnel costs than those prevailing in India. However, we recognize that price alone cannot constitute sustainable competitive advantage. The competitors have also indulged in aggressive poaching of talent, especially for experienced IT professionals. The strategies adopted by us to protect its talent are discussed elsewhere in this report.

We believe that the principal competitive factors in our business include the ability to:

➢ Effectively integrate onsite and offshore execution capabilities to deliver seamless, scalable, cost-effective services;

➢ Increase scale and breadth of service offerings to provide one-stop solutions;

➢ Provide domain / industry expertise to clients' business solutions;

➢ Attract and retain high quality technology professionals; and

➢ Maintain financial strength to make strategic investments in human resources and physical infrastructure through business cycles.

We believe we compete favorably with respect to these factors.

Management of risk

External and internal risk factors that must be managed are identified in the context of organizational strategy. Your company has always been seeking a comprehensive view to risk management to address risks inherent to strategy, operations, finance, compliance and their resulting organizational impact. Key risks are managed through a cascading structure across the corporate. At the corporate level, the board of directors is responsible for managing risks on various parameters. At department level respective department heads are responsible for managing transactional risks and taking steps to mitigate them in a decentralized manner. The heads of all departments form a management team to ensure the implementation of the mitigation measures. This team reviews the risk management policies to operations, finance and compliance periodically. During the year your company has made improvements in risk management at the corporate and business levels. To further learn, enhance and innovate; your company continues to improvise its risk management practices.

Your company leverages the strengths of the cost effective business solutions to add value for all its investors. This gives a competitive advantage over the other giants in the market. This brings new openings and new risks manifest in the events such as expansion of new offshore competitors in India, predatory pricing in the market, outcry against off-shoring, expansion of offshore development capabilities. Your company comprehensively assesses these risks and accordingly takes corrective measures to manage them.

Non Availability of Direct Tax Benefits

The Company had been taking advantage of income tax exemptions and deductions, which are applicable to companies engaged in export activities, and registered under STPI. The unavailability of these benefits would increase our income tax obligations and may have a material adverse effect on our after tax profits and cash flow.

Your company has taken several measures to reduce the tax liability and to mitigate the risk. The company has taken 27,000 sqft in Special Economic Zones in Siruseri, Chennai and planning to take up equal amount of space in the second phase and move some of the practices to SEZ. Also the company is planning to set up establishments in tax free zones like Malaysia, South Africa, Caribbean regions etc.

Restrictions on work permits

The majority of the work we perform is completed onsite/ offsite. Since the vast majority of our employees are Indian citizens, most of the IT professionals we send to work onsite/offsite with clients outside India must obtain visas and work permits. Limits may be placed upon the aggregate number of certain types of visas, such as H-1B visas in the United States. As a result of current or future immigration restrictions, we could be limited in our ability to perform client projects outside India, which would constrain our growth.

Your company's reliance on appropriate visas make it sensitive to such changes and variations. Your company has already started to strengthen its presence in Europe and Asia Pacific regions.

In line with its business needs, your company also focuses on increasing local hires and works closely with its clients to increase the offshore content in their various engagements. More than 95% of the company's revenue has been from US till previous year. Your company has taken lot of initiatives to reduce the risk by spreading its wings to newer regions. During the year your company's revenue from US region is drastically reduced to 51.5% the major reason to this effect is the acquisition we did in Canada during last year which has accounted nearly 40% of the revenue.

Exchange Rate Fluctuation

Functional currency of your company is the Indian Rupee, although a major portion of business is transacted in US dollars. The exchange rate between the rupee and US dollars has been changing substantially and your company faces the risks associated with exchange rate fluctuations and translation effect, wherein the appreciation of the rupee against foreign currency impacts its profitability.

Our foreign currency exposures have not been hedged by any derivative instrument as the same is not required at present, since 80% of our revenue is from onsite contracts. The cost (salaries & other expenditures) incurred for these contracts are also on dollar terms which acts as a natural hedge.

Political

Your company's major revenue is from US market. Recently, offshore outsourcing has been the subject of intense political debate and has come under increased government scrutiny within the United States due to its perceived association with loss of jobs in the United States. Several U.S. state governments have recently implemented or are actively considering implementing restrictions on outsourcing by U.S. state government entities to offshore IT services providers. Any changes to existing laws in the United States or in other countries where we operate or the enactment of new legislation restricting offshore outsourcing may adversely impact our business and profitability.

Your company does not have any significant contract with US federal or state government entities.

Contractual Obligations

Litigations regarding adherence to deliverables and service level agreements, intellectual property rights, patents and copyrights are challenges in the knowledge dominated software industry. The management has clearly chalked out a review and documentation process for contracts. The management focuses on evaluating the legal risks involved in a contract, ascertaining the legal responsibilities of your company under the applicable law of contract, restricting its liabilities under the contract, and covering the risks involved.

Operational teams have been trained on compliance related issues so that they can ensure adherence to all contractual commitments. As a matter of policy, your company does not enter into contracts that have open-ended legal obligations. To date, your company has no material litigation in relation to contractual obligations pending against it in any court.

Competitive environment

The IT services market is highly competitive. Competitors include large global consulting firms, sub-division of large multinational technology firms. IT outsourcing firms, Indian IT services firms, software firms and in-house IT departments of large corporations.

The increasing attractiveness of the Global Delivery Model is forcing the overseas-based competitors to expand their base in India. Your company is countering this with its effective marketing team and proven cost effective business solution.

The competitors have also indulged in aggressive poaching of talent, especially for experienced IT professionals. Your company adopts several proactive strategies to nurture, retain and to protect its talents.

Technology Obsolescence

Your company evaluates technology obsolescence and associated risks on a continuing basis to make investments accordingly.

Proprietary Systems and Servers

Used for development of software for clients and for running internal technology applications. The technological obsolescence in these areas is not rapid.

Purchase decisions in the category are determined by client requirements.

Tools for Software developments: This includes project management tools, integrated software development environments, testing tools and collaborative software development tools. In this category, your company constantly looks out for leading edge products that help increase productivity and also give your company an advantage over its competitors.

Human Resource management

The company constantly evolves proactive policies to attract, nurture and retain the right talents. The listing in the stock exchanges of BSE/NSE has given the right visibility in front of our targeted resource pool. The company is ensuring that all technical staff enters into a service agreement which stipulates a minimum period of time to be with Zylog. This ensures smooth project completion. Thus, the customer is able to get a better reliability with the company. Zylog has been able to contain the attrition rate to around 14.88 %, which is comparable with mid sized IT companies.

Your company is strongly Committed and willing to provide Sustained Senior management Support, by building the will and capacity for change—leading the initiative and managing the change. By this process, organizational readiness is assessed—understanding the organizational culture and the workforce's capacity for change, in light of the organization's mandate and resources. Key risks (threats and opportunities) in achieving overall corporate objectives are considered initially by an executive forum from an organization-wide perspective; senior management discusses roles and approaches to address the risks collectively.

A senior management risk champion is identified who exercises strong leadership to inspire and manage the required change and who believes in the value of integrated risk management and has a clear vision of how it links to corporate objectives.

Managing the Initiative key drivers' of Success

Your company has adopted implementing an integrated approach to risk management requires sustained effort. Hence, it identifies key factors for departmental and agency risk champions, senior managers, and others to consider when planning implementation. Whether the process has been underway for some time or is just beginning, how they deal with these factors and how they set and adjust the course has a significant impact on the speed and success of implementation. We recognize at the outset that the organization is undertaking a cultural change by moving away from a silo approach to a more corporate one. Readiness—where the organization is now and its capacity to adapt—affects how fast and far it will progress. Borrow and use the lessons and practices of change management to foster the will and capacity for change.

1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE:

Your Company places emphasis on business ethics, integrity, responsible conduct and accountability. The Company is committed to good Corporate Governance, and transparency in all its dealings. Information on the performance of the Company and other key events concerning the operations are disclosed timely. All endeavors are made on an ongoing basis to achieve Business Excellence in a socially responsible manner with a view to increase the long term shareholders value and in keeping in mind, the need of all the stake holders of the company.

Your company has maintained the highest standards of corporate governance principles and best practices by adopting corporate governance policies and code of conduct as the norms for all constituent companies in Zylog Group. These policies and code of conduct envisage a set of principles, process and systems, which conforms to the best international standards and are reviewed periodically to ensure their continuing relevance, effectiveness and responsiveness to the needs of investors both local and global and all other stakeholders.

2. BOARD OF DIRECTORS:

The Company has seven Directors with an Executive Chairman. Of the Seven Directors, three are Whole Time Directors, three are Non-Executive Independent Directors and one Director is a Nominee Director.The composition and the category of Directors are as under:

S.No.	Name of the Director	Designation	Category
1	Mr. Sudarshan Venkatraman	Chairman & Chief Executive Officer	Executive
2	Mr. Ramanujam Sesharathnam	Managing Director & Chief Operating Officer	Executive
3	Mr.P. Srikanth.	Executive Director	Executive
4	Mr. M.Gajhanathan **	Director	Independent
5	Mr.S. Rajagopal	Director	Independent
6	Mr.A.P.Vasanthakumar	Director	Nominee
7	Mr.V.K.Ramani	Director	Independent

** Mr.M. Gajhanathan being the Director retiring by rotation in the Sixteenth Annual General Meeting is eligible for reappointment and has offered for re-appointment.

Other Directorships

The number of directorships and memberships in the committees held by the Directors as on March 31, 2011 are as under:

Name of the Director	No. of Directorships held in other companies		Number of Committee positions held in other public companies	
	Chairman	Member	Chairman	Member
Mr. Sudarshan Venkatraman	2	2	1	-
Mr. Ramanujam Sesharathnam	-	2	-	-
Mr. P.Srikanth	-	1	-	-
Mr. M.Gajhanathan	-	-	-	-
Mr.S. Rajagopal	1	8	1	5
Mr.A.P.Vasanthakumar	-	2	-	1
Mr.V.K.Ramani	-	-	-	-

Notes:

1. Excluding Directorship in Zylog Systems Limited
2. Excluding Directorship in Foreign Companies, Section 25 Companies, Private Limited Companies and Alternate Directorship.

3. As required by clause 49 of the Listing Agreement, the disclosure includes only memberships/Chairpersonship of Audit Committee and Investor Grievance Committee only in Indian public companies (listed and unlisted).

Board Meetings held from 01st April 2010 to 31st March 2011

During the period from 01st April 2010 to 31st March 2011 Five Board Meetings were held as against the minimum requirement of four meetings. The maximum time gap between any of the two meetings was not more than four months.

The dates on which the Board Meetings were held are:

21st May 2010, 19th July 2010, 29th October 2010, 07th February 2011 and 22nd March 2011.

None of the Non-Executive Directors have any material pecuniary relationship or transactions with the Company.

Attendance of Directors at the meetings:

The details of the attendance of the Directors at the Board Meeting held during the period from 01st April 2010 to 31st March 2011 and the last Annual General Meeting ("AGM") are given below:

Name of the Director	Number of Board Meetings during the year 2010-11		Attendance at last AGM held on 30th September 2010
	Held	Attended	
Mr. Sudarshan Venkatraman	5	4	Yes
Mr. Ramanujam Sesharathnam	5	5	Yes
Mr. P.Srikanth	5	5	Yes
Mr. M.Gajhanathan	5	4	Yes
Mr. S.Rajagopal	5	5	Yes
Mr.A.P.Vasanthakumar	5	4	Yes
Mr.V.K.Ramani	5	1	No
Mr.V.Chandramouly	5	1	No
Mr.A.V.Rajwade	5	1	No

- Mr.V.K.Ramani was appointed as the Director of the Company w.e.f 07th February 2011.
- Mr.A.V.Rajwade resigned from the Board of Directors of the Company w.e.f.03rd August 2010.
- Mr.V.Chandramouly resigned from the Board of Directors of the Company w.e.f. 31st March 2011.

Appointment and Re-appointment of Directors

Brief resume of the Directors being appointed and reappointed, nature of their expertise in specific functional areas and name of companies in which they hold directorship and the membership of the committees of the Board are furnished hereunder:

a) Mr. M.Gajhanathan is retiring by rotation and being eligible offers himself for reappointment.

Brief Profile of Mr. M.Gajhanathan is as follows:

Mr.M.Gajhanathan aged 54 years has more than 21 years of experience in real estate and financial sector. He has done his Master of Arts from Chennai University and LLB from Bangalore University. He is specialist in Legal and HR Practices and strengthens the Logistics Management of the Company and the Group Companies.

Mr. M.Gajhanthan holds 20,000 equity shares in the Company and is not related to any Director of the Company.

Mr. M. Gajhanathan is not a Director and does hold any membership of Committee of any other Company.

b) Mr.V.K.Ramani is being appointed as the Director of the Company.

Brief Profile of Mr.V.K.Ramani is as follows:

Mr.V.K.Ramani, aged 61 years, has around 36 years of experience in Banking and IT. He retired as Executive Director, (Technology & Business Processes), Axis Bank Ltd. and has 22 years of experience in the State Bank group. Mr.V.K.Ramani holds Bachelors degree in Physics Hons and has also has B. Tech (Electronics) and PGDBM to his qualification. His areas of expertise includes IT strategy and implementation, supervision of Compliance, Operations (credit and general banking), all Support Services (phone banking, data centre, business processes for account opening, trade finance and treasury back office). His contribution to banking technology and implementation has been recognized by Banking solution providers in India and abroad. Mr.V.K.Ramani was a Member, IT Advisory Committee, NSDL and Indian Institute of Banking and Finance. His contribution to the IT led growth of Axis Bank (formerly UTI Bank) is well recognized in the banking industry .He was the recipient of several awards from the Indian Banking Association for outstanding project implementation during his tenure with the Axis Bank.

Mr.V.K.Ramani does not hold any equity shares in the Company and is not related to any Director of the Company.

Mr.V.K.Ramani is not a Director and does hold any membership of Committee of any other Company.

3. BOARD COMMITTEES

The requirement that a Director shall not be a member of more than ten committees and Chairman of more than five committees has been complied with while constituting the Committee of Directors

(A) Audit Committee

Terms of Reference:

The committee's power, role and functions are as stipulated at Clause 49 of the Listing Agreement and under Section 292A of the Companies Act, 1956. The role and functions of the committee , inter-alia, include overseeing the Company's financial reporting process, reviewing with the management and external auditors key issues and significant processes, financial statements and results before submission to the Board, reviewing the adequacy of internal control systems and procedures, significant related party transactions and internal audit reports, reviewing the progress made in implementation of recommendations made by the Internal Auditors making the recommendation for improvement in internal control systems and reviewing issues related to risk management and compliances, review of financial statements and investments made by wholly owned subsidiary companies.

Composition, Name of Members and Chairman, Secretary and Invitees:

The Audit committee comprises of one Non- Executive Independent director, namely, Mr. S. Rajagopal, who is also the Chairman of the Committee, Mr. P Srikanth, Executive Director and Mr. A.P. Vasanthakumar, Nominee Director. The Company Secretary acts as the Secretary of the Committee. The Chairman & Chief Executive Officer, Managing Director and Chief Operating Officer, Group Financial officer, Financial Controller and Financial Advisor of the Company, Statutory Auditors and the Internal Auditor, are invitees to the meeting.

"The Committee met Four times during the financial year ended March 31, 2011. The Meetings were held on 20th May 2010, 19th July 2010, 29th October 2010 and 07th February 2011 and there was no time gap of four months between any two meetings. Mr. S. Rajagopal, Chairman, Mr. A. P .Vasanthakumar and Mr. P. Srikanth attended all the four Meetings."

The Chairman of the Audit Committee, Mr. S. Rajagopal, attended the Annual General Meeting held on 30th September 2010 and he ensured that necessary clarifications and explanations were provided to the members of the Company on issues regarding accounts and finance.

The minutes of the meetings of the Audit Committee are circulated to all the members of the Board along with the Board Agenda.

The Quarterly Unaudited Financial Results as well as the Annual Financial Statements during the year ended March 31, 2011 were reviewed and examined by the members of the Audit Committee before recommendation of the same to the Board of Directors for their perusal and approval.

(B) Investors' Grievance Committee

The Investors' Grievance Committee consist of one Non- Executive Independent Director and two Executive Directors. Mr. M.Gajhanathan is the Chairman of the Committee and Mr. P. Srikanth and Mr. Sudarshan Venkatraman are members of the Committee.

During the financial year ended March 31, 2011, the Committee met 5 times. The Meetings were held on 21st May 2010, 19th July 2010, 26th July 2010, 29th October 2010 and 07th February 2011.

This Committee specifically looks into the redressal of Shareholder's and Investors' Complaints/ Grievances with a primary objective to improve investor relations. For the purpose of Share transfers the committee met on a fortnightly basis during the year under review.

The Company's Registrars & Transfer Agents (R&T Agents) M/s Cameo Corporate Services Limited, were adequately equipped to carry out activities connected with transfer of shares both in physical and demat form and redressal of shareholders'/ investors' complaints. The company maintains continuous interaction with the said R&T Agents and takes steps for resolving complaints/ queries of the shareholders/ investors and also takes initiatives and actions for resolving critical issues. Periodic reminders are sent to the shareholders for encashment of unclaimed dividends and unclaimed refund order amounts.

The committee has been authorized to approve proposals for transfer of shares in order to expedite the transfer process as also for deletion/ splitting/consolidation of share certificates. Valid transfer proposals are approved frequently, at least twice in a month, and the transfer process is completed within the stipulated time period.

Apart from this, the Investors Grievance Committee of the Board, approves the transmission of shares, issuance of duplicate share certificates, etc.

During the financial year ended March 31, 2011 under review, 7 complaints were received from shareholders/ investors which have been resolved and no complaint is pending as on 31st March 2011.

Name and designation of Compliance Officer:

Ms. S. Akila, Company Secretary

Email-id for Investor Grievances: investorrelations@zsl.com

(C) Remuneration Committee

The Terms of Reference of the Remuneration Committee:

The Committee shall discharge the Board's Responsibility relating to compensating the Executive Directors, Directors and Senior Management. The Committee has overall responsibilities of evaluating and approving the Compensation Plan, Policies of the Executive Directors and Senior Management and to determine and recommend to the Board based on overall performance and financial results of the Company and in consonance with the Industries Best Practices.

Composition, Name of Members and Chairman, Secretary, Invitees:

The Remuneration Committee consists of three Non- Executive Independent Directors Mr.V.K.Ramani, Chairman, Mr. S. Rajagopal, Member and Mr. M. Gajhanathan, Member . The Company Secretary acts as the Secretary of the Committee. The Managing Director and Chief Operating Officer of the Company is an invitee to the meeting. Mr.V.K.Ramani was appointed as the Chairman of the remuneration committee in place of Mr.P.Srikanth who has become an Executive Director.

Compensation to the Chairman and Chief Executive Officer, Managing Director and Chief Operating Officer and Executive Director are as per the approval of the Shareholders subject to the limits specified as per the provisions of the Companies Act, 1956.

Details of remuneration paid to all the Directors

Remuneration of directors for 2010-11 *(Figures in ₹ Lakhs)*

Name of Director	Sitting Fee	Salaries	Perquisites	Commission	Total
Mr.Sudarshan Venkatraman	–	115.97	–	–	115.97
Mr.Ramanujam Sesharathnam	–	113.07	–	–	113.07
Mr.V. Chandramouly	–	–	–	–	–
Mr.M. Gajhanathan	0.65	–	–	–	0.65
Mr.P. Srikanth	0.25	51.77	–	–	52.02
Mr. S. Rajagopal	0.75	–	–	–	0.75
Mr. A.V. Rajwade	0.10	–	–	–	0.10
Mr. A.P. Vasanthakumar	–	–	–	–	–
Mr.V.K.Ramani	0.10	–	–	–	–

The Company does not have any Stock Option Plan or performance linked incentive for the Executive Directors. The appointments of Chairman and Chief Executive Officer and Managing Director and Chief Operating Officer are made for a period of five years and the Executive Director for a period of two years on the terms and conditions contained in the respective resolutions passed by the members in the General Meetings.

Shares held by Non-Executive Directors:

Name of the Non-Executive Director	No. of Equity Shares held in the Company
Mr.M. Gajhanathan	20,000
Mr. S. Rajagopal	Nil
Mr. A.P. Vasanthakumar	Nil
Mr.V.K.Ramani	Nil

4. GENERAL BODY MEETING

The details of date, location and time of the last three Annual General Meetings held are as under:

Year ended	Location	Date	Time
31.03.2010	New Woodlands Hotel, Dr.Radhakrishnan Road, Chennai – 600004	30th September 2010	10:00 AM
31.3.2009	Narada gana sabha,NN 314(ON 254), TTK Road, Chennai 600018	23rd September 2009	10:00 AM
31.3.2008	155, Thiruvalluvar Salai , Kumaran Nagar, Sholinganallur, Chennai 600119	27th June 2008	10:00 AM

Special Resolutions passed during the previous three Annual General Meetings :

15th Annual General Meeting – 30th September 2010

Special Resolution was passed approving change in the Articles of Association of Company, authorization to the Board for the Capitalisation of the profits and authorisation to the Board to create, offer, issue and allot, in domestic and/or international markets securities/instruments for an amount up to ₹400 crore on a preferential basis

14th Annual General Meeting – 23rd September 2009

No Special resolutions were passed

13th Annual General Meeting – 27th June 2008

No Special resolutions were passed

All the Special Resolutions indicated above were passed by show of hands.

An Extraordinary General Meeting of the Company was held on July 15, 2010.

5. DISCLOSURES:

a) Related Party Transactions:

Transactions with related parties are disclosed in detail in Note 19 of Schedule 15 annexed to the financial statements for the year. These transactions were not in conflict with the interest of the Company.

b) Details of non-compliance by the Company, penalties and strictures imposed on the Company by the Stock Exchanges or Securities and Exchange Board of India (SEBI) or any other statutory authority on any matter related to the Capital markets during the last three years:

There were no instances of material non-compliance and no strictures or penalties were imposed on the Company either by SEBI, Stock Exchanges or any statutory authorities on any matter related to capital markets during the last three years.

c) Whistle Blower Policy

Though the Company does not have Whistle Blower Policy, no person is denied access to the Audit Committee.

d) Mandatory and Non Mandatory Clauses

The Company has complied with all other mandatory requirements laid down by the Clause 49, as applicable. The non-mandatory requirements complied with has been disclosed at the relevant places.

6. MEANS OF COMMUNICATION TO SHAREHOLDERS

During the year, quarterly, half yearly and annual financial results on the standalone basis and consolidated basis of the Company were submitted to the stock exchanges soon after the Board meeting approved these. The Financial Results are also published in leading newspapers Business Standard, Business Line, Economic Times (English) and Makkal Kural (Tamil). These were also promptly put on the Company's website www.zylog.co.in. All official news release of relevance to the investors are also made available on the Company's website for a reasonable period of time.

7. GENERAL SHAREHOLDERS INFORMATION

a) 16th Annual General Meeting:

Date & Time	:	Thursday, 29th September 2011 at 10.00 a.m.
Venue	:	Esthell Continental Hotels and Resorts, No.1, Royal Enclave, Besant Avenue, Adyar, Chennai – 600020

b) Financial Calendar :

Tentative Financial Calendar for the year 2011-12

Financial Year	01st April to 31st March
First Quarter Results	On or before August 15, 2011
Half Yearly Results	On or before November 15,2011
Third Quarter Results	On or before February 15, 2012
Fourth Quarter Results and Annual	On or before May 31,2012

c) Date of Book Closure:

20th September 2011 to 29th September 2011(Both days inclusive)

d) Dividend Payment Date:

The dividend proposed to be declared for the year 2010-11 will be paid on or before October 29, 2011

e) Listing of Stock Exchanges and Stock Code:

Name of Stock Exchange	Stock Code
The National Stock Exchange of India Ltd., Mumbai (NSE)	ZYLOG
The Bombay Stock Exchange of India Ltd., Mumbai (BSE)	532883

The Company has paid the annual listing fees for the year 2011-12 on both of the above Stock Exchanges.

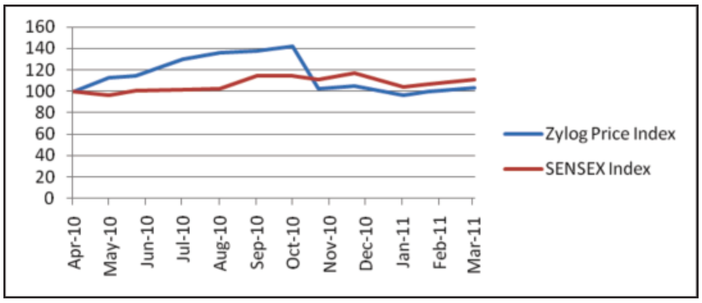
f) Market Price Data:

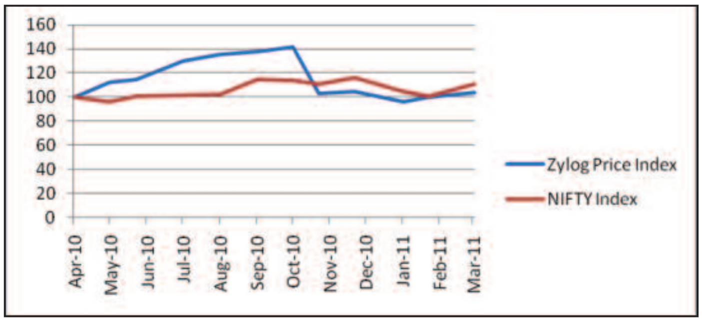
The closing market price of equity shares on 31st March 2011 (last trading day of the year) was Rs417.80/- on NSE and ₹415.95/- on BSE.

The monthly movement of equity share prices during the year at NSE and BSE are summarized herein below:

Monthly Share Price Movement during 2010-11 at NSE & BSE

Month	NSE			BSE		
	High	Low	Volume	High	Low	Volume
Apr-10	446.00	389.90	13,93,815	447.00	390.70	9,94,426
May-10	501.70	401.00	59,72,122	500.10	405.00	42,38,112
Jun-10	487.00	430.60	13,68,715	486.00	422.30	10,94,352
July-10	538.30	464.20	33,90,952	538.50	464.95	21,25,016
Aug-10	595.00	525.05	24,35,778	595.40	512.30	14,03,652
Sept-10	650.00	535.00	20,95,084	592.00	531.35	11,24,943
Oct-10	612.40	553.60	29,52,409	612.00	554.00	18,00,283
Nov-10	596.00	387.00	18,04,235	599.00	390.00	11,80,947
Dec-10	449.70	275.35	37,24,741	449.50	276.80	24,18,609
Jan-11	437.40	350.20	17,71,240	437.95	350.05	11,54,875
Feb-11	448.00	353.00	38,53,237	447.00	352.10	17,83,119
Mar-11	433.00	371.00	35,89,527	430.65	371.55	13,77,919
TOTAL			3,43,51,855			2,06,96,253





g) Distribution of Shareholding as at 31st March 2011

By size of shareholding:

Sl. NO.	HOLDING	NUMBER	%	SHARES	%
1	between 1 and 100	20051	86.73	598867	3.64
2	between 101 and 500	2157	9.33	548804	3.34
3	between 501 and 1000	409	1.77	327291	1.99
4	between 1001 and 2000	202	0.87	312919	1.9
5	between 2001 and 3000	66	0.29	168474	1.02
6	between 3001 and 4000	37	0.16	134200	0.82
7	between 4001 and 5000	25	0.11	121232	0.74
8	between 5001 and 10000	56	0.24	442511	2.69
9	> 10000	115	0.50	13792122	83.86
	Total	23,118	100.00	16,446,420	100.00

By category of shareholders:

	No. of Shares			
Category	Electronic	Physical	Total Shares	% of holding
A. Promoter Group				
Promoter and Promoter Group	58,44,631	1,87,916	60,32,547	36.68
B. Non-Promoter Group				
Foreign Institutional Investors	1,09,092	-	1,09,092	0.66
Bodies Corporate	24,66,599	10,000	24,76,599	15.06
Clearing Members	53,330	-	53,330	0.32
Foreign Companies	3,30,000	-	3,30,000	2.01
Trusts	11,50,040	-	11,50,040	6.99
Insurance Companies	3,15,640	-	3,15,640	1.92
Financial Institutions/Banks	2,11,722	-	2,11,722	1.29
Individuals	49,12,548	8,54,902	57,67,450	35.07
Total	1,53,93,602	10,52,818	1,64,46,420	100.00

h) Dematerialisation of Securities

As on March 31, 2011, over 93.60% shares of the company were held in de-materialised form. The demat security (ISIN) code for the equity share is INE225I01018.

i) Share Transfer System

The shares of the company are compulsorily traded in dematerialized form. Shares received in physical form are transferred within a period of 30 days from the date of lodgement subject to documents being correct, valid and complete in all respects.

j) Registrar and Transfer Agents

The Registrar & Share Transfer Agent deals with all shareholders communications regarding change of address, transfer of shares, change of mandate, demat of shares, non-receipt of dividend etc. The address of the Registrar & Share Transfer Agent is as under: -

Name and Address of Registrar and Share Transfer Agent	Cameo Corporate Services Limited "Subramanian Building" No.1, Club House Road, Chennai - 600002
Tel no.	+91 44 28460390
Fax no.	+91 44 28460129
E-Mail ID	cameo@cameoindia.com
Website	www.cameoonline.net

k) Outstanding GDRs/ADRs/Warrants/any other convertible instruments

The Company does not have any outstanding instruments of the captioned type.

l) Registered office: 155, Thiruvalluvar Salai, Sholinganallur, Chennai -600119

Telephone : +91 44 39157000

Fax : +91 44 39157009

Website : www.zsl.com

Plant Locations:

The Company has a Branch in USA. The Company also have subsidiaries in UK, Singapore, British Virgin Islands, USA and Canada and other place of business at France and Switzerland. The addresses of these offices are available on our corporate website.

m) Address for Correspondance

Zylog Systems Limited, 155, Thiruvalluvar Salai, Sholinganallur, Chennai -600119

Telephone : +91 44 39157000

Fax : +91 44 39157009

Website : www.zsl.com

E-Mail : secretarial @zsl.com

Corporate Governance - Auditors Certificate

To the Members of Zylog Systems Limited,

We have examined the compliance of conditions of Corporate Governance by Zylog Systems Limited, for the year ended March 31, 2011 as stipulated in Clause 49 of Listing Agreement of the said Company 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 compliance of the conditions of 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 explanation given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We 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 BRAHMAYYA & CO
Chartered Accountants

Chennai
27th May 2011

P S Kumar
Partner
Membership No. 15590

Declaration by the CEO under Clause 49(I)(D)(ii) of the Listing Agreement

As provided under Clause 49 of the Listing Agreement with the Stock Exchanges, the Board of Directors and the Senior Management Personnel have confirmed compliance with the Code of Conduct for Board of Directors and Senior Management for the financial year ended March 31, 2011.

For Zylog Systems Limited

Sudarshan Venkatraman
Chairman and Chief Executive Officer

Chennai
27th May 2011

Ceo / Cfo Certification

To
The Board of Directors
Zylog Systems Limited
Chennai

We, Sudarshan Venkatraman, Chairman and CEO, Ramanujam Sesharathnam, Managing Director and COO, and S.P.Srihari, Global Chief Financial Officer of Zylog Systems Limited, to the best of our knowledge and belief certify that:

a. We have reviewed financial statement and the cash flow statement for the year ended 31st March, 2011 and that to the best of our knowledge and belief:

   (i) these statements do not contain any materially untrue statement or omit any material fact or contain statement that might be misleading;

   (ii) these statement together present a true and fair view of the Company's affairs and are in compliance with existing accounting statement, applicable laws and regulations.

b. There are, to the best of our knowledge and belief, no transaction entered into by the Company during the year, which are fraudulent, illegal or violative of the Company's code of conduct.

c. We accept responsibility for establishing and maintaining internal control for financial reporting and that we have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps they have taken or propose to take to rectify these deficiencies.

d.

   (i) There has not been any significant change in the internal control over financial reporting during the year under reference;

   (ii) There has not been any significant change in accounting policies during the year and the same have been disclosed in the notes to the financial statements; and

   (iii) We are not aware of any instance during the year of significant fraud with the involvement therein of the management or an employee having a significant role in the Company's internal control system over financial reporting.

Sudarshan Venkatraman
Chairman & CEO

Ramanujam Sesharathnam
Managing Director & COO

Srihari. S. P
Global Chief Financial Officer

Place : Chennai

Date : 27th May 2011

Financial Statements

AUDITORS' REPORT

To the members of Zylog Systems Limited, Chennai.

1. We have audited the attached balance sheet of Zylog Systems Limited as at March 31, 2011, the profit and loss account and also the 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.
2. 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 free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements. An audit includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, as amended, by the Companies (Auditor's Report) (Amendment) Order, 2004 issued by the Central Government of India in terms of section 227(4A) of the Companies Act, 1956, we enclose in the annexure, a statement on the matters specified in paragraph 4 & 5 of the said order.
4. Based on the written representations received from the directors as on 31.03.2011 and considered by the board, we report that none of the directors is disqualified from being appointed as a director as on 31.03.2011, in terms of section 274 (1) (g) of the Companies Act, 1956.
5. Further to our comments in the annexure referred to in paragraph 4 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 purpose of the audit;
   (b) In our opinion proper books of accounts as required by law have been kept by the Company so far as appears from our examination of those books; and proper returns adequate for the purpose of our audit have been received from the branch in United States. The branch auditor's report has also been forwarded to us which was appropriately dealt with.
   (c) The balance sheet, profit and loss account and the cash flow statement dealt with by this report are in agreement with the books of account and with the audited returns from the branch.
   (d) In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with accounting standards referred to in sub section (3C) of section 211 of the Companies Act, 1956.
   (e) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give in the prescribed manner, the information as required by the Companies Act, 1956 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 the affairs of the Company as at March 31, 2011;
   (ii) in the case of the profit and loss account, of the profit of the Company 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 BRAHMAYYA & CO
Chartered Accountants
Firm Reg No:00511S

Chennai
27th May 2011

P S KUMAR
Partner
Membership No. 15590

1. The provisions of Clauses of Paragraph 4 of the Companies (Auditor's Report) Order, 2003 as amended listed below are not applicable to the Company for the year.
   a) Clause 4 (viii) regarding maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956 is not applicable since no Cost records have been prescribed.
   b) Clause 4 (xiii) regarding special statute applicable to Chit Funds and Nidhis / Mutual Benefit Fund and Societies since the Company does not carry on such businesses.
2. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. The fixed assets of the Company have been physically verified by the management according to a phased program which in our opinion is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
3. No fixed assets have been disposed off during the year under review which would give rise to the question of whether the status of the Company has been impaired as a going concern.
4. The Company is primarily a service company rendering information technology services. Accordingly it does not hold any inventory as at March 31, 2011 and hence the provisions of clause 4 (ii) of the Companies (Auditors' Report) Order, 2003 are not applicable to the Company. The company is also in the business of executing e-governance projects with State Governments and as part of the project purchases pre-enabled smart cards and issues them to the State Government agencies for processing. As the cards are issued on purchase, they are treated as consumed and hence no inventory records are maintained nor valued as inventory.
5. The Company has not given any loans, secured or unsecured, to any company, firm or other parties listed in the Register maintained under section 301 of the Act except to its wholly owned subsidiaries. Accordingly, clauses (iii) (b), (iii) (c) and (iii) (d) of paragraph 4 of the Order are not applicable for the year.
6. The Company has not taken any loans, secured or unsecured, from any company, firm or other parties listed in the Register maintained under section 301 of the Act. Accordingly, clauses (iii) (e), (iii) (f) and (iii) (g) of paragraph 4 of the Order are not applicable for the year.
7. In our opinion and according to the information and explanation given to us, there are no contracts or arrangements the particulars of which need to be entered into the register maintained in pursuance of section 301 of the Companies Act. Accordingly, the requirements prescribed by paragraph 4 (v) of the Order are not applicable.
8. There is an adequate internal control system commensurate with the size of the company and the nature of its business for the purchase of inventory and fixed assets and for the sale of services. There is no continuing failure to correct major weaknesses in internal control system.
9. The company has not accepted any deposits from the public and hence the requirements prescribed by paragraph 4 (vi) of the Order are not applicable.
10. In our opinion and according to explanations given to us, the Company has an internal audit system commensurate with the size and nature of its business.
11. (a) According to the information and explanations furnished to us, the Company is regular in depositing with appropriate authorities undisputed statutory dues including Provident Fund, ESI, Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty, Cess and other material statutory dues applicable to it although there have been slight delays in a few cases. There are no dues to be paid into the "Investor Education Protection Fund". There were no arrears as at 31st March 2011 for a period of more than six months from the date they became payable.
    (b) According to the information and explanations given to us, the following are the dues unpaid in respect of Income Tax, Sales Tax and on account of disputes.

Statute	Nature of the Dues	Amt in lakhs of rupees	Period to which amount relates	Forum where the dispute is pending
Income Tax	Disallowance of expenses	110.00	AY 2001-02	Appellate Tribunal
Income Tax	Disallowance of expenses	9.10	AY 2002-03	Appellate Tribunal
Income Tax	Disallowance of expenses	208.00	AY 2003-04	Appellate Tribunal
Income Tax	Disallowance of expenses	998.00	AY 2008-09	CIT (Appeals)
TN General Sales Tax Act.	Sales tax demand	19.30	2004-05	Commercial Taxes Department

12. The Company has no accumulated losses as at March 31, 2011. The Company has not incurred cash losses during the financial year covered by our audit or in the immediately preceding financial year.
13. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to banks. There are no borrowings from financial institutions.
14. The requirements prescribed under Clause 4 (xii) regarding loans granted against pledge of shares and securities etc. are not applicable since the Company has not granted such loans.
15. The requirements prescribed under Clause 4 (xiv) regarding dealing or trading in shares, securities, debentures or other investments etc. are not applicable since the Company does not deal or trade in them.
16. The company has given guarantees for loans taken on behalf of its subsidiaries to banks. In our opinion, the terms and conditions are not prejudicial to the interest of the company.
17. In our opinion and according to the information and explanations given to us, the term loans raised have been used for the purpose for which the loans were obtained.
18. According to the information and explanation given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short term basis have been used for long term investment by company
19. According to the information and explanation given to us, the Company has not made any preferential allotment of shares to the parties and companies covered in the register maintained u/s 301 of the Companies Act 1956.
20. The requirements prescribed under Clause 4 (xix) regarding creation of securities in respect of debentures are not applicable since no issue of debentures has been made.
21. The Company has not raised any money by public issue during the year.
22. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year under audit.

For Brahmayya & Co
Chartered Accountants
Firm Regn.No.000511S

Chennai
27th May 2011

P S Kumar
Partner
Membership No. 15590

BALANCE SHEET

As at March 31,

Amount in ₹

	SCH	2011	2010
SOURCES OF FUNDS			
SHARE HOLDERS' FUNDS			
Equity Capital	1	16,44,64,200	16,44,64,200
Reserves & surplus	2	6,56,39,67,004	5,50,61,98,358
		6,72,84,31,204	5,67,06,62,558
LOAN FUNDS			
Secured loans	3	3,54,12,22,443	2,18,53,40,136
		3,54,12,22,443	2,18,53,40,136
DEFERRED TAX LIABILITIES		1,60,50,430	1,05,70,915
		10,28,57,04,077	7,86,65,73,609
APPLICATION OF FUNDS			
FIXED ASSETS			
Gross block	4	2,41,37,58,551	2,11,85,82,366
Less : Depreciation		1,32,29,55,863	1,02,06,36,210
Net block		1,09,08,02,688	1,09,79,46,156
Capital work-in-progress		18,74,56,451	63,88,375
INVESTMENTS	5	1,55,24,90,901	1,23,55,78,573
CURRENT ASSETS, LOANS AND ADVANCES			
Sundry debtors	6	3,34,67,98,690	2,44,58,00,831
Cash and bank balances	7	2,50,49,95,596	2,18,16,57,361
Loans and advances	8	2,35,00,82,111	1,38,99,18,893
		8,20,18,76,397	6,01,73,77,085
Less: Current liabilities & provisions	9	74,69,22,360	49,07,16,580
Net Current assets		7,45,49,54,037	5,52,66,60,505
Net total		10,28,57,04,077	7,86,65,73,609
Significant Accounting Policies And Notes on Accounts	15		

The schedules referred to above and the notes thereon form an integral part of the balance sheet.

For M/s Brahmayya & Co
Chartered Accountants
Firm Reg. No. 000511S

P S Kumar
Partner
Membership No :15590

Sudarshan Venkatraman
Chairman and
Chief Executive Officer

Ramanujam Sesharathnam
Managing Director and
Chief Operating Officer

P Srikanth
Executive Director

S Rajagopal
Director

A P Vasanthakumar
Director

V K Ramani
Director

M Gajhanathan
Director

S P Srihari
Global Chief Financial Officer

Chennai
May 27, 2011

S Akila
Company Secretary

Profit and loss account

For the period ended March 31,

Amount in ₹

	SCH	2011	2010
Income			
Software development services and products			
Overseas		8,99,11,06,874	7,78,12,93,691
Domestic		16,73,27,348	5,39,21,942
Other income	10	2,40,11,327	4,39,39,547
		9,18,24,45,549	7,87,91,55,180
EXPENDITURES			
Software development expenses	11	5,46,76,54,546	4,74,06,59,759
Administrative expenses	12	51,91,63,105	70,00,18,559
Selling & marketing expenses	13	92,90,77,665	85,59,10,684
		6,91,58,95,316	6,29,65,89,001
Operating profit (PBIDT)		2,26,65,50,233	1,58,25,66,178
Interest	14	23,71,70,353	11,67,97,112
Depreciation/amortisation		30,23,19,655	28,42,35,807
Profit before tax (PBT)		1,72,70,60,225	1,18,15,33,260
Current tax			
Income tax		51,03,88,018	25,59,87,720
Deferred tax		54,79,515	40,82,071
Net profit after tax (PAT)		1,21,11,92,692	92,14,63,469
Brought forward from previous year		2,99,99,67,987	2,29,39,53,452
AMOUNT AVAILABLE FOR APPROPRIATION		4,21,11,60,679	3,21,54,16,921
Proposed dividend			
Percentage		80.00%	60.00%
Amount		13,15,71,360	9,86,78,520
Tax on proposed dividend		2,18,52,687	1,67,70,414
Amount transferred - general reserve		15,00,00,000	10,00,00,000
BALANCE CARRIED FORWARD TO BALANCE SHEET		3,90,77,36,632	2,99,99,67,987
"EARNINGS PER SHARE - Basic & diluted *(equity shares, par value ₹ 10 each)*"		73.64	56.03
Number of shares used in computing earnings per share		1,64,46,420	1,64,46,420
Significant Accounting Policies and notes on Accounts	15		

The schedules referred to above and the notes thereon form an integral part of the profit and loss account.

For M/s Brahmayya & Co
Chartered Accountants
Firm Reg. No. 000511S

P S Kumar
Partner
Membership No :15590

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Chairman and
Chief Executive Officer

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Managing Director and
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P Srikanth
Executive Director

S Rajagopal
Director

A P Vasanthakumar
Director

V K Ramani
Director

M Gajhanathan
Director

S P Srihari
Global Chief Financial Officer

Chennai
May 27, 2011

S Akila
Company Secretary

Cash flow statement

For the period ended March 31,

Amount in ₹

		2011	2010
A	Cash Flow From Operating Activities:		
	Net Profit Before Tax	1,72,70,60,225	1,18,15,33,260
	Adjustments for:		
	Depreciation	30,23,19,655	28,42,35,807
	Unrealised Forex (Gain) / Loss	6,46,03,633	(1,17,22,184)
	Interest received	(2,21,35,556)	(4,20,14,321)
	Dividend received	(13,754)	(3,16,764)
	Interest expenses	23,71,70,353	11,67,97,112
	Effect of exchange differences on translation of foreign currency cash and cash equivalents	(2,776)	(22,036)
	Operating Profit before working capital changes:	2,30,90,01,780	1,52,84,90,873
	Adjustments for changes in working capital:		
	(Increase)/Decrease in Sundry Debtors	(92,62,41,132)	11,15,83,852
	(Increase)/Decrease in other Receivables	(97,71,02,844)	(37,06,54,637)
	Increase/(Decrease) in trade and other payables	25,62,05,781	1,01,56,283
	Cash generated from operations	66,18,63,585	1,27,95,76,371
	Direct Taxes	(51,03,88,018)	(25,59,87,720)
	Net Cash From Operating Activities (A)	15,14,75,568	1,02,35,88,650
B	Cash Flow from Investing Activities		
	Purchase of assets	(29,51,76,185)	(29,48,31,991)
	(Purchase) / Sale of Long Term Fixed Deposits (net)	(3,53,14,785)	(13,17,37,698)
	Capital Work in Progress	(18,10,68,077)	78,38,688
	Investments in Subsidiaries / Others	(31,69,12,328)	(1,22,07,20,780)
	Net cash flow from investing activities (B)	(82,84,71,375)	(1,63,94,51,781)
C	Cash Flow form Financing Activities		
	Proceeds from cash credit	66,55,30,329	46,81,00,962
	Dividends paid (Incl.Dividend Tax)	(15,34,24,047)	(11,54,48,934)
	Interest paid	(23,71,70,353)	(11,67,97,112)
	Interest Received	2,21,35,556	4,20,14,321
	Dividend received	13,754	3,16,764
	Other Loans	66,79,31,242	45,25,38,347
	Net cash flow from financing activities (C)	96,50,16,481	73,07,24,349

Amount in ₹

		2011	2010
D	Effect of exchange differences on translation of foreign currency cash and cash equivalents	2,776	22,036
	Net Increase /(Decrease) in cash & cash equivalent (A+B+C+D)	28,80,23,450	11,48,83,255
	Opening Cash and cash equivalent	65,18,60,374	53,69,77,119
	Closing Cash and cash equivalent *	93,98,83,824	65,18,60,374
*	Includes unclaimed dividend amount	18,96,093	14,02,745
	Supplementary Information		
	Cash and Bank Balances as per B/S	2,50,49,95,596	2,18,16,57,361
	Less: Investment in Long term deposits with scheduled banks	1,56,51,11,773	1,52,97,96,987
	Balance considered for Cash Flow Statement	93,98,83,824	65,18,60,374

Notes:

1. The above Cash Flow Statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard - 3 on 'Cash Flow Statements' issued by the Institute of Chartered Accountants of India.
2. Cash and Cash Equivalents include Unclaimed dividend amounting to ₹ 18,96,093 (PY - ₹ 14,02,745).
3. Previous year's figures have been regrouped and reclassified to confirm to those of the current year.

For M/s Brahmayya & Co
Chartered Accountants
Firm Reg. No. 000511S

P S Kumar
Partner
Membership No :15590

Sudarshan Venkatraman
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Managing Director and
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Executive Director

S Rajagopal
Director

A P Vasanthakumar
Director

V K Ramani
Director

M Gajhanathan
Director

S P Srihari
Global Chief Financial Officer

Chennai
May 27, 2011

S Akila
Company Secretary

As at March 31,

Amount in ₹

	2011	2010
1. SHARE CAPITAL		
AUTHORISED	40,00,00,000	20,00,00,000
Equity shares, ₹ 10 par value		
40,000,000 (20,000,000) equity shares		
ISSUED, SUBSCRIBED AND PAID UP	16,44,64,200	16,44,64,200
₹ 10 par value fully paid up		
1,64,46,420 (1,64,46,420) equity shares		
(includes 52,10,710 equity shares of ₹ 10 each issued as fully paid bonus shares by way of capitalisation of share premium account)		
	16,44,64,200	16,44,64,200
2. RESERVES AND SURPLUS		
General reserve		
As per the last balance sheet	72,19,41,054	62,19,41,054
Add: Transfer from profit and loss account	15,00,00,000	10,00,00,000
	87,19,41,054	72,19,41,054
Share premium as per the last balance sheet	1,78,42,89,318	1,78,42,89,318
	1,78,42,89,318	1,78,42,89,318
Profit and loss account	3,90,77,36,632	2,99,99,67,986
	6,56,39,67,004	5,50,61,98,358
3. SECURED LOANS		
From a bank - PCFC loan *	1,23,97,55,821	90,93,02,323
From a bank - PC loan *	66,41,45,561	32,90,68,730
From a bank - FCTL I **	-	97,57,887
From a bank - FCTL II ***	3,07,33,749	5,93,30,607
From a bank - FCTL III ****	11,86,48,285	15,54,10,145
ECB loan #	54,49,21,143	56,15,25,347
Hire Purchase / Infrastructure Leases ##	94,30,17,884	16,09,45,097
	3,54,12,22,443	2,18,53,40,136

* The packing credit in foreign currency and in rupees are secured by hypothecation of book debts and other current assets.
** Term loan I is secured by mortgage of properties in USA. Due for payment within 12 months ₹ 97,57,887 (₹ 1,41,97,841).
*** Term loan II is secured by mortgage of company's properties in Sholinganallur and hypothecation of all fixed assets. Due for payment within 12 months ₹ 2,85,96,858 (₹ 3,76,93,380).
**** Term loan III is secured by assets of a business in USA the acquisition of which was funded by the term loan and fixed assets of the company. Due for payment within 12 months ₹ 3,67,61,860 (₹ 5,70,95,779).
# The ECB Loan is secured by the pledge of shares of Nova Msc Sdn Bhd as well as Matrix Primus Partners Inc., the acquisition of which was funded out of the loan;charge on fixed and current asset of Matrix Primus Partners Inc and present and future fixed assets of the company.
The above facilities are collaterally secured by other assets of the company and guaranteed by the two promoter directors of the company in their personal capacity.
Hire purchase loan from a company is secured by assets financed by the loan.

4. Fixed assets

Amount in ₹

Assets	Original cost				Depreciation/amortisation				Net book value	
	Cost As at Apr 1, 2010	Additions during the period	Deletions/ retirement during the period	Cost As at Mar 31, 2011	As at Apr 1, 2010	For the Period	Deletions/ retirement during the period	As at Mar 31, 2011	As at Mar 31, 2011	As at Apr 1, 2010
Tangible assets										
Freehold Land	3,13,61,493	63,88,375	-	3,77,49,868	-	-	-	-	3,77,49,868	3,13,61,493
Leasehold Land *	1,57,17,239	-	-	1,57,17,239	2,35,708	1,51,689	-	3,87,397	1,53,29,842	1,54,81,531
Building	27,16,60,800	26,93,219	-	27,43,54,019	3,50,27,551	1,18,84,420	-	4,69,11,971	22,74,42,048	23,66,33,249
Plant and machinery	8,54,15,756	-	-	8,54,15,756	3,83,63,738	65,44,936	-	4,49,08,674	4,05,07,082	4,70,52,018
Computer equipment	53,90,65,250	7,02,01,009	-	60,92,66,259	40,49,39,108	6,62,02,383	-	47,11,41,491	13,81,24,768	13,41,26,142
Furniture and fittings	2,02,96,860	30,66,653	-	2,33,63,513	65,09,641	29,02,371	-	94,12,012	1,39,51,501	1,37,87,219
Interior decoration	6,38,95,848	24,89,987	-	6,63,85,834	1,81,19,563	85,79,380	-	2,66,98,943	3,96,86,891	4,57,76,285
Electrical fittings	4,45,76,708	3,98,230	-	4,49,74,937	1,06,48,995	47,56,037	-	1,54,05,031	2,95,69,906	3,39,27,713
Office equipments	1,89,75,470	1,56,136	-	1,91,31,606	53,84,538	19,02,938	-	72,87,476	1,18,44,130	1,35,90,932
Vehicles	1,40,76,790	-	-	1,40,76,790	85,97,586	14,18,566	-	1,00,16,152	40,60,638	54,79,204
Intangible assets										
Goodwill (Business Acquisition)	62,12,04,848	-	-	62,12,04,848	31,55,28,901	9,34,32,185	-	40,89,61,086	21,22,43,762	30,56,75,947
Computer software	1,30,98,902	-	-	1,30,98,902	76,54,441	32,27,265	-	1,08,81,706	22,17,196	54,44,461
Licence fee	1,38,54,000	-	-	1,38,54,000	1,38,54,000	-	-	1,38,54,000	-	-
Product development cost	17,87,57,290	15,39,40,659	-	33,26,97,949	11,69,40,334	2,83,02,685	-	14,52,43,019	18,74,54,930	6,18,16,956
Leased Assets	-	-	-	-	-	-	-	-	-	-
Computer equipments	18,66,25,114	5,58,41,917	-	24,24,67,031	3,88,32,107	7,30,14,800	-	11,18,46,906	13,06,20,124	14,77,93,007
Total	2,11,85,82,368	29,51,76,185	-	2,41,37,58,551	1,02,06,36,211	30,23,19,655	-	1,32,29,55,864	1,09,08,02,688	1,09,79,46,157
Previous Year	1,82,37,50,375	29,48,31,991	-	2,11,85,82,366	73,64,00,403	28,42,35,807	-	1,02,06,36,210	1,09,79,46,156	1,08,73,49,972

* Leasehold land is being amortised over the lease period of 99 years (excluding the refundable deposit ₹ 7.00 lakhs)

Amount in ₹

	2011	2010
5. INVESTMENTS		
Long term, Non-trade, quoted, at cost		
Union Bank of India *(2018 equity shares of ₹ 110 each, fully paid up)*	2,21,980	2,21,980
	2,21,980	2,21,980
Investment in subsidiary Companies - Long Term, Non-Trade, Unquoted, at Cost		
"Vishwa Vikas Services Limited		
(2,50,000 equity shares of ₹ 10 each, fully paid)"	25,00,000	25,00,000
"Zylog Systems (India) Limited		
(3,15,00,000 equity shares of ₹ 10 each, fully paid, 3,14,00,000 shares acquired during the year)"	31,50,00,000	10,00,000
"Zylog systems (Europe) Limited		
(1,564,701 equity shares of GBP 1 each, fully paid up, 42,700 shares acquired during the year)"	10,65,65,240	10,36,55,568
"Zylog Systems Asia Pacific Pte Ltd		
(1,906,389 equity shares of SGD 1 each, full paid)"	6,25,99,133	6,25,99,133
"Zylog BV Limited		
(125,000 equity shares of USD 1 each, fully paid)"	62,99,375	62,99,375
"Algorithm Solutions Private Ltd		
(10,000 equity shares of ₹10 each, fully paid)"	1,75,00,000	1,75,00,000
"Zylog Systems (Canada) Limited		
(7,000,100 equity shares of CAD 1 each, fully paid)"	30,93,86,920	30,93,86,920
"Matrix Primus Partners Inc		
(1,003,750 equity shares of USD 1 each, fully paid)"	73,23,63,170	73,23,63,170
	1,55,22,13,838	1,23,53,04,166
Current investments - Trade, Unquoted at lower of cost		
Investments:Liquid Funds:Reliance Interval Fund *(Treasury Plan)*	55,083	52,428
Total current investments	55,083	52,428
Aggregate amount of Investments	1,55,24,90,901	1,23,55,78,573
Notes:		
Quoted investments		
a. Book value	2,21,980	2,21,980
b. Market value	7,00,751	5,89,861
Book value of unquoted investments	1,55,22,68,921	1,23,53,56,594
6. SUNDRY DEBTORS		
Debts considered good for which the company holds no security other than the debtors' personal security		
Debtors outstanding for a period exceeding six months	6,96,77,966	2,68,51,018
Other debts	3,27,71,20,724	2,41,89,49,813
	3,34,67,98,690	2,44,58,00,831

Amount in ₹

	2011	2010
7. CASH AND BANK BALANCES		
Cash on hand	3,13,721	2,39,066
Balance with scheduled banks		
Current accounts	5,97,11,270	85,91,836
Fixed deposits #	1,56,51,11,773	1,52,97,96,987
Unclaimed dividend account	18,96,093	14,02,745
Balances with non-scheduled banks	87,79,62,739	64,16,26,727
(Refer to Note 17 for details of balances)		
	2,50,49,95,596	2,18,16,57,361
8. LOANS AND ADVANCES		
Advances recoverable in cash or in kind	21,27,56,482	5,95,43,382
or for value to be received *(unsecured considered good)*		
Share application deposits in subsidiary	32,00,00,000	31,40,00,000
Unbilled revenue	81,57,31,895	67,92,80,860
Advance for taxes	–	7,21,79,957
Interest receivables	6,90,36,335	5,16,29,820
Tax deducted at source	7,08,427	3,80,118
Deposits	2,71,92,002	69,72,459
Prepaid expenses	18,43,32,175	5,70,90,692
Amounts due from subsidiary companies		
Zylog Systems (India) Ltd	90,03,148	–
Zylog Systems (Europe) Ltd	6,68,62,036	3,95,62,693
Zylog Systems (Canada) Ltd	–	3,99,17,547
Matrix Primus Partners Inc	19,92,29,925	–
Algorithm Solutions Private Ltd	5,16,34,182	76,84,990
Zylog BV Ltd	36,47,40,355	4,35,32,466
Vishwa Vikas Services Ltd	2,88,55,147	1,81,43,909
	2,35,00,82,111	1,38,99,18,893

Amount in ₹

		2011	2010
9.	CURRENT LIABILITIES AND PROVISIONS		
	A. Current liabilities		
	Due to micro, small and medium scale industries		
	Creditor for expenses	27,45,19,077	8,38,27,661
	Unclaimed dividend *	18,54,969	14,04,095
	Zylog Systems Asia Pacific Ltd	9,72,06,821	4,33,17,205
	Zylog Systems (Canada) Ltd	13,70,44,054	22,04,67,448
	Other current liabilities	2,75,61,816	1,62,72,443
	Total (A)	53,81,86,737	36,52,88,852
	B. Provisions		
	Provision for taxation (Net of Advance Tax ₹ 46,38,77,854/-)	4,10,43,196	-
	Proposed dividend	13,15,71,360	9,86,78,520
	Tax on proposed dividend	2,18,52,687	1,67,70,414
	Provision for gratuity	1,42,68,380	99,78,795
	Total (B)	20,87,35,623	12,54,27,729
	Total (A) + (B)	74,69,22,360	49,07,16,580

* There are no amounts required to be transferred to Investor Education Protection Fund

₹ 30,04,891- towards held in Bank Guarantee Margin Account.

For the period ended March 31,

Amount in ₹

	2011	2010
10. OTHER INCOME		
Interest received on deposits	2,21,35,556	4,20,14,321
(Tax deducted at source – ₹ 7,08,427/-)		
Dividend Income (Non-trade unquoted investments)	13,754	3,16,764
Rental income	5,28,172	4,15,628
Miscellaneous income	13,33,845	11,92,834
	2,40,11,327	4,39,39,547
11. SOFTWARE DEVELOPMENT EXPENSES		
Salaries including overseas staff expenses	3,21,43,56,567	2,99,12,06,332
Technical consultants – on contract	75,43,91,936	1,15,15,12,476
Staff welfare	3,66,36,343	2,87,11,943
Project expenses	1,46,22,69,700	56,92,29,008
	5,46,76,54,546	4,74,06,59,759
12. ADMINISTRATIVE EXPENSES		
Administrative salary	6,85,86,393	5,14,78,217
Director's remuneration	2,80,80,573	1,10,29,003
Directors' sitting fee	1,85,000	3,15,000
Gratuity	44,02,681	28,51,308
Recruitment expenses	1,30,96,081	3,22,59,814
Office rent	3,28,55,224	3,18,32,951
Rates & taxes	1,44,59,142	1,02,75,717
Communication expenses	2,53,39,632	2,32,47,382
Electricity	1,58,59,726	1,59,88,772
Insurance	1,54,89,011	82,71,890
Lease rental charges	41,84,038	12,83,093
Repairs and maintenance		
Repairs to building	5,50,27,290	3,08,76,797
Repairs to machinery	76,19,800	4,61,47,609
Foreign exchange loss	10,26,42,484	31,53,76,941
Printing and stationery	92,24,816	69,81,942
Visa processing related expenses	6,18,07,698	2,51,09,290
Travelling expenses	41,50,267	1,49,94,427
Professional charges	3,94,12,808	6,05,39,349
Audit fee	56,92,582	52,50,156
Bad debts	–	14,44,040
Donation paid	3,84,500	65,000
Miscellaneous expenses	1,06,63,359	43,99,860
	51,91,63,105	70,00,18,559

Amount in ₹

	2011	2010
13. SELLING EXPENSES		
Marketing salary	16,91,84,344	17,36,05,687
Marketing and business consultancy	23,47,48,204	13,07,30,063
Marketing and Sales commission	43,83,08,381	45,81,02,029
Trade show, seminar and conference expenses	3,36,88,473	5,40,08,970
Travel expenses	4,19,24,360	3,10,32,694
Advertisement	1,12,23,903	84,31,241
	92,90,77,665	85,59,10,684
14. INTEREST EXPENSES		
On fixed loans	10,44,51,983	1,64,70,554
On Working Capital	9,31,88,038	7,45,82,970
Finance charges	3,95,30,332	2,57,43,588
	23,71,70,353	11,67,97,112

SCHEDULE 15

1. **Basis of preparation**

The financial statements are prepared under historical cost convention on the accrual basis of accounting and comply with the mandatory accounting standards recommended by The Institute of Chartered Accountants of India (ICAI) and prescribed by the Central Government and comply with the relevant provisions of the Companies Act, 1956.

Cash flows are reported using the indirect method whereby profit before tax is adjusted for the effects of transactions of non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, financing and investing activities of the company are segregated.

2. **Use of estimates**

The preparation of the financial statements in conformity with the Generally Accepted Accounting Principles requires the Management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to contingent assets and liabilities as at the date of the financial statements and the reported amounts of income and expenses during the period. Examples of such estimates include provisions for doubtful debts, future obligations under employee retirement benefit plans, income taxes, post-sales customer support and the useful lives of fixed assets and intangible assets.

3. **Revenue recognition**

The company derives its revenues primarily from software development services, consultancy services, projects and e-governance projects.

Revenue from software services and projects comprise income from time-and-material contracts, fixed price/fixed time contracts, technical services and annual maintenance contracts. Revenue from time-and-material contracts is recognized on the basis of man hours spent and materials utilized for the development of software and billable in accordance with the terms of the contracts with clients. Revenue from fixed price/fixed time contract is recognized as per the proportionate completion method. Revenue from technical service for software application is recognized on completion of the service.

Cost incurred on unfinished projects that are yet to be billed and earnings in excess of billings are classified as unbilled revenue.

Interest on deployment of surplus funds is recognized on the accrual basis, based on underlying interest rates.

4. **Fixed assets including intangible assets**

Tangible assets are stated at cost, less accumulated depreciation. Cost includes cost of acquisition including material cost, freight, installation cost, duties and taxes, and other incidental expenses, incurred up to the installation stage, related to such acquisition. Intangible assets are stated at cost of acquisition less accumulated amortization.

5. **Leased Assets**

Assets acquired under finance lease are recognised at the lower of the fair value of the leased assets at inception and the present value of minimum lease payments. Lease payments are apportioned between the finance charge and the outstanding liability. The finance charge is allocated over the period of lease at a constant periodic rate of interest on the remaining balance of the liability.

6. **Borrowing Costs**

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalized as part of the cost of such assets.

7. **Depreciation & Amortization**

Depreciation is provided on tangible assets in the written down value method, at the rates and in the manner specified by schedule XIV to the Companies Act, 1956. Depreciation is charged from the date of acquisition/installation and on assets sold, up to the date of sale.

The cost and the accumulated depreciation of assets sold, retired or otherwise disposed off is removed from the stated values and the resulting gains and losses are included in the profit and loss account.

Leasehold land is amortized over the lease period of 99 years excluding any refundable deposit.

In respect of businesses acquired, the excess of purchase consideration over the tangible and intangible assets is deemed to have been paid for human resources, clientele and other related benefits such as non-compete agreements and is being amortised over 5 years.

The other intangible assets are being amortised as follows:

Computer software

Software for own use	over 5 years
Product Development Cost	over 5 years

8. Investments

Investments are either classified as current or long term, based on the management's intention at the time of purchase. Current investments are carried at the lower of cost and market value. Long-term investments are carried at cost less provisions recorded to recognise any decline other than temporary, in the carrying value of investment.

9. Impairment of assets

The Management periodically assesses using external and internal sources whether there is an indication that an asset may be impaired. All the fixed assets are assessed for any indication of impairment at the end of each financial year. On such indication, the impairment (being excess of carrying value or the recoverable value of asset) is charged to profit and loss account in the respective financial year. The impairment loss recognised in the prior years is reversed where the recoverable value exceeds the carrying value of the asset upon reassessment in the subsequent years.

10. Foreign currency transactions

The company has a US based branch which is an integral operation.

The transactions of the Head Office in foreign currency are accounted at the rates of exchange prevailing on the date of the transactions. The exchange difference between the rates prevailing on the date of transaction and the date of settlement are recognized in the profit and loss account.

Foreign currency denominated monetary assets and liabilities are translated using exchange rate as at Balance sheet date. The gains and losses resulting from such translations are included in the profit and loss account. Non-monetary assets and liabilities denominated in foreign currency are translated at historical rate.

For the purposes of incorporation of the financial statements of the US branch into the Head Office financial statements, all income and expenditure are translated at the average rate, the monetary assets and liabilities translated at the yearend rate and non-monetary assets and liabilities translated at the date of transactions the resultant gain or loss being recognized in the profit and loss account

11. Retirement benefits

a) Provident Fund (Defined contribution scheme)

Eligible employees receive benefit from defined benefit plan covered under the Provident Fund Act. Both employees and the company make monthly contributions. The employer contribution is charged off to Profit & Loss Account as an expense.

b) Gratuity (Defined Benefit Scheme)

The company provides for a non-funded gratuity, based on actuarial valuation.

c) Leave encashment:

The leave encashment liability upon retirement would not arise as the accumulated leave is reimbursed every year and accounted at actual.

12. Research and development cost

Expenditure incurred on research and development is charged off to Profit & Loss Account as incurred till the time the techno-commercial viability is established.

13. Provisions:

A provision is recognized when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates. Contingencies are recorded when it is probable that a liability will be incurred and the amount can be reasonably estimated.

14. Accounting for Taxes:

The company is accounting for taxes in accordance with the Accounting Standard (AS) 22 - "Accounting for taxes" notified under sub section 3 (c) of section 211 of companies Act 1956. Consequently, the tax provision includes the income tax payable on the estimated taxable income as well as the tax impact arising on account of timing differences, thus ensuring that the income and taxes thereon are matched.

1. Estimated amount of contract remaining to be executed on capital account and not provided for ₹ Nil (₹ Nil).
2. Contingent liabilities
   (a) The company has given a corporate guarantee to SBI, Frankfurt, on behalf of Zylog BV Limited to the extent of ₹ 24 crores.
   (b) The company has given a corporate guarantee to ICICI Bank, Canada on behalf of Zylog Systems (Canada) Limited to the extent of ₹140 crores.
   (c) The company has given a corporate guarantee to ANDHRA Bank on behalf of Zylog Systems (India) Limited to the extent of ₹ 75 Crores.
   (d) The assessments of the company for income tax have resulted in demands being raised on the company against which the company is in appeals at different appellate authorities.The disputed amount of income tax for various assessment years is ₹ 14.17 crores (₹ 14.27 crores) together with unspecified amount of interest etc. Assessments are pending from the assessment year 2009-10 onwards.
   (e) Please refer note No:3 for the guaranteed amount of ₹ 19,14,33,675/-
3. The company acquired the business of Brainhunter Inc. and its wholly owned subsidiaries located in Canada in the year 2009-10 through its Canadian subsidiary Zylog Systems (Canada) Ltd. by a Court approved Companies' Creditors Arrangement Act.

   The consideration for acquisition includes a scheme satisfying the note holders who were owed sums aggregating to Canadian $ 10,249,262 by Zylog Systems (Canada) Ltd. issuing notes (The Affiliate Notes) which would eventually be taken over by Zylog Systems Ltd. by an issue of notes (Zylog Notes) replacing the Affiliate Notes. Accordingly, Zylog Systems Ltd. undertook to take over the satisfaction of the liability by granting the note holders an option for being allotted shares in Zylog Systems Ltd. at a price of 991 subject to the approval of the shareholders and regulatory authorities on the "Due Date" which would fall after the end of the accounting year 2009-10.This would increase the equity capital of the company by 4,56,049 equity shares. If the notes were not converted into shares, Zylog Systems Ltd. will redeem the notes at 40% of the principle amount of Canadian $ 10,249,262.

   As on 31st March 2010, Zylog Systems Ltd. had guaranteed the note holders the full payment required under the terms of the Affiliate Notes whereby a put option had been given to the note holders for settlement in cash of Canadian $ 10,249,262 at 40% of the amount.

   As of 31st March 2011 while the position had remained unchanged, subsequent to the end of the year, the note holders have opted to be paid in cash 40% of amount viz. Canadian $ 4,099,705 equivalent to ₹ 19,14,33,675/- .
4. Details of remuneration paid to directors

Amount in ₹

	Mar 31, 2011	Mar 31, 2010
Chairman and Chief Executive Officer		
Sudarshan Venkatraman		
Salary / remuneration	1,15,96,648	64,45,522
Managing Director and Chief Operating Officer		
Ramanujam Sesharathnam		
Salary / remuneration	1,13,06,506	45,83,481
Executive Director		
Srikanth Parthasarathy		
Salary / remuneration	51,77,419	-

5. Details of auditors' remuneration *(Net of service tax where applicable)*

Amount in ₹

	Mar 31, 2011	Mar 31, 2010
Head Office		
Statutory audit	12,00,000	9,00,000
Certification and reviews under clauses 41 and 49 of the listing agreement with stock exchanges	8,50,000	6,64,800
Tax audit	2,00,000	2,00,000
Overseas Branch		
Branch audit	30,00,000	30,00,000
Tax audit	4,42,582	4,85,356
	56,92,582	52,50,156

6. The deferred tax liability comprises the following

Amount in ₹

	Mar 31, 2011	Mar 31, 2010
a) Deferred tax liability		
- Related to depreciation	1,75,13,001	1,20,24,951
b) Deferred tax Assets		
- Provision for gratuity	14,62,571	14,54,036
Net Deferred tax Liability	1,60,50,430	1,05,70,915

7. a) Earnings in Foreign currency

Amount in ₹

	Mar 31, 2011	Mar 31, 2010
Export Earnings - Software development, services and products		
- Offshore	2,75,62,06,985	1,55,54,19,341
- Onsite/Offsite	6,23,48,99,889	6,22,58,74,350
	8,99,11,06,874	7,78,12,93,691

b) Expenditure in Foreign currency

Amount in ₹

	Mar 31, 2011	Mar 31, 2010
Towards purchase of capital goods		
- Offshore	-	6,31,328
- Onsite/Offsite	4,49,83,978	4,35,30,656
Towards project expenses		
- Offshore	44,10,882	16,66,23,840
- Onsite/Offsite	6,84,81,95,193	5,57,85,47,704
	6,89,75,90,053	5,78,93,33,528

8. Unhedged Foreign Exchange exposure

Amount in ₹

Particulars	Currency	As at 31st March 2011 Amount in Foreign Currency	As at 31st March 2011 Amount in INR	As at 31st March 2010 Amount in Foreign Currency	As at 31st March 2010 Amount in INR
Sundry debtors	USD	6,05,03,046	2,74,67,05,167	3,85,03,275	1,73,38,06,312
	GBP	295,050	2,14,76,808	2,95,050	2,00,24,601
	SGD	-	-	42,075	13,54,715
	EURO	25,000	16,00,160	10,000	6,05,895
	SAR	584,375	70,74,678	-	-

Foreign currency exposures have not been hedged by a derivative instrument or otherwise. According to the management almost 80% of the revenue is naturally hedged as it pays out salaries and incurs expenditures in the same foreign currency.

9. Disclosures under " Accounting Standard (AS)-15 (Revised) – Employee Benefits

a) Reconciliation of opening and closing balances of Defined Benefit obligation

(The computations given hereunder are for the company and two of its wholly owned Indian subsidiaries. The figures do not match with the figures in the financial statements since the amounts have been allocated to the three companies in relation to their liability)

Amount in ₹

	Mar 31, 2011	Mar 31, 2010
Defined Benefit obligation towards gratuity at beginning of the year	1,05,56,000	76,08,000
Current Service Cost	69,58,000	39,09,000
Interest Cost	7,39,000	5,33,000
Actuarial (gain)/Loss	14,096	(14,41,000)
Benefits Paid	(113,096)	(53,300)
Defined Benefit obligation at the year end	1,81,54,000	1,05,55,700

b) Reconciliation of opening and closing balances of fair value of plan assets-Not Funded

c) Reconciliation of fair value of assets and obligations

Amount in ₹

	Mar 31, 2011	Mar 31, 2010
Fair value of plan assets as at 31st March, 2011	-	-
Present value of obligation as at 31st March,2011	1,81,54,000	1,05,55,700
Amount recognized in Balance Sheet	1,81,54,000	1,05,55,700

d) Expense recognized during the year

Amount in ₹

	Mar 31, 2011	Mar 31, 2010
Current service cost	69,58,000	39,09,000
Interest cost	7,39,000	5,33,000
Actuarial (gain)/Loss	14,096	(14,41,000)
Net cost	77,11,096	30,01,000

e) Investment details: Not funded

f) Actuarial assumptions:

Amount in ₹

	Mar 31, 2011	Mar 31, 2010
Interest rate	7%	7%
Inflation rate	4%	4%
Mortality rate #	-	-
Retirement age	58	58

As per LIC (1975 – 79) Table of Mortality rates

10. Since the company operates in IT Services, there are no other business segments. However around 98% of the revenue accrue in US and consequently there are no other reportable geographical segments.

11. Leases:

1. Asset acquired under financial lease during the period:

a) Net carrying amount of assets taken on financial lease as on 31/03/2011 ₹14,80,15,094/-(PY ₹16,09,45,097/-).

b) Out of the total lease payments of ₹ 8,66,84,411/- (PY ₹ 3,45,54,274/-), lease charges amounts to ₹1,78,88,554/- (PY ₹ 88,74,257/-) and the reduction in principal amounts to ₹ 6,87,95,857/- (PY ₹ 2,56,80,017/-).

c) The minimum lease payments (MLP) and their present value (PV) in respect of these leases are as under:

Amount in ₹

	MLP		PV of MLP	
	2011	2010	2011	2010
Not later than one year	9,49,11,636	7,30,52,748	8,96,08,510	6,89,70,973
Later than one year and not later than five years	6,85,84,587	11,15,51,222	5,83,79,766	9,19,93,973
Later than five years	-	-	-	-
Total As on 31.03.2010	16,34,96,223	18,46,03,970	14,79,88,276	16,09,42,946

2. Obligation towards non-cancellable operating lease

Amount in ₹

Lease Obligation	2011	2010
Lease rentals recognized during the year	41,84,038	12,83,093
Due not later than one year	61,17,090	18,79,572
Due later than one year but not later than five years	1,24,37,758	44,44,391
Later than five years	-	-

12. The company has acquired various businesses during the financial years ended 31st March 2003, 31st March 2006, 31st March 2008, and 31st March 2009. The assets acquired in these business comprise various resources such as human resources, client lists and other related benefits and also undertakings by the promoters of the vendors of these businesses not to engage in any business with clients taken over for a specified period of time.

The total amount invested in acquiring these businesses is ₹621, 204,848. The company has adopted the policy of amortizing this amount over a period of 5 years. Accordingly, the company has amortized a sum of ₹9,34,32,185/- in the year under review (previous year ₹107, 297,170).

13. The company is engaged in the business of software development & services, maintenance and consultancy. The production and sale of such software cannot be expressed in any generic unit. Hence it is not possible to give the quantitative details of sales and certain information as required under paragraphs 3, 4C and 4D of part II of schedule VI to the Companies Act, 1956.

14. Income tax is provided after taking into account deductions available under Chapter III of the Income Tax Act, 1961, the Minimum Alternate Tax as prescribed by section 115JB of the Income Tax Act, 1961 and the foreign taxes paid which are available for set off under the relevant Double Taxation Avoidance Agreements.

15. Loans and Advances include unbilled revenue of ₹ 8157.32 lakhs (₹ 6792.80 lakhs) recognized in relation to efforts incurred on various contracts until the balance sheet date.

16. In determining earnings per share, the company considers the net profit after tax and includes the post tax effect of any extraordinary / exceptional item. The number of shares used in computing basic earnings per share is the weighted average number of shares outstanding during the period. The number of shares used in computing diluted earnings per share comprises the weighted average shares considered for deriving basic earnings per share, and also the weighted average number of equity shares that could have been issued on the conversion of all dilutive potential equity shares. The components of basic and diluted earnings per share are as follows.

Amount in ₹

Particulars	Mar 31, 2011	Mar 31, 2010
Net Income available to Equity Shareholders	1,21,11,92,695	92,14,63,469
No of outstanding equity shares		
- Basic	1,64,46,420	1,64,46,420
- Diluted	1,64,46,420	1,64,46,420
Earnings Per Share		
- Basic	73.64	56.03
- Diluted	73.64	56.03

17. Balances in non-scheduled banks

Amount in ₹

	Balances as at		Maximum balances during the year ended	
	Mar 31, 2011	Mar 31, 2010	Mar 31, 2011	Mar 31, 2010
PNC Bank, USA	86,22,91,239	54,77,20,155	1,68,38,33,093	1,14,56,91,599
	($18,994,120)	($12,163,423)	($37,090,632)	($23,996,226)
Commerce Bank, USA	3,17,007	1,44,22,287	2,40,21,020	3,55,16,773
	($6,983)	($320,281)	($529,123)	($743,890)
JP Morgan Chase Bank, USA	47,67,938	1,76,42,038	13,00,26,200	47,98,65,179
	($105,026)	($391,783)	($2,864,152)	($10,050,657)
HSBC	1,24,069	1,21,04,458	10,38,72,028	4,84,54,716
	($2,733)	($268,808)	($22,88,041)	($1,014,872)
CITI Bank	1,84,458	2,49,68,017	2,55,81,116	3,94,45,252
	($4,063)	($554,474)	($563,488)	($826,171)
Wachovia, USA	1,02,78,029	2,47,69,772	5,08,70,187	5,39,57,049
	($226,399)	($550,071)	($11,20,543)	($1,130,117)
TOTAL	87,79,62,739	64,16,26,727	2,01,82,03,644	1,80,29,30,568

None of the directors or their relatives is interested in the above-mentioned Non-scheduled banks.

18. Amounts due to Small Scale Industries under Current Liabilities is based on the information available with the company regarding the status of the suppliers as defined under the "Micro, Small and Medium Enterprises Development Act, 2006". Amounts overdue as on 31st March 2011 to Micro, Small and Medium Enterprises on account of principal and interest is ₹ Nil (₹ Nil).

19. Related party disclosure:

As required under Accounting Standard 18 (AS-18), the following are the details of transactions during the year with the related parties.

a) List of related parties and relationships

Name of related party	Relationship
	Key Management Personnel
Mr. Sudarshan Venkatraman	Chairman & CEO
Mr. Ramanujam Sesharathnam	Managing Director & COO
Mr. Srikanth Parthasarathy	Executive Director
Zylog Systems (Europe) Limited	Subsidiary
Vishwa Vikas Services Limited	Subsidiary
Zylog Systems (India) Limited	Subsidiary
Zylog Systems Asia Pacific Pte Ltd	Subsidiary
Zylog BV Limited	Subsidiary
Zylog Systems Canada Limited	Subsidiary
Matrix Primus Partners Inc	Subsidiary
Ducont FZ LLC	Subsidiary
Algorithm Solutions Private Ltd	Subsidiary
Anodas Software Ltd	Subsidiary
Zylog AG Switzerland	Subsidiary
Ducont India Pvt. Ltd	Subsidiary

b) Transactions with related parties

Amount in ₹

Name of related party	Mar 31, 2011	Mar 31, 2010
Mr. Sudarshan Venkatraman – Remuneration	1,15,96,648	64,45,522
Mr. Ramanujam Sesharathnam – Remuneration	1,13,06,506	45,83,481
Mr. Srikanth Parthasarathy – Remuneration	51,77,419	-
	2,80,80,573	1,10,29,003
Investments		
Zylog Systems (Europe) Limited	29,09,672	10,18,02,750
Zylog Systems (Asia) Pte Ltd	-	5,96,66,113
Zylog Systems (India) Limited	31,40,00,000	-
Algorithm Solutions Private Ltd	-	1,75,00,000
Zylog Systems (Canada) Limited	-	30,93,86,920
Matrix Primus Partners Inc	-	73,23,63,170
	31,69,09,672	1,22,07,18,953

Amount in ₹

Name of related party	Mar 31, 2011	Mar 31, 2010
Advances given to		
Vishwa Vikas Services Limited	10,17,11,238	58,58,095
Zylog Systems (Europe) Limited	2.72.29.343	-
Zylog Systems (India) Limited	89,64,891	-
Zylog Systems (Canada) Limited	-	3,99,17,547
Zylog BV Limited	32.12.07.889	-
Algorithm Solutions Private Limited	4,39,49,192	76,84,990
Matrix Primus Partners Inc	19,92,29,925	-
	72,22,92,478	5,34,60,632
Share Application Deposits in Subsidiary	32,00,00,000	31,40,00,000
Zylog Systems (India) Limited		
Advances received from		
Zylog Systems Asia Pacific Pte Ltd	5,38,89,616	4,33,17,205
Zylog Systems (Canada) Limited	17,39,45,771	-
Zylog Systems (India) Limited	-	22,04,67,448
	22,78,35,387	26,37,84,653

Receivable from *Amount in ₹*

Name of Subsidiary	2011		2010	
	Balance As at 31st March	Maximum amount due during the year	Balance As at 31st March	Maximum amount due during the year
Zylog Systems (Europe) Ltd.	6,68,62,036	6,97,71,708	3,95,62,693	15,58,91,361
Zylog BV Ltd.	36,47,40,355	36,58, 19,244	4,35,32,466	12,67,16,337
Vishwa Vikas Services Ltd.	2,88,55,147	3,89,57,038	1,81,43,909	1,81,43,909
Zylog Systems Asia Pacific Pte Ltd	-	-	-	23,60,94,528
Zylog Systems (India) Ltd.	32,90,03,148	34,10,44,457	-	31,40,38,257
Zylog Systems (Canada) Ltd	-	-	3,99,17,547	44,41,24,635
Matrix Primus Partners inc	19,92,29,925	20,11,50,360	-	-
Algorithm Solutions Private Ltd	5,16,34,182	5,16,34,182	76,84,990	2,51,84,990
Total	1,04,03,24,793		14,88,41,605	
Amounts payable				
Zylog Systems Asia Pacific Pte Ltd	9,72,06,821	9,83,32,270	4,33,17,205	-
Zylog Systems (Canada) Limited	13,70,44,054	26,93,20,167	22,04,67,448	-
Total	23,42,50,875		26,37,84,653	

Services rendered/received *Amount in ₹*

	2011	2010
Services rendered to Zylog Systems (Europe) Limited	-	21,65,53,081
Services received from Vishwa Vikas Services Limited	1,29,81,053	51,50,060
Services rendered to Ducont FZ LLC,	7,33,19,044	-

20. Figures have been rounded off to the nearest rupee. Previous years' figures are shown in parenthesis and have been regrouped, recast wherever necessary to conform to the current year's classification.

For M/s Brahmayya & Co
Chartered Accountants
Firm Reg. No. 000511S

P S Kumar
Partner
Membership No :15590

Sudarshan Venkatraman
Chairman and
Chief Executive Officer

Ramanujam Sesharathnam
Managing Director and
Chief Operating Officer

P Srikanth
Executive Director

S Rajagopal
Director

A P Vasanthakumar
Director

V K Ramani
Director

M Gajhanathan
Director

S P Srihari
Global Chief Financial Officer

Chennai
May 27, 2011

S Akila
Company Secretary

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

1 Registration

Registration No.	31651 of 1995
State code	18
Balance sheet date	March 31, 2011

2 Capital raised during the year

Public issue	Nil
Rights issue	Nil
Bonus issue	Nil
Private placement	Nil

3 Position of mobilisation and deployment of funds

Source of funds	Amount	Application of funds	Amount
Paid up capital	16,44,64,200	Net fixed assets	1,09,08,02,688
Reserves & Surplus	6,56,39,67,004	Investments	1,55,24,90,901
Share application money	–	Net current assets	7,45,49,54,037
Secured loan	3,54,12,22,443	Capital work in progress	18,74,56,451
Deferred tax liabilities	1,60,50,430	Accumulated losses	–
	10,28,57,04,077		10,28,57,04,077

4 Performance of the company

	Amount
Total Revenue	9,18,24,45,549
Total Expenditure	6,91,58,95,316
Profit Before Depreciation, Interest & Tax (PBDIT)	2,26,65,50,233
Profit Before Tax (PBT)	1,72,70,60,225
Profit After Tax (PAT)	1,21,11,92,692
Earning per share (EPS)	73.64
Dividend Rate	80.00%

5 Generic names of two principal products / service of the company

Item code No. (ITC Code)	8524
Product description	Software development & consulting

FOR M/S BRAHMAYYA & CO
Chartered Accountants
Firm Reg. No. 000511S

P S KUMAR
Partner
Membership No :15590

SUDARSHAN VENKATRAMAN
Chairman and
Chief Executive Officer

RAMANUJAM SESHARATHNAM
Managing Director and
Chief Operating Officer

P SRIKANTH
Executive Director

S RAJAGOPAL
Director

A P VASANTHAKUMAR
Director

V K RAMANI
Director

M GAJHANATHAN
Director

S P SRIHARI
Global Chief Financial Officer

Chennai
May 27, 2011

S AKILA
Company Secretary

Consolidated Financial Statements

Auditors' report

To
The Board of Directors,
Zylog Systems Limited,
Chennai

1. We have audited the attached consolidated balance sheet of Zylog Systems Limited as at 31st March 2011, and also 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 management of Zylog Systems Limited and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.
2. 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.
3. We did not audit the financial statements of subsidiaries, whose financial statements reflect total assets of ₹5,67,18,30,203 as at 31st March 2011, the total revenue of ₹ 9,73,99,59,590 and cash flows (Net) amounting to ₹1,01,21,554 for the year then ended. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us, and our opinion is based solely on the report of other auditors in so far as it relates to the amounts included in respect of the subsidiaries.
4. We report that the consolidated financial statements have been prepared by the management of Zylog Systems Limited in accordance with the requirements of Accounting Standards (AS) 21, Consolidated Financial Statements and Accounting Standard (AS) 23, Accounting for investment in Associates in consolidated financial statements issued pursuant to the Companies (Accounting Standards) Rules, 2006 as per section 211 (3C) of the Companies Act, 1956 and on the basis of the separate audited financial statements of the Company and its consolidated entities included in the Consolidated Financial Statements.
5. Based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components, and to the best of our information and according to the explanations given to us, we are of the opinion that the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:
   a) in the case of the Consolidated Balance Sheet, of the consolidated state of affairs of the Group and its as at March 31, 2011;
   b) in the case of the Consolidated Profit and Loss Account, of the consolidated profit of the Group for the year ended on March 31, 2011; and
   c) in the case of the Consolidated cash flow statement, of the consolidated cash flows of the Group for the year ended March 31, 2011.

For Brahmayya & Co
Chartered Accountants

Chennai
May 27, 2011

P S Kumar
Partner
Membership No. 15590

Consolidated balance sheet

As at March 31,

Amount in ₹

	SCH	2011	2010
SOURCE OF FUNDS			
SHARE HOLDERS' FUNDS			
Share capital	1	16,44,64,200	16,44,64,200
Reserves & surplus	2	6,89,74,18,965	5,59,93,80,769
Foreign currency translation reserve		2,94,71,706	(1,07,54,019)
Minority interest			3,45,15,657
		7,09,13,54,871	5,78,76,06,607
LOAN FUNDS			
Secured loans	3	5,50,33,37,421	4,15,20,62,556
		5,50,33,37,421	4,15,20,62,556
Unsecured loan	4	19,14,33,675	18,11,96,712
Deferred tax liabilities		2,20,05,956	2,26,48,467
		12,80,81,31,923	10,14,35,14,342
APPLICATION OF FUNDS			
FIXED ASSETS	5		
Gross block		5,17,42,76,942	4,17,00,12,037
Less : Depreciation		1,81,32,59,927	1,21,23,44,800
Net block		3,36,10,17,015	2,95,76,67,237
Capital work-in-progress		53,65,07,125	27,29,35,402
INVESTMENTS	6	6,01,70,276	5,65,81,922
CURRENT ASSETS, LOANS AND ADVANCES			
Sundry debtors	7	5,45,53,52,269	3,90,85,17,959
Cash and bank balances	8	2,99,64,25,549	2,71,46,61,319
Loans and advances	9	2,06,07,46,461	1,26,18,65,687
		10,51,25,24,279	7,88,50,44,965
Less: Current liabilities & provisions	10	1,66,53,25,560	1,03,27,66,489
Net current assets		8,84,71,98,719	6,85,22,78,476
"Miscellaneous expenditure (to the extent not written off)"		32,38,788	40,51,305
Deferred tax asset		-	
Net total		12,80,81,31,923	10,14,35,14,342
Significant Accounting Policies and notes on Accounts	16		

The schedules referred to above and the notes thereon form an integral part of the Balance Sheet.
This is the Balance Sheet referred to in our report of even date.

For M/s Brahmayya & Co
Chartered Accountants
Firm Reg. No. 000511S

P S Kumar
Partner
Membership No :15590

Sudarshan Venkatraman
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A P Vasanthakumar
Director

V K Ramani
Director

M Gajhanathan
Director

S P Srihari
Global Chief Financial Officer

Chennai
May 27, 2011

S Akila
Company Secretary

Consolidated profit & loss account

For the period ended March 31,

Amount in ₹

	SCH	2011	2010
INCOME			
Software development services and products			
Overseas		18,83,53,80,606	9,68,19,48,446
Domestic		32,13,95,245	11,74,68,055
Other income	11	4,91,87,737	4,59,92,016
		19,20,59,63,588	9,84,54,08,517
EXPENDITURES			
Software development expenses	12	13,81,21,06,045	6,29,40,33,990
Administrative expenses	13	1,39,46,25,463	86,73,09,299
Selling & marketing expenses	14	1,02,08,46,412	88,85,53,531
		16,22,75,77,920	8,04,98,96,820
Operating profit (PBIDT)		2,97,83,85,668	1,79,55,11,697
Interest	15	40,53,48,915	14,49,07,888
Depreciation/amortisation		51,50,86,377	33,70,38,627
Prior period adjustments		13,76,137	32,13,149
Profit before tax (PBT)		2,05,65,74,239	1,31,03,52,033
Current tax			
Income tax		59,89,66,773	27,95,56,151
Deferred tax		85,80,310	62,28,368
Net profit after tax, before share of profit of associates and minority interest		1,44,90,27,156	1,02,45,67,514
Share of profit of associates		24,35,087	
Net profit before minority interest		1,45,14,62,243	1,02,45,67,514
Minority interest			1,53,53,904
Net profit for the year after minority interest		1,45,14,62,243	1,00,92,13,610
Brought forward from previous year		3,09,31,50,397	2,29,93,85,721
AMOUNT AVAILABLE FOR APPROPRIATION		4,54,46,12,640	3,30,85,99,331

Amount in ₹

	SCH	2011	2010
Proposed dividend			
Percentage		80.00%	60.00%
Amount		13,15,71,360	9,86,78,520
Tax on proposed dividend		2,18,52,687	1,67,70,414
Amount transferred - general reserve		15,00,00,000	10,00,00,000
BALANCE CARRIED FORWARD TO BALANCE SHEET		4,24,11,88,593	3,09,31,50,397
"EARNINGS PER SHARE - Basic & diluted			
(equity shares, par value ₹ 10 each)"		88.25	62.30
Number of shares used in computing earnings per share		1,64,46,420	1,64,46,420
Significant Accounting Policies and notes on Accounts	16		

The schedules referred to above and the notes thereon form an integral part of the Profit and Loss Account.

This is the Profit and Loss Account referred to in our report of even date

FOR M/S BRAHMAYYA & CO
Chartered Accountants
Firm Reg. No. 000511S

P S KUMAR
Partner
Membership No :15590

SUDARSHAN VENKATRAMAN
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Executive Director

S RAJAGOPAL
Director

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Director

V K RAMANI
Director

M GAJHANATHAN
Director

S P SRIHARI
Global Chief Financial Officer

Chennai
May 27, 2011

S AKILA
Company Secretary

Consolidated cash flow statement

For the year ended March 31,

Amount in ₹

		2011	2010
A	Cash Flow From Operating Activities:		
	Net Profit Before Tax	2,05,65,74,239	1,31,03,52,033
	Adjustments for:		
	Depreciation	51,50,86,377	33,70,38,627
	Interest received	(2,27,58,618)	(4,32,82,562)
	Dividend received	(13,754)	(3,16,764)
	Interest expenses	40,53,48,915	14,49,07,888
	Loss/ (gain) on sale of Fixed asset	12,66,339	
	Amortisation of Preliminary Expenses	8,24,204	23,237
	Unrealised Forex (Gain) / Loss	6,34,83,219	(1,48,72,780)
	Operating Profit before working capital changes:	3,01,98,10,921	1,73,38,49,679
	(Increase)/Decrease in Sundry Debtors	(1,57,20,77,583)	(1,11,33,78,069)
	(Increase)/Decrease in other Receivables	(81,58,20,399)	(54,66,59,457)
	Increase/(Decrease) in trade and other payables	63,25,59,071	34,74,79,622
	Cash generated from operations	1,26,44,72,010	42,12,91,775
	Direct Taxes	(59,89,66,773)	(27,95,56,151)
	Net Cash From Operating Activities (A)	66,55,05,237	14,17,35,624
B	Cash Flow from Investing Activities		
	Purchase of Fixed assets	(40,62,27,766)	(51,57,73,466)
	(Increase)/Decrease in Capital Work in Progress	(26,35,71,723)	(17,09,76,686)
	Investment in mutual funds		(5,58,79,528)
	Capitalisation of intangible assets	(26,25,29,812)	(1,27,20,77,235)
	Disposal of Fixed Assets	1,74,305	8,29,283
	Net cash from investing activities (B)	(93,21,54,996)	(2,01,38,77,632)
C	Cash Flow from Financing Activities		
	Proceeds from Secured loans	1,32,88,54,129	2,58,33,21,134
	Dividends paid (Incl.Dividend Tax)	(15,34,24,047)	(11,54,48,934)
	Interest paid	(40,53,48,915)	(14,49,07,888)
	Issue of Common stock in consolidated subsidiary	(23,55,29,453)	(93,48,702)
	Increase/(decrease) in unsecured loan		18,11,96,712
	Dividend received	13,754	3,16,764
	Interest Received	2,27,58,618	4,32,82,562
	Net cash from financing activities (C)	55,73,24,086	2,53,84,11,649

Amount in ₹

	2011	2010
Net Increase /(Decrease) in cash & cash equivalent (A+B+C)	29,06,74,327	66,62,69,641
Effect of exchange differences on translation of foreign currency cash and cash equivalents	(89,10,097)	(3,73,85,972)
Opening Cash and cash equivalent	2,71,46,61,319	2,08,57,77,650
Closing Cash and cash equivalent *	2,99,64,25,549	2,71,46,61,319
* Includes unclaimed dividend amount	18,96,093	14,02,745
Supplementary Information		
Cash and Bank Balances as per B/S	2,99,64,25,549	2,71,46,61,319
Less: Investment in Long term deposits with scheduled banks	1,56,99,67,375	1,54,60,28,219
Net Cash & Bank balance	1,42,64,58,174	1,16,86,33,100

Notes:

1 The above Cash Flow Statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard - 3 on 'Cash Flow Statements' issued by the Institute of Chartered Accountants of India.

2 Cash and Cash Equivalents include Unclaimed dividend amounting to ₹18,96,093 (₹ 14,02,745).

3 ₹14,36,837 (Nil) being lien on deposit with bank does not form part of cash and cash equivalents in the previous year.

4 Previous year's figures have been regrouped and reclassified to confirm to those of the current year.

For M/s Brahmayya & Co
Chartered Accountants
Firm Reg. No. 000511S

P S Kumar
Partner
Membership No :15590

Sudarshan Venkatraman
Chairman and
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Ramanujam Sesharathnam
Managing Director and
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P Srikanth
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A P Vasanthakumar
Director

V K Ramani
Director

M Gajhanathan
Director

S P Srihari
Global Chief Financial Officer

Chennai
May 27, 2011

S Akila
Company Secretary

As at March 31,

Amount in ₹

		2011	2010
1.	SHARE CAPITAL		
	AUTHORISED	40,00,00,000	20,00,00,000
	Equity shares, ₹ 10 par value 40,000,000 (20,000,000) equity shares		
	ISSUED, SUBSCRIBED AND PAID UP	16,44,64,200	16,44,64,200
	Equity shares, ₹ 10 par value fully paid up 1,64,46,420 (1,64,46,420) equity shares		
		16,44,64,200	16,44,64,200
2.	RESERVES AND SURPLUS		
	General reserve		
	As per the last balance sheet	72,19,41,054	62,19,41,054
	Add: Transfer from profit and loss account	15,00,00,000	10,00,00,000
		87,19,41,054	72,19,41,054
	Securities premium	1,78,42,89,318	1,78,42,89,318
		1,78,42,89,318	1,78,42,89,318
	Profit and loss account	4,24,11,88,593	3,09,31,50,397
		6,89,74,18,965	5,59,93,80,769
3.	SECURED LOANS		
	From a bank – Working capital in foreign currency	2,16,60,86,860	1,48,66,98,024
	From a bank – Term loans	1,33,53,78,497	1,61,38,25,358
	From a bank – Working capital in rupee	66,41,45,561	32,90,68,730
	ECB loan	54,49,21,143	56,15,25,347
	Hire Purchase / Infrastructure Leases	79,28,05,360	16,09,45,097
		5,50,33,37,421	4,15,20,62,556
4	UNSECURED LOANS		
	Unsecured notes	19,14,33,675	18,11,96,712
		19,14,33,675	18,11,96,712

The packing credit in foreign currency and in rupees are secured by hypothecation of book debts and other current assets.

Term loan I is secured by mortgage of properties in USA. Due for payment within 12 months ₹ 97,57,887 (₹1,41,97,841).

Term loan II is secured by mortgage of company's properties in Sholinganallur and hypothecation of all fixed assets.of the company. Due for payment within 12 months ₹2,85,96,858 (₹3,76,93,380).

Term loan III is secured by assets of a business in USA the acquisition of which was funded by the term loan and fixed assets of the company. Due for payment within 12 months ₹3,67,61,860 (₹ 5,70,95,779).The ECB Loan is secured by the pledge of shares of Nova Msc Sdn Bhd as well as Matrix Primus Partners Inc., the acquisition of which was funded out of the loan; charge on fixed and current assets of Matrix Primus Partners Inc. and present and future fixed assets of the company

The above facilities are collaterally secured by other assets of the company and guaranteed by the two promoter directors of the company in their personal capacity.

Term loan from ICICI is secured by pledge of shares of Zylog BV Limited and the shares of Ducont FZ LLC

Both the term loan and working capital from ICICI are secured by pledge of shares of Zylog Systems (Canada) Limited; First pari passu charge on the current and fixed assets of the present and future of Zylog Systems (Canada) Limited and charge over Debt Service Reserve Account.

Hire purchase loan from a company is secured by assets financed by the loan.

5. Fixed assets

Amount in ₹

Assets	Original cost				Depreciation/amortisation				Net book value	
	Cost as at Apr 1, 2010	Additions during the year	Deletions/ retirement during the period	Cost As at Mar 31, 2011	As at Apr 1, 2010	For the Period	Deletions/ retirement during the period	As at Mar 31, 2011	As at Mar 31, 2011	As at Apr 1, 2010
Tangible assets										
Land										
Freehold land	3,13,61,493	63,88,375		3,77,49,868					3,77,49,868	3,13,61,493
Leasehold land *	3,37,23,385	37,12,742		3,74,36,127	4,17,582	50,30,009		54,47,591	3,19,88,536	3,33,05,803
Building	27,16,60,800	26,93,219		27,43,54,019	3,50,27,550	1,18,84,420		4,69,11,970	22,74,42,049	23,66,33,249
Plant and machinery	22,52,57,754	17,13,94,934		39,66,52,688	4,49,11,535	3,09,94,339		7,59,05,874	32,07,46,814	18,03,46,219
Computer equipment	69,77,51,095	14,21,12,718	29,28,469	83,69,35,344	47,66,77,108	11,69,71,460	15,37,874	59,21,10,694	24,48,24,650	22,10,73,987
Furniture and fittings	8,10,40,327	1,59,66,009	1,21,815	9,68,84,521	3,42,85,289	1,04,71,648	32,794	4,47,24,143	5,21,60,378	4,67,55,038
Interior decoration	6,39,11,023	45,68,374		6,84,79,396	1,81,19,563	87,07,867		2,68,27,430	4,16,51,966	4,57,91,460
Electrical fittings	4,70,40,293	17,11,017		4,87,51,310	1,07,46,609	52,14,737		1,59,61,346	3,27,89,964	3,62,93,684
Office equipments	3,12,95,115	17,29,876	51,042	3,29,73,949	1,59,01,565	23,93,487	35,602	1,82,59,450	1,47,14,499	1,53,93,550
Vehicles	2,31,37,526	1,08,586		2,32,46,112	1,33,08,522	25,55,486		1,58,64,008	73,82,104	98,29,004
Intangible assets										
Goodwill										
On Business Acquisition	64,43,13,963	5,22,24,264		69,65,38,227	35,04,96,463	12,33,78,397		47,38,74,860	22,26,63,367	29,38,17,500
On Consolidation	48,97,39,461	21,10,62,241		70,08,01,702					70,08,01,702	48,97,39,461
Computer software	62,34,52,596	24,32,569		62,58,85,165	1,46,16,499	6,33,04,886		7,79,21,385	54,79,63,780	60,88,36,097
Licence fee	1,38,54,000			1,38,54,000	1,38,54,000			1,38,54,000		
Product development cost	40,01,33,527	19,31,49,185		59,32,82,712	23,25,85,428	6,11,64,841		29,37,50,269	29,95,32,443	16,75,48,099
Trademark & brand	44,79,84,771			44,79,84,771					44,79,84,771	44,79,84,771
Leased Assets										
Computer equipments	18,66,25,114	5,58,41,917		24,24,67,031	3,88,32,107	7,30,14,800		11,18,46,907	13,06,20,124	14,77,93,007
		-	-		-	-	-			
Total	4,31,22,82,243	86,50,96,025	31,01,326	5,17,42,76,942	1,29,97,79,820	51,50,86,377	16,06,270	1,81,32,59,927	3,36,10,17,015	3,01,25,02,423
Previous year	2,39,02,84,279	1,78,78,50,703	81,22,945	4,17,00,12,037	88,25,99,834	33,70,38,627	72,93,661	1,21,23,44,800	2,95,76,67,237	1,39,23,06,606

* Leasehold land is being amortised over the lease period of 99 years (excluding the refundable deposit ₹ 7.00 lakhs)

^ Goodwill includes goodwill arising on consolidation net of Capital reserve (₹51,29,86,558/-)

As at March 31,

Amount in ₹

	2011	2010
6. INVESTMENTS		
Long term, non-trade, quoted, at cost		
"Union Bank of India		
(2018 equity shares of ₹110 each, fully paid up)"	2,21,980	2,21,980
Nova MSC Sdn	5,94,92,195	5,59,36,671
(4,28,49,750 equity shares of RM 0.10 each, fully paid up)		
	5,97,14,175	5,61,58,651
Current investments - Trade, Unquoted at		
lower of cost and net realisable value		
Investments in mutual funds	4,56,101	4,23,271
Total current investments	4,56,101	4,23,271
Aggregate of invetments	6,01,70,276	5,65,81,922
Notes:		
Quoted investments		
a. Market value	7,00,751	5,89,861
b. Book value	2,21,980	2,21,980
7. SUNDRY DEBTORS		
Debts considered good for which the company holds no		
security other than the debtors' personal security		
Debtors outstanding for a period exceeding six months	13,00,89,147	2,68,51,018
Other debts	5,32,52,63,122	3,88,16,66,941
	5,45,53,52,269	3,90,85,17,959
8. CASH AND BANK BALANCES		
Cash on hand	10,13,198	5,59,048
Balance with scheduled banks		
Current accounts	15,19,93,814	50,51,06,952
Fixed deposits #	1,56,99,67,375	1,54,60,28,219
Unclaimed dividend account	18,96,093	14,02,745
Balances with non-scheduled banks	1,27,15,55,069	66,15,64,355
	2,99,64,25,549	2,71,46,61,319

Amount in ₹

		2011	2010
9.	LOANS AND ADVANCES		
	Advances Recoverable in cash or kind	61,19,96,778	16,04,78,133
	or for value to be received *(unsecured considered good)*		
	Unbilled revenue	85,73,73,689	71,20,26,390
	Advance for taxes		5,53,52,908
	Closing Stock	90,66,018	
	Interest receivables	6,94,04,949	5,22,21,060
	TDS receivable	37,09,658	76,33,038
	VAT		2,35,626
	Deposits	3,17,57,498	1,48,17,636
	Prepaid expenses	47,74,37,871	25,91,00,896
		2,06,07,46,461	1,26,18,65,687
10.	CURRENT LIABILITIES AND PROVISIONS		
	A. Current liabilities		
	Creditor for supplies		
	Due to Micro Enterprises and Small Enterprises		
	Others	1,28,94,75,882	83,89,96,699
	Unclaimed dividend *	18,54,969	14,04,095
	Other current liabilities	7,29,94,293	6,69,37,966
	Total (A)	136,43,25,144	90,73,38,760
	B. Provisions		
	Provision for taxation *(Net of Advance Tax ₹46,51,70,736)*	13,29,32,505	
	Proposed dividend	13,15,71,360	9,86,78,520
	Tax on proposed dividend	2,18,52,687	1,67,70,414
	Provision for gratuity	1,46,43,864	99,78,795
	Total (B)	30,10,00,416	12,54,27,729
	Total (A) + (B)	1,66,53,25,560	1,03,27,66,489

* There are no amount required to be transferred to Investor Education Protection Fund

₹30,04,891- towards held in Guarantee Margin Account.

For the year ended March 31,

Amount in ₹

	2011	2010
11. OTHER INCOME		
Interest received on deposits	2,27,58,618	4,32,82,562
(Tax deducted at source - ₹7,45,525/-)		
Rental income	5,28,172	
Dividend income *(Non-trade quoted investments)*	13,754	
Dividend income *(Non-trade unquoted investments)*		3,16,764
Miscellaneous income	2,58,87,193	23,92,690
	4,91,87,737	4,59,92,016
12. SOFTWARE DEVELOPMENT EXPENSES		
Salaries including overseas staff expenses	3,70,11,13,794	3,45,85,07,996
Technical consultants – on contract	84,59,19,271	1,16,33,33,838
Staff welfare	5,01,04,896	7,58,31,804
Project expenses	9,21,49,68,084	1,59,63,60,352
	13,81,21,06,045	6,29,40,33,990
13. ADMINISTRATIVE EXPENSES		
Administrative salary	57,28,02,442	5,23,11,503
Directors' remuneration	4,90,67,571	10,04,00,480
Directors' sitting fee	1,85,000	3,15,000
Gratuity	78,10,764	29,01,308
Recruitment expenses	3,11,69,231	3,49,50,242
Office rent	9,24,38,817	5,24,94,761
Rates & taxes	1,99,24,174	1,05,86,426
Communication expenses	5,54,28,812	3,00,80,362
Brokerage & commission	79,60,410	7,50,997
Electricity	1,74,63,455	1,63,53,860
Insurance	2,30,12,582	90,88,286
Repairs and maintenance	8,90,50,737	8,41,65,385
Foreign exchange loss	17,81,66,414	30,34,08,160
Printing and stationery	1,61,20,941	83,31,417
Visa processing related expenses	7,82,84,675	2,71,41,983
Travelling expenses	2,25,45,414	2,24,97,725
Professional charges	7,34,26,521	7,43,14,676
Audit fee	1,28,38,624	1,12,53,764
Bad debts	72,93,978	21,29,824
Gain/loss on sale of assets	12,66,339	3,56,563
Directors' pension	21,42,393	46,59,944
Lease rental charges	3,09,29,477	19,40,653
Miscellaneous expenses	89,247	43,87,845
Preliminary expenses written off	17,429	
Pre-operative expenses written off	8,06,775	23,237
Loan processing and other charges	43,83,241	1,24,64,898
	1,39,46,25,463	86,73,09,299

Amount in ₹

	2011	2010
14. SELLING & MARKETING EXPENSE		
Marketing salary	21,29,98,348	17,45,69,464
Marketing and business consultancy	24,19,45,941	13,14,19,394
Marketing and sales commission	44,50,00,916	46,10,14,084
Trade show, seminar and conference expenses	3,73,02,283	3,54,68,732
Travel expenses	4,53,39,859	3,95,87,662
Advertisement	3,41,54,956	2,69,93,008
Entertainment	41,04,109	1,95,01,187
	1,02,08,46,412	88,85,53,531
15 INTEREST EXPENSES		
Fixed loans	20,66,25,328	4,40,23,972
Finance charges	4,14,49,721	2,63,00,946
Working capital	15,72,73,866	7,45,82,970
	40,53,48,915	14,49,07,888

SCHEDULE 15

1. Basis of preparation

The financial statements are prepared under historical cost convention on the accrual basis of accounting and comply with the mandatory accounting standards recommended by The Institute of Chartered Accountants of India (ICAI) and prescribed by the Central Government and comply with the relevant provisions of the Companies Act, 1956.

Cash flows are reported using the indirect method whereby profit before tax is adjusted for the effects of transactions of non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, financing and investing activities of the company are segregated.

2. Principles of Consolidation

The consolidated financial statements relate to Zylog Systems Limited (the Company) and its subsidiaries and associates. The consolidated financial statements of the Company and its subsidiaries are prepared based on a line by line consolidation by adding together the book values of like items of assets, liabilities, income and expenses as per the audited financial statements of the respective subsidiaries and are drawn up by using uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible in the same manner as the Company's individual financial statements. Inter Company receivables and liabilities, income and expenses are eliminated.

The financial statements of the subsidiaries are consolidated from the date on which effective control is transferred to the Group till the date such control exists. The difference between the costs of investments in subsidiaries over the book value of the subsidiaries' net assets on the date of acquisition is recognized as goodwill or capital reserve in the consolidated financial statements as appropriate.

Equity method of accounting is followed for investment in associates in accordance with accounting standard (AS)23-Accounting for investment in associates, when goodwill/capital reserve arising at the time of acquisition and share of profit or losses after the date of acquisition are adjusted in investment value based on the audited financial statements of the associates. Unrealised profits and losses resulting from transactions between the company and associates eliminated to the extent of the company's interest in the associate. Investments in associates, which are made for temporary purposes are not considered for consolidation and accounted for as investments.

The financial statements of the holding company and its subsidiaries have been consolidated using uniform accounting policies for like transactions and other events in similar circumstances.

3. Use of estimates

The preparation of the financial statements in conformity with the Generally Accepted Accounting Principles requires the Management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to contingent assets and liabilities as at the date of the financial statements and the reported amounts of income and expenses during the period. Examples of such estimates include provisions for doubtful debts, future obligations under employee retirement benefit plans, income taxes, post-sales customer support and the useful lives of fixed assets and intangible assets.

4. Revenue recognition

The company derives its revenues primarily from software development services / consultancy services, projects and e-governance projects.

Revenue from software services and projects comprise income from time-and-material contracts, fixed price/fixed time contracts, technical services and annual maintenance contracts. Revenue from time-and-material contracts is recognized on the basis of man hours spent and materials utilized for the development of software and billable in accordance with the terms of the contracts with clients. Revenue from fixed price/fixed time contracts are recognized as per the proportionate completion method. Revenue from technical service for software application is recognized on completion of the service.

Cost incurred on ongoing projects not yet billed and earnings in excess of billings are classified as unbilled revenue.

Revenue is generated from information technology and engineering consultant placements provided to customers. Revenue from contracts that is earned over a period of time is recognized monthly when clients are billed for hours worked at agreed rates. Onetime fees earned for individual placements are recognized in the month the individual commences the new job.

Interest on deployment of surplus funds is recognized on accrual basis, based on underlying interest rates.

5. Fixed assets including intangible assets

Tangible assets are stated at cost, less accumulated depreciation. Cost includes cost of acquisition including material cost, freight, installation cost, duties and taxes, and other incidental expenses, incurred up to the installation stage, related to such acquisition. Intangible assets are stated at cost of acquisition less accumulated amortization.

6. Leased Assets

Assets acquired under finance lease are recognised at the lower of the fair value of the leased assets at inception and the present value of minimum lease payments. Lease payments are apportioned between the finance charge and the outstanding liability. The finance charge is allocated over the period of lease at a constant periodic rate of interest on the remaining balance of the liability.

7. Borrowing Costs

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalized as part of the cost of such assets.

8. Depreciation & Amortisation

Depreciation is provided on tangible assets on written down value method, at the rates and in the manner specified by schedule XIV of the Companies Act, 1956. Depreciation is charged from the date of acquisition/installation and on assets sold, up to the date of sale.

The cost and the accumulated depreciation for fixed assets sold, retired or otherwise disposed off are removed from the stated values and the resulting gains and losses are included in the profit and loss account.

Leasehold land is amortised over the lease period of 99 years excluding any refundable deposit.

In respect of businesses acquired the excess of purchase consideration over the tangible and intangible assets, is deemed to have been paid for human resources, clientele and other related benefits such as non-compete agreements and is being amortised over 5 years.

The other intangible assets are being amortised as follows:

Computer software

Software for own use	over 5 years
Software for licensing to customers	over 10 years
Product Development Cost	over 5 years
Customer lists	over 10 years

Goodwill arising on consolidation is tested for impairment and any losses are provided for.

9. Investments

All long term investments, other than in Associates, are carried at cost. Investments are either classified as current or long term, based on the management's intention at the time of purchase. Current investments are carried at the lower of cost and market value. Long-term investments are carried at cost less provisions recorded to recognize any decline, other than temporary, in the carrying value of each investment. Investments in Associates are accounted using the equity method.

10. Impairment of assets

The Management periodically assesses using external and internal sources whether there is an indication that an asset may be impaired. All the fixed assets are assessed for any indication of impairment at the end of each financial year. On such indication, the impairment (being excess of carrying value or the recoverable value of asset) is charged to profit and loss account in the respective financial year. The impairment loss recognized in the prior years is reversed where the recoverable value exceeds the carrying value of the asset upon reassessment in the subsequent years.

11. Foreign currency transactions

The company has a US based branch which is an integral operation.

The transactions of the Head Office in foreign currency are accounted at the rates of exchange prevailing on the date of the transactions. The exchange difference between the rates prevailing on the date of transaction and the date of settlement are recognized in the profit and loss account.

Foreign currency denominated monetary assets and liabilities are translated using exchange rate as at Balance sheet date. The gains and losses resulting from such translations are included in the profit and loss account. Non-monetary assets and liabilities denominated in foreign currency are translated at historical rate.

For the purposes of incorporation of the financial statements of the US branch into the Head Office financial statements, all income and expenditure are translated at the average rate, the monetary assets and liabilities translated at the year end rate and non-monetary assets and liabilities translated at the date of transactions the resultant gain or loss being recognized in the profit and loss account

12. Translation and Accounting of Financial Statement of Foreign subsidiaries

The operations of foreign subsidiaries are considered non integral and therefore treated in accordance with the manner specified in Accounting Standard (AS) 11 – The effects of changes in Foreign Exchange rates.

All incomes and expenses are translated at the average rate of exchange prevailed during the year. Assets and liabilities are translated at the closing rate on the Balance sheet date. Share Capital is translated at historical rate. The resulting exchange differences are accumulated in foreign currency translation reserve.

13. Provisions:

A provision is recognized when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates. Contingencies are recorded when it is probable that a liability will be incurred and the amount can be reasonably estimated.

14. Retirement benefits

a) Provident Fund (Defined contribution scheme) :

Eligible employees receive benefit from defined benefit plan covered under the Provident Fund Act. Both employees and the company make monthly contributions. The employer contribution bifurcation is charged off to Profit & Loss Account as an expense.

b) Gratuity (Defined Benefit Scheme):

The company provides for a non-funded gratuity, based on actuarial valuation.

c) Leave encashment:

The leave encashment liability upon retirement would not arise as the accumulated leave is reimbursed every year and accounted at actual.

15. Research and development cost

Expenditure incurred on research and development is charged off to Profit & Loss Account as incurred till the time the techno commercial viability is established.

1. The consolidated financial statements present the consolidated accounts of Zylog systems Ltd., and of the following subsidiaries

Name of the Subsidiary Company	Country of Incorporation	Extent of Holding (%) as on March 31, 2011
Vishwa Vikas Services Limited	India	100%
Zylog Systems (Europe) Limited	United Kingdom	100%
Zylog Systems (India) Limited	India	100%
Algorithm Solutions Private Ltd	India	100%
Zylog Systems Asia Pacific Pte Ltd	Singapore	100%
Zylog BV Limited	British Virgin Islands	100%
Zylog Systems (Canada) Limited	Canada	100%
Matrix Primus Partners Inc	United States of America	100%
Ducont FZ LLC	UAE	100%
Ducont India Pvt. Ltd	India	100%
Anodas Software Ltd	United Kingdom	100%
Zylog AG Switzerland	Switzerland	100%

Investment in Associates

Name of entity	Country of incorporation	Percentage of ownership interest as at 31.03.2011.	Percentage of ownership interest as at 31.03.2010.
Nova Msc Bhd	Malaysia	10.64%	10.64%

The extent of proportion of ownership interest and proportion of voting power held are same.

a) While the financial year ending of Zylog Systems Ltd., the holding company, is 31st March, one of the subsidiaries viz. Ducont FZ LLC has been closing its financial statements as on 31st December. Effective from the current year, Ducont FZ LLC has changed its financial year to end as on 31st March and hence the current year's financial year comprises 15 months of working results. As a result of the change, the current year's consolidated financial statements comprise 15 months of working of Ducont FZ LLC whereas the year ended 31st March 2010 comprised 12 months. The change in the accounting period of Ducont FZ LLC has had the effect of increasing revenue by approximately ₹ 15 crores and profit before tax by ₹ 3.11 crores.

b) In terms of the agreement entered into by Zylog BV Limited with the shareholders of Ducont FZ LLC for acquiring Ducont FZ LLC, the consideration is payable in 3 tranches of which 2 tranches have already been paid for acquiring 80% of the share capital prior to 31st March 2010. The 3rd tranche was paid in the nature of earn out and has been determined at ₹ 22.53 crores (UAE Dhs 18.375 mns).

2. Changes in the Group Structure

During the year ended 31st March 2011, the following changes in Group structure have taken place and the same have been appropriately dealt with in the consolidated financial statements:

a) Zylog Systems (Europe) Limited has increased the share capital by 42700 equity shares of GBP 1 each amounted ₹ 2909672.

b) During the year, Zylog Systems (Canada) Ltd, a subsidiary had acquired 100% of shares of Mindwire Inc. for a net consideration of CAD 1,250,000 amounting to ₹ 58,368,125. The Acquisition was accounted in purchase method in the books of the Canadian subsidiary with the net purchase consideration of CAD 1,250,000 being allocated based on the fair value of identifiable net assets acquired. This allocation has resulted in an excess of purchase price over fair value of the net identifiable assets, with the excess amount of CAD 1,118,424 equivalent to ₹ 52,224,264 being classified as goodwill.

c) Zylog Systems (India) Limited has increased the share capital by 31400000 equity shares of `10 each amounting to `314, 000,000.

3. Estimated amount of contract remaining to be executed on capital account and not provided

   for ₹ Nil (₹ Nil)

4. Contingent liabilities:

   The assessments of the company for income tax have resulted in demands being raised on the company against which the company is in appeals at different appellate authorities. The disputed amount of income tax for various assessment years is `14.17 crores (`14.27 crores) together with unspecified amount of interest etc. Assessments are pending from the assessment year 2009-10 onwards.

5. The company had hitherto adopted the policy of amortising the brand costs over a period of 10 years although they are considered intangible assets with indefinite life in addition to examining for impairment. From the current year i.e. the year under review the cost is tested for impairment having discontinued amortising on time-scale. For the 9 months the company had charged a sum of ₹ 3,75,33,344 towards amortization which has now been written back for the purposes of the annual financial statements. If the company had followed the same method, the charge for the year would have been ₹ 4,87,44,440.

6. Investment in associates:

Name of entity	No. of equity shares held (nos)	% of holding	Cost of investments (equity shares)	Goodwill/ (Capital reserve)	Share in accumulated profit/(loss)/ reserves	Carrying Cost (₹)
Nova Msc Bhd	4,28,49,750	10.64	41,370,341	14,566,330	3,555,523	59,492,194

7. In determining earnings per share, the company considers the net profit after tax and includes the post tax effect of any extraordinary / exceptional item, minority interests and share of profits from associates. The number of shares used in computing basic earnings per share is the weighted average number of shares outstanding during the period. The number of shares used in computing diluted earnings per share comprises the weighted average shares considered for deriving basic earnings per share, and also the weighted average number of equity shares that could have been issued on the conversion of all dilutive potential equity shares. The components of basic and diluted earnings per share are as follows.

Amount in ₹

Particulars	Mar 31, 2011	Mar 31, 2010
Net Income available to Equity Shareholders	1,45,14,62,243	1,02,45,67,514
No of outstanding equity shares		
- Basic	1,64,46,420	1,64,46,420
- Diluted	1,64,46,420	1,64,46,420
Earnings Per Share		
- Basic	88.25	62.30
- Diluted	88.25	62.30

8. Disclosures under “Accounting Standard (AS)-15 (Revised) – Employee Benefits

   a. Reconciliation of opening and closing balances of Defined Benefit obligation

   (The computation given hereunder is for the company and two of its wholly owned Indian subsidiaries.

The figures do not match with the figures in the financial statements since the amounts have been allocated to the three companies in relation to their liability)

Amount in ₹

	Mar 31, 2011	Mar 31, 2010
Defined Benefit obligation towards gratuity at beginning of the year	1,05,56,000	76,08,000
Current Service Cost	69,58,000	39,09,000
Interest Cost	7,39,000	5,33,000
Actuarial (gain)/Loss	14,096	(14,41,000)
Benefits Paid	(113,096)	(53,300)
Defined Benefit obligation at the year end	1,81,54,000	105,55,700

b) Reconciliation of opening and closing balances of fair value of plan assets Not funded

c) Reconciliation of fair value of assets and obligations

Amount in ₹

	Mar 31, 2011	Mar 31, 2010
Fair value of plan assets as at 31st March, 2010	–	–
Present value of obligation as at 31st March, 2010	1,81,54,000	105,55,700
Amount recognized in Balance Sheet	1,81,54,000	105,55,700

d) Expense recognized during the year

Amount in ₹

	Mar 31, 2011	Mar 31, 2010
Current service cost	69,58,000	39,09,000
Interest cost	7,39,000	5,33,000
Actuarial (gain)/Loss	14,096	(14,41,000)
Net cost	77,11,096	30,01,000

e) Investment details Not funded

f) Actuarial assumptions:

Amount in ₹

	Mar 31, 2011	Mar 31, 2010
Interest rate	7%	7%
Inflation rate	4%	4%
Mortality rate #	–	–
Retirement age	58	58

As per LIC (1975 – 79) Table of Mortality rates

9. The company operates in IT related Services therefore there are no other business segments, however 82% of the revenue accrue in North America and consequently there are no other reportable geographical segments.

10. Leases:

1. Asset acquired under financial lease during the period:

   a) Net carrying amount of assets taken on financial lease as on 31/03/2011 ₹ 14,80,15,094/-(PY ₹ 16,09,45,097/-).

b) Out of the total lease payments of ₹ 8,66,84,411/- (PY ₹ 3,45,54,274/-), lease charges amounts to ₹ 1,78,88,554/- (PY ₹ 88,74,257/-) and the reduction in principal amounts to ₹ 6,87,95,857/- (PY ₹ 2,56,80,017/-).

c) The minimum lease payments and their present value in respect of these leases are as under:

Amount in ₹

	MLP		PV of MLP	
	2011	2010	2011	2010
Not later than one year	9,49,11,636	7,30,52,748	8,96,08,510	6,89,70,973
Later than one year and not later than five years	6,85,84,587	11,15,51,222	5,83,79,766	9,19,93,973
Later than five years	-	-	-	-
Total As on 31.03.2010	16,34,96,223	18,46,03,970	14,79,88,276	16,09,42,946

2. Obligation towards non-cancellable operating lease

Lease Obligation	2011	2010
Lease rentals recognized during the year	41,84,038	12,83,093
Due not later than one year	61,17,090	18,79,572
Due later than one year but not later than five years	1,24,37,758	44,44,391
Later than five years	-	-

11. Related party disclosure

As required under Accounting Standard 18 (AS-18), the following are the details of transactions during the year with the related parties.

a. List of related parties and relationships

Name of related party	Relation
Key Management Personnel	
Mr. Sudarshan Venkatraman	Chairman & CEO, Zylog Systems Limited
Mr. Ramanujam Sesharathnam	Managing Director & COO, Zylog Systems Limited
Mr. Srikanth Parthasarathy	Executive Director
Name of the Subsidiary Company	**Relationship**
Vishwa Vikas Services Limited	Subsidiary
Zylog Systems (Europe) Limited	Subsidiary
Zylog Systems (India) Limited	Subsidiary
Algorithm Solutions Private Ltd	Subsidiary
Zylog Systems Asia Pacific Pte Ltd	Subsidiary
Zylog BV Limited	Subsidiary
Zylog Systems (Canada) Limited	Subsidiary
Matrix Primus Partners Inc	Subsidiary
Ducont FZ LLC	Subsidiary
Ducont India Pvt. Ltd	Subsidiary
Anodas Software Ltd	Subsidiary
Zylog AG Switzerland	Subsidiary

b. Associate

Sl. No	Name of the Company
1.	Nova Msc Bhd

Transactions with related parties – Remuneration to Key Management personnel

Amount in ₹

Name of related party	Mar 31, 2011	Mar 31, 2010
Mr. Sudarshan Venkatraman	1,15,96,648	64,45,522
Mr. Ramanujam Sesharathnam	1,13,06,506	45,83,481
Mr. Srikanth Parthasarathy	51,77,419	

12. Figures have been rounded off to the nearest rupee. Previous years' figures are shown in parenthesis and have been regrouped, recast wherever necessary to confirm to this year's classification.

For M/s Brahmayya & Co
Chartered Accountants
Firm Reg. No. 000511S

P S Kumar
Partner
Membership No :15590

Sudarshan Venkatraman
Chairman and
Chief Executive Officer

Ramanujam Sesharathnam
Managing Director and
Chief Operating Officer

P Srikanth
Executive Director

S Rajagopal
Director

A P Vasanthakumar
Director

V K Ramani
Director

M Gajhanathan
Director

S P Srihari
Global Chief Financial Officer

Chennai
May 27, 2011

S Akila
Company Secretary

Balance sheet abstract and company's general business profile

1 Registration

Registration No.	31651 of 1995
State code	18
Balance sheet date	March 31, 2011

2 Capital raised during the year

Public issue	Nil
Rights issue	Nil
Bonus issue	Nil
Private placement	Nil

3 Position of mobilisation and deployment of funds

Source of funds	Amount	Application of funds	Amount
Paid up capital	16,44,64,200	Net fixed assets	3,36,10,17,015
Reserves & Surplus	6,89,74,18,965	Investments	6,01,70,276
Foreign currency translation reserve	2,94,71,706	Net current assets	8,84,71,98,719
Minority Interest		Preliminary expenses	32,38,788
Secured & Unsecured loan	5,69,47,71,096	Capital work in progress	53,65,07,126
Deferred tax liabilities	2,20,05,956	Deferred Tax Asset	
	12,808,131,923		12,808,131,923

4 Performance of the company

	Amount
Total Revenue	19,20,59,63,588
Total Expenditure	16,22,75,77,920
Profit Before Depreciation, Interest & Tax (PBDIT)	2,97,83,85,668
Profit Before Tax (PBT)	2,05,65,74,239
Profit After Tax (PAT)	1,45,14,62,243
Earning per share (EPS)	88.25
Dividend Rate	80.00%

5 Generic names of two principal products / service of the company

Item code No. (ITC Code)	8524
Product Description	Software development & consulting

For M/s Brahmayya & Co
Chartered Accountants
Firm Reg. No. 000511S

P S Kumar
Partner
Membership No :15590

Sudarshan Venkatraman
Chairman and
Chief Executive Officer

Ramanujam Sesharathnam
Managing Director and
Chief Operating Officer

P Srikanth
Executive Director

S Rajagopal
Director

A P Vasanthakumar
Director

V K Ramani
Director

M Gajhanathan
Director

S P Srihari
Global Chief Financial Officer

Chennai
May 27, 2011

S Akila
Company Secretary

ZYLOG SYSTEMS LIMITED

Registered Office: 155, Thiruvalluvar Salai, Kumaran Nagar, Sholinganallur, Chennai 600 119.

ATTENDANCE SLIP

(To be presented at the entrance)

16TH ANNUAL GENERAL MEETING ON THURSDAY, SEPTEMBER 29, 2011 AT 10.00 A.M

NAME OF THE ATTENDING MEMBER____
(IN BLOCK LETTERS)

Folio No.*____

DP ID No.____

Client ID No.____

No. of Shares held____

NAME OF PROXY
(IN BLOCK LETTERS, TO BE
FILLED IN IF THE PROXY
ATTENDS INSTEAD OF
THE MEMBER)____

I, hereby record my presence at the 16th Annual General Meeting of the members of the Company held on Thursday, September 29, 2011 at 10.00 a.m. at Esthell Continental Hotels and Resorts, No.1, Royal Enclave, Besant Avenue, Adyar, Chennai – 600020

*Applicable in case of shares held in Physical Form

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Signature of Shareholder/proxy

ZYLOG SYSTEMS LIMITED

Registered Office: 155, Thiruvalluvar Salai, Kumaran Nagar, Sholinganallur, Chennai - 600 119

PROXY FORM

I/We____________________________________of ____________________ being a Member / Member(s) of Zylog Systems Limited, appoint ________________ failing him/her________________of ________________or failing him/her________________of ____________ as my/our proxy to attend and vote on a poll for me/us and on my/our behalf at the 16th Annual General Meeting of the Company to be held on Thursday, September 29, 2011 at 10.00 a.m. at Esthell Continental Hotels and Resorts, No.1, Royal Enclave, Besant Avenue, Adyar, Chennai – 600020 and at any adjournment thereof :

Folio No________________DP ID No____________________ Client ID________________

No. of Shares______________

Signed this ______________ day of ________________ 2011

Note:

1. The Proxy form should be signed by the member across the stamp.
2. A member intending to appoint a Proxy should complete the Proxy form and deposit it at the Company's Registered office, at least 48 hours before the time for holding the aforesaid meeting.
3. Members, who hold shares in Demat form to quote their Demat Account no. and Depository Participant (D.P.) Id. No.

Please affix Re.1 /- revenue stamp and sign across

www.zsl.com