Emerge... Empower Evolve...

Zylog
SYSTEMS LIMITED

ANNUAL REPORT 2011-12

Exploring Possibilities

Exploring possibilities is the spirit of the human mind that resulted in some of the amazing discoveries' that the world has seen so far. It is the inherent desire, the indomitable will to go that extra mile and find something that is non-existent.

Exploring Possibilities

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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

M Gajhanathan
Director

S Rajagopal
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

We have seen some of the amazing discoveries that changed the way we live. While some of the discoveries happened at a time when it was least expected. But discoveries are what keep the world alive and exciting.

When Columbus set out to explore the sea, he wanted to visit Asia to bring back gold and other treasures that were believed to be abundant in As aian region then. But what he later found after months of journey is what we call America now.

Columbus displayed exemplary courage and optimism that he never for a moment was discouraged to stop his exploration. There were times when his fellow sailors were discouraged not able to see shore after sailing for many days, Columbus is the one who encouraged.

Zylog over the years has displayed tremendous courage and optimism by venturing into areas that are unexplored or rather marked 'impossible' by others. The desire to explore possibilities gives us the momentum to achieve insurmountable results in the long run.

Exploring Possibilities

ZYLOG SYSTEMS LIMITED

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

NOTICE

Notice is hereby given that the Seventeenth Annual General Meeting of Zylog Systems Limited will be held on Tuesday, September 25, 2012 at 10.30 a.m. at Narada Gana Sabha Trust, 314 (Old No. 254), T.T.K Road, Alwarpet, Chennai – 600018 to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Statement of Profit and Loss for the year ended March 31, 2012 and the Balance Sheet as at that date together with the Notes attached thereto, along with the Reports of the Board of Directors' and Auditors' thereon.
2. To declare final dividend of Rs.10/- per equity share of face value of Rs.10/- for the year 2011-12.
3. To appoint a Director in place of Mr. S. Rajagopal, 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

5. **Reappointment of M/s. Ketan Pathak, CPA, USA as the USA Branch Auditor of the company for year ended March 31, 2013.**

   To consider and if thought fit, to pass with or without modification(s), the following Resolution 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, 2013.

6. **Re- appointment and revision of Terms of Contract of Mr. P. Srikanth, Whole-Time Director of the Company.**

   To consider and if thought fit, to pass with or without modification(s), the following Resolutions as Ordinary Resolution

   RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 310 and 311 read with Section I of Part II of Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956 ("Act") or any re-enactment thereof and subject to the approval of other Statutory authorities if any as may be required, Mr. P. Srikanth be and is hereby re-appointed as the Executive Director of the company for a period of two year with effect from May 21, 2012 and shall be paid a remuneration up to Rs. 63,00,000/- per annum which shall be well within the overall ceiling of 5% or 10% of the net profits of the Company calculated in the manner specified in the Act as approved by the Remuneration Committee and the Board of directors at their meeting held on May 25, 2012.

   RESOLVED FURTHER THAT in case of the company not attaining adequate profits or the profits are inadequate to make the payment of remuneration as above, the Board of Directors do accept to vary the terms of remuneration and perquisites with the liberty to revise the remuneration payable to Mr. P. Srikanth, Executive Director in accordance with Section II of Part II of Schedule XIII to the Companies Act, 1956.

   RESOLVED FURTHER THAT the Board of Directors and / or a Committee of the Board fix his salary within the scale from time to time, increasing thereby proportionately value of the benefits relating to the salary, and, with the liberty to the Board of Directors and /or a Committee of Board to alter and vary the terms and conditions of appointment and /or agreement in such manner as may be agreed to by and between the Board of Directors and the appointee within the applicable provision of the Companies Act, 1956.

   RESOLVED FURTHER THAT the Board of Directors and the Company Secretary be and are hereby authorized to do all such acts, deeds and things and execute all such documents, instruments and writings as may be required and to delegate all or any of its power herein conferred to any committee of directors or director(s).

7. **Re- appointment and revision of Terms of Contract of Mr. Sudarshan Venkatraman, Chairman and Chief Executive Officer of the Company.**

   To consider and if thought fit, to pass with or without modification(s) the following Resolutions as Ordinary Resolution: RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 310 and 311 read with Section I of Part II of Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956 ("Act") or any re-enactment thereof and subject to the approval of other Statutory authorities if any as may be required, Mr. Sudarshan Venkatraman be and is hereby re-appointed as the Chairman and Chief Executive Officer of the company for a period of Five years with effect from January 01, 2013 upon the terms and conditions as set out below, which shall be well within the overall ceiling of 5% or 10% of the net profits of the Company calculated in the manner specified in the Act, as approved by the Remuneration Committee and the Board of directors at their meeting held on May 25, 2012.

Terms and Conditions of the Contract of Mr. Sudarshan Venkatraman

1. **Salary**

   ₹ 1,25,49,140/- per annum, with a provision for increase not more than 10 % per annum over the previous year. Since the Director is a US resident, the remuneration as stated can be paid in US$ or any other foreign currency or its equivalent in INR or partly in US$ or any other foreign currency and partly in INR.

2. **Perquisites**

   A. Contribution to provident fund, Superannuation fund or annuity fund to the extent these either singly or put together are not taxable under the income tax 1961.

   B. Gratuity payable at a rate not exceeding half a month's salary for each completed year of service.

   C. Encashment of leave at the end of the tenure.

   D. Children's Education Allowance :In case of children studying in or outside India, an allowance limited to the maximum of ₹ 5000 per month per child (limited to maximum of two children) or actual expenses incurred whichever is less.

   E. Holiday package for children studying outside India / family staying abroad- Return holiday package once in a year by economy class or once in a two years by first class to children and to the members of the family from the place of their study or stay abroad to India if they are not residing in India with managerial personnel.

   F. Leave Travel concession: Return passage for self and family in accordance with the rules specified by the company where it is proposed that the leave be spent in home country instead of anywhere in India.

   G. Accommodation (furnished or unfurnished) or house rent allowance in lieu thereof, reimbursement of expenses or allowances for utilities such as gas, electricity, water, furnishings and repairs.

   For the purpose of calculating the above ceiling, perquisites shall be evaluated as per the Income Tax rules, wherever applicable and in the absence of any such rule, perquisites shall be evaluated at actual cost to the Company.

   H. Provision of car with driver for official purposes and telephone at residence.

   I. Reimbursement of medical expenses and medical insurance for self and family members as decided by the Board from time to time.

   J. Leave in accordance with the leave rules of the company.

   K. Air travel expenses for self and family for a trip every year between USA and India..

   Note: The term 'family' means, spouse, dependent children and dependent parents.

   RESOLVED FURTHER THAT in case of the company not attaining adequate profits or the profits are inadequate to make the payment of remuneration as above, the Board of Directors do accept to vary the terms of remuneration and perquisites with the liberty to revise the remuneration payable to Mr. Sudarshan Venkatraman, Chairman and Chief Executive Officer in accordance with Section II of Part II of Schedule XIII to the Companies Act, 1956.

   RESOLVED FURTHER THAT the Board of Directors and / or a Committee of the Board fix his salary within the scale from time to time, increasing thereby proportionately value of the benefits relating to the salary, and, with the liberty to the Board of Directors and /or a Committee of Board to alter and vary the terms and conditions of appointment and /or agreement in such manner as may be agreed to by and between the Board of Directors and the appointee within the applicable provision of the Companies Act, 1956.

   RESOLVED FURTHER THAT the Board of Directors and the Company Secretary be and are hereby authorized to do all such acts, deeds and things and execute all such documents, instruments and writings as may be required and to delegate all or any of its power herein conferred to any committee of directors or director(s).

8. **Re-appointment and revision of Terms of Contract of Mr. Ramanujam Sesharathnam, Managing Director and Chief Operating Officer of the Company:**

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

   RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 310 and 311 read with Section I of Part II of Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956 ("Act") or any re-enactment thereof and subject to the approval of other Statutory authorities if any as may be required, Mr. Ramanujam Sesharathnam be and is hereby re-appointed as the Managing Director and Chief Operating Officer of the company for a period of Five years with effect from January 01, 2013 upon the terms and conditions as set out below, which shall be well within the overall ceiling of 5% or 10% of the net profits of the Company calculated in the manner specified in the Act, as approved by the Remuneration Committee and the Board of directors at their meeting held on May 25, 2012.

Terms and Conditions of the Contract of Mr. Ramanujam Sesharathnam

1. **Salary**

   ₹ 1,21,36,835/- per annum, with a provision for increase not more than 10 % per annum over the previous year. Since the Director is a US resident, the remuneration as stated can be paid in US$ or any other foreign currency or its equivalent in INR or partly in US$ or any other foreign currency and partly in INR.

2. **Perquisites**

   A. Contribution to provident fund, Superannuation fund or annuity fund to the extent these either singly or put together are not taxable under the income tax 1961.

   B. Gratuity payable at a rate not exceeding half a month's salary

   C. Encashment of leave at the end of the tenure.

   D. Children's Education Allowance : In case of children studying in or outside India, an allowance limited to the maximum of Rs 5000 per month per child (limited to maximum of two children) or actual expenses incurred whichever is less.

   E. Holiday package for children studying outside India / family staying abroad- Return holiday package once in a year by economy class or once in a two years by first class to children and to the members of the family from the place of their study or stay abroad to India if they are not residing in India with managerial personnel.

   F. Leave Travel concession: Return passage for self and family in accordance with the rules specified by the company where it is proposed that the leave be spent in home country instead of anywhere in India.

   G. Accommodation (furnished) or house rent allowance in lieu there of, reimbursement of expenses or allowances for utilities such as gas, electricity, water, furnishings and repairs.

      For the purpose of calculating the above ceiling, perquisites shall be evaluated as per the Income tax rules, wherever applicable and in the absence of any such rule, perquisites shall be evaluated at actual cost to the Company.

   H. Provision of car with driver for official purposes and telephone at residence.

   I. Reimbursement of medical expenses and medical insurance for self and family members as decided by the Board from time to time.

   J. Leave in accordance with the leave rules of the company.

   K. Air travel expenses for self and family for a trip every year between USA and India.

   Note: The term 'family' means, spouse, dependent children and dependent parents

   RESOLVED FURTHER THAT in case of the company not attaining adequate profits or the profits are inadequate to make the payment of remuneration as above, the Board of Directors do accept to vary the terms of remuneration and perquisites with the liberty to revise the remuneration payable to Mr. Ramanujam Sesharathnam, Managing Director and Chief Operating Officer in accordance with Section II of Part II of Schedule XIII to the Companies Act, 1956.

   RESOLVED FURTHER THAT the Board of Directors and / or a Committee of the Board fix his salary within the scale from time to time, increasing thereby proportionately value of the benefits relating to the salary, and, with the liberty to the Board of Directors and /or a Committee of Board to alter and vary the terms and conditions of appointment and /or agreement in such manner as may be agreed to by and between the Board of Directors and the appointee within the applicable provision of the Companies Act, 1956.

   RESOLVED FURTHER THAT the Board of Directors and the Company Secretary be and are hereby authorized to do all such acts, deeds and things and execute all such documents, instruments and writings as may be required and to delegate all or any of its power herein conferred to any committee of directors or director(s).

By order of the Board of Directors
For Zylog Systems Limited

Sd/-
S.Akila
Company Secretary

Place: Chennai
Date: May 25, 2012

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 Saturday, September 22, 2012 to Tuesday, September 25, 2012 (both days inclusive) for the purpose of Annual General meeting and 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 annexure.

(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 25, 2012 to those members whose names appear on the Register of Members as on September 21, 2012.

(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 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: May 25, 2012

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 has 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 as an Ordinary resolution for approval of the members.

Item No.6:

Mr. P. Srikanth was appointed as the Executive Director of the Company, in the Extraordinary General Meeting of the Company held on July 15, 2010, with effect from May 21, 2010 for a period of 2 years up to May 20, 2012.

The Board of Directors in their meeting held on May 25, 2012 approved re-appointment of Mr. P.Srikanth as the Executive Director of the Company for a period of 2 years and the remuneration committee at its meeting held on May 25, 2012 approved the payment of remuneration as set out in the resolution.

The appointment is subject to the approval of the members. The terms and conditions of his appointment are as below:

Period of appointment: Two years beginning with May 21, 2012 upto May 20, 2014.

Details of remuneration: As provide in the resolution.

The resolution seeks approval of members in terms of Section 269, read with Schedule XIII and other applicable provisions of the Companies Act, 1956 for re-appointment of Mr. P.Srikanth as Executive Director of the Company for a period of two years commencing from May 21, 2012.

The terms of appointment of Mr. P.Srikanth as stated in the notice may be treated as abstract under Section 302 of the Companies Act, 1956. The copy of relevant resolutions of the Board in respect of the re-appointment is available for inspection by the members at the registered office of the company during working hours on any working day till the date of the Annual General Meeting.

None of the Directors of the Company other than Mr. P. Srikanth are interested or concerned in the resolution.

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

Item No.7:

Mr. Sudarshan Venkatraman was appointed as the Chairman and Chief Executive Officer of the Company, in the Annual General Meeting of the Company held on June 27, 2008, with effect from January 01, 2008 for a period of 5 years up to December 31, 2012.

The Board of Directors in their meeting held on May 25, 2012 approved re-appointment of Mr. Sudarshan Venkatraman as the Chairman and CEO of the Company for a period of 5 years. The remuneration committee at its meeting held on May 25, 2012 approved the payment of remuneration as set out in the resolution.

The appointment is subject to the approval of the members. The terms and conditions of his appointment are as below:

Period of appointment: Five years beginning with January 01, 2013 upto December 31, 2018.

Details of remuneration: As provide in the resolution.

The resolution seeks approval of members in terms of Section 269, read with Schedule XIII and other applicable provisions of the Companies Act, 1956 for re-appointment of Mr. Sudarshan Venkatraman as the Chairman and CEO of the Company for a period of 5 years with effect from January 01, 2013.

The terms of appointment of Mr. Sudarshan Venkatraman as stated in the notice may be treated as abstract under Section 302 of the Companies Act, 1956. The copy of relevant resolutions of the Board in respect of the re-appointment is available for inspection by the members at the registered office of the company during working hours on any working day till the date of the Annual General Meeting.

None of the Directors of the Company other than Mr. Sudarshan Venkatraman are interested or concerned in the resolution.

The Board accordingly recommends the resolution as set out in item no.7 for approval of members.

Item No.8:

Mr. Ramanujam Sesharathnam was appointed as the Managing Director & Chief Operating Officer of the Company, in the Annual General Meeting of the Company held on June 27, 2008, with effect from January 01, 2008 for a period of 5 years up to December 31, 2012

The Board of Directors in their meeting held on May 25, 2012 approved re-appointment of Mr. Ramanujam Sesharathnam as the Managing Director & Chief Operating Officer of the Company for a period of 5 years. The remuneration committee at its meeting held on May 25, 2012 approved the payment of remuneration as set out in the resolution.

The appointment is subject to the approval of the members. The terms and conditions of his appointment are as below:

Period of appointment: Five years beginning with January 01, 2013 upto December 31, 2018.

Details of remuneration: As provide in the resolution.

The resolution seeks approval of members in terms of Section 269, read with Schedule XIII and other applicable provisions of the Companies Act, 1956 for re-appointment of Mr. Ramanujam Sesharathnam as the Managing Director & Chief Operating Officer of the Company for a period of 5 years with effect from January 01, 2013.

The terms of appointment of Mr. Ramanujam Sesharathnam as stated in the notice may be treated as abstract under Section 302 of the Companies Act, 1956. The copy of relevant resolutions of the Board in respect of the re-appointment is available for inspection by the members at the registered office of the company during working hours on any working day till the date of the Annual General Meeting.

None of the Directors of the Company other than Mr. Ramanujam Sesharathnam are interested or concerned in the resolution.

The Board accordingly recommends the resolution as set out in item no.8 for approval of members.

ADDITIONAL INFORMATION AS PER CLAUSE 49 OF THE LISTING AGREEMENT

A brief resume of the directors recommended for re-appointment at the Annual General Meeting is as under:

Mr. S. Rajagopal

Mr. S.Rajagopal was inducted as member of Board of Directors of Zylog Systems Limited in January 2007. He is an Independent Director of the Company. Mr.S.Rajagopal is also a Director of Zylog Systems (India) Limited, a wholly owned subsidiary of the Company and also the Chairman of company's Audit Committee & a member of Remuneration Committee.

Mr. S Rajagopal, former Chairman & Managing Director of Bank of India, has been associated with Indian Commercial Banking System for a number of years. He holds a Masters Degree in Economics and degrees in Commerce and Law, besides having professional qualifications from Indian Institute of Bankers. After serving as Managing Director in State Bank of Mysore, he moved to Indian Bank in 1994 and subsequently was elevated to Chairman and Managing Director. He was appointed as Chairman in Bank of India in 1998. Having been on the Board of several Corporate and Development funds in India as well as abroad, Mr. S. Rajagopal has expert knowledge of finance and insurance. He was Director representing Government of India and the Banks on the Board of the diverse leading Insurance and Financial companies. Mr. S. Rajagopal was the Chairman of Committee of Economists and Member of Management Committee of Indian Bank's Association and Member of several Councils and professional bodies.

The Details of Public Companies (Other than Zylog Systems Limited) in which Mr. S. Rajagopal holds directorships and committee memberships:

Directorships:

1. GMR Energy Limited
2. SREI Infrastructure Finance Limited
3. National Trust Housing Finance Limited
4. SREI Venture Capital Limited
5. GMR Kamalanga Energy Limited
6. Zylog Systems (India) Limited
7. GMR Chhattisgarh Energy Limited
8. Vivek Limited
9. GMR Kishangarh Udaipur Ahmedabad Expressways Limited

Chairman of Board Committees

1. National Trust Housing Finance Limited

Member of Board Committees

1. GMR Energy Limited
2. SREI Infrastructure Finance Limited
3. GMR Kamalanga Energy Limited
4. Vivek Limited
5. GMR Chhattisgarh Energy Limited

Shareholding in the Company:

Mr. S.Rajagopal does not hold any equity shares of the Company.

Mr. P. Srikanth

Mr. P. Srikant was inducted as member of Board of Directors of Zylog Systems Limited in June 2006. Mr. P. Srikanth is also a Director of Zylog Systems (India) Limited, a wholly owned subsidiary of the Company and also the member of the company's Audit Committee & Investors' Grievance Committee.

Mr. P. Srikanth is a Partner of Vijai Sarathy & Co., Chartered Accountants. He has over 16 years of experience and specializes in delivering audit and tax compliance services to clients in an array of industries including construction, retail, investments, professional services, real estate, technology, mining, entertainment, and manufacturing. Mr. P. Srikanth was also involved, as part of his professional career, in business valuations and financial structuring of numerous companies. He is a member of Zylog's Audit Committee and Investors' Grievance Committee. He brings with him a vast experience in financial management, technical accounting, financial reporting, and process management. Mr. P. Srikanth is also a cost accountant, Certified Systems Auditor having done his Bachelors in Commerce through Vivekananda College, Chennai.

The Details of Public Companies (Other than Zylog Systems Limited) in which Mr. P.Srikanth holds directorships and committee memberships:

Directorships:

1. Zylog Systems (India) Limited

Shareholding in the Company:

Mr. P. Srikanth does not hold any equity shares of the Company.

Mr. Sudarshan Venkatraman

Mr. Sudarshan Venkatraman is one of the promoter and founder member of Board of Directors of Zylog Systems Limited. He is a member of the company's Investors' Grievance Committee.

Mr. Sudarshan Venkatraman has over 21 years of business experience in Technology business. He heads the US Operations and mainly focuses on strategic planning, alliances & partnerships, and business development. Prior to establishing Zylog, he was associated with TGF Media Systems which was developing program software for the television channels for a period of over two years (February 1994 – July 1996) as a Program Director. Before that he was a legal consultant. He holds a Bachelors Degree in Science, Bachelors in Law and Master's Degree in Management (Marketing) from Pace University, New York.

Apart from holding directorship in Zylog System Limited, Mr. Sudarshan Venkatraman also holds the position of Director in Zylog Group subsidiaries.

Shareholding in the Company:

Mr. Sudarshan Venkatraman holds 127,990 equity shares of Zylog Systems Limited.

Mr. Ramanujam Sesharathnam

Mr. Ramanujam Sesharathnam was inducted as member of Board of Directors of Zylog Systems Limited in, 1996. He is also the Promoter Director of the Company.

Mr. Ramanujam Sesharathnam has over 22 years of experience in the IT field. He focuses mainly on overseeing the operations of the Company including delivery, finance and Human Resources and Development. Prior to establishing Zylog, he worked for Hilliard Farber & Co (Wall Street) from January 1991 to June 1995 at various levels like Senior Application Developer, Tech Head, Application Manager and later as Backoffice –Director in-charge, He worked for Goldman Sachs Securities for a period June – October 1995, with Bankers, USA Trust (Nov 1995 – Mar 1996) and Associated Press, USA (Apr 1996 – May 1996) as a Database Manager. His exposure to the International market has helped our Company to establish its quality standards and on-time delivery mechanism. Mr. Ramanujam holds a Masters Degree in Computer Science from Pace University, New York.

Apart from holding directorship in Zylog System Limited, Mr. Ramanujam Sesharathnam also holds the position of Director in Zylog Group subsidiaries.

Shareholding in the Company:

Mr. Ramanujam Sesharathnam holds 60,268 equity shares of Zylog Systems Limited.

By Order of the Board of Directors
For Zylog Systems Limited

Sd/-

Chennai — S.Akila
May 25, 2012 — Company Secretary

Performance Highlights - Consolidated

₹ in lakhs except per share data

For the period ended March 31,	2009	2010	2011	2012
Operating Revenue	75,103.91	97,994.17	191,567.76	227,285.49
PBDIT	12,358.23	17,852.61	29,318.87	41,343.44
Operating income / revenue	16.45%	18.22%	15.30%	18.19%
PBDT	11,753.52	16,403.53	25,730.37	38,653.7
PBT	9,652.97	13,001.02	20,565.74	31,827.61
PAT	8,455.55	10,245.68	14,490.27	20,536.74
PAT / Sales	10.55%	10.41%	7.54%	9.04%
Share capital, reserves & surplus	48,925.22	57,876.07	70,913.55	90,900.29
Paid up share capital	1,644.64	1,644.64	1,644.64	1,644.64
Reserves and surplus	47,280.58	56,231.42	69,268.91	89,255.65
Total assets	71,528.00	111,762.81	144,734.57	188,240.66
Other assets	831.00	19,589.24	22,189.46	29,749.64
Capital employed	64,612.63	101,208.66	127,861.26	166,218.43
Return on average capital employed	17.61%	17.03%	21.29%	24.38%
Net worth	48,925.22	57,876.06	70,913.55	90,900.29
Return on networth	18.83%	19.19%	22.50%	25.38%
Book value per share	297.48	351.91	431.18	552.71
Earning per share	51.41	62.30	88.25	124.28
Cash accruals	11,754.00	16,403.53	25,730.37	36,407.88
Rate of dividend	30.00%	60.00%	80.00%	100.00%
Dividend outflow	493.39	986.79	1,316.00	1,644.64

The curious minds which are keen to explore possibilities will never feel discouraged at the face of adversity. It is always the desire to find something new pushes everything aside and gives the needed energy to push ahead till something worthwhile is found.

Every problem that has been solved can be solved again in a better way. Creative thinkers do not subscribe to the idea that once a problem has been solved, it can be forgotten. An exploring mind will always work with an intention that "there is no such thing as an insignificant improvement."

In the evolution of modern world most of the early discoveries were medicine and automobile related. The invention of steam engine was seen as breakthrough which leads to the series of discoveries in utilization of steam for productive purposes. The early locomotive with steam engine was able to move only at 18km speed and it was initially used for coal mines for transporting large volume of coal.

What we see today is the most advanced version which is the result of the work of scores of restless minds which are not satisfied with existing model.

Exploring Possibilities

Letter to the Members

Dear Members,

It is my immense pleasure to welcome you all to the Seventeenth Annual General Meeting of your company.

Your Company has registered a strong performance during the year across all the segments. The maintenance of sustained profitability despite the volatile external trading environment is no mean feat.Your Company is continuing to display remarkable resilience in the tough conditions currently prevalent.This is amply illustrated by the following snapshot of important indicators -the consolidated operating revenue for the year ended 31 March 2012 stands at Rs 2,273 crores, an increase of 19% over the prior year. EBITDA stands at Rs 432 crores, an improvement of 45% over the previous year.Net Profit after tax has reached Rs 204 crores – growth of 41% over the previous 12 months.

At the standalone level, which is fetching 54% and 85% of revenue and net profit respectively, your Company at year end has 304 active clients of whom 63 are newly added during the year in the US, the mainstay of our operations. Included in this pool of active clients for the year are 58 clients who have brought revenues in excess of USD 1Mn.Our staff strength has grown from 4302 last year to 5137, reflecting a growth of 19% - significant by any yardstick and even more so, given the current economic conditions prevailing worldwide. For a predominantly onsite/offsite-based company, we are always looking to increase the offshore element on a case-by-case basis in new work orders procured from clients. This will significantly ramp up our operating margins.

Your Company has partnered with US Universities namely, New Jersey Institute of Technology, Fairleigh Dickinson University and Rutgers University as a part of the recruiting mechanism to train and fuel our R&D initiatives in conveyor-belt fashion in the Products/Solutions space in USA with various Masters Degree and above students; so that the idea is to mould the freshest and ablest minds to face the challenges of tomorrow in our chosen specialist space. This proactive initiative alone speaks of your Company's far-sightedness in its thought processes towards preparing and setting the foundation for continued prosperity in times ahead and by so doing, to maintain our strategic advantage. Simultaneously, your Company is committed to nurturing and engaging with young IT professionals so as to create comprehensive career paths for them resulting in the staff members' goals being congruent with the Company's goals.Your Company's modus operandi is to continue to invest in new technologies, domains and processes via a training model that is carefully calibrated towards engaged collaboration.This paternalistic approach is very effective as it produces creative and energetic individuals who are extremely malleable in responding to given situations in a fast-changing world.

You are aware that your Company uniquely specializes in providing Products & Solutions to various industry verticals in order to address the pain points of the inherent business processes. In doing so, we wrap our solutions with the technology services in specialized areas such as Package Implementation, Enterprise Content Management, Mobile Computing, ERP Services in SAP, MS Dynamics and Oracle, Business Intelligence, Data Warehousing and Cloud Enablement and Software as a Service. With this novel combination of solutions and services, we have forayed into and consolidated in hitherto unchartered regions. Amongst our latest exploits is in Singapore where we have won an order to supply Field Power, one of our flagship solutions to a prestigious client.This will invariably help us to widen our stretch in that geography as a customer reference from that client will go a long way in furthering our business interests in South East Asia region as a whole. We have similarly expanded our activities in other regions in response to demand for our solutions which are subsequently customized for those particular geographies.

From a business perspective, there was all round growth in all the geographies that we serve. Of the most pleasing are the cases of Zylog Ducont and Zylog Canada, our Dubai and Canada businesses which were acquired in 2008 and 2010 respectively. These wholly-owned subsidiaries have gone from strength to strength and represent Zylog's success stories in their respective geographies. We are seeing increasing cross-penetration of selling efforts so that both parent company and the subsidiaries have witnessed expansion in each other's client base and revenues. Also, another strategy that is pertinent in the above cases and also hugely relevant in helping to integrate our acquisitions to date is one that has effectively left day-to-day management in the hands of senior managers in the acquired entities. By adopting such a hands-off policy, Zylog has deliberately chosen not to run the various acquired companies from its headquarters in India or the US. In this way, the newly-acquired subsidiaries have become autonomous and profitable segmental units in the now far-flung Zylog empire of operations. It is a measure of success at each of these segments that whatever debt funding was used partially in the purchase consideration at the time of acquisition, that debt not only sits on the books of those subsidiaries but is being fully serviced by the same out of their own cash flows.

We have recently set up Development centres in Dubai and Malaysia to be able to better serve existing customers and also to take advantage of excellent infrastructure and other benefits provided by the host Governments to attract and boost inward investments. One of the benefits is investor-friendly tax regimes which will help your Company to consolidate its presence with a view to expand into hinterland regions holding enormous potential for future growth. For example, our presence in Dubai through the acquisition of Ducont has helped us to win new customers in the Middle East vicinity. The effort that went into the winning of work order from the Singapore client mentioned in previous paragraph conveys the same message for that region.

Going forward, it is a concern that macro-economic challenges persist, especially in North America where the bulk of our operations take place. Due to minimal economic growth and employment prospects, Corporations across the world are walking a tightrope trying to juggle tight IT budgets, currency volatility, control on costs and stock market and investor expectations. Our continuing challenge, one that we have always responded to in our history, is to how best to help companies adapt to changes in the commercial environment and be nimble enough to bring new products and solutions to market.

I speak for the entire Company including the Senior Management team in saying a big thank you to all the shareholders. There is no question that it is with their support that your Company has reached the current milestone of progress. I can assure you wholeheartedly that we will endeavour to ensure that all the stakeholders of your Company will continue to reap the benefits in years to come.

Warm Regards

SUDARSHAN VENKATRAMAN

Chairman and Chief Executive Officer

Great minds that brought in sweeping changes to the way people live in this world had the deep rooted desire to look beyond the obvious and explore ahead of what was considered as invisible. It is the enormous tenacity and inquisitiveness that helped them shun their conventional wisdom and attempt what was considered impossible.

Every invention that this world has seen is the result of inquisitive minds which refuse to accept things the way they are. And it doesn't happen overnight. Inventions never happen by fluke or through some mystical downpour of sorts.

It is the result of relentless pursuit in search of something, an exploration which mediocre minds can never think of! It is the undying spirit to achieve progressive transformation. It is the same spirit that drove Edison to invent 'bulbs' which made our planet bright which otherwise would have been dark for half of the day.

The exploring mind never ceases at the face of a failure. For them it is just an attempt that didn't fetch desired result, not failure. Reason why Edison said, when 10,000 times my experiments fail, that means

I have learned how not to try in 10,000 ways and I am surely moving towards finding the right method that will work. It is this rare spirit that helped Edison discover over 1000 odd things which no one thought or tried before.

Exploring Possibilities

In most cases, it is the perception that drives the change. Inventive minds develop a vision and discipline to look at things in the way that was never looked at before. That rare spirit gives the creators the vision to look at things from an entirely different perspective.

Most of the scientific discoveries that we enjoy today may not have been possible and we could still be loitering in the stoneage. The power to look at things from a different angle opens the whole new world of possibilities to explore.

Otherwise it is difficult to imagine that an apple falling from a tree could inspire someone to discover amazing laws that govern the functioning of the whole universe. For the normal eyes, a falling apple is an opportunity to grab and chew. Whereas for Newton it is something that triggered him to think what no one else had thought before and create amazing laws.

Looking at things from an unusual perspective was the reason behind most of the breakthrough scientific discoveries made during 19th century.

Exploring Possibilities

To the Members,

The Directors submit the Annual Report of the Company along with the audited financial statements for the financial year ended March 31, 2012:

FINANCIAL RESULTS

₹ in lakhs except per share data

Year ended March 31,	Standalone		Consolidated	
	2012	2011	2012	2011
Operating revenue	1,21,876.16	91,584.34	2,27,285.49	1,91,567.76
Other Income	1,352.76	240.11	1,834.12	491.88
Operating Profit (PBDIT)	32,365.51	22,425.39	41,343.44	29,318.87
Interest	2,455.06	2,371.70	4,523.86	4,080.39
Depreciation	3,806.65	3,023.20	6,769.68	5,150.86
Prior period adjustments	-	-	56.41	13.76
Profit before tax (PBT)	27,456.56	17,270.60	31,827.61	20,565.74
Taxes	10,067.93	5,158.68	11,290.87	6,075.47
Profit after tax (PAT)	17,388.63	12,111.93	20,536.74	14,490.27
Less: Minority interest	-	-	-	-
Add: Share of profit of associate	-	-	(96.83)	24.35
Net Profit for the year	17,388.63	12,111.93	20,439.91	14,514.62
Dividend recommended	1,644.64	1,315.71	1,644.64	1,315.71
Dividend tax	266.80	218.53	266.80	218.53
Transferred to general reserve	2,000.00	1,500.00	2,000.00	1,500.00
Balance carried forward to balance sheet	52,554.54	39,077.37	58,913.03	42,411.89
Paid up capital	1,644.64	1,644.64	1,644.64	1,644.64
Reserves & Surplus	81,116.84	65,639.67	89,255.65	69,268.91
Net Worth	82,761.49	67,284.31	90,900.29	70,913.55
Earnings per Share	105.73	73.64	124.28	88.25

RESULTS OF OPERATION

During FY 2011-12, 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. Each of the subsidiaries has incrementally added value in its area of operation, both in the geographical sense and also in the particular niche offering that is the hallmark of the subsidiary in question. Net Profit at the consolidated level has continued to climb steeply at the rate of 41% from ₹ 145.15 crores in the previous year to ₹ 204.40 crores. Total Revenue for Zylog Systems Limited was ₹ 1,218.76 crores as against ₹ 915.84 crores in the previous year, representing a growth of 33%.

At standalone level, our profit after tax amounted to ₹ 173.89 crores (14.27% of revenue) as against ₹ 121.12 crores (13.22% of revenue), thus representing an increase of 43.57% over the previous year. On consolidated basis, our profit after tax amounted to ₹ 204.40 crores (8.99% of revenue) as against ₹ 145.15 crores (10.29% of revenue). The net worth of the company has increased to ₹ 827.61 crores from ₹ 672.84 crores whereas the group net worth has increased to ₹ 909 crores from ₹ 709.14 crores. The EPS has improved to ₹ 105.73 (₹ 73.64 PY) for standalone and ₹ 124.28 (₹ 88.25 PY) for the group.

Tax benefits extended to 100% Export Oriented Unit ("EOU") registered with Software Technology Parks of India (STPI) have been fully withdrawn by the Government. Hence, tax burden on the software exports has substantially increased for the offshore revenue. However, the company having set up an Offshore Development Centre in Special Economic Zone in Siruseri, Chennai to implement new projects, has helped in reducing the tax burden to some extent. However, the full effect of the tax benefits emanating from this move can be seen only in the forthcoming years.

SUBSIDIARIES

The Company had 8 Subsidiaries at the beginning of the year. One Subsidiary, Zylog Systems M.E. FZE was incorporated in tax free zone at Sharjah, during the year. The total number of Subsidiaries as on March 31, 2012 is 9.

There has been no material change in the nature of the business of the Subsidiaries. A statement containing brief financial details of the subsidiaries is included in the Annual Report.

Consolidated financial statement of the Company and all its subsidiaries is attached. The Consolidated financial statements have been prepared in accordance with the relevant accounting standards as prescribed under Section 211(3C) of the Act. These financial statements disclose the assets, liabilities, income, expenses and other details of the Company and its subsidiary companies.

Pursuant to the provision of Section 212(8) of the Act, the Ministry of Corporate Affairs vide its circular dated February 8, 2011 has granted general exemption from attaching the balance sheet, statement of profit and loss and other documents of the subsidiary companies with the balance sheet of the Company. A statement containing brief financial details of the Company's subsidiaries for the financial year ended March 31, 2012 is included in Annexure 1 to this report. The audited annual accounts of these subsidiaries and the related detailed information will be made available on request and are also available for inspection by any member of the company during business hours at the registered office of the Company.

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. The Board of Directors of the Company in their meeting held on May 25, 2012 approved sub-division of each and every existing equity share of ₹ 10/- each fully paid up into 2 equity shares of ₹ 5/- each fully paid up, subject to approval of shareholders in the Extraordinary General Meeting held on June 20, 2012.

DIVIDEND

Based on the Company's performance, the Directors are pleased to recommend for approval of the members a final dividend of ₹ 10/- per share for the financial year 2011-12 on the capital of 1,64,46,420 equity shares of ₹ 10/- each. The final dividend, if approved by the members would involve a cash outflow of ₹ 1,911.44 lakhs including dividend tax.

TRANSFER TO RESERVES

Your Directors propose to transfer ₹ 2,000 Lakhs to the general reserve out of the amount available for appropriations and an amount of ₹ 52,554.54 Lakhs is proposed to be retained in the statement of profit and loss.

STRATEGIC INVESTMENTS & ACQUISITIONS

The Company continues to invest heavily in its Products & solutions space which is the main differentiator vis - a – vis other companies in the IT Software Development space. We now have customers in newer geographies such as the Carribean, South Africa, the Middle East and Australia. Our flagship solutions such as Field Power, Smart Migrator and Bank.Companion have won increasing traction, entirely based on existing customer references. So this goes to show the exemplary performance that Zylog is notching up in the market amongst the stiffest competition offered by our peers who are mainly based in North America and Europe. It is also gratifying to know that, despite our relative size, we command huge respect by means of representation on the Technology Committee/Board of industry leaders such as Sun MicroSystems. As our forte is increasingly innovation and how to leverage it by making use of cutting edge technology to solve business problems, this kind of involvement at the highest level brings us kudos and ensures that we are noticed in the marketplace. We have opened up development centres in Dubai and Malaysia to serve better our existing customers in those regions and also to take advantage of investor-friendly tax regimes offered by the said countries. Thus we will be in a better position to consolidate and expand our client base as both Dubai and Malaysia are very much implementing to be regional hubs to vast prosperous hinterlands such as Saudi Arabia and other wealthy oil-rich states and also latterly, South East Asia as a region in its own right with huge potential, to attract inward investment by providing high class infrastructure and other benefits to global corporations such as Zylog.

Much of our vision comes from wanting to be the kind of business that accommodates several objectives including innovative excellence, customer care, attention to detail, attending to complementary markets and verticals and giving fullest respect to specialized tools or solutions within the software technological arena, however small by acquiring companies with those solutions and integrating them within their stable of offerings. Our growth strategy has always been by means of the twin methods of organic and inorganic means which subsequently complement each other over a period of time. Following an acquisition, the customer pools of both acquiring and acquired entity get enlarged, thereby enlarging the revenue pool and gradually removing the previously clear lines of demarcation between the two entities. Customer mining is a very large source of our revenue as we always look to work existing customers in prospecting for new ones, either by geography or business vertical. We continue to look to acquire suitable target companies with unfulfilled potential which will pay full justice to our various objectives outlined above.

CORPORATE GOVERNANCE

A separate section on Corporate Governance forming part of the Directors Report and the certificate from the Company's 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) are 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 Section 217 (1)(e) 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

The information required under Section 217(2A) of the Act and the Rules made thereunder, is provided in annexure forming part of the report. In terms of Section 219(1)(b)(iv) of the Act, the report and accounts are being sent to the shareholders excluding the aforesaid annexure. Any shareholder interested in obtaining copy of the same may write to the Company Secretary.

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 and Mr. T. Valliappan, Director, Oriental Bank of Commerce Ltd. The Advisory Committee met 3 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 CMM Level 3 assessed Company. 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

During the year, the Company has received various awards and recognitions which marked Company's accomplishments in various fields. Some of the awards and accolades received during the year have been listed in Annexure 3 to this report.

FIXED DEPOSITS

The Company has not accepted any public deposits and, as such, no amount on account of principal or interest was outstanding as on date of balance sheet.

DIRECTORS

In accordance with Article 99 of the Articles of Association, Mr. S. Rajagopal , Director retire by rotation at the ensuing Annual General Meeting and being eligible has offered himself for re-appointment.

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 25, 2012 has recommended the re-appointment of M/s Brahmayya & Co., Chartered Accountants, Chennai. The Audit Committee has also approved re-appointment of M/s Ketan Pathak, CPA, USA as USA Branch Auditor of the Company for the year ended March 31, 2013.

HUMAN RESOURCES

Employees are vital and most valuable assets possessed by the company, as this business is people-centric. 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 5137 at the end of the year compared to 4302 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.

ACKNOWLEDGMENTS

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 : May 25, 2012

ANNEXURE 1 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, 2012	March 31, 2012	March 31, 2012	March 31, 2012	March 31, 2012	March 31, 2012	March 31, 2012	March 31, 2012
1.Share capital	25.00	1,065.65	3150.00	625.99	62.99	3,093.87	1.00	451.99
2.Reserves and surplus	472.63	1,513.13	1161.39	443.28	615.20	3,614.31	27.55	6,469.93
3.Total assets	779.78	4,238.04	21327.94	2,051.29	8,918.87	25,188.46	453.46	12,602.12
4.Total liabilities	282.14	1,659.26	17016.55#	982.02	8,240.68	18,480.28	424.91	5,680.20
5.Details of investments including goodwill	-	-	231.09	670.33	-	-	-	-
6.Net Sales including other income	429.74	6,598.48	8195.27	1619.50	5,493.02	74,264.70	805.46	11,780.26
7.Profit/(loss) before tax	107.91	733.98	1178.57	83.44	447.74	210.91	13.20	1763.22
8.Provision for taxation	35.24	85.85	391.25	7.33	57.30	10.83	4.10	631.05
9.Profit/(loss) after Tax	72.67	648.12	787.32	76.10	390.44	200.09	9.10	1,132.17
10.Proposed dividend	-	-	-	-	-	-	-	-
11. Reporting currency	INR	GBP	INR	SGD	USD	CAD	INR	USD
12. Exchange rate	-	83.2749	-	41.5352	52.0803	52.2355	-	52.0803

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.

Total Liabilities includes Share Application money

STATEMENT PURSUANT TO 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, 2012	March 31, 2012	March 31, 2012	March 31, 2012	March 31, 2012	March 31, 2012	March 31, 2012	March 31, 2012
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	1,25,000	70,00,100	100,000	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, 2012	72,66,808	6,48,11,977	7,87,31,910	(20,72,656)	3,90,44,090	2,00,08,603	9,10,144	11,32,16,544
(b) For the previous financial years of the subsidiary since it became a Subsidiary.	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

ANNEXURE 2
PARTICULARS PURSUANT TO THE COMPANIES
(DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD 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 hour 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 assists 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 activities are charged off to Profit and 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 54.4% and Canada contributing to 36.4% of the revenue. The Company plans to continue concentrating on the development of Export business.

2. Total Foreign Exchange used and earned FOB

a) Total Foreign Exchange Earned ₹ 23,002.60 Lakhs (₹ 27,562.07 Lakhs)

b) Total Foreign Exchange used ₹10,789.62 Lakhs (₹ 44.11 Lakhs)

For and on behalf of Board of Directors

of Zylog Systems Limited

Sudarshan Venkatraman
Chairman & CEO

Ramanujam Sesharathnam
Managing Director & COO

Place : Chennai

Date : 25th May 2012

ANNEXURE 3

ZSL's SmartPrise Cloud Innovator was shortlisted as the finalist by Nasscom for its Innovator 2012 Awards.

IDG's Computerworld Honors Program announced ZSL as "2012 Computerworld Honors Laureate" for it's innovations in mobile health suite. The annual award program honors visionary applications of information technology promoting positive social, economic and educational change.

Nine Lives Media and Talkin' Cloud in their second-annual Talkin' Cloud 100 report ranked ZSL among the world's top 100 cloud service providers (CSPs) for its innovations in Cloud Services.

ZSL has been recognized by UBM Channel as a part of CRN's 2012 Solution Provider 500 list, which ranks the top technology integrators and solution providers in North America. Formerly known as the "VAR 500", the Solution Provider 500 ranks the highest producing solution provider organizations in the IT channel from hardware sales, software sales, and managed IT services. ZSL is placed 54th in the annual ranking.

ZSL was awarded as Finalists by IBM in "IBM Cloud Innovator and Best of Show" categories for its innovative Cloud and Mobile Enterprise Enablement solutions at the IBM Impact 2012 Conference in Las Vegas. The award recognizes the IBM Partner that exhibits the most innovative solution that either utilizes WebSphere offerings to deliver that solution via the Cloud, or utilizes WebSphere offerings to create a cloud-based solution delivery of behalf of a customer.

ZSL's PowerCube DaaS (Desktop as a Service), one of the Technology Solutions in the Desktop Virtualization on the Cloud, was nominated for the Green IT Awards 2012 conducted by Green IT magazine and won the Runner up in the 'Virtualization Product of the Year'. PowerCube DaaS (Desktop as a Service) is an Innovative and Cost Effective Client Computing Solution which enables Green-IT and Eco-friendly IT infrastructure for a smarter planet concept.

2012 Partner Program Guide

ZSL has been Listed for 6th Consecutive Year in CRN's 2012 Partner Program Guide. The 2012 Partner Program Guide offers solution providers the information they need to evaluate IT vendors they already work with or are considering working with.

ANNEXURE 3

ZSL has been ranked #364 in the list of Fast Growing Mid-Sized Enterprises by Inc. 500 (India). The program recognizes the emerging order of the new India Inc. Chronicling 500 stories of stupendous growth, Inc. 500 (India) is a testimony to heroic journeys and winning performances by rising Indian business icons.

Infosys has recognized ZSL as a premium supplier of software resources during their Vendor meet Sambandh – 2012.

TMC, a global, integrated media company, has named ZSL's SmartPrise Cloud as winner of "2011 Cloud Computing Excellence Award" presented by Cloud Computing Magazine. SmarPrise Cloud Framework offers the Cloud Enablement, Integration and Management solutions and Services to the enterprises in Public, Private and Hybrid Cloud environment.

ZSL has been recognized in CRN's "Five to Follow" Fast growth companies.

ZSL's Microsoft Dynamics GP Multicurrency has been awarded a place on 2012 list for Microsoft Dynamics Top Add-Ons for GP by Dynamics World. Dynamics World Top Add-Ons Network has been established to monitor, review, evaluate and analyse all those Add-ons that impact upon those who use Microsoft Dynamics.

ZSL's SCM was adjudicated as Runner-up in the "NJTC's Cool Products Competition" under the IT Category for the year 2011. The Cool Products Competition award recognizes the unique cutting edge products or services in the Electronics, IT, Life Sciences and Telecom industries and where the product has been in existence and marketed for less than 4 years.

CRN has awarded ZSL the "2011 Tech Innovator Award" in Software Productivity category. For the past eight years, the CRN Test Center has honored companies and products that take an innovative and interesting approach to solving today's IT problems. With products for cloud deployment to digital signage to managed services, the winners help solution providers solve particular problems and differentiate them as trusted client advisers.

ANNEXURE 3

Everything Channel recognized ZSL as a fastest growing solution providers in CRN Fast Growth 100 list. The Program recognizes the fastest growing solution providers in North America. ZSL is placed 40th place in the ranking.

ZSL has got the Runners Up position in "Mobile Technology Project of the Year" program conducted by DM Magazine for its GuardTrax solution. GuardTrax is SmartPhone based innovative mobile solution for Corporate Security Services and ZSL's solution replaced their existing single-purpose and proprietary hardware device and software.

ZSL has earned a spot in the Dataquest's IT industry survey for the Top 20 software exporters across India for the fiscal year 2010-2011.

ZSL was recognized as one of the Top 500 Technology Innovators Across America by InformationWeek Business Technology Network. InformationWeek 500 is an annual listing of the nation's most innovative users of business technology.

Dun & Bradstreet's Recognized Zylog Systems Ltd (ZSL) As One of India's Top 500 Companies for the FY 2010-2011. 'India's Top 500 Companies 2010' captures the growth and business dynamics of leading Indian companies in 2010.

ZSL was honored with the prestigious NJTC Judges Award by NJTC Mobile Application Forum for its Wound Care Mobile Assistant, an application 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 application, which brings enterprise business analytics to a mobile environment.

ZSL's Enterprise Mobile Applications Suite won "Mobile Innovation Award" from Research In Motion (RIM), NJTC and Canada Consulate.

ZSL has landed on Nine Lives Media Inc.'s first-ever Talkin' Cloud 50, a unique list and free research report identifying the world's top 50 VARs, MSPs and IT service providers in cloud computing.

ANNEXURE 3

ZSL has been recognized by Everything Channel as a part of CRN's 2011 VAR500 list, which ranks the top technology integrators in North America. Featuring the highest producing technology integrators and solution provider organizations in the IT channel, the VAR500 rankings consider earnings from hardware sales, software sales and managed IT services. ZSL was placed 74 in the 17th annual ranking.

ZSL's 'Get IT Together' Partnership Program listed for the 5th Consecutive Year in CMP Media's CRN 2011 Partner Program Guide.

ZSL won the New Jersey Technology Council (NJTC)'s Mid-Atlantic Innovation Competition Award in the IT category for its Enterprise 2.0 SocNet, the next generation Knowledge Management & Collaboration solution. NJTC held the Mid-Atlantic Innovation Competition for the companies in the following four industry networks: Communications/Media; Electronics, Advanced Materials and Manufacturing; Information Technology or Life Sciences.

ZSL has been recognized by Everything Channel the CRN Fast Growth 100 list. The list recognizes solution providers with growth rates in excess of 26 percent, average two-year revenue growth of 110 percent, and average annual sales of products and services of $120.8 million. The ranking is based on two years' growth of net sales from calendar year 2007 to calendar year 2009

ZSL has been recognized as one of the "30 Cloud VARs That Get It" by Everything Channel's CRN Magazine. Everything Channel's editorial team has been reporting daily on cloud news and ferreting out the solution providers on the forefront making investments. Solution providers were chosen for this award based on the expertise of the editors covering the cloud market.

ZSL has made it to the year's InformationWeek 500, an annual listing of the nation's most innovative users of business technology. ZSL debuted on the list of Information Week's Top 250 category for the first time.

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Exploring the road less travelled is an important attribute that led to many amazing discoveries and inventions in the world we live. The mental strength to shun what is available and developing strong desire to find something beyond what is available.

If we can trace back the history of movement, birds were initially used to send out important information in the fastest possible time. However it had its own problems and shortfalls. While nobody thought that humans can fly, Wright brothers actually tried to fly with wings attached to their body. They had the courage to explore what was though as impossible. While making use of the birds were seen as an invention that bettered 'human movement', Wright brothers had the courage then to come out with something that can be used fly people effortlessly. They invented first 'flying machine' that changed the world like never before

Behind every invention there lies the spirit of few souls who carry to desire to explore unexplored territories and find out something new.

Exploring Possibilities

At a glance - Consolidated

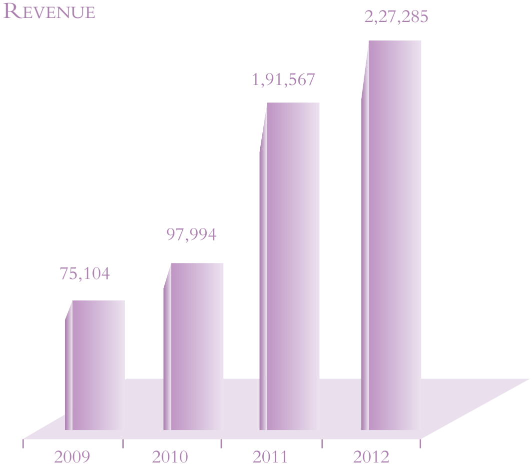
Amount in ₹ except per share data

For the Period ended March 31	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total 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	2291,19,60,959
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	293,18,87,615	413,43,43,527
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%	15.30%	18.19%
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	386,53,69,894
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	318,27,61,227
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	205,36,73,789
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%	8.96%
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	909,00,29,256
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	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	892,55,65,056
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	1882,40,65,505
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	297,49,63,893
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	1662,18,42,701
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%	24.38%
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	909,00,29,256
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%	25.38%
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	552.71
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	124.28
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	364,07,87,726
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%	100.00%
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	9,86,78,520	13,15,71,360	16,44,64,200

Financial Highlights - Consolidated

₹ in lakhs except per share data

Revenue



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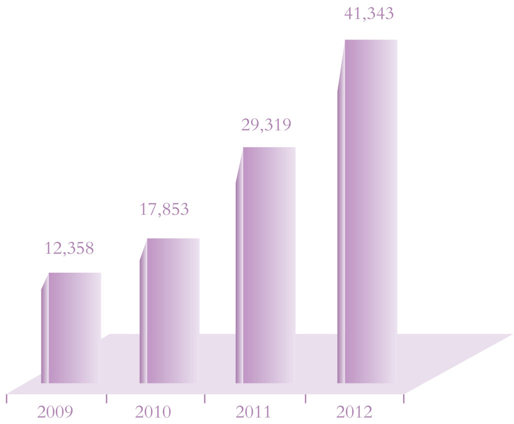
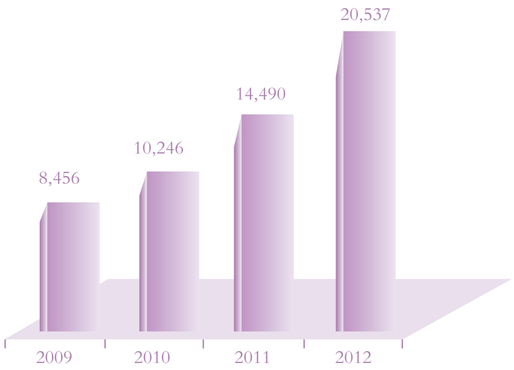
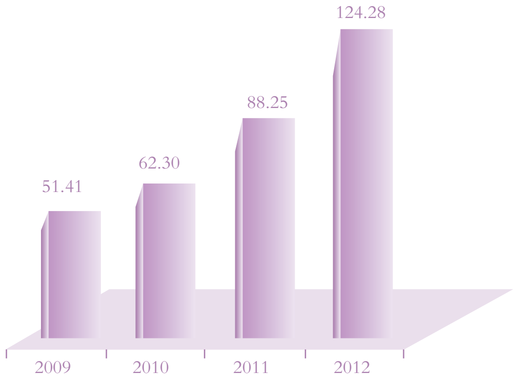


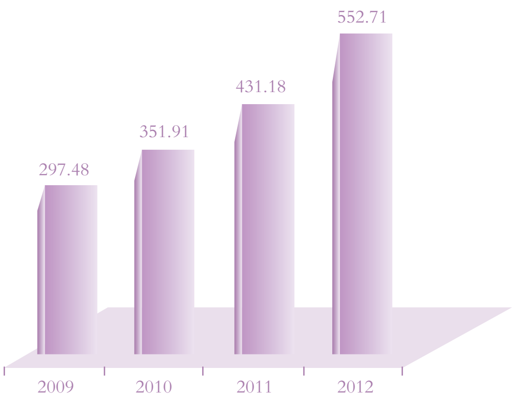
Pat



Basic EPS



Book Value Per Share



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.

Industry Overview

Employment growth and financial well being continue to suffer as an ongoing setback of global economic conditions. As the result it is very much expected that GDP growth and ensuing job growth across developed and emerging countries are here to continue in the foreseeable future. As part of these conditions, currency volatility and also imbalance in FII inflows are likely to cloud prospects in the short term. Due to increasing levels of unemployment and rising income and wealth inequalities in the Western markets, it is expected that growth will be subdued in those markets and growth slowing down in the developing markets, as due to globalization the latter depend on the Western market for economic prosperity.

Emerging economies are expected to grow by 5.4%; the advanced economies by 1.2% and the euro zone likely to contract by 0.5%. As per NASSCOM Strategic Review 2012, global spending on technology continues to grow and the global IT off-shoring market is expected to grow much faster to drive efficiencies and savings demanded by the Fortune 1000 corporations.

Indian IT industries overview

Information Technology is one of the most important sectors in the Indian economy. The IT industry of India has registered huge growth in recent years. In the last ten years the Information Technology industry in India has grown at an average annual rate of 30%. India currently accounts for about 74% of the global IT off-shoring market. The US recession has had its share of negative impacts on the Indian IT industry. However, the industry has positively faced the challenges posed by the global market and is sustaining its rate of growth in the face of adverse market competition from many other developing countries.

Another important area of future growth for the IT industry of India is the domestic market. While exports dominate the IT industry at present, there is huge scope of growth in the domestic market which can be tapped in the future. In terms of industry verticals, Banking, Financial Services and Insurance (BFSI) leads the Indian IT services market with 21.5 percent market share, followed by the public sector (including education) and telecom industry. However, energy and utilities followed by healthcare remains the fastest growing vertical.

Impact of IT-BPO Sector on India

FY2012 is a landmark year – while the Indian IT-BPO industry weathered uncertainties in the global business environment, this is also the year when the industry is set to reach a significant milestone – aggregate revenue is expected to cross USD 100 billion. Aggregate IT software and services revenue (excluding hardware) is estimated at USD 88 billion. Based on the following positive performance indicators, it is expected that 2013 will continue to witness modest growth.

- Milestone year for Indian IT-BPO industry-aggregate revenues cross the USD 100 billion mark, exports at USD 69 billion
- Within the global sourcing industry, India was able to increase its market share from 51 per cent in 2009, to 58 per cent in 2011, highlighting India's continued competitiveness and the effectiveness of India-based providers delivering transformational benefits
- Export revenues (including Hardware) estimated to reach USD 69.1 billion in FY2012 growing by over 16 per cent; Domestic revenues (including Hardware) at about USD 31.7 billion, growing by over 9 per cent
- Software and services revenues (excluding Hardware), comprising nearly 87 per cent of the total industry revenues, expected to post USD 87.6 billion in FY2012; estimated growth of about 14.9 per cent over FY2011
- Within Software and services exports, IT services accounts for 58 per cent, BPO is nearly 23 per cent and ER&D and Software Products account for 19 per cent
- The industry continues to be a net employment generator - expected to add 230,000 jobs in FY2012, thus providing direct employment to about 2.8 million, and indirectly employing 8.9 million people
- As a proportion of national GDP, the sector revenues have grown from 1.2 per cent in FY1998 to an estimated 7.5 per cent in FY2012

- ➢ The industry's share of total Indian exports (merchandise plus services) increased from less than 4 per cent in FY1998 to about 25 per cent in FY2012
- ➢ While the global macroeconomic scenario remained uncertain, the industry exhibited resilience and adaptability in continually reinventing itself to retain its appeal to clients
- ➢ Embracing emerging technologies, increased customer-centricity, deepening focus on new markets, adopting new business models are some successful growth strategies followed by the industry

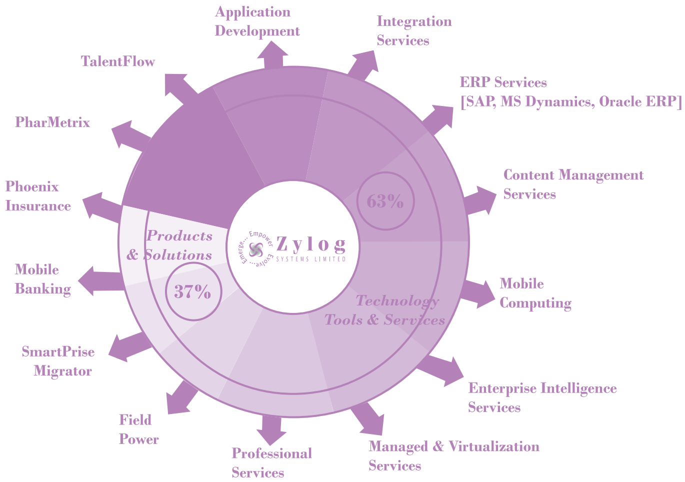
Business Overview

As global macro-economic challenges persist, these impact all vendors including those from India. One of the immediate consequences is the sharp decrease in the offshore billing rate for generic services. In order to combat this phenomenon, many companies are migrating to specialization therefore adding value to the proposition to their clients. In this manner, the risk of over dependence on time and material related work assignments is lessened and diversified towards less risky work. Zylog, for some time now, has followed a global business delivery model which leverages business knowledge in various industry verticals with cutting edge technology tools and solutions to help enterprises overcome business pain points.

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 bespoke 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, pharma & healthcare, telecom, retail including consumer electronics and eGovernance. By assisting clients with operations-specific solutions, we are empowering them to optimize business processes with the use of technology and our business vertical expertise and in the event, resulting in much cost efficiencies to drive their business forward. As such, over the years we have built up some flagship solutions which bring us substantial revenue and these represent our entry point to the clients from where we supply services in specialized technology wrappers.

i. Solution based approach: Our service revenue flows from categorized services i.e. SaaS applications, general business intelligence products including cloud empowerment and specialized analytical tools. Our portfolio of offerings spans products & solutions which give rise to associated technology tools and services as depicted in the illustration below. The solutions shown on the left side of the illustration are our flagship solutions which have been built up over many years to the current pre-eminent position, which bring us substantial revenue and these represent our entry point to the clients from where we supply services in specialized technology wrappers.

   It is without a doubt that this model of ours has required many years of painstaking effort preceded by our forte in innovation into business processes to bring out solutions to help industry verticals. Subsequently, we translate the innovation in pure ideas by seeking and securing collaboration with industry majors in order to bring the particular product/solution to market. In order to do this effectively, we recognize that our customers need to be nimble to address to changes in their environment and to that end we assist the customers in the process of adjustment. We have incrementally perfected this model over the years, by having our ears on the ground and constantly seeking for improvement based on our feedback.



   The future of the IT services industry is increasingly affected by commoditization. As a key differentiator to our businesses, we invest in a combination of services, solution accelerators, products and platforms, to deliver customer value. Customers have started demanding "transformative" or value propositions, which is "as-a-service" offerings. Our offerings encompass trends in Mobility, Social Media, Big Data / Analytics , Cloud computing and Green IT which are the technology landscape of the future.

ii. Increase in offshore business: It is imperative that the advantageous cost lever emanating from offshore deployment of staff is optimized so that the benefits due to lower staff cost are realized. During the year the company has added 25,000 sq ft of leased office space in Special Economic Zone at Siruseri, Chennai to address our increased offshore activities. It is also a casing point that, whenever we do acquisition, we always explore to see the scope for off-shoring the existing and/or incremental activities resulting from the acquisition.

iii. Collaborative business model: Around 30% of Zylog's income comes from the collaborative sales model business. The partnership strategy works well for a mid-sized player like us in the sense that it enables entry into larger accounts through SIs (Systems Integrators)/VARs (Value Added Reseller). In today's current IT environment where the complexity of products and infrastructures continues to increase, and finding qualified technical resources to service new and existing customers has become more and more challenging, partnering with other IT Services firms with specific and deep expertise in a technical or business domain is becoming a survival necessity. Such partnering is therefore imperative for medium-sized businesses to preserve existing competitive advantage and achieve further traction in deepening client relationships. Contemporary partnership models are structured based upon the needs and requirements of partners converted from their clients' specifications and include co-branded or sub-contracted service offerings on a fixed price or time & material basis.

Listed in VAR Business Partner Programs Guide (PPG) 2006, ZSL's "Get IT Together" is a proven partnership model that provides a cost effective and quality onshore and/or offshore component to systems integrators (SIs), value added resellers (VARs) and solution providers (SPs). "Get IT Together" seeks to both supplement and add value to the partners' service capabilities.

iv. Domain expertise: Zylog offers a wide range of services including ADM, business intelligence & data warehousing, package implementation, testing etc. across multiple domains. BFSI and telecom are the largest contributors to revenue (34% and 22% respectively, including revenue from the partnership route). This approach works well for the mid-size and large corporate segment, with solution providers attributing nearly half (48%) of their overall revenue to sales into vertical markets. Our vertical based approach is therefore ideally poised to target the increasing offshore spend from mid-size and large corporate.

v. Business acquisitions: One of the core business strategies of Zylog is growth by means of acquiring suitable target businesses which pointedly can offer niche business solutions in a space which are not present in our existing portfolio. This niche offering can be in the form of pre-eminence in technology or solution capability which can complement neatly to our existing offerings. The spinoffs include access to new clients, new geographical areas and new service and product offerings. By enlarging our geographical presence, we can simultaneously ensure that the revenue by geography also gets addressed, thus realigning the risk of over dependence on one region. The natural extension of geographical proximities is also a strong factor in our decision making with regard to acquiring companies within a region. This is exemplified by our Canadian acquisition in 2010 which had the overnight effect of bringing down our exposure to US market by half. The client mining aspect mentioned above as an immediate consequential advantage also refers to our ability to cross-sell our products and solutions to the clientele of the target company, as well as the target company cross-selling its offerings to our existing customers across the globe. Therefore, the cross pollination is extremely effective in enlarging and deepening the client pool.

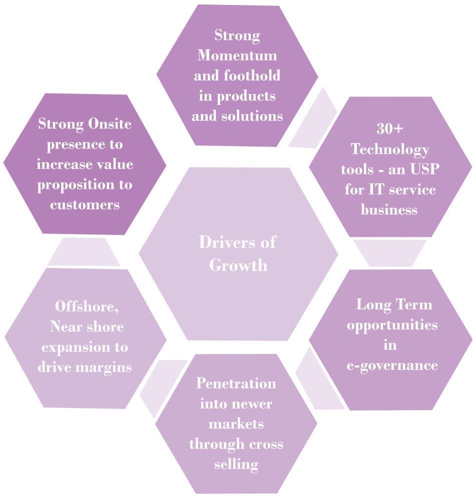
vi. *Research and Development (R&D):* Since inception, the Company has maintained an average investment in R&D up to 15% of products revenue. The Company has invested in R&D within our in-house development team named 'IDEA Lab', a creative practice that hosts more than 90 engineers. IDEA Lab develops advanced technology applications on emerging technologies for many of the world's largest enterprises. The Company enables clients to realize new business opportunities and gain competitive advantage through a comprehensive combination of engineering and industry expertise.

The Company's Center of Excellence (COE) IDEA Lab develops Prototype and POC (Proof of Concept) by aligning emerging technologies to Business Requirements. The mission of IDEA Lab is to innovate and develop economically viable, high quality software products and solutions. Out of IDEA Lab concept have emerged our flagship products and solutions to date and we are confident many more will emerge in future. As mentioned above, our focus will encompass newer technologies and initiatives to take advantage of challenges in the environment, both ecological and business.

vii. Quality: Insistence and not compromising on quality has been the hallmark of our success in navigating our initiatives through to fruition. This factor alone ensures that our unblemished record is intact going forward. Rigorous testing at different levels with appropriate tools means effectively zero level tolerance for errors. A separate team of up to 200 individuals is present across the practice to address this crucial work.

The quality conforms to the ISO standards and the company is certified for "software design, development & maintenance" under 9001:2000. The company has initiated the process to obtain CMM Level 4.

Our key drivers of growth are shown in the illustration below.



The employees serve to be the central plank of the organization as their contribution is indispensable to its health. Thus the human resources are our main asset. One of the ongoing challenges is staff retention in the current economic landscape. Our staff strength is burgeoning on account of increasing business in all our pursued initiatives across all regions. Today we are privileged to have 5,137 employees and consultants across the globe.

We consciously work the subsidiary model to effect Zylog's strategy in furthering its offerings in newer markets. In order to comply with local regulations, the subsidiaries subsume under the Zylog model of operations for all intents and purposes.

B. Analysis of financial performance

Material changes in balance sheet items

➢ Share capital, reserves and surplus

Out of the profit of ₹ 20,439.91 lakhs for the year ended 31-Mar-2012, a sum of ₹ 2,000.00 lakhs has been transferred to General Reserve, a sum of ₹ 1,911.44 lakhs has been provided for dividend (including dividend tax) and the remaining amount of ₹ 16,528.47 lakhs has been retained in profit & loss account and has resulted in the balance amount in the profit & loss account at ₹ 58,913.03 lakhs. Balance in reserves and surplus stands at ₹ 89,255.65 lakhs as against ₹ 66,284.73 lakhs as at 31-Mar-2011.

Our equity shares are currently listed in the National and Mumbai Stock Exchanges. Our market capitalization for the current year is ₹ 103,078 lakhs as against last year ₹ 68,713 lakhs based on NSE price. The total number of shareholders as at March 31, 2012 is 19,095 and the shares held by promoters 41.53%, Bodies Corporate – 15.23%, Trust – 6.99%, Foreign Institutional Investor – 3.20%, Individuals – 28.67%, Insurance Companies – 3.95% and others – 0.43%.

➢ Secured loans

Long term borrowings have increase by ₹ 12,481.90 lakhs which is raised by the parent and wholly owned subsidiary companies for their capex requirements for creating development centres in newer regions and setting up infrastructure for the newer business initiative.

Short term borrowings have increased by ₹ 9,283.93 lakhs during the year 2011-12. The increase is due to increase in working capital needs of the parent and subsidiary companies commensurate with the increase in business.

➢ Deferred tax liabilities have increased to ₹ 556.46 lakhs over previous year's figure of ₹ 220.06 lakhs which is primarily on account of substantial fixed asset additions that happened during the year.

➢ Payroll liabilities stand at ₹ 2,080.18 lakhs (₹ 1,280.61 lakhs). The increase is on account of a) commensurate with the increase in revenue and b) accrual of performance bonus & leave salary which are payable in the subsequent period.

➢ Deferred revenue of ₹ 341.77 lakhs (₹ Nil). This mainly arises out of revenue from support and maintenance received in advance.

➢ Increase in other payables of ₹ 1,406.92 lakhs comprise of increased statutory payments, employee related expenses and other liabilities.

➢ Provision for taxation is ₹ 1,267.04 lakhs (₹ 1,448.64 lakhs). The amount shown as balance in the respective periods is the net figure after adjusting for taxes paid in advance.

➢ Proposed dividend and dividend tax of ₹ 1,911.44 lakhs (₹ 1,534.24 lakhs) which is declared at 100% to reward our shareholders who have invested in our business.

- ➢ The increase of ₹ 9219.60 lakhs in tangible assets is due to a) setting up of Development Centres; b) assets procured for eGovernment businesses carried out in India and c) setting up of additional infrastructure due to substantial increase in revenue from our subsidiaries.
- ➢ The increase of ₹ 9,357.08 lakhs is on account of increasing revenue from products and solutions during the year which has reached an all time high due to unprecedented increase in take up in our traditional as well as newer markets. Because this segment requires substantial upfront investment in applied R & D expenditure on our flagship and other products and solutions, we have undergone huge outlays which include customizing solutions to newer regions. Our success in our chosen areas of expertise necessitates this expenditure to happen continuously. As we make available new solutions and bring them to the market, this cost will continue on an upward trend.
- ➢ An additional amount of ₹ 2,149.88 lakhs under capital work in progress has been incurred towards setting up of infrastructure to provide broadband services across the country, which is as yet incomplete.
- ➢ Other non-current assets of ₹ 13,857.55 lakhs (₹ 15,652.02 lakhs) mainly refer to bank deposits held with various banks for a longer period for purposes specifically earmarked.
- ➢ The ongoing government projects that the company is carrying out necessitated increased stock of smart cards and related consumable items resulting in an increase in cost of inventories by ₹ 72.42 lakhs.
- ➢ Trade receivables stand at ₹ 72,205.73 lakhs (₹ 54,553.61 lakhs). The increase of ₹ 17,652.11 lakhs is due to the twin reasons of 19% increase in revenue together with longer collections period of receivables from 89 to 102 days. The latter is due to external trading environment, especially in the US. Most of the receivables are from major corporate customers with whom we have long term business relationship and repeat orders over the last decade.
- ➢ There is a cash increase of ₹ 5,851.33 lakhs out of operations. A large part of this increase is owing to the need to provide a cushion towards payroll cost. Post acquisition of Brainhunter in Canada, the consolidated outflow towards the salary commitments, administrative and marketing expenses have led to a substantial outflow of cash every month. The outstanding cash balance as of 31-Mar-2102 covers expenditure for a little over a month of our operations.
- ➢ A major contribution for the increase of ₹ 3,138.38 lakhs in short term loans & advances is prepaid expenditures which comprise
  - i. Expenditure incurred towards processing of visa/green card for the employees recruited for 2012-13
  - ii. Cost of software purchased for installation with nodes to provide broadband services was paid up front. The amount paid is written off based on usage of software in the nodes over respective accounting periods
  - iii. Rent and insurance paid in advance

  Advances paid for travel, employees/vendors and rental deposits account for the remaining amount.
- ➢ There is an increase of ₹ 4,301.84 lakhs in other current assets which is mainly accounted for by increase in the unbilled revenue. The unbilled revenue relates to fixed cost contracts for which billing happen on achieving milestones as per the contractual agreement. As of balance sheet date there is a portion of revenue earned from products and solutions which have not reached billing stage.

The rupee depreciated by 15% against the US Dollar between the rates prevailing on 31-Mar-2011 and on 31-Mar-2012. As our borrowings, trade receivables and cash are predominantly denominated in US Dollar terms, the above phenomenon is clearly visible in inflated numbers for assets and liabilities. If the effect due to exchange rate fluctuation is stripped out of the numbers, the underlying business reasons, as expounded in the sections above, are still holding their validity.

Tax benefits extended to 100% Export Oriented Unit ("EOU") registered with Software Technology Parks of India (STPI) have been fully withdrawn by the Government. Hence, tax burden on the software exporting enterprises has substantially increased. However, the company has set up an Offshore Development Centre in Special Economic Zone in Siruseri, Chennai where some of the new projects have been started implementing from this place. The aim of this move is to mitigate to an extent possible huge tax liability from arising.

C. Results of operation

Summary of financial results for the year ended March 31, 2012 and 2011 is as follows:

₹ in lakhs

As of March 31	2012	2011
Income from software services & solutions	227,285.49	191,567.76
Employee Benefit expenses	117,806.52	114,928.64
Project related expenses	37,338.33	23,602.49
Gross profit	72,140.64	53,036.62
Operation and other expenses	30,797.21	23,717.75
Operating profit (EBIDTA)	41,343.44	29,318.87
Interest	4,523.86	4,080.39
Depreciation	6,769.68	5,150.86

Operating profit after interest & depreciation	30,049.90	20,087.62
Prior Period Item	56.41	13.76
Other income	1,834.12	491.88
Profit before tax	31,827.61	20,565.75
Provision for taxes	11,290.87	6,075.47
Profit after Taxes	20,536.74	14,490.27
Add: Share of profit of associates	(96.83)	24.35
Net Profit	20,439.91	14,514.63

1. Income

a) Software services & products

₹ in lakhs

As of March 31	2012	2011
Overseas	221,259.82	189,318.38
Domestic	6,025.67	2,249.38
Total	227,285.49	191,567.76

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 better profit margin on account of the level of innovation, design work, customization, architecture 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 various districts across the country.
- Zylog has invested in establishing a Wi-Fi network in various rural towns in Tamil Nadu, Karnataka, Andhra Pradesh, Gujarat, Rajasthan, Haryana and Punjab. We are presently servicing 42,000 subscribers in 185 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. The acquisition of Canadian company has opened up cross-selling and up-selling opportunities to the existing clients of Brainhunter.

The segmentation of software service is as follows:

Revenue by contract type *Figures in %*

As of March 31	2012	2011
Fixed price (includes Support & Maintenance)	24.9	23.0
Time and material	37.5	41.8
Products and solutions	37.6	35.2
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 of March 31	2012	2011
Onsite	85.9	82.9
Offshore	14.1	17.1
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 of March 31	2012	2011
Banking & BFSI services	23.0	24.3
Telecom industries	22.6	21.6
Retail market	14.6	14.2
Manufacturing	9.5	11.3
Pharma/Healthcare	9.4	8.4
Government	14.9	13.1
Other services	6.0	7.1
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 of March 31	2012	2011
License fee	16.9	15.5
Saas/Cloud	1.1	1.4
Customisation/Integration	19.6	18.3
Application development	18.4	15.6
Consulting	44.0	49.2
Total	100.0	100.0

e) Service concentration

Figures in %

As of March 31	2012	2011
Consulting	44.0	49.2
Development	26.0	21.6
Package implementation	11.9	7.1
Maintenance	5.4	5.1
Testing	2.9	0.4
Others	9.8	16.6
Total	100.0	100.0

f) Client concentration

Figures in %

As of March 31	2012	2011
Top client contribution to revenue	6.5	7.0
Top 5 clients contribution to revenue	22.7	22.9
Top 10 clients contribution to revenue	30.9	30.6
Repeat business as proportion of total	88.0	88.5

g) Geography concentration

As of March 31	2012	2011
		Figures in %
United States of America	54.4	51.1
Canada	36.4	39.9
Europe	2.7	2.7
Middle East	2.9	3.1
Asia Pacific	3.7	3.2
	100.0	100.0

h) Other income

Figures in %

As of March 31	2012	2011
Interest	488.72	227.59
Dividend income	0.16	0.14a
Miscellaneous income	1345.24	264.15
Total	1834.12	491.88

Interest income represents the interest on fixed deposits maintained with banks. Dividend income represents the dividend received by the Company during the year. Miscellaneous income primarily consists of rental income, profit on sale of land, gain due to foreign exchange fluctuations, etc.

2. Expenditure

a) Cost of sales

₹ in lakhs

As of March 31	2012	2011
Salaries and incentives	116,275.30	113,682.67
Employee benefits	1,531.22	1,245.98
Project cost	37,338.33	23,602.49
	155,144.85	138,531.14

Salaries and incentives consist of salaries incurred for employees and technical consultants who are engaged 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. Employee benefits include provident fund & other pension related expenses, employee reimbursement expenses and welfare expenses. 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.

Gross margin of the company during the year the company is 31.7% on the operating revenue compared to 27.7% during the previous year. The increase is mainly on account of increase in the revenue in the products and solutions.

b) Operation and other expenses

₹ in lakhs

As of March 31	2012	2011
Consultancy charges	6,025.33	6,352.04
Consumables	1,327.06	1,048.63
Rent	1,580.13	1,040.97
Repairs & maintenance	1,147.44	888.82
Insurance	3,218.67	2,460.68
Communication expenses	771.73	990.78
Travelling expenses	978.97	766.35
Professional charges	1,386.74	648.18
Loss on foreign exchange fluctuations	1,071.62	1,781.66
Marketing expenses	5,539.15	4,383.08
Visa processing charges	3,513.57	800.09
Others	4,236.80	2,556.47
	30,797.21	23,717.75

Operation and other expenses is 13.44% during the year as against 12.35% over the previous year. Consultancy charges are paid to business consultants towards their retainer/referral fee and commission, partner's payments etc. Consumables are primarily items used in government projects, broadband services etc. Increase in rental expenses is due to additional rental facilities taken up during year. Overall increase in activity has led to increase in expenditures like Repairs & maintenance, insurance, travelling expenses, professional expenses and marketing expenses. 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. Other expenses include Directors sitting fee, Utilities, Rates & taxes, Lease rental charges, Printing & stationary, Audit fee, Commission, Entertainment, Donations, Bank charges, 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.

3. Finance charges

Finance cost has increased by ₹ 443.47 lakhs during the year which is on account of increase in the short term and long term borrowings.

4. Taxes

Tax benefits extended to 100% Export Oriented Unit ("EOU") registered with Software Technology Parks of India (STPI) have been fully withdrawn by the Government. Hence, tax burden on the software exporting enterprises has substantially increased. However, the company has set up an Offshore Development Centre in Special Economic Zone in Siruseri, Chennai where some of the new projects have been started implementing from this place. The aim of this move is to mitigate to an extent possible huge tax liability from arising.

For the year ended March 31, 2012, major part of the software revenue generated out of India by the parent company came from the unit operating under Software Technology Park Scheme and the balance from SEZ at Siruseri. 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 & SEZ units. 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, 2012 has been estimated at ₹ 11,290.87 lakhs, as against ₹ 6,075.47 lakhs in the year ended March 31, 2011.

The details of tax are given below:

h) Other income

Figures in %

As of March 31	2012	2011
Income tax	10,954.36	5,989.67
Deferred tax	336.52	85.80
	11,290.87	6,075.47

5. Net profit

Our net profit amounted to ₹ 20,439.91 lakhs and ₹ 14,514.62 lakhs for the years ended March 31, 2012 and 2011 respectively. This represents 8.9% and 7.6% of total revenue of the respective years. The increase in profitability is due to the increase in revenue in products and solutions.

6. Liquidity

Our growth has been financed largely through cash generated from the operations and through the working capital & term loans funding from Banks. 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 2012, the Company had cash and cash equivalents amounting to ₹ 34,021.12 lakhs. These funds have been invested in safe deposits with banks. The Company enjoys a PCFC limit of ₹ 34,097.66 lakhs (as on 31st March 2012) and ₹ 9,936.50 lakhs by our wholly owned subsidiary companies for the working capital requirements. The company and its subsidiaries have availed foreign currency term loans totaling ₹ 32,082.77 lakhs to provide infrastructure offshore development centre in Chennai, India, to acquire businesses and for strategic investment in a Singapore-based company.

7. Related party transactions

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

8. Events occurred after the Balance sheet date

The par value of the shares has undergone a 50% split from Rs. 10/- to Rs. 5/- per share. This is to increase the liquidity in trading of the stock.

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 started its operation in Special Economic Zone (SEZ) in Siruseri, Chennai and planning to take up additional space in the second phase and move more practices to SEZ. As part of initiative the company has opened a wholly subsidiary in Dubai Internet City, from where the operations are likely to take up from the current financial year.

Also the company is planning to set up establishments in tax free or low tax regimes, these initiatives will have the effect of reducing our tax burden in years to come.

Restrictions on work permits

The majority of the work we perform is completed onsite/offsite. Since a sizeable proportion of our employees are Indian citizens, most of the IT professionals we send to work at onsite/offsite locations 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 for some time now, already embarked on hiring suitably qualified resources locally in the US. This is why having a substantial onsite/offsite presence is helping us to mitigate the pressures from over dependence on H1B visas. We review this policy of local hiring periodically in order to address political and economic constraints.

In line with its business needs, your company also focuses on increasing local hires but works closely with its clients to increase the offshore content in their various engagements. Your company has taken lot of initiatives to reduce the risk by spreading its wings to newer regions. A case in point is the acquisition of Brainhunter in Canada which had overnight effect of reducing US exposure by half. In this manner the risk associated with the proportion of revenue originating from the US region got diversified with the advent of Canada. Similarly, the acquisition of Ducont FZ LLC in Dubai has also helped in the diversification of risk from dependence of revenue from one or few regions.

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 service 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. But we do have engagements with homeland security departments in the US through our wholly owned subsidiary in US.

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 by taking suitable insurance cover.

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 of law.

Competitive environment

The IT services market is highly competitive. Competitors include large global consulting firms, sub-divisions 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

These are 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 staff resources. 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 modicum of stability while their projects are being executed by us.

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 that 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. We intend to 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 Directors of the Company possess highest professional ethics, integrity and values and are committed to representing the long-term interests of the stakeholders. The basic responsibility of the Board is to provide effective governance over the Company's affairs exercising its reasonable business judgement on behalf of the Company.

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. S.Rajagopal being the Director retiring by rotation in the Seventeenth Annual General Meeting is eligible for reappointment and has offered for re-appointment.

Post meeting follow up mechanism: Important decisions taken at the Board/Committee Meetings are promptly communicated to the concerned departments. Action Taken Report on decisions/minutes of previous meetings is placed at the succeeding meetings of the Board/Committee for noting.

Other Directorships

The number of directorships and memberships in the committees held by the Directors as on March 31, 2012 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	-	-
Mr. Ramanujam Sesharathnam	-	2	-	-
Mr. P.Srikanth	-	1	-	-
Mr. M.Gajhanathan	-	-	-	-
Mr.S. Rajagopal	1	9	-	5
Mr.A.P.Vasanthakumar	-	1	-	-
Mr.V.K.Ramani		1	-	-

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).

None of the Directors of the Board is a member of more than 10 Committees or acts as a Chairman of more than 5 Committees across all Companies in which he is a Director. The Directors of the Company are not inter se related.

Board Meetings held from 01st April 2011 to 31st March 2012

During the period from 01st April 2011 to 31st March 2012 Four Board Meetings were held and the gap between two meetings did not exceed four months.

The dates on which the said Meetings were held are as follows: May 27, 2011, August 10, 2011, November 12, 2011 and February 01, 2012.

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 2011 to 31st March 2012 and the last Annual General Meeting ("AGM") are given below:

Name of the Director	Number of Board Meetings during the year 2011-12		Attendance at last AGM held on 29th September 2011
	Held	Attended	
Mr. Sudarshan Venkatraman	4	3	Yes
Mr. Ramanujam Sesharathnam	4	4	Yes
Mr. P.Srikanth	4	4	Yes
Mr. M.Gajhanathan	4	4	Yes
Mr. S.Rajagopal	4	4	Yes
Mr.A.P.Vasanthakumar	4	4	No
Mr.V.K.Ramani	4	4	Yes

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 Chief 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, 2012. The Meetings were held on May 27, 2011, August 10, 2011, November 12, 2011 and February 01, 2012 and the gap between two meetings did not exceed four months. 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 September 29, 2011 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, 2012 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 consists 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, 2012, the Committee met 4 times. The Meetings were held on May 27, 2011, August 10, 2011, November 12, 2011 and February 01, 2012.

This Committee specifically looks into the redressal of Shareholder's and Investors' Complaints/ Grievances with a primary objective to improve investor relations.

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 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, 2012 under review, 6 complaints were received from shareholders/ investors which have been resolved and no complaint is pending as on 31st March 2012.

Name and designation of Compliance Officer:

Ms. S. Akila, Company Secretary

Email-id for Investor Grievances: secretarial@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.

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 2011-12 *(₹ in Lakhs)*

Name of Director	Sitting Fee	Salaries	Perquisites	Commission	Total
Mr.Sudarshan Venkatraman	-	119.52	-	-	119.52
Mr.Ramanujam Sesharathnam	-	115.59	-	-	115.59
Mr.M. Gajhanathan	0.60	-	-	-	0.60
Mr.P. Srikanth	-	60.00	-	-	60.00
Mr. S. Rajagopal	0.60	-	-	-	0.60
Mr. A.P.Vasanthakumar	-	-	-	-	-
Mr.V.K.Ramani	0.40	-	-	-	0.40

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
31.03.2011	Esthell Continental Hotels and Resorts, No.1, Royal Enclave, Besant Avenue, Adyar, Chennai – 600020	29th September 2011	10.00 AM
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

Special Resolutions passed during the previous three Annual General Meetings :

16th Annual General Meeting – 29th September 2011

No Special resolutions were passed

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

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 no. 2.26 annexed to the financial statements of 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.zsl.com. 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) 17th Annual General Meeting:

Date & Time : Tuesday, September 25, 2012 at 10.30 a.m.

Venue : Narada Gana Sabha Trust, 314 (Old No.254), T.T.K Road, Alwarpet, Chennai – 600018.

b) **Financial Calendar :**

Tentative Financial Calendar for the year 2012- 13

Financial Year	01st April to 31st March
First Quarter Results	On or before August 15, 2012
Half Yearly Results	On or before November 15,2012
Third Quarter Results	On or before February 15, 2013
Fourth Quarter Results and Annual	On or before May 31,2013

c) **Date of Book Closure:**

September 22, 2012 to September 25, 2012 (Both days inclusive)

d) **Dividend Payment Date:**

The dividend proposed to be declared for the year 2011-12 will be paid on or before October 25, 2012.

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 2012-13 on both of the above Stock Exchanges.

f) **Market Price Data:**

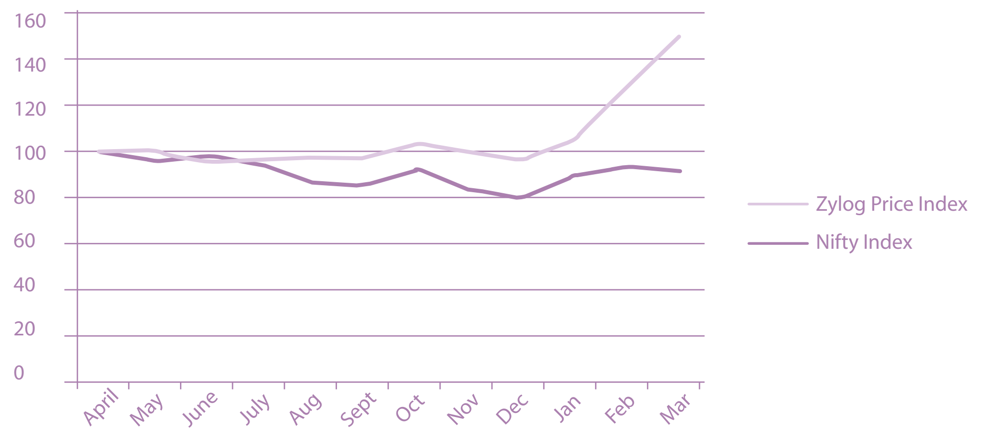
The closing market price of equity shares on 30th March 2012 (last trading day of the year) was ₹ 626.75/- on NSE and ₹ 625.80/- on BSE.

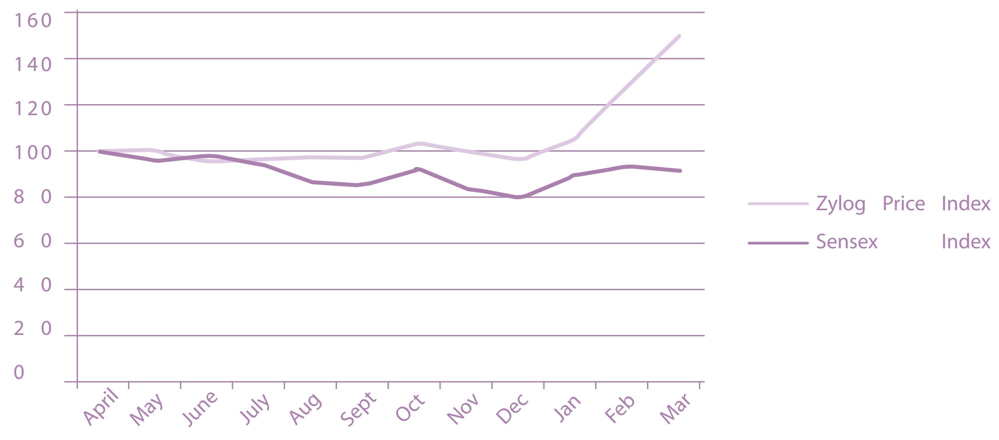
The monthly movement of equity share prices during the year at NSE and BSE are summarized herein below:

Monthly Share Price Movement during 2011-12 at NSE & BSE

Month	NSE			BSE		
	High	Low	Volume	High	Low	Volume
Apr-11	438.00	391.10	25,22,469	440.00	334.90	10,13,411
May-11	439.00	330.00	30,28,334	438.00	381.00	8,16,957
Jun-11	420.50	387.05	18,07,722	444.00	372.30	6,96,501
July-11	414.70	392.30	24,39,858	414.30	392.25	7,79,096
Aug-11	425.90	386.00	23,95,047	425.40	385.05	7,31,872
Sept-11	439.00	398.05	18,66,598	439.40	397.75	9,98,260
Oct -11	433.90	376.75	16,04,287	432.45	386.00	10,73,627
Nov – 11	469.00	344.80	30,26,120	468.05	345.85	17,28,336
Dec – 11	430.00	363.75	10,88,378	426.00	383.85	6,27,807
Jan-12	441.00	396.05	9,38,666	440.00	397.00	6,34,597
Feb – 12	579.95	439.60	27,78,670	576.00	403.85	17,64,287
Mar-12	628.40	517.85	19,19,620	627.00	504.00	9,60,713
TOTAL			2,54,15,769			1,18,25,464

g) The performance of the equity share price of the Company vis-à-vis the NIFTY at NSE and SENSEX at BSE is as under:





h) **Distribution of Shareholding as at 31st March 2012**

By size of shareholding:

S.No	Holding	Number	%	Shares	%
1	between 1 and 1000	17,047	89.27	48,15,930	2.93
2	between 1001 and 5000	1,505	7.88	37,51,770	2.28
3	between 5001 and 10000	234	1.23	19,13,730	1.16
4	between 10001 and 20000	113	0.59	16,97,740	1.03
5	between 20001 and 30000	37	0.19	9,40,870	0.57
6	between 30001 and 40000	18	0.09	6,34,320	0.39
7	between 40001 and 50000	15	0.08	7,07,760	0.43
8	between 50001 and 100000	35	0.18	26,35,290	1.60
9	> 100000	91	0.48	14,73,66,790	89.60
	Total	19,095	100.00	16,44,64,200	100.00

By category of shareholders:

Category	No. of Shares		Total	% of
	Electronic	Physical	Shares	holding
A. Promoter Group				
Promoter and Promoter Group	68,30,034	-	68,30,034	41.53
B. Non-Promoter Group				
Foreign Institutional Investors	5,26,459	-	5,26,459	3.20
Bodies Corporate	25,04,376		25,04,376	15.23
Clearing Members	71,460	-	71,460	0.43
Trusts	11,50,040	-	11,50,040	6.99
Insurance Companies	6,49,804	-	6,49,804	3.95
Financial Institutions/Banks	255	-	255	0.00
Individuals	37,56,249	8,62,902	47,13,992	28.67
Total	1,55,83,518	8,62,902	1,64,46,420	100.00

i) **Dematerialisation of Securities:**

As on March 31, 2012, 94.75% shares of the company were held in de-materialised form. The demat security (ISIN) code for the equity share is INE225I01018 (ISIN No. shall change on approval of members the proposed sub-division of shares).

j) **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.

k) **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.	91 044 28460390
Fax no.	91 044 28460129
E-Mail ID	cameo@cameoindia.com
Website	www.cameoonline.net

l) **Outstanding GDRs/ADRs/Warrants/any other convertible instruments**

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

m) **Registered office:** 155, Thiruvalluvar Salai, Kumaran Nagar, Sholinganallur, Chennai -600119

Telephone : 91 044 39157000

Fax : 91 044 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.

n) **Address for Correspondance**

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

Telephone : 91 044 39157000

Fax : 91 044 39157009

Website : www.zsl.com

E-Mail : secretarial @zsl.com

COMPLIANCE CERTIFICATE

To the Members of Zylog Systems Limited,

We have examined the compliance of conditions of Corporate Governance by Zylog Systems Limited ("the Company"), for the year ended March 31, 2012 as stipulated in Clause 49 of Listing Agreement of the Company with the Stock Exchanges.

The compliance of Conditions of Corporate Governance is the responsibility of the management. Our examination was limited to a review of the procedures & implementations thereof adopted by the Company for ensuring compliance with the conditions of Corporate Governance. It is neither an audit nor an expression of opinion of the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us and the representations made by the Directors and management, 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
Firm Regn. No. 000511S

P S KUMAR
Partner
Membership No. 15590

Place: Chennai
Date: May 25, 2012

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, 2012.

For Zylog Systems Limited

Sudarshan Venkatraman
Chairman and Chief Executive Officer

Place: Chennai
Date: May 25, 2012

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 March 31, 2012 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 changes 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 : 25th May 2012

Financial Statements

AUDITORS' REPORT

To the members of Zylog Systems Limited,

1. We have audited the attached balance sheet of Zylog Systems Limited ("the Company") as at March 31, 2012, the statement of profit and loss 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 March 31, 2012 and considered by the board, we report that none of the directors is disqualified from being appointed as a director as on March 31,2012 , in terms of section 274 (1) (g) of the Companies Act, 1956.
5. Further to our comments in the annexure referred to in paragraph 3 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, statement of profit and loss 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, statement of profit and loss 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 the information as required by the Companies Act, 1956, in the manner so required 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, 2012;
      (ii) in the case of the Statement of 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:000511S

Chennai
May 25, 2012

P S KUMAR
Partner
Membership No. 15590

Annexure Referred To In Paragraph 3 of the Auditors' Report

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 rendering Information Technology related services. While majority of the activities of the company does not require holding any inventory, the company has projects of executing e-governance projects for State Governments. As part of project implementation, the company buys pre-enabled smart cards and issues them to the State Governments for the execution of the projects. This is considered to be an item of stores inventory. The company has carried out a physical verification of the inventory which procedures are reasonable in relation to the size of the company and the nature of its business. The company has maintained proper records of inventory and no discrepancies were noticed on physical verification.
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 2012 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, Wealth Tax, Service Tax, Customs Duty and Excise Duty on account of disputes.

Statute	Nature of the Dues	Amt in lakhs	Period to which amount relates	Forum where the Dues of rupees dispute is pending
The Income Tax Act, 1961	Disallowance of expenses	16.22	AY 2001-02	Appellate Tribunal
The Income Tax Act, 1961	Disallowance of expenses	91.00	AY 2002-03	Appellate Tribunal
The Income Tax Act, 1961	Disallowance of expenses	3820.05	AY 2009-10	CIT (Appeals)
TN General Sales tax Act.	Sales tax demand	19.32	2004-2005	Commercial Taxes Department
Service Tax under the Finance Act, 1994	Wrong availment of Cenvat credit	77.69	2009-10	Commissioner of Service Tax

12. The Company has no accumulated losses as at March 31, 2012. 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 Reg No:000511S

Chennai
May 25, 2012

P S Kumar
Partner
Membership No. 15590

Balance sheet

Balance sheet as at March 31,

Amount in ₹

	Note	2012	2011
I. EQUITY AND LIABILITIES			
Shareholders' funds			
(a) Share capital	2.01	16,44,64,200	16,44,64,200
(b) Reserves and surplus	2.02	811,16,84,455	656,39,67,004
		827,61,48,655	672,84,31,204
Non-current liabilities			
(a) Long-term borrowings	2.03	150,13,09,259	66,25,38,224
(b) Deferred tax liabilities (Net)	2.09	4,63,51,520	1,60,50,430
(c) Long-term provisions	2.04	2,19,93,025	5,25,78,059
		156,96,53,804	73,11,66,713
Current liabilities			
(a) Short-term borrowings	2.05	371,60,83,566	293,31,55,047
(b) Trade payables		22,97,53,431	13,12,43,953
(c) Other current liabilities	2.06	62,08,97,560	34,29,90,572
(d) Short-term provisions	2.04	23,95,36,459	16,49,30,521
		480,62,71,016	357,23,20,093
TOTAL		1465,20,73,475	1103,19,18,010
II. ASSETS			
Non-current assets			
(a) Fixed assets	2.07		
(i) Tangible assets		115,40,58,340	68,88,86,799
(ii) Intangible assets		111,15,54,963	40,19,15,889
(iii) Intangible assets under development		15,73,89,765	18,74,56,451
(b) Non-current investments	2.08	155,24,35,818	155,24,35,818
(c) Long-term loans and advances	2.10	8,64,88,693	5,61,01,701
(d) Other Non current Assets	2.15	123,34,84,882	156,51,11,773
		529,54,12,461	445,19,08,431
Current assets			
(a) Current investments	2.11	55,083	55,083
(b) Inventories	2.12	92,65,788	-
(c) Trade receivables	2.13	477,43,49,538	334,67,98,690
(d) Cash and bank balances	2.14	136,33,94,377	93,98,83,824
(e) Short-term loans and advances	2.10	193,48,45,122	140,85,03,753
(f) Other current assets	2.15	127,47,51,104	88,47,68,230
		935,66,61,014	658,00,09,579
TOTAL		1465,20,73,475	1103,19,18,010

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

M Gajhanathan
Director

S Rajagopal
Director

A P Vasanthakumar
Director

V K Ramani
Director

S P Srihari
Global Chief Financial Officer

Chennai
May 25, 2012

S Akila
Company Secretary

Profit and loss account for the period ended March 31,

Amount in ₹

	Note	2012	2011
Revenue from operations	2.16	1218,76,15,501	915,84,34,222
Other income	2.17	13,52,75,980	2,40,11,327
TOTAL REVENUE		1232,28,91,481	918,24,45,549
EXPENSES			
(a) Employee benefit expenses	2.18	366,66,67,619	356,44,59,980
(b) Project related expenses		287,78,68,775	152,62,23,237
(c)Operation and other Expenses	2.19	240,18,29,188	182,52,12,098
(d) Finance Cost	2.20	24,55,06,481	23,71,70,354
(e) Depreciation / Amortisation		38,06,64,898	30,23,19,655
TOTAL EXPENSES		957,25,36,961	745,53,85,324
Profit Before Prior Period items		275,03,54,521	172,70,60,225
Prior Period Item		47,00,001	–
PROFIT BEFORE TAX		274,56,54,520	172,70,60,225
Tax expense:			
(a) Current tax		97,64,91,573	51,03,88,018
(b) Deferred tax		3,03,01,090	54,79,515
Total Tax Expense		100,67,92,663	51,58,67,533
NET PROFIT FOR THE PERIOD FROM			
CONTINUING OPERATIONS		173,88,61,856	121,11,92,692
No. of Equity shares (Face Value ₹ 10 /- share)		1,64,46,420	1,64,46,420
Earnings per equity share:			
Basic		105.73	73.64
Diluted		105.73	73.64

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

M Gajhanathan
Director

S Rajagopal
Director

A P Vasanthakumar
Director

V K Ramani
Director

S P Srihari
Global Chief Financial Officer

Chennai
May 25, 2012

S Akila
Company Secretary

Cash Flow Statement

Cash flow statement for the period ended March 31,

Amount in ₹

		2012	2011
A	**Cash Flow From Operating Activities:**		
	Profit before Taxation	274,56,54,520	172,70,60,225
	Adjustments for:		
	Depreciation and Amortization	38,06,64,898	30,23,19,655
	Unrealised foreign currency (gain)/ loss	2,42,66,143	6,91,85,471
	Provision for employee benefits	77,24,645	42,89,585
	Liabilities and provisions no longer required written back	(12,71,840)	(2,06,392)
	Exchange difference on translation of foreign currency cash and cash equivalents	16,21,234	90,97,636
	Bad debts written off		
	(Profit) on Sale of tangible Asset	(8,57,15,234)	–
	Dividend income	(16,144)	(13,754)
	Interest expenses	23,51,77,190	19,76,40,022
	Interest income	(4,71,40,734)	(2,21,35,556)
		51,53,10,159	56,01,76,666
	Operating profit before working capital changes	326,09,64,679	228,72,36,891
	Adjustments for changes in working capital:		
	(Increase)/Decrease in Inventories	(92,65,788)	–
	(Increase)/Decrease in Trade Receivables	(104,23,33,132)	(92,62,41,132)
	(Increase)/Decrease in Long term loans and advances	(2,44,11,183)	(5,61,01,701)
	(Increase)/Decrease in Short term Loans and advances and other current assets	(78,73,51,619)	(96,21,20,901)
	Increase/(Decrease) in Trade payables	8,49,94,903	4,47,34,257
	Increase/(Decrease) in Other payables	16,43,01,515	10,47,00,968
		(161,40,65,303)	(179,50,28,509)
	Cash generated from operations before tax adjustments	164,68,99,376	49,22,08,382
	Taxes paid	(97,06,48,534)	(40,29,60,142)
	Net cash from operating activities	67,62,50,842	8,92,48,240
B	**Cash Flow from Investing Activities**		
	Purchase of Tangible Assets	(63,63,75,395)	(15,41,65,529)
	Purchase of Intangible Assets	(85,91,17,100)	(33,50,08,736)
	Sale of Tangible Assets	9,10,36,800	–
	Interest receieved	8,66,77,063	47,29,041
	Investment in subsidiaries	–	(31,69,09,672)
	Proceeds/(investment) in Non current Deposits	34,45,50,934	(3,49,23,606)
	Dividend income	16,144	11,099
	Net cash used in investing activities	(97,32,11,554)	(83,62,67,402)

Cash flow statement for the period ended March 31,

Amount in ₹

	2012	2011
C Cash Flow form Financing Activities		
Proceeds from Long-term Borrowings	96,14,82,519	2,00,87,431
Repayment of Long-term Borrowings	(16,11,84,296)	(11,54,10,040)
Proceeds from Shor-term Borrowings	404,03,45,398	434,75,07,412
Repayment of Short-term Borrowings	(373,99,49,203)	(290,61,90,396)
Dividend paid (inclusive of dividend distribution tax)	(15,08,33,930)	(11,49,98,060)
Interest paid	(22,77,67,987)	(18,68,56,099)
Net cash used in financing activities	72,20,92,500	104,41,40,248
Net (Decrease)/Increase in Cash and Cash Equivalents (A+B+C)	42,51,31,788	29,71,21,086
Opening Cash and Cash Equivalents	93,98,83,824	65,18,60,374
Exchange difference on translation of foreign currency cash and cash equivalents	(16,21,234)	(90,97,636)
Closing Cash and Cash Equivalents	136,33,94,377	93,98,83,824
Note		
1. Cash and Cash Equivalents at the beginning of the year		
As per Balance Sheet	93,98,83,824	65,18,60,374
Less: Margin money deposit account		
Less: deposits maturing after ninety days		
	93,98,83,824	65,18,60,374
2. Cash and Cash Equivalents at the end of the year		
As per Balance Sheet	136,33,94,377	93,98,83,824
Less: Margin money deposit account		
Less: deposits maturing after ninety days		
	136,33,94,377	93,98,83,824

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

P S Kumar
Partner
Membership No :15590

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V K Ramani
Director

S P Srihari
Global Chief Financial Officer

Chennai
May 25, 2012

S Akila
Company Secretary

1 SIGNIFICANT ACCOUNTING POLICIES

1.01 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.

Consequent to the notification of Revised Schedule VI under the Companies Act, 1956, the financial statements for the year ended March 31, 2012 are prepared as per Revised Schedule VI. Accordingly, the previous figures which had been prepared as per the then applicable, pre-revised Schedule VI to the Companies Act, 1956 for the purpose of financial statements for the year ended March 31, 2011 have also been reclassified to conform to this year's classification. The adoption of Revised Schedule VI for the previous year figures does not impact recognition and measurement principles.

1.02 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.

1.03 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.

1.04 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.

1.05 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.

Lease arrangements where the risks and rewards incidental to the ownership is vested with lessor, are recognised as operating lease. Lease rental are recognised in the statement of profit and loss on a straight line basis.

1.06 Inventories

Inventories comprise of consumables utilised in E-Governance Projects are valued at lower of cost and net realisable value.

1.07 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.

1.08 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. Assets Individually costing ₹ 5000 or less are fully depreciated in the year of purchase.

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 3 years
Product Development Cost	over 5 years

1.09 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.

1.10 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 recognised in the prior years is reversed where the recoverable value exceeds the carrying value of the asset upon reassessment in the subsequent years.

1.11 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 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

1.12 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.

1.13 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.

1.14 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.

2.01 SHARE CAPITAL

Amount in ₹

Particulars	2012	2011
Authorised Capital		
4,00,00,000 (4,00,00,000) equity shares of ₹ 10 each	40,00,00,000	40,00,00,000
	40,00,00,000	40,00,00,000
Issued, Subscribed & Fully Paid-Up		
1,64,46,420 (1,64,46,420) equity shares of ₹ 10 each	16,44,64,200	16,44,64,200
	16,44,64,200	16,44,64,200

The company has only one class of shares referred to as equity shares having a par value of ₹ 10/-. Each holder of equity shares is entitled to one vote per share. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting. In the event of liquidation, the equity shareholders are eligible to receive the remaining assets of the company after distribution of preferential amounts. The distribution will be in proportion to the number of equity shares held by the shareholders. All shares are entitled to equal amount of dividend and return of capital in the event of liquidation.

The reconciliation of the number of equity shares outstanding

Particulars	2012		2011	
	Number	₹	Number	₹
Shares outstanding at the beginning of the year	1,64,46,420	16,44,64,200	1,64,46,420	16,44,64,200
Shares Issued during the year	-	-	-	-
Shares bought back/ other movements during the year	-	-	-	-
Shares outstanding at the end of the year	1,64,46,420	16,44,64,200	1,64,46,420	16,44,64,200

DETAILS OF SHAREHOLDERS HOLDING MORE THAN 5% SHARES

Name of Shareholder	As at March 31, 2012		As at March 31, 2011	
	No. of Shares held	% of Holding	No. of Shares held	% of Holding
Sthithi Insurance Services Private Limited	66,41,776	40.38	39,55,011	24.05
Unit Trust of India Investment Advisory Services Ltd				
- A/c Ascent India Fund	11,50,000	6.99	11,50,000	6.99
Sudarshan V	-	-	10,58,768	6.44
Ramanujam Sesharathnam	-	-	10,18,768	6.19

2.02 RESERVES & SURPLUS

Amount in ₹

Particulars	As at March 31, 2012	As at March 31, 2011
Securities premium account		
Opening Balance	178,42,89,318	178,42,89,318
Add : Securities premium credited on Share issue	-	-
Less : Amount utilised on issue of fully paid bonus shares	-	-
Closing Balance	178,42,89,318	178,42,89,318
General reserve		
Balance at the beginning of the year	87,19,41,054	72,19,41,054
Add : Transferred from Profit & Loss account	20,00,00,000	15,00,00,000
Less : Written Back in Current Year	-	-
Balance at the end of the year	107,19,41,054	87,19,41,054

Surplus

Balance at the beginning of the year	390,77,36,632	299,99,67,987
Add: Net profit after tax transferred from Statement of Profit and Loss	173,88,61,856	121,11,92,692
	564,65,98,488	421,11,60,679
Less: Appropriations		
Proposed dividend	16,44,64,200	13,15,71,360
Dividend Distribution Tax	2,66,80,205	2,18,52,687
Amount transferred to General Reserve	20,00,00,000	15,00,00,000
Surplus Closing Balance	525,54,54,083	390,77,36,632
Total reserves and surplus	811,16,84,455	656,39,67,004

The Board of Directors at its meeting held on May 25, 2012 has recommended a dividend of ₹ 10 per equity share.

2.03 LONG TERM BORROWINGS *Amount in ₹*

Particulars	Non Current Portion		Current Portion	
	2012	2011	2012	2011
Term Loans				
Indian rupee loans from Banks	43,75,00,000	-	6,25,00,000	-
Foreign currency loans from Banks	105,68,95,072	59,96,03,957	9,59,44,241	9,46,99,220
Finance lease obligations	69,14,187	6,29,34,267	7,98,80,130	8,50,80,827
	150,13,09,259	66,25,38,224	23,83,24,371	17,97,80,047
The above amount includes:				
Secured borrowings	150,13,09,259	66,25,38,224	23,83,24,371	17,97,80,047
Amount disclosed under head other current liabilities	-	-	(23,83,24,371)	(17,97,80,047)
Net Amount	150,13,09,259	66,25,38,224	-	-

Nature of Security and terms of repayment for secured borrowings
Foreign currency loans from Banks

1. Foreign currency loan amount of ₹ 67.58 lakhs is secured by mortgage of company's properties in Sholinganallur and hypothecation of all fixed assets. The loan is repayable in 60 equal monthly installments with a moratorium of six months with a present interest rate of 9.65%.
2. Foreign currency loan amount of ₹ 847.56 lakhs 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. The loan is repayable in 20 equal quarterly installments. Interest is charged @ 9.75% p.a. for this loan.
3. Foreign currency loan amount of ₹ 5,926.01 lakhs 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 Loan is payable in 90 months with a moratorium of 6 months under ballooning method. Present interest rate for this loan is 5.28% p.a..
4. Foreign currency loan amount of ₹ 4,687.23 lakhs is secured by first pari passu charges on movable & immovable fixed assets and first pari passu charges on the current assets of the company. The loan is payable in 11 half yearly installments with a moratorium of 24 months under step up method. Interest charged for this loan is 4.5% p.a.
   The above 4 facilities are collaterally secured by other assets of the company.

Indian rupee loans from Banks

Indian rupee loan is collaterally secured by pledge of promoters' shares of the company with market value to the extent of 50% of the term loan. The loan is repayable in 8 quarterly installments with a moratorium of 12 months. 12% p.a. is charged at present for this loan.

The above 5 facilities are guaranteed by the two promoter directors of the company in their personal capacity.
Obligations under finance lease are secured by hypothecation of assets underlying the lease. The loan is repayable in equated monthly instalments begininng from the subsequent month.

2.04 PROVISIONS *Amount in ₹*

Particulars	Long Term As at March 31		Short term As at March 31	
	2012	2011	2012	2011
Provision for employee benefits				
Gratuity (unfunded)	2,19,93,025	1,42,68,380	-	-
Provision for Taxation (Net off advance tax ₹ 4,645.86 lakhs)	-	3,83,09,679	4,83,92,054	11,506,474
Proposed Dividend	-	-	16,44,64,200	131,571,360
Corporate Dividend Tax	-	-	2,66,80,205	2,18,52,687
	2,19,93,025	5,25,78,059	23,95,36,459	16,49,30,521

2.05 SHORT TERM BORROWINGS *Amount in ₹*

Particulars	As at March 31, 2012	2011
Secured loans:		
Loans repayble on demand		
Indian rupee loans from Banks	69,42,50,000	105,79,62,523
Foreign currency loans from Banks	269,55,85,110	147,34,92,775
Cash credit	1,99,31,280	16,74,48,874
Unsecured loans:		
Loans and advances from Related parties		
Zylog Systems (India) Ltd	19,51,63,872	-
Zylog Systems Asia Pte Ltd	11,01,81,205	9,72,06,821
Zylog Systems (Canada) Ltd	9,72,098	13,70,44,054
	371,60,83,566	293,31,55,047

Nature of security:

The packing credit in foreign currency & in rupees and cash credit facilities are secured by hypothecation of book debts and other current assets. Further guaranteed by the two promoter directors of the company in their personal capacity.

2.06 OTHER CURRENT LIABILITIES *Amount in ₹*

Particulars	As at March 31, 2012	2011
Current Maturities of Long term borrowings	15,84,44,241	9,46,99,220
Current Maturities of Finance lease obligations	7,98,80,130	8,50,80,827
Interest accrued but not due on borrowings	1,81,93,126	1,07,83,923
Advance Received from Customers	1,34,47,324	-
Payroll Liabilities	20,80,17,657	12,80,60,869
Unclaimed Dividend	44,45,086	18,54,969
With holding and other taxes payable	1,99,92,877	98,18,989
Deferred Revenue	2,70,000	-
Other payables	11,82,07,118	1,26,91,775
	62,08,97,560	34,29,90,572
Other payables comprise:		
Statutory liabilities	2,06,91,736	1,26,91,775
Capital creditors for goods	9,75,15,382	-

2.07 FIXED ASSETS

Amount in ₹

Particulars	Original Cost				Depreciation/Amortisation			Net Book Value	
	As at 01-Apr-11	Additions	Deductions/ Adjustments	As at 31-Mar-12	Up to 01-Apr-11	For the Period	As at 31-Mar-12	As at 31-Mar-12	As at 31-Mar-11
Tangible Assets									
Own Assets									
Freehold land	3,77,49,868	-	53,21,566	3,24,28,302	-	-	-	3,24,28,302	3,77,49,868
Leasehold Land	1,57,17,239	-	-	1,57,17,239	3,87,397	1,51,689	5,39,086	1,51,78,153	1,53,29,842
Building	27,43,54,019	-	-	27,43,54,019	4,69,11,971	1,13,72,102	5,82,84,073	21,60,69,946	22,74,42,048
Plant & Machinery	8,54,15,756	42,964	-	8,54,58,720	4,49,08,674	56,36,954	5,05,45,628	3,49,13,092	4,05,07,082
Computer equipment	60,92,66,259	64,18,91,270	-	125,11,57,530	47,11,41,491	10,89,81,621	58,01,23,112	67,10,34,418	13,81,24,768
Furniture and fittings	2,33,63,513	3,76,727	-	2,37,40,240	94,12,012	26,40,653	1,20,52,665	1,16,87,575	1,39,51,501
Interior decoration	6,63,85,834	-	-	6,63,85,834	2,66,98,943	71,83,327	3,38,82,271	3,25,03,563	3,96,86,891
Electrical fittings	4,49,74,937	-	-	4,49,74,937	1,54,05,031	41,13,174	1,95,18,205	2,54,56,732	2,95,69,906
Office equipments	1,91,31,606	31,50,143	-	2,22,81,749	72,87,476	17,96,054	90,83,530	1,31,98,219	1,18,44,130
Vehicles	1,40,76,790	-	-	1,40,76,790	1,00,16,152	10,51,299	1,10,67,451	30,09,339	40,60,638
Leased assets									
Computer equipments	24,24,67,031	2,61,52,189	-	26,86,19,220	11,18,46,906	5,81,93,312	17,00,40,219	9,85,79,001	13,06,20,124
Assets under lease									
Total (A)	143,29,02,852	67,16,13,294	53,21,566	209,91,94,580	74,40,16,054	20,11,20,187	94,51,36,240	115,40,58,340	68,88,86,799
Intangible Assets									
Goodwill (Business Acquisition)	62,12,04,848	-	-	62,12,04,848	40,89,61,086	7,95,67,200	48,85,28,286	13,26,76,562	21,22,43,762
Computer software	1,30,98,902	14,98,180	-	1,45,97,082	1,08,81,706	21,06,263	1,29,87,968	16,09,113	22,17,196
License fee	1,38,54,000	-	-	1,38,54,000	1,38,54,000	-	1,38,54,000	-	-
Product development cost	33,26,97,949	88,76,85,606	-	122,03,83,555	14,52,43,019	9,78,71,249	24,31,14,268	97,72,69,287	18,74,54,930
Total (B)	98,08,55,699	88,91,83,786	-	187,00,39,485	57,89,39,810	17,95,44,711	75,84,84,522	111,15,54,963	40,19,15,889
Grand Total (A+B)	241,37,58,551	156,07,97,079	53,21,566	396,92,34,065	132,29,55,864	38,06,64,898	170,36,20,762	226,56,13,303	109,08,02,688
Previous Year	211,85,82,368	29,51,76,185	-	241,37,58,551	102,06,36,211	30,23,19,655	132,29,55,864	109,08,02,688	-

2.08 NON CURRENT INVESTMENTS (FULLY PAID)

Amount in ₹

Particulars	As at March 31, 2012	As at March 31, 2011
Trade Investments unquoted in equity instruments (at cost)		
Subsidiary Companies		
Vishwa Vikas Services Limited		
2,50,000 equity shares of Rs.10 each fully paid-up	25,00,000	25,00,000
Zylog Systems (India) Limited		
3,15,00,000 equity shares of Rs.10 each fully paid	31,50,00,000	31,50,00,000
Zylog systems (Europe) Limited		
15,64,701 equity shares of GBP 1 each fully paid-up	10,65,65,240	10,65,65,240
Zylog Systems Asia Pacific Pte Ltd		
19,06,389 equity shares of SGD 1 each full paid-up	6,25,99,133	6,25,99,133
Zylog BV Limited		
1,25,000 equity shares of USD 1 each, fully paid-up	62,99,375	62,99,375
Algorithm Solutions Private Ltd		
10,000 equity shares of Rs.10 each fully paid-up	1,75,00,000	1,75,00,000
Zylog Systems (Canada) Limited		
70,00,100 equity shares of CAD 1 each, fully paid-up	30,93,86,920	30,93,86,920
Matrix Primus Partners Inc		
10,03,750 equity shares of USD 1 each, fully paid-up	73,23,63,170	73,23,63,170
	155,22,13,838	155,22,13,838
Other investments quoted (at cost)		
Union Bank of India		
2,018 equity shares of Rs.110 each fully paid-up	2,21,980	2,21,980
Total Non-Current Investments	155,24,35,818	155,24,35,818
Aggregate amount of Quoted Investments	2,21,980	2,21,980
Market Value of Quoted Investments	4,75,844	7,00,751
Aggregate amount of Non - Quoted Investments	155,22,13,838	155,22,13,838

2.09 DEFERRED TAX LIABLILITY

Amount in ₹

Particulars	As at March 31, 2012	Current Year Charge / (Credit)	2011
Deferred Tax Assets			
Provision for Gratuity	26,06,326	11,43,755	14,62,571
	26,06,326	11,43,755	14,62,571
Deferred Tax Liabilities			
Difference between book and tax depreciation	4,89,57,846	3,14,44,845	1,75,13,001
	4,89,57,846	3,14,44,845	1,75,13,001
Net Deferred Tax Asset / Liability	4,63,51,520	3,03,01,090	1,60,50,430

Pursuant to Accounting Standard 22 'Accounting for Taxes on Income' as prescribed in Companies Accounting Standard Rules, 2006, the Company has recorded the cumulative net Deferred Tax Liabilities as at 31st March 2012 of Rs. 16050430 and Rs. 30301090 has been debited to the profit & Loss account.

2.10 LOANS AND ADVANCES

Amount in ₹

Particulars	Long Term		Short term	
	As at March 31		As at March 31	
	2012	2011	2012	2011
Capital Advances (Unsecured and considered good)	1,76,21,328	1,16,45,518	-	-
Security Deposits (Unsecured and considered good)	3,98,06,134	2,71,92,002	2,08,238	-
Loans and advances to related parties			-	-
Unsecured, considered good (Refer Note 2.10.1)	-	-	97,25,08,362	72,03,24,793
Others			-	-
Share Application money in subsidiary	-	-	32,00,00,000	32,00,00,000
Prepaid Expenses	-	-	45,09,28,562	18,43,32,175
Advance tax (Net off provision ₹10,458.33 lakhs)	-	-	5,98,88,166	-
Other advances	2,90,61,231	1,72,64,180	13,13,11,793	18,38,46,784
	8,64,88,693	5,61,01,701	193,48,45,122	140,85,03,753

2.10.1 THE DETAILS OF LOANS AND ADVANCES TO RELATED PARTIES ARE AS FOLLOWS

Advances to Subsidiaries

Amount in ₹

Particulars	As at March 31,	
	2012	2011
Zylog Systems (India) Ltd	-	90,03,148
Zylog Systems (Europe) Ltd	10,91,17,526	6,68,62,036
Zylog Systems (Canada) Ltd	1,54,19,610	-
Matrix Primus Partners Inc	38,19,75,284	19,92,29,925
Algorithm Solutions Private Ltd	22,589,378	51,634,182
Zylog BV Ltd	42,35,67,007	36,47,40,355
Zylog Systems AG	5,77,091	-
Vishwa Vikas Services Ltd	1,92,62,466	2,88,55,147
	97,25,08,362	72,03,24,793

2.11 CURRENT INVESTMENTS

Amount in ₹

Particulars	As at March 31,	
	2012	2011
Investment in Mutual Funds (Quoted)	55,083	55,083
Total Current Investments	55,083	55,083
Aggregate amount of Quoted Investments	55,083	55,083
Market Value of Quoted Investments	-	-

2.12 INVENTORIES

Amount in ₹

Particulars	As at March 31, 2012	As at March 31, 2011
Consumables for E-Governance projects	92,65,788	-
	92,65,788	-

2.13 TRADE RECEIVABLES

Amount in ₹

Particulars	As at March 31, 2012	As at March 31, 2011
Outstanding for a period exceeding six months		
Unsecured, Considered Good	1,22,70,168	6,96,77,966
Outstanding for a period not exceeding six months		
Unsecured, Considered Good	476,20,79,370	327,71,20,724
	477,43,49,538	334,67,98,690

2.14 CASH AND BANK BALANCES

Amount in ₹

Particulars	Long Term As at March 31		Short term As at March 31	
	2012	2011	2012	2011
Cash and cash equivalents				
Cash on hand	-	-	2,62,761	3,13,721
Balance with Banks				
Current Accounts	-	-	135,86,86,667	93,76,74,010
Other Bank balances				
Current Accounts (Subject to restricted use) *	10,91,11,692	11,61,33,588	-	-
Unclaimed Dividend account	-	-	44,44,949	18,96,093
Deposits	112,43,73,190	144,89,78,185	-	-
	123,34,84,882	156,51,11,773	136,33,94,377	93,98,83,824
Amount disclosed under Non Current assets (Note no 2.15)	(1,233,484,882)	(1,565,111,773)	-	-
	-	-	136,33,94,377	93,98,83,824

*Balance of ₹ 10,91,11,692 (₹11,61,33,588) is subject to restricted use and held as security against the borrowings

2.15 OTHER ASSETS

Amount in ₹

Particulars	Non Current As at March 31		Current As at March 31	
	2012	2011	2012	2011
Non Current Bank Deposits (As per Note 2.14)	123,34,84,882	156,51,11,773	-	-
Unbilled Revenue	-	-	124,52,51,098	81,57,31,895
Interest Accrued on Deposits	-	-	2,95,00,006	6,90,36,335
	123,34,84,882	156,51,11,773	127,47,51,104	8,847,68,230

2.16 REVENUE FROM OPERATIONS

Amount in ₹

Particulars	As at March 31, 2012	As at March 31, 2011
Export of software services, products & solutions	1197,08,58,270	899,11,06,874
Domestic operations	21,67,57,231	16,73,27,348
	1218,76,15,501	915,84,34,222

2.17 OTHER INCOME

Amount in ₹

Particulars	As at March 31, 2012	As at March 31, 2011
Interest Income on		
Bank Deposits	4,71,40,734	2,21,35,556
Dividend Income		
Current investments	16,144	13,754
Rental Income	2,55,996	5,28,172
Profit on Sale of Investments / Assets	8,57,15,234	-
Miscellaneous Income	21,47,871	13,33,845
	13,52,75,980	2,40,11,327

2.18 EMPLOYEE BENEFITS EXPENSE

Amount in ₹

Particulars	As at March 31, 2012	As at March 31, 2011
Salaries and incentives	355,69,29,642	348,23,90,779
Contribution to Provident fund and other funds	1,74,87,861	1,34,44,006
Gratuity	80,31,820	44,02,681
Reimbursement of expenses	3,42,28,017	1,89,89,536
Staff welfare expenses	4,99,90,279	4,52,32,978
	366,66,67,619	356,44,59,980

2.19 OPERATION AND OTHER EXPENSES

Amount in ₹

Particulars	As at March 31, 2012	As at March 31, 2011
Consultancy Charges	47,45,74,562	55,65,27,844
Consumables	9,41,58,288	7,98,99,430
Directors' sitting fee	1,60,000	1,85,000
Rent	4,44,65,500	3,03,30,424
Repairs & Maintenance		
Office	6,44,21,169	5,50,15,578
Plant & Machinery	82,75,306	57,70,839
Vehicle Maintenance	20,23,405	18,48,961
Insurance	31,07,68,443	23,62,44,760
Rates & Taxes	1,87,82,414	1,44,59,142
Printing & Stationery	1,03,98,452	92,24,815
Lease rental Charges	1,08,49,145	67,08,838
Travelling Expenses	4,88,49,781	4,60,74,626
Communication Expenses	3,75,26,876	2,53,39,632

Payments to Auditor		
Statutory Audit Fee	54,00,000	50,50,000
Tax Audit Fee	9,36,818	6,42,582
Legal Expenses & Professional fees	5,43,62,825	3,94,12,808
Electricity	1,47,83,182	1,58,59,726
Recruitment and Training Expenses	3,32,50,406	1,30,96,081
Foreign exchange loss	10,71,62,365	10,26,42,484
Visa Processing related expenses	33,26,37,604	6,18,07,698
Trade show seminar and Conference Expense	3,67,83,518	3,36,88,473
Advertisement	1,23,82,704	1,12,23,903
Marketing Expenses	55,29,98,677	43,83,08,381
Entertainment	2,83,22,425	2,07,90,221
Donations	4,32,250	3,84,500
Bank Charges	8,26,93,249	46,73,490
Other Sundry Expenses	1,44,29,824	1,00,01,862
	240,18,29,188	182,52,12,098

2.20 FINANCE COST *Amount in ₹*

Particulars	As at March 31,	
	2012	2011
Interest	22,19,03,237	19,76,40,022
Finance charges	2,36,03,244	3,95,30,332
	24,55,06,481	23,71,70,354

2.21 **Earnings Per Share (EPS)**

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.

Particulars	As at March 31,	
	2012	2011
Net Income available to Equity Shareholders	173,88,61,856	121,11,92,692
No of outstanding equity shares		
Basic	1,64,46,420	1,64,46,420
Diluted	1,64,46,420	1,64,46,420
Earning Per share Rs.		
Basic	105.73	73.64
Diluted	105.73	73.64

2.22 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 ₹

	As at March 31,	
	2012	2011
Defined Benefit obligation towards gratuity at beginning of the year	1,81,54,000	1,05,56,000
Current Service Cost	86,75,000	69,58,000
Interest Cost	12,71,000	7,39,000
Actuarial (gain)/Loss	(4,69,825)	14,096
Benefits Paid	(3,07,175)	(1,13,096)
Defined Benefit obligation at the year end	2,73,23,000	1,81,54,000

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 ₹*

	As at March 31,	
	2012	2011
Fair value of plan assets	-	-
Present value of obligation	2,73,23,000	1,81,54,000
Amount recognised in the Balance Sheet	2,73,23,000	1,81,54,000

d. Expense recognized during the year *Amount in ₹*

	As at March 31,	
	2012	2011
Current service cost	86,75,000	69,58,000
Interest cost	12,71,000	7,39,000
Actuarial (gain)/Loss	(4,69,825)	14,096
Amount recognised in the Balance Sheet	94,76,175	77,11,096

e. Investment Details: **Not funded**

f. Actuarial Assumptions:

	As at March 31,	
	2012	2011
Interest rate	8.00%	7.00%
Inflation rate	4.00%	4.00%
Mortality rate #	-	-
Retirement age	58	58

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

2.23 Leases

Finance lease: Company as lessee

a) Net carrying amount of assets taken on financial lease as on 31/03/2012 ₹ 116.88 lakhs (PY ₹ 139.52 lakhs)

b) Out of the total lease payments of ₹ 1,005.71 lakhs (PY ₹ 866.84 lakhs), Finance charges amounts to ₹132.73 lakhs (PY ₹ 178.88 lakhs) and the reduction in principal amounts to ₹ 872.97 lakhs (PY ₹ 687.96 lakhs).

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

Amount in ₹

Particulars	As at March 31, 2012 Minimum Lease Payments	2012 Present value of MLP	2011 Minimum Lease Payments	2011 Present value of MLP
Not later than one year	7,05,43,430	6,74,19,598	9,49,11,636	8,96,08,510
Later than one year and not later than five years	2,25,88,843	1,90,71,888	6,85,84,587	5,83,79,766
Later than five years				
	9,31,32,273	8,64,91,486	16,34,96,223	14,79,88,276

OPERATING LEASE: COMPANY AS LESSEE

Future minimum rentals payable under non-cancellable operating leases are as follows: *Amount in ₹*

	As at March 31, 2012	2011
Lease rentals recognized during the year	58,14,861	41,84,038
Not later than one year	64,42,962	61,17,090
Later than one year and not later than five years	96,08,649	1,24,37,758
Later than five years		
	2,18,66,472	2,27,38,886

2.24 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.

2.25 Details of auditors' remuneration (Net of service tax where applicable) *Amount in ₹*

	As at March 31, 2012	2011
Head office		
Statutory audit	12,00,000	12,00,000
Certification and reviews		
(under clauses 41 and 49 of the listing agreement with stock exchanges)	10,00,000	8,50,000
Tax Audit	4,00,000	2,00,000
Overseas Branch		
Branch Audit	32,00,000	30,00,000
Tax Audit	5,36,818	4,42,582
	63,36,818	56,92,582

2.26 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 realtionships

Name of the 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
Algorithm Solutions Private Ltd	Subsidiary
Ducont FZ LLC	Subsidiary of Zylog BV Limited
Ducont India Pvt. Ltd	Subsidiary of Ducont FZ LLC
Anodas Software Ltd	Subsidiary of Zylog (Europe) Limited
Zylog AG Switzerland	Subsidiary of Zylog (Europe) Limited
Sthithi Insurance Services Pvt Ltd.	Enterprise influenced by Key Management personnel

b) Transaction with related parties

Amount in ₹

	As at March 31,	
	2012	2011
Remuneration		
Mr. Sudarshan Venkatraman	1,19,51,564	1,15,96,648
Mr. Ramanujam Sesharathnam	1,15,58,890	1,13,06,506
Mr. Srikanth Parthasarathy	60,00,000	51,77,419
	2,95,10,454	2,80,80,573
Investments		
Zylog Systems (Europe) Limited	-	29,09,672
Zylog Systems (India) Limited	-	31,40,00,000
	-	31,69,09,672
Advances given during the year		
Vishwa Vikas Services Limited	97,82,786	10,17,11,238
Zylog Systems (Europe) Limited	4,00,52,808	2,72,29,343
Zylog Systems (India) Limited	30,01,95,321	89,64,891
Zylog Systems (Canada) Limited	65,49,75,301	-
Zylog BV Limited	8,27,68,182	32,12,07,889
Algorithm Solutions Private Limited	2,74,66,305	4,39,49,192
Zylog Systems Asia Pacific Pte Ltd	39,25,550	-
Matrix Primus Partners Inc	21,49,43,765	19,92,29,925
	133,41,10,017	70,22,92,478
Share Application Deposits in Subsidiary		
Zylog Systems (India) Limited	32,00,00,000	32,00,00,000
Advance Received during the year		
Vishwa Vikas Services Limited	2,74,96,465	-
Zylog Systems (Europe) Limited	10,33,625	-
Zylog Systems (India) Limited	33,86,02,548	-
Zylog Systems (Canada) Limited	46,39,47,411	17,39,45,771
Zylog BV Limited	2,49,15,058	-
Algorithm Solutions Private Limited	8,23,37,324	-
Zylog Systems Asia Pacific Pte Ltd	1,60,63,948	5,38,89,616
Matrix Primus Partners Inc	3,21,98,405	-
	98,65,94,784	22,78,35,387
Services Rendered		
Zylog BV Limited	3,91,17,050	-

Services Received

Zylog Systems (India) Limited	9,55,478	-
Vishwa Vikas Services Limited	2,13,43,190	-
Zylog Systems (Canada) Limited	3,91,76,550	-
	6,14,75,218	-

Interest Payable

Zylog Systems (Canada) Limited	5,75,853	-

RECEIVABLES

	2012		2011	
	Balance As at March 31	Maximum amount due during the year	Balance As at March 31	Maximum amount due during the year
Zylog Systems (Europe) Ltd.	10,91,17,526	10,91,17,526	6,68,62,036	6,97,71,708
Zylog BV Ltd.	42,35,67,007	44,30,39,497	36,47,40,355	36,58,19,244
Vishwa Vikas Services Ltd.	1,92,62,466	3,34,98,103	2,88,55,147	3,89,57,038
Zylog Systems (India) Ltd.			32,90,03,148	34,10,44,457
Zylog Systems (Canada) Limited	1,54,19,610	30,24,61,650	-	-
Matrix Primus Partners inc	38,19,75,284	39,98,63,770	19,92,29,925	20,11,50,360
Algorithm Solutions Private Ltd	2,25,89,378	5,16,34,182	5,16,34,182	5,16,34,182
Zylog Systems AG	5,77,091	5,92,300	-	-
Total	97,25,08,362	-	104,03,24,793	-

AMOUNT PAYABLE TO

	2012		2011	
	Balance As at March 31	Maximum amount due during the year	Balance As at March 31	Maximum amount due during the year
Zylog Systems Asia Pacific Pte Ltd	11,01,81,205	11,07,90,305	9,72,06,821	9,83,32,270
Zylog Systems (India) Limited	19,51,63,872	32,75,77,185	-	-
Zylog Systems (Canada) Limited	-	-	13,70,44,054	26,93,20,167
Total	30,53,45,077	-	23,42,50,875	-

SERVICE RENDERED /RECEIVED

	As at March 31, 2012	2011
Services received from Vishwa Vikas Services Limited	2,13,43,190	1,29,81,053
Services rendered to Ducont FZ LLC	4,06,97,048	7,33,19,044
Management Services receieved from Zylog Systems (Canda) Limited	3,91,76,550	-

2.27 Loans and Advances include unbilled revenue of ₹ 12,452.51 lakhs (₹ 8,157.32 lakhs) recognized in relation to efforts incurred on various contracts until the balance sheet date.

2.28 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 ₹ 6,212.05 lakhs. The company has adopted the policy of amortizing this amount over a period of 5 years. Accordingly, the company has amortized a sum of ₹ 795.67 lakhs in the year under review (previous year ₹ 934.32 lakhs).

2.29 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 2012 to Micro, Small and Medium Enterprises on account of principal and interest is ₹. Nil (₹. Nil).

2.30 Contigent Liabilities and Commitments *Amount in ₹*

	2012	2011
(i) Contingent Liability not provided for :		
a) Bank Guarantee/Bond executed by the Company	4,90,00,000	1,77,00,000
b) Letter of credits opened by bankers		
c) Appeals filed in respect of disputed demands		
Income Tax **	52,08,18,326	13,82,26,256
Sales Tax	19,34,000	19,34,000
Service Tax	90,40,417	90,40,417
d) Corporate gurantee given to:		
SBI Frankfurt on behalf of Zylog BV	24,00,00,000	24,00,00,000
ICICI Bank Canda on behalf of Zylog Canada	140,00,00,000	140,00,00,000
ANDHRA Bank on behalf of ZSIL	75,00,00,000	75,00,00,000

**Demand raised by the Income Tax department against the company by disallowing certain deductions/benefits/ claims made by the company. In the opinion of the Company most of these demands are not maintainable and accordingly appeals have been preferred

	2012	2011
(ii) Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advance)	38,86,042	-
(iii) OTHER COMMITMENTS	Nil	Nil
2.31 Earnings in Foreign Exchange :	230,02,59,910	275,62,06,985
2.32 Value of Imports (CIF Value):	2,37,30,427	-
2.33 Expenditure in Foreign Currencies :	107,89,62,431	44,10,882

g) Unhedged Foreign Exposure

Particulars	Currency	As at March 31, 2012		As at March 31, 2011	
		Amount in Foreign Currency	Amount in ₹	Amount in Foreign Currency	Amount in ₹
Trade receivable	USD	40,465,982	210,74,80,482	60,503,046	274,67,05,167
	GBP	295,050	2,45,70,230	295,050	2,14,76,808
	EURO	70,000	48,63,075	25,000	16,00,160
	SAR	293,645	40,78,494	584,375	70,74,678
	THB	450,000	7,61,823	-	-

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.

No dividend has been remitted in foreign currency during the current year and previous year.

2.34 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	M Gajhanathan Director	S Rajagopal Director
A P Vasanthakumar Director	V K Ramani Director	S P Srihari Global Chief Financial Officer
Chennai May 25, 2012	S Akila Company Secretary	

Consolidated Financial Statements

Consolidated Auditors' Report

To
The Board of Directors,
Zylog Systems Limited,
Chennai

1. We have audited the attached Consolidated Balance Sheet of Zylog Systems Limited ("the company"), its subsidiaries and associate (collectively referred as Group) as at March 31, 2012, the Consolidated Statement of Profit and Loss 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 ₹ 66,640.95 lakhs as at March 31, 2012, the total revenue of ₹ 1,03,225.92 lakhs and cash flows (Net) amounting to ₹ 653.20 lakhs 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, 2012;
   b) in the case of the Consolidated Statement of Profit and Loss, of the consolidated profit of the Group for the year ended on that date; and
   c) in the case of the Consolidated cash flow statement, of the consolidated cash flows of the Group for the year ended on that date.

For Brahmayya & Co
Chartered Accountants

Place : Chennai
Date : May 25, 2012

P S Kumar
Partner
Membership No. 15590

Consolidated Balance sheet as at March 31,

Amount in ₹

	Note	2012	2011
EQUITY AND LIABILITIES			
SHARE HOLDERS' FUNDS			
Share capital	2.01	16,44,64,200	16,44,64,200
Reserves and surplus	2.02	892,55,65,056	662,84,72,966
		909,00,29,256	679,29,37,166
Share application money pending allotment			
Non-current liabilities			
Long-term borrowings	2.03	257,77,08,661	157,03,38,641
Deferred tax liabilities (Net)	2.10	5,56,45,720	2,20,05,956
Other Long term liabilities	2.04	18,15,750	22,15,750
Long-term provisions	2.05	3,95,93,570	2,61,46,923
		267,47,63,701	162,07,07,270
Current liabilities			
Short-term borrowings	2.06	440,34,16,100	347,50,22,687
Trade payables		102,58,40,737	97,65,51,160
Other current liabilities	2.07	131,21,67,238	100,66,69,120
Short-term provisions	2.05	31,78,48,472	29,82,88,032
		705,92,72,547	575,65,30,999
TOTAL		1882,40,65,505	1417,01,75,435
ASSETS			
Non-current assets			
Fixed assets	2.08		
Tangible assets		180,24,17,741	115,17,65,476
Intangible assets		297,49,63,893	203,92,56,184
Capital work-in-progress		56,40,38,492	34,90,50,674
Intangible assets under development		15,73,89,765	18,74,56,451
Goodwill on consolidation		10,35,04,354	19,15,77,650
Non-current investments	2.09	6,72,54,653	5,97,14,174
Long-term loans and advances	2.11	30,47,80,578	26,14,31,136
Other Non current Assets	2.16	138,58,05,867	156,76,22,097
		736,01,55,341	580,78,73,841
CURRENT ASSETS			
Current investments	2.12	4,57,270	4,56,100
Inventories	2.13	1,63,07,621	90,66,018
Trade receivables	2.14	722,05,72,685	545,53,61,266
Cash and bank balances	2.15	201,63,56,791	143,12,23,778
Short-term loans and advances	2.11	85,24,34,994	53,85,97,331
Other current assets	2.16	135,77,80,805	92,75,97,101
		1146,39,10,165	836,23,01,594
TOTAL		1882,40,65,505	1417,01,75,435

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	M Gajhanathan Director	S Rajagopal Director
A P Vasanthakumar Director	V K Ramani Director	S P Srihari Global Chief Financial Officer
Chennai May 25, 2012	S Akila Company Secretary	

Consolidated Profit & loss account

Profit and loss account for the period ended March 31,

Amount in ₹

	Note	2012	2011
INCOME			
Revenue from operations	2.17	2272,85,48,798	1915,67,75,850
Other income	2.18	18,34,12,161	4,91,87,737
TOTAL REVENUE		2291,19,60,959	1920,59,63,587
EXPENSES			
Employee Benefit Expenses	2.19	1178,06,51,626	1149,28,64,447
Project related expenses		373,38,32,884	236,02,49,140
Operation and other Expenses	2.20	307,97,20,761	237,17,74,648
Finance Cost	2.21	45,23,85,794	40,80,38,598
Depreciation / Amortisation		67,69,67,962	51,50,86,379
TOTAL EXPENSES		1972,35,59,026	1714,80,13,211
Profit Before Exceptional, Prior Period and Extraordinary items		318,84,01,933	205,79,50,376
Prior Period Item		56,40,706	13,76,137
Profit Before Tax		318,27,61,227	205,65,74,239
Less: Tax expense			
Current tax		109,54,90,480	59,89,66,772
Less:- MAT Credit Entitlement		(54,794)	
Net Current Tax		109,54,35,686	59,89,66,772
Deferred tax		3,36,51,751	85,80,311
TOTAL TAX EXPENSE		112,90,87,437	60,75,47,083
Net profit after tax, before share of profit of associates		205,36,73,789	144,90,27,156
Share of profit of associates		(9,683,108)	24,35,087
NET PROFIT AFTER SHARE OF PROFIT OF ASSOCIATES		204,39,90,681	145,14,62,243
No. of Equity shares (Face Value ₹ 10 /- share)		1,64,46,420	1,64,46,420
Earnings per equity share:			
Basic		124.28	88.25
Diluted		124.28	88.25

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

M Gajhanathan
Director

S Rajagopal
Director

A P Vasanthakumar
Director

V K Ramani
Director

S P Srihari
Global Chief Financial Officer

Chennai
May 25, 2012

S Akila
Company Secretary

Consolidated Cash flow statement for the year ended March 31,

Amount in ₹

	2012	2011
A Cash Flow From Operating Activities:		
Profit before Taxation	318,27,61,226	205,65,74,240
Adjustments for:		
Depreciation and Amortisation expenses	67,69,67,962	51,50,86,376
Share of Exchange Difference of the Associate	(10,72,497)	(11,20,437)
Provision for employee benefits	91,73,407	42,89,585
Exchange difference on translation of foreign currency		
cash and cash equivalents	(6,04,90,010)	(62,58,091)
Unrealised foreign currency (gain)/ loss	2,58,87,378	6,91,85,471
Liabilities no longer required written back	(12,71,840)	(2,06,392)
Bad debts written off		
Prior period adjustments		
Loss/(Profit) on Sale of fixed assets	(8,58,03,010)	12,69,442
Pre-operative expenses written off	32,27,101	8,24,204
Dividend income	(16,144)	(13,754)
Interest expenses	40,50,46,792	36,38,99,209
Interest income	(4,88,71,823)	(2,27,49,618)
Prior period adjustments	-	13,76,126
	92,27,77,315	92,55,82,120
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	410,55,38,541	298,21,56,360
Adjustments for changes in working capital:		
(Increase)/Decrease in Inventories	(72,41,603)	-
(Increase)/Decrease in Trade Receivables	(138,75,13,288)	(95,18,307)
(Increase)/Decrease in Short term Loans and advances and other current assets	(40,12,10,540)	(390,88,72,102)
(Increase)/Decrease in Long term loans and advances	(15,07,72,881)	(4,10,60,054)
Increase/(Decrease) in Other payables	(26,02,69,859)	310,65,30,079
Increase/(Decrease) in Trade payables	53,79,01,558	-
Adjustment of Translation difference on Working Capital	8,05,98,209	(1,29,29,499)
	(158,85,08,402)	(86,58,49,883)
Cash generated from operations before tax adjustments	251,70,30,139	211,63,06,477
Taxes paid	(103,41,68,909)	(49,06,47,364)
Net cash from operating activities	148,28,61,230	162,56,59,114

Amount in ₹

	2012	2011
B Cash Flow From Investing Activities		
Purchase of Tangible Assets	(113,62,62,302)	(46,00,14,961)
Purchase of Intangible Assets	(87,36,11,068)	(37,92,87,354)
Sale of Tangible Assets	9,26,88,106	1,79,639
Interest receieved	8,84,08,152	53,43,103
Increase in Capital work- in- progress	(21,49,87,818)	(10,59,84,862)
Investment in subsidiaries	–	(31,69,09,672)
Dividend income	16,144	11,099
Proceeds/(investment) in Non current Deposits	34,44,50,934	(3,49,23,606)
NET CASH USED IN INVESTING ACTIVITIES	(169,92,97,852)	(129,15,86,614)
C Cash Flow From Financing Activities		
Proceeds from issue of Long-term Borrowings	121,01,05,244	(13,44,85,486)
Repayment of Long-term Borrowings	(33,48,86,410)	8,33,12,775
Proceeds from Short-term Borrowings	421,76,43,341	476,94,41,673
Repayment of Short-term Borrowings	(380,33,11,031)	(298,41,84,265)
Dividend paid (inclusive of dividend distribution tax)	(15,08,33,930)	(11,49,98,060)
Interest paid	(39,76,37,588)	(35,31,15,286)
Share application money received		
Issue of Common stock in consolidated subsidiary	–	(22,67,68,374)
NET CASH USED IN FINANCING ACTIVITIES	74,10,79,626	103,92,02,976
Net (Decrease)/Increase In Cash And Cash Equivalents (A+B+C)	52,46,43,004	137,32,75,475
Opening Cash and Cash Equivalents	143,12,23,778	118,47,74,364
Exchange difference on translation of foreign currency cash and cash equivalents	6,04,90,010	62,58,091
Closing Cash and Cash Equivalents	201,63,56,791	143,12,23,778

Notes:

	2012	2011
1. Cash and Cash Equivalents at the beginning of the year		
As per Balance Sheet	143,12,23,778	118,47,74,364
Less: Margin money deposit account	–	–
Less: deposits maturing after ninety days	–	–
	143,12,23,778	118,47,74,364
2. Cash and Cash Equivalents at the end of the year		
As per Balance Sheet	201,63,56,791	143,12,23,778
Less: Margin money deposit account	–	–
Less: deposits maturing after ninety days	–	–
	201,63,56,791	143,12,23,778

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

M Gajhanathan
Director

S Rajagopal
Director

A P Vasanthakumar
Director

V K Ramani
Director

S P Srihari
Global Chief Financial Officer

Chennai
May 25, 2012

S Akila
Company Secretary

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

1.01 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.

Consequent to the notification of Revised Schedule VI under the Companies Act, 1956, the financial statements for the year ended March 31, 2012 are prepared as per Revised Schedule VI. Accordingly, the previous figures which had been prepared as per the then applicable, pre-revised Schedule VI to the Companies Act, 1956 for the purpose of financial statements for the year ended March 31, 2011 have also been reclassified to conform to this year's classification. The adoption of Revised Schedule VI for the previous year figures does not impact recognition and measurement principles.

1.02 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.

1.03 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.

1.04 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.

Non refundable AMC recognised in the year when accepted by the clients

Revenue from Broad Brand - Service revenue is recognised on completion of provision of service, revenue from Bandwidth service is recognised on time proportion basis and revenue from prepaid calling call packs is recognised on the actual usage basis.

Revenue from software license is deferred and amortised over the term of license.

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

1.05 **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.

1.06 **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.

Lease arrangements where the risks and rewards incidental to the ownership is vested with lessor, are recognised as operating lease. Lease rental are recognised in the statement of profit and loss on a straight line basis.

1.07 **Inventories**

Inventories comprise of consumables utilised in E-Governance Projects are valued at lower of cost and net realisable value.

1.08 **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.

1.09 **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 3 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.

1.10 **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.

1.11 **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.

1.12 **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 statement of profit and loss."

1.13 **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.

1.14 **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 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.

1.15 **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.

1.16 **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.

1.17 **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.

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.

In the situations where the company is entitled to a tax holiday under the income tax act, 1961enacted in india or tax laws prevailing in the respective tax jurisdictions where it operates, no deferred tax(asset or liability) is recognised in respect of timing difference which reverse during the tax holiday period, to the extend the company's gross total income is subject to the deduction during the tax holiday period. Deferred tax in respect of timing difference which reverse after the tax holiday period is recognised in the year in which the timing differences originate."

1.18 **Deferred Financing cost:**

Financing cost relating to the long-term debt are deferred and amortised using the effective interest method for the expected term of the corresponding loans. As the loans are repaid the corresponding financial cost are charged to earnings. Deferred financing cost are presented under Long term borrowings in the consolidated Balance Sheet and related amortisation under financing cost in the consolidated statement of profit and loss.

2.01 SHARE CAPITAL

Particulars	As at March 31, 2012	2011
Authorised Capital		
4,00,00,000 (4,00,00,000) Equity Shares of ₹ 10 each	40,00,00,000	40,00,00,000
	40,00,00,000	40,00,00,000
Issued, Subscribed & Fully Paid-Up		
1,64,46,420 (1,64,46,420) Equity Shares of ₹ 10 each	16,44,64,200	16,44,64,200
	16,44,64,200	16,44,64,200

The company has only one class of shares referred to as equity shares having a par value of ₹ 10/-. Each holder of equity shares is entitled to one vote per share. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting. In the event of liquidation, the equity shareholders are eligible to receive the remaining assets of the company after distribution of preferential amounts. The distribution will be in proportion to the number of equity shares held by the shareholders. All shares are entitled to equal amount of dividend and return of capital in the event of liquidation.

The reconciliation of the number of equity shares outstanding

	As at March 31, 2012		As at March 31, 2011	
	Number	₹	Number	₹
Shares outstanding at the beginning of the year	1,64,46,420	16,44,64,200	1,64,46,420	16,44,64,200
Shares Issued during the year				
Shares bought back/ other movements during the year				
Shares outstanding at the end of the year	1,64,46,420	16,44,64,200	1,64,46,420	16,44,64,200

DETAILS OF SHAREHOLDERS HOLDING MORE THAN 5% SHARES

	As at March 31, 2012		As at March 31, 2011	
Name of Shareholder	No. of Shares held	% of Holding	No. of Shares held	% of Holding
Sthithi Insurance Services Private Limited	66,41,776	40.38	39,55,011	24.05
Unit Trust of India Investment Advisory Services Ltd - A/c Ascent India Fund	11,50,000	6.99	11,50,000	6.99
Sudarshan V	-	-	10,58,768	6.44
Ramanujam Sesharathnam	-	-	10,18,768	6.19

2.02 RESERVES & SURPLUS

Amount in ₹

Particulars	As at March 31, 2012	2011
Securities Premium Account	178,42,89,318	178,42,89,318
Foreign Currency Translation Reserve	17,80,31,408	5,37,85,592
General Reserve		
Balance at the beginning of the year	87,19,41,054	40,19,41,054
Add : Transferred from Profit & Loss account	20,00,00,000	15,00,00,000
Balance at the end of the year	107,19,41,054	55,19,41,054
Surplus		
Balance at the beginning of the year	423,84,57,001	308,11,01,071

Particulars	As at March 31, 2012	2011
Add: Net profit after tax transferred from Statement of Profit and Loss	204,39,90,681	146,07,79,978
	628,24,47,682	454,18,81,049
Appropriations		
Proposed dividend	16,44,64,200	13,15,71,360
Dividend Distribution Tax	2,66,80,205	2,18,52,687
Amount transferred to General Reserve	20,00,00,000	15,00,00,000
Surplus Closing Balance	589,13,03,277	423,84,57,002
Total Reserves and Surplus	892,55,65,056	662,84,72,966

2.03 LONG TERM BORROWINGS

Amount in ₹

	Non Current Portion		Current Maturities	
Particulars	As at March 31		As at March 31	
	2012	2011	2012	2011
Term Loans				
Indian rupee loans from Banks	123,26,16,001	32,24,29,748	23,38,76,907	7,84,84,371
Foreign currency loans from Banks	133,81,78,473	118,49,74,626	31,68,11,778	28,74,04,178
Finance lease obligations	69,14,187	6,29,34,267	7,98,80,130	8,50,80,827
Other Loans and Advances				
Unsecured notes, non-interest bearing	-	-	-	19,14,33,675
	257,77,08,661	157,03,38,641	63,05,68,815	64,24,03,051
The above amount includes				
Secured borrowings	257,77,08,661	157,03,38,641	63,05,68,815	64,24,03,051
Unsecured borrowings	-	-	(630,568,815)	(833,836,726)
Amount disclosed under head other current liabilities	-	-	-	19,14,33,675
Net Amount	257,77,08,661	157,03,38,641	-	-

Nature of Security and terms of repayment for secured borrowings

Seucred term loans

1. Foreign currency loan amount of ₹ 67,58,355 is secured by mortgage of company's properties in Sholinganallur and hypothecation of all fixed assets. The loan is repayable in 60 equal monthly installments with a moratorium of six months with a present interest rate of 9.65%.
2. Foreign currency loan amount of ₹ 8,47,56,629 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. The loan is repayable in 20 equal quarterly installments. Interest is charged @ 9.75% p.a. for this loan.
3. Foreign currency loan amount of ₹ 59,26,01,629 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 Loan is payable in 90 months with a moratorium of 6 months under ballooning method. Present interest rate for this loan is 5.28% p.a..

4. Foreign currency loan amount of ₹ 46,87,22,700 is secured by first pari passu charges on movable & immovable fixed assets and first pari passu charges on the current assets of the company. The loan is payable in 11 half yearly installments with a moratorium of 24 months under step up method. Interest charged for this loan is 4.5% p.a.

The above 4 facilities are collaterally secured by other assets of the company.

5. Indian rupee loan amount to ₹ 50,00,00,000 has been collaterally secured by pledge of promoters' shares of the company with market value to the extent of 50% of the term loan. The loan is repayable in 8 quarterly installments with a moratorium of 12 months. 12% p.a. is charged at present for this loan.

6. Indian rupee loan from Banks includes an Amount of ₹ 4911.30 Lakhs has been secured by Pari passu first charge on Fixed Assets of the Subsidiary Company (ZSIL) along with another bank. Collaterally secured by paripassu second charge on the current assets of the Subsidiary Company (ZSIL) . Loan is repayable in 24 quaterly ballooning methods in six and a half years with a moratorium period of 6 months. Further the loan has been guaranteed by the corporate guarantee of the Company.

The above 6 facilities are guaranteed by the two promoter directors of the company in their personal capacity.

7. "Foreign currency loan amount of ₹ 35,01,72,970 is secured by a guarantee from the Company. This Loan requires the company to meet certain financial ratio and other covenants, all of which have been met as at March 31,2012. The loan requires that an adequate amount of cash be restricted at all times in an amount that is not less than the minimum princiapal and interest payments due in the current and subsequent interest periods. The loan is bearing interest at the canadian dealer offered rate plus 1.70% payable by semi annual principal payment of CAD 12,00,000.

8. Indian Rupee Loan from Banks also includes an amount of ₹ 4720.25 lakhs has been secured by Paripassu First Charge Fixed Assets of the Subsidiary Company (ZSIL). Collaterally secured by (i) paripassu second charge on the current assets of the Subisdiry company (ZSIL) and (ii) equitable mortgage of immovable properties of the company , (iii) pledge of shares of ₹ 493 Lakhs held by the promoters of the Company and (iv) additional security of ₹ 1152 Lakhs exclusively for this advance. Interest is charged at the rate of interest (like PLR plus 2%). The loan is repayable in 20 quaterly instalments of ₹ 307.5 Lakhs each along with interest, under step up method from the date of loan, viz 21.04.2009.

9. Foreign Currency Loan amount to ₹13,85,33,598 has been secured by pledge of shares of Zylog BV Limited and Ducont FZ LLC (which was acquired out of the loans) and guranteed by the parent company .

10. Foreign Currency Loan amount to ₹ 1,34,44,370 has been secured by the vehicles purchased out of the loan.

11. Indian rupee loans from Banks amount to ₹ 33,27,550 has been secured by the hypothication of vehicles purchased out of the loan.

BV loan security has to be given

Hire purchase loan is secured by assets financed by the loan.

2.04 OTHER LONG TERM LIABILITIES

Amount in ₹

Particulars	As at March 31,	
	2012	2011
Deposits	18,15,750	22,15,750
	18,15,750	22,15,750

2.05 PROVISIONS

Amount in ₹

	Long Term		Short term	
Particulars	As at March 31		As at March 31	
	2012	2011	2012	2011
Provision for employee benefits				
Gratuity	3,95,93,570	2,61,46,923	-	-
Provision for Taxation (Net of Advance Tax)	-	-	12,67,04,067	14,48,63,985
Proposed Dividend	-	-	16,44,64,200	13,15,71,360
Corporate Dividend Tax	-	-	2,66,80,205	2,18,52,687
	3,95,93,570	2,61,46,923	31,78,48,472	29,82,88,032

2.06 SHORT TERM BORROWINGS

Amount in ₹

Particulars	As at March 31, 2012	2011
Secured Loans:		
Indian rupee loans	84,69,97,929	105,79,62,523
Foreign currency loans	353,64,86,890	224,96,11,290
Cash credit	1,99,31,281	16,74,48,874
	440,34,16,100	347,50,22,687

Nature of security:

The packing credit in foreign currency & in rupees and cash credit facilities are secured by hypothecation of book debts and other current assets. Further guaranteed by the two promoter directors of the company in their personal capacity.

2.07 OTHER CURRENT LIABILITIES

Amount in ₹

Particulars	As at March 31, 2012	2011
Current Maturities of Long term borrowings	55,06,88,685	55,73,22,224
Current Maturities of Finance lease obligations	7,98,80,130	8,50,80,827
Interest accrued but not due on borrowings	2,01,74,572	1,30,22,177
Interest accrued and due on borrowings	1,52,71,171	47,68,463
Advance Received from Customers	3,72,99,062	1,11,21,962
Payroll Liabilities	20,80,17,657	12,80,60,869
Unpaid Dividend	44,45,086	18,54,969
With holding and other taxes payable	3,79,33,142	2,18,48,971
Deferred Revenue	3,41,76,835	-
Other payables	32,42,80,899	18,35,88,657
	131,21,67,238	100,66,69,120

2.08 FIXED ASSETS

Amount in ₹

	Original Cost				Depreciation/Amortisation				Net Book Value	
Particulars	As at 01-Apr-11	Additions	Deductions/ Adjustments	As at 31-Mar-12	Up to 01-Apr-11	For the Period	Deductions/ Adjustments	As at 31-Mar-12	As at 31-Mar-12	As at 31-Mar-11
Tangible Assets										
Own Assets										
Freehold land	3,77,49,868	-	53,21,566	3,24,28,302	-	-	-	-	3,24,28,302	3,77,49,868
Leasehold Land	4,85,09,058	11,14,622	-	4,96,23,680	79,32,329	73,85,948	-	1,53,18,277	3,43,05,403	4,05,76,729
Building	27,43,54,019	-	-	27,43,54,019	4,69,11,971	1,13,72,102	-	5,82,84,073	21,60,69,946	22,74,42,048
Plant & Machinery	39,66,52,688	16,08,10,565	-	55,74,63,253	7,59,05,874	5,30,94,301	-	12,90,00,175	42,84,63,078	32,07,46,814
Computer equipment	86,23,56,462	68,72,45,666	26,66,237	154,69,35,891	60,98,65,727	15,89,07,370	11,56,169	76,76,16,928	77,93,18,964	25,24,90,735
Furniture and fittings	9,80,70,861	8,18,86,474	-	17,99,57,335	4,80,86,015	2,04,06,255	-	6,84,92,270	11,14,65,066	4,99,84,846
Interior decoration	6,84,79,396	6,37,126	-	6,91,16,522	2,68,27,430	76,08,735	-	3,44,36,166	3,46,80,356	4,16,51,966
Electrical fittings	4,87,51,309	-	-	4,87,51,309	1,59,61,346	45,61,084	-	2,05,22,430	2,82,28,879	3,27,89,964
Office equipments	3,51,04,075	41,80,579	2,58,925	3,90,25,730	2,00,14,802	23,17,495	-	2,23,32,296	1,66,93,433	1,50,89,274
Vehicles	2,41,91,334	2,12,57,098	84,87,899	3,69,60,533	1,79,75,167	44,31,582	76,31,529	1,47,75,220	2,21,85,313	62,16,167
Leased assets										
Computer equipments	24,24,67,031	2,61,52,189	-	26,86,19,220	11,18,46,906	5,81,93,312	-	17,00,40,219	9,85,79,001	13,06,20,124
Total (A)	213,66,86,101	98,32,84,320	1,67,34,627	310,32,35,794	98,13,27,566	32,82,78,185	87,87,698	130,08,18,053	180,24,17,741	115,53,58,534
Intangible Assets										
Goodwill (Business Acquisition)	128,65,56,031	16,61,29,647	-	145,26,85,678	48,38,13,746	14,53,49,789	-	62,91,63,535	82,35,22,143	80,27,42,285
Computer software	1,86,49,993	51,53,447	-	2,38,03,440	1,29,49,712	41,14,044	-	1,70,63,756	67,39,684	57,00,281
License fee	1,38,54,000	-	-	1,38,54,000	1,38,54,000		-	1,38,54,000	-	-
Product development cost	63,16,32,277	92,19,59,755	-	155,35,92,032	31,51,88,653	13,57,04,474	-	45,08,93,127	110,26,98,905	31,64,43,624
Customer Relationship	67,92,91,396	-	-	67,92,91,396	7,49,10,662	6,35,21,470	-	13,84,32,132	54,08,59,265	60,43,80,734
Trademark & brand	50,11,43,897	-	-	50,11,43,897	-	-	-	-	50,11,43,897	50,11,43,897
Total (B)	313,11,27,594	109,32,42,849	-	422,43,70,443	90,07,16,773	34,86,89,777	-	124,94,06,550	297,49,63,893	223,04,10,822
Grand Total (A+B)	526,78,13,695	207,65,27,169	1,67,34,627	732,76,06,237	188,20,44,339	67,69,67,962	87,87,698	255,02,24,603	477,73,81,634	338,57,69,356
Previous Year	354,07,82,429	58,82,89,987	22,36,214	412,68,36,202	108,83,33,099	49,79,82,179	7,56,599	154,20,79,786	258,47,56,412	135,45,03,170

2.09 NON CURRENT INVESTMENTS (FULLY PAID)

Amount in ₹

Particulars	As at March 31,	
	2012	2011
Other investments quoted (at cost)		
Union Bank of India (2018 equity shares of ₹ 110 each)	2,21,980	2,21,980
Total Trade Investments	2,21,980	2,21,980
Trade Investments in equity instruments		
Nova MSC Sdn		
(4,28,49,750 equity shares of RM 0.10 each, Goodwill amounted ₹145.66Mn)	6,70,32,673	5,94,92,194
Total Non-Trade Investments	6,70,32,673	5,94,92,194
Total Non-Current Investments	6,72,54,653	5,97,14,174
Aggregate amount of Quoted Investments	2,21,980	2,21,980
Market Value of Quoted Investments	-	-
Aggregate amount of Non - Quoted Investments	6,70,32,673	5,94,92,194

2.10 DEFERRED TAX LIABLILITY

Amount in ₹

Particulars	As at March 31,		
	2012	Current Year Charge / (Credit)	2011
Deferred Tax Assets			
Provision for Gratuity	38,73,226	885,357	29,87,869
	38,73,226	885,357	29,87,869
Deferred Tax Liabilities			
Depreciation and Amortisation	5,95,18,946	34,525,122	2,49,93,824
	5,95,18,946	34,525,122	2,49,93,824
Net Deferred Tax Liability	5,56,45,720	33,639,765	2,20,05,956

2.11 LOANS AND ADVANCES

Amount in ₹

Particulars	Long Term		Short term	
	As at March 31		As at March 31	
	2012	2011	2012	2011
Capital Advances (Unsecured, Considered Good)	1,76,21,328	1,16,45,518	-	-
Security Deposits (Unsecured, Considered Good)	5,20,28,565	3,30,99,498	42,44,259	12,92,688
Others				
Prepaid Expenses	18,74,44,948	19,29,83,724	57,41,04,931	28,95,35,903
Advance tax and withholding taxes (Net of Provisions)	-	-	-	44,50,974
MAT Credit Entitlement	54,794	-	-	-
Other advances	4,76,30,943	2,37,02,395	27,40,85,804	24,33,17,767
	30,47,80,578	26,14,31,136	85,24,34,994	53,85,97,331

2.12 CURRENT INVESTMENTS

Amount in ₹

Particulars	As at March 31, 2012	As at March 31, 2011
Investment in Mutual Funds (Quoted)	4,57,270	4,56,100
Total Current Investments	4,57,270	4,56,100
Aggregate amount of Quoted Investments		
Market Value of Quoted Investments	4,57,270	4,56,100

2.13 INVENTORIES

Amount in ₹

Particulars	As at March 31, 2012	As at March 31, 2011
Consumables for E-Governance projects	1,63,07,621	90,66,018
	1,63,07,621	90,66,018

2.14 TRADE RECEIVABLES

Amount in ₹

Particulars	As at March 31, 2012	As at March 31, 2011
Outstanding for a period exceeding six months		
Unsecured, Considered Good	78,54,45,991	15,36,38,894
Doubtful	31,78,837	-
	78,86,24,828	15,36,38,894
Less : Allowance for bad & doubtful debts	31,78,837	
	78,54,45,991	15,36,38,894
Outstanding for a period not exceeding six months		
Unsecured, Considered Good	643,51,26,694	530,17,22,372
	643,51,26,694	530,17,22,372
	722,05,72,685	545,53,61,266

2.15 CASH AND BANK BALANCES

Amount in ₹

Particulars	Non Current As at March 31 2012	Non Current As at March 31 2011	Current As at March 31 2012	Current As at March 31 2011
Cash and cash equivalents				
Cash on hand	-	-	13,77,490	10,13,198
Balance with Banks				
Current Accounts	-	-	194,36,04,739	141,55,31,947
Other Bank balances				
Current Accounts (Subject to restricted use) *	10,91,11,692	11,61,33,588	67,90,602	60,70,285
Unpaid Dividend account	-	-	44,44,949	18,96,093
Margin Money Deposit Accounts	-	-	71,51,155	52,75,403
Deposits	127,66,43,490	144,90,68,185	5,29,87,855	14,36,852
	138,57,55,182	156,52,01,773	201,63,56,791	143,12,23,778
Amount disclosed under Non Current assets (Note no 2.16)	(138,57,55,182)	(156,52,01,773)	-	-
	-	-	201,63,56,791	143,12,23,778

The Margin Money Deposits are towards Letters of Credit and Bank Guarantee
Bank Balance of ₹11,59,02,294 (₹12,22,03,873) in Current account (subject to restricted use) is subject to restricted use and held as security against the borrowings
Bank Balance of ₹ 5,20,80,300 (₹ Nil) in Deposit account held as security against the Government Contracts

2.16 OTHER ASSETS

Amount in ₹

Particulars	Non Current As at March 31		Current As at March 31	
	2012	2011	2012	2011
Non Current Bank Deposits (As per Note 2.15)	138,57,55,182	156,52,01,773	-	-
Unbilled Revenue	-	-	132,77,22,745	85,73,73,689
Interest Accrued on Deposits	50,685	-	3,00,58,060	6,94,04,949
Unamortised Expenditure	-	24,20,325	-	8,18,463
	138,58,05,867	156,76,22,097	135,77,80,805	92,75,97,101

2.17 REVENUE FROM OPERATIONS

Amount in ₹

Particulars	As at March 31, 2012	2011
Export of software services, products & solutions	2212,59,81,909	1893,18,38,008
Domestic operations	60,25,66,889	22,49,37,842
	2272,85,48,798	1915,67,75,850

2.18 OTHER INCOME

Amount in ₹

Particulars	As at March 31, 2012	2011
Interest Income on		
Bank Deposits	4,88,71,506	2,27,57,936
Others	317	682
Dividend Income		
Current investments	16,144	13,754
Share of Exchange Difference of the Associate	10,72,497	-
Rental Income	2,55,996	5,28,172
Forex gain	4,27,92,686	-
Profit on Sale of Asset	8,59,94,545	-
Miscellaneous Income	44,08,470	2,58,87,193
	18,34,12,161	4,91,87,737

2.19 EMPLOYEE BENEFITS EXPENSE

Amount in ₹

Particulars	As at March 31, 2012	2011
Salaries and incentives	1162,75,29,844	1136,82,66,676
Contribution to Provident fund and other funds	3,68,94,113	2,98,00,032
Gratuity	1,25,35,174	1,30,72,261
Reimbursement of expenses	4,00,44,597	2,26,60,561
Staff welfare expenses	6,36,47,898	5,90,64,917
	1178,06,51,626	1149,28,64,447

2.20 OPERATION AND OTHER EXPENSES

Amount in ₹

Particulars	As at March 31,	
	2012	2011
Consultancy Charges	60,25,33,310	63,52,04,077
Consumables	13,27,05,563	10,48,63,397
Directors' sitting fee	1,60,000	1,85,000
Power and Fuel	54,13,496	18,33,303
Rent	15,80,12,612	10,40,96,610
Repairs & Maintenance	81,76,906	1,02,76,102
Building	7,34,50,994	5,54,96,461
Plant & Machinery	82,75,306	57,70,839
Others	2,15,61,231	1,52,62,228
Vehicle Maintenance	32,79,410	20,75,953
Insurance	32,18,67,473	24,60,68,168
Rates & Taxes	2,49,71,066	1,99,24,174
Printing & Stationery	1,97,54,262	1,61,20,941
Lease rental Charges	3,98,31,109	3,45,19,475
Travelling Expenses	9,78,96,831	7,66,34,612
Communication Expenses	7,71,72,641	9,90,77,524
Payments to Auditor as		
Statutory Audit Fee	1,04,63,396	1,20,73,764
Tax Audit Fee	9,92,124	7,14,274
Others	48,983	50,586
Legal Expenses & Professional fees	13,86,74,013	6,48,18,123
Electricity	1,63,30,825	1,74,63,455
Recruitment and Training Expenses	5,94,88,937	3,16,97,250
Foreign exchange loss	10,71,62,365	17,81,66,416
Visa Processing related expenses	35,13,56,941	8,00,08,915
Bad debts, loans & advances written off	54,49,220	-
Trade show seminar and Conference Expense	4,12,26,239	3,76,84,653
Advertisement	4,14,97,395	3,38,02,079
Marketing Expenses	55,39,15,307	43,83,08,381
Commission	1,45,17,625	97,55,319
Entertainment	3,15,95,756	2,45,70,855
Donations	7,37,761	4,62,936
Bank Charges	8,58,05,445	63,67,049
Net Loss on sale on Assets	1,91,535	7,19,967
Miscellaneous Expenses	2,52,04,684	77,01,764
	307,97,20,761	237,17,74,648

2.21 FINANCE COST

Amount in ₹

Particulars	As at March 31,	
	2012	2011
Interest	39,17,72,838	36,38,99,194
Loan Processing, preclosure & Other Charges	6,06,12,956	4,41,39,404
	45,23,85,794	40,80,38,598

2.22 The consolidated financial statements present the consolidated accounts of Zylog Systems Limited., and of the following subsidiaries and associate.

Name of the Subsidiary Company	Country of incorporation	Extent of holding as at March 31, 2012	2011
Zylog Systems (Europe) Limited	UK	100%	100%
Vishwa Vikas Services Limited	India	100%	100%
Zylog Systems (India) Limited	India	100%	100%
Zylog Systems Asia Pacific Pte Ltd	Singapore	100%	100%
Zylog BV Limited	British Virgin Islands	100%	100%
Zylog Systems (Canada) Limited	Canada	100%	100%
Matrix Primus Partners Inc	USA	100%	100%
Algorithm Solutions Private Ltd	India	100%	100%
Ducont FZ LLC	UAE	100%	100%
Ducont India Pvt. Ltd	India	100%	100%
Anodas Software Ltd	UK	100%	100%
Zylog AG Switzerland	Switzerland	100%	100%

Investment in Associate

Name of the Subsidiary Company	Country of incorporation	Percentage of ownership interest as at March 31, 2012	2011
Nova Msc Bhd	Malaysia	10.64%	10.64%

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

2.23 **Changes in Group Structure**

There is no change in group structure during the year March 31, 2012.

2.24 **Earnings Per Share (EPS)**

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.

Particulars	As at March 31, 2012	2011
Net Income available to Equity Shareholders	2,043,990,681	1,451,462,243
No of outstanding equity shares		
Basic	16,446,420	16,446,420
Diluted	16,446,420	16,446,420
Earning Per share		
Basic	124.28	88.25
Diluted	124.28	88.25

2.25 DISCLOSURES UNDER " ACCOUNTING STANDARD (AS)-15 (REVISED) – EMPLOYEE BENEFITS

a. Reconciliation of opening and closing balances of Defined Benefit obligation *Amount in ₹*

	As at March 31, 2012	As at March 31, 2011
Defined Benefit obligation towards gratuity at beginning of the year	2,61,46,923	1,76,16,203
Current Service Cost	1,17,29,592	1,24,47,397
Interest Cost	12,71,000	7,39,000
Actuarial (gain)/Loss	(4,69,825)	14,096
Benefits Paid	(3,48,142)	(46,79,975)
Exchange loss adjustment	12,59,615	10,202
Defined Benefit obligation at the year end	3,95,89,163	2,61,46,923

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 ₹*

	As at March 31, 2012	As at March 31, 2011
Fair value of plan assets		
Present value of obligation	3,95,89,163	2,61,46,923
Amount recognised in the Balance Sheet	3,95,89,163	2,61,46,923

d. Expense recognized during the year *Amount in ₹*

	As at March 31, 2012	As at March 31, 2011
Current service cost	1,17,29,592	1,24,47,397
Interest cost	12,71,000	7,39,000
Actuarial (gain)/Loss	(4,69,825)	14,096
Amount recognised in the Balance Sheet	1,25,30,767	1,32,00,493

e. Investment Details: **Not funded**

f. Actuarial Assumptions:

	As at March 31, 2012	As at March 31, 2011
Interest rate	8.00%	7.00%
Inflation rate	4.00%	4.00%
Mortality rate #	-	-
Retirement age	58.00	58.00

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

2.26 Leases

Finance lease: Company as lessee

a) Net carrying amount of assets taken on financial lease as on 31/03/2012 ₹116.88 lakhs (PY ₹ 139.52 Lakhs).

b) Out of the total lease payments of ₹ 1005.71 lakhs (PY ₹ 866. 84 lakhs), Finance charges amounts to ₹ 132.73 lakhs (PY ₹ 178.88 lakhs) and the reduction in principal amounts to ₹ 872.97 lakhs (PY ₹ 687.96 lakhs).

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

Amount in ₹

Particulars	As at March 31, 2012		2011	
	Minimum Lease Payments	Present value of MLP	Minimum Lease Payments	Present value of MLP
Not later than one year	7,05,43,430	6,74,19,598	9,49,11,636	8,96,08,510
Later than one year and not later than five years	2,25,88,843	1,90,71,888	6,85,84,587	5,83,79,766
Later than five years				
	9,31,32,272	8,64,91,486	16,34,96,223	14,79,88,276

OPERATING LEASE: COMPANY AS LESSEE

Future minimum rentals payable under non-cancellable operating leases are as follows: *Amount in ₹*

	As at March 31, 2012	2011
Lease rentals recognized during the year	3,47,96,829	3,01,41,393
Not later than one year	3,33,55,228	5,68,44,685
Later than one year and not later than five years	14,47,44,290	14,67,38,144
Later than five years		
	21,28,96,347	23,37,24,222

2.27 INVESTMENT IN ASSOCIATE

Name of the entity	No of equity shares held(nos)	% of the holding	Cost of investments (equity shares)	Goodwill/ (Capital reserve)	Share in accumulated profit/ (loss) / reserve	Carrying Amount
Nova Msc Bhd	4,28,49,750	10.64	7,19,84,420	1,75,01,682	(4,951,748)	6,70,32,672

2.28 Details of auditors' remuneration (Net of service tax where applicable) *Amount in ₹*

	As at March 31, 2012	2011
Statutory audit	10,463,396	12,073,764
Tax Audit	1,041,107	764,860
	11,504,503	12,838,624

2.29 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 realtionships

Name of the 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
Algorithm Solutions Private Ltd	Subsidiary
Ducont FZ LLC	Fellow Subsidiary
Ducont India Pvt. Ltd	Fellow Subsidiary
Anodas Software Ltd	Fellow Subsidiary
Zylog AG Switzerland	Fellow Subsidiary

b) Transaction with related parties *Amount in ₹*

	As at March 31,	
	2012	2011
Mr. Sudarshan Venkatraman – Remuneration	1,19,51,564	1,15,96,648
Mr. Ramanujam Sesharathnam – Remuneration	1,15,58,890	1,13,06,506
Mr. Srikanth Parthasarathy – Remuneration	60,00,000	51,77,419
	2,95,10,454	2,80,80,573

2.30 Short term Loans and Advances include unbilled revenue of ₹ 13,277.23 lakhs (₹ 8,573.74 lakhs) recognized in relation to efforts incurred on various contracts until the balance sheet date.

2.31 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 ` 62,12,04,848. The company has adopted the policy of amortizing this amount over a period of 5 years. Accordingly, the company has amortized a sum of ₹ 7,95,67,200/- in the year under review (previous year ₹ 9,34,32,185/-).

2.32 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 2012 to Micro, Small and Medium Enterprises on account of principal and interest is ₹ Nil (₹ Nil).

2.33 Contigent Liabilities and Commitments

		Amount in ₹	Previous Year *Amount in ₹*
(i)	Contingent Liability not provided for :		
	a) Bank Guarantee/Bond executed by the Company	9,34,02,663	-
	b) Letter of credits opened by bankers		
	c) Appeals filed in respect of disputed demands		
	Income Tax **	52,08,18,326	13,82,26,256
	Sales Tax	19,34,000	19,34,000
	Service Tax	90,40,417	90,40,417

**Demand raised by the Income Tax department against the company by disallowing certain deductions/benefits/ claims made by the company. In the opinion of the Company most of these demands are not maintainable and accordingly appeals have been preferred

	Amount in ₹	Previous Year *Amount in ₹*
(ii) Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advance)	38,86,042	Nil

2.34 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

M Gajhanathan
Director

S Rajagopal
Director

A P Vasanthakumar
Director

V K Ramani
Director

S P Srihari
Global Chief Financial Officer

Chennai
May 25, 2012

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)

17TH ANNUAL GENARL MEETING ON TUESDAY, SEPTEMBER 25, 2012 AT 10.30 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 17th Annual General Meeting of the members of the Company held on Tuesday, September 25, 2012 at 10.30 a.m. at Narada Gana Sabha Trust, 314 (Old No. 254), T.T.K Road, Alwarpet, Chennai – 600018.

____
Signature of Shareholder / Proxy

* Applicable in case of shares held in Physical Form

ZYLOG SYSTEMS LIMITED

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

PROXY FORM

I/We ______________________________ of ______________________

being member/member(s) of Zylog Systems Limited, hereby appoint ______________ of ______________ 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 17th Annual General Meeting of the Company to be held on Tuesday, September 25, 2012 at 10.30 a.m. at Narada Gana Sabha Trust, 314 (Old No. 254), T.T.K Road, Alwarpet, Chennai – 600018 and at any adjournment thereof :

Folio No. ______________ DP ID No. ______________ Client ID No. ______________

No. of shares held ______________________________

Signed this ______________ day of ______________ 2012.

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

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 From 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.

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