

K2 SYSTEMS LIMITED

**22ND
ANNUAL REPORT
2010-2011**

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CORPORATE INFORMATION

Board of Directors:

- | | | | |
|----|------------------------------|---|----------|
| 1. | Mr. A. Narasimha Sarma | — | Director |
| 2. | Mr. K. R. Srinivasa Rao | — | Director |
| 3. | Mrs. Akella Katyayani | — | Director |
| 4. | Mr. Venkata Ramana Akumarthi | — | Director |
| 5. | Mr. Desiraju Nagaraju | — | Director |

Registered Office :

6-3-650, 503, Maheswari Chambers,
Beside Medinova Diagnostics,
Somajiguda, Erramanzyl,
Hyderabad.

Auditors:

M/s. Balaji Viswanath & Co.,
Chartered Accountants,
Hyderabad.

Audit Committee:

- 1) Mr. Desiraju Nagaraju
- 2) Mr. Venkata Ramana Akumarthi
- 3) Mr. K. R. Srinivasa Rao

Remuneration Committee:

- 1) Mr. Desiraju Nagaraju
- 2) Mr. Venkata Ramana Akumarthi
- 3) Mr. K. R. Srinivasa Rao

Investor Grievance Committee:

- 1) Mr. Desiraju Nagaraju
- 2) Mr. Venkata Ramana Akumarthi
- 3) Mr. K. R. Srinivasa Rao

Listing:

Bangalore Stock Exchange Limited

Registrar & Share Transfer Agents:

Big share Services Pvt Ltd,
E-2/3, Ansa Industrial Estate,
Sakivihar Road, Saki Naka,
Andheri (E), Mumbai – 400072

NOTICE

NOTICE IS HEREBY GIVEN THAT THE 22ND ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF K2 SYSTEMS LIMITED WILL BE HELD ON FRIDAY, THE 30TH SEPTEMBER 2011 AT 12.30 P.M. AT 6-3-650, 503, MAHESWARI CHAMBERS, BESIDE MEDINOVA DIAGNOSTICS, SOMAJIGUDA, ERRAMANZYL, HYDERABAD - 500082 TO TRANSACT THE FOLLOWING BUSINESS:

ORDINARY BUSINESS:

1. To consider and if thought fit, to adopt the audited Balance sheet as on 31st March, 2011 and Profit & Loss A/c for the year ended on that date along with the report of Directors and Auditors thereon
2. To appoint a director in place of Mr. A. Venkata Ramana who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company and to fix their remuneration.

SPECIAL BUSINESS:

4. **To consider and if thought fit, to pass, with or without modification(s) the following resolution as an Ordinary Resolution:**

“RESOLVED THAT Mr. A. Narasimha Sarma, who was appointed as an additional director of the company pursuant to the provisions of section 260 of the Companies Act, 1956 by the board of directors w.e.f. 21.10.2010 and who holds the office up-to date of the ensuing annual general meeting and in respect of whom the company has received a notice in writing under section 257 read with section 190 of the said Act, along with requisite deposit proposing him as candidate for the office of director of the company, be and is hereby appointed as a director of the company whose period of office is liable to be determined by retirement of directors by rotation.”

5. **To consider and if thought fit, to pass, with or without modification(s) the following resolution as an Ordinary Resolution:**

“RESOLVED THAT Mrs. Akella Katyayani, who was appointed as an additional director of the company pursuant to the provisions of section 260 of the Companies Act, 1956 by the board of directors w.e.f. 07.12.2010 and who holds the office up-to date of the ensuing annual general meeting and in respect of whom the company has received a notice in writing under section 257 read with section 190 of the said Act, along with requisite deposit proposing her as candidate for the office of director of the company, be and is hereby appointed as a director of the company whose period of office is liable to be determined by retirement of directors by rotation.”

For and on behalf of the Board
K2 SYSTEMS LIMITED

Place: Hyderabad
Date: 02.05.2011

Sd/-
A. Narasimha Sarma
Director

NOTES:

1. An Explanatory Statement pursuant to section 173(2) of the companies Act, 1956 in relation to the Special Business of the Meeting is annexed hereto and forms part of this notice.
2. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY OR PROXIES TO ATTEND AND VOTE ON A POLL INSTEAD OF HIMSELF / HERSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXIES, IN ORDER TO BE EFFECTIVE MUST BE RECEIVED BY THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.**
3. The Register of Members and Share Transfer Books of the Company will be closed from 27.09.2011 to 30.09.2011 (Both days inclusive).
4. Members are requested to produce the Attendance Slip duly signed as per the Specimen Signature recorded with the Company/Depository Participant for admission to the meeting hall.
5. Members are requested to notify immediately any change in their address to the Share Transfer Agents and in case their shares are held in dematerialized form, this information should be passed on to their respective Depository Participants.
6. A Member desirous of receiving any information on the accounts or operations of the company is requested to forward his/her queries to the company at least 7 working days prior to the meeting, so that the required information can made available at the meeting.
7. Members holding shares in physical form are requested to notify immediately any change in their address along with address proof, i.e Electric /Telephone Bill, Driving License or a copy of passport and Bank particulars to the company in case their shares are held in dematerialized form, this information should be passed on directly to their respective Depository Participants and not to the company.
8. As part of Green Initiative in Corporate Governance the Ministry of Corporate Affairs (MCA), Government of India vide its Circular has allowed paperless compliances by Companies inter-alia stating that if the Company sends official documents to their shareholders electronically, it will be in compliance with the provisions of Section 53 of the Companies Act, 1956. Keeping in view shareholders are requested to update their E-Mail ID with their DP.

Item No. 4:

The members may note that Mr. A. Narasimha Sarma was inducted into Board as an Additional Director of the company, with effect from 21.10.2010 pursuant to the provisions of section 260 of the Companies Act, 1956 and holds the office as such up to the date of ensuing Annual General Meeting. The company has received notice in writing from a member of the Company along with the requisite deposit under Section 257 read with section 190 of the Companies Act, 1956 proposing the candidature of the above said person for the Office of Director whose period of office is determinable by retirement of Directors by rotation.

K2 Systems Limited

As per the provisions of section 257 of the Act, any such proposal ought to be approved by the members in their General Meeting.

Hence, the Board recommends the resolution for your approval.

None of Directors except Mr. A. Narasimha Sarma may be deemed to be concerned or interested in the above said resolution.

Item No. 5:

The members may note that Mrs. Akella Katyayani was inducted into Board as an Additional Director of the company, with effect from 07.12.2010 pursuant to the provisions of section 260 of the Companies Act, 1956 and holds the office as such up to the date of ensuing Annual General Meeting. The company has received notice in writing from a member of the Company along with the requisite deposit under Section 257 read with section 190 of the Companies Act, 1956 proposing the candidature of the above said person for the Office of Director whose period of office is determinable by retirement of Directors by rotation.

As per the provisions of section 257 of the Act, any such proposal ought to be approved by the members in their General Meeting.

Hence, the Board recommends the resolution for your approval.

None of Directors except Mrs. Akella Katyayani may be deemed to be concerned or interested in the above said resolution.

For and on behalf of the Board
K2 SYSTEMS LIMITED

Place: Hyderabad
Date: 02.05.2011

Sd/-
A. Narasimha Sarma
Director

DIRECTORS' REPORT

To,
The Members

We have pleasure in presenting the 22nd Annual Report with Audited Statements of Accounts for the year ended 31st March 2011.

FINANCIAL RESULTS :

(Rupees in Lakhs)

Particulars	2010-11	2009-10
Income	1357629	4472455
Expenditure	1388930	4724727
Profit after Tax	(31301)	(252272)
Profit / (Loss) carried to Balance Sheet	(42,044,010)	(42012709)

PERFORMANCE REVIEW:

The Ministry of Corporate Affairs (MCA) vide notification no. S.O. 447(E) dated 28th February, 2011 amended the existing Schedule VI to the Companies Act, 1956. The Revised Schedule VI is applicable from financial year commencing from 1st April, 2011. The financial statements of your Company for the year ended 31st March, 2011 have been prepared in accordance with the Revised Schedule VI and accordingly, the previous year's figures have been reclassified/ regrouped to conform to this year's classification.

The Company has recorded a turnover of Rs. 1,357,629/- and incurred a net loss of Rs. 31,301/- in the current year against the turnover of Rs. 44,72,455/- and a net loss of Rs. 2,52,272/- in the previous financial year ending 31.03.2010.

The Company has been continuously working on quality up gradation and austerity measures for achieving efficient running of the organization.

DIVIDEND:

Keeping the Company's expansion and growth plans in mind, your Directors have decided not to recommend dividend for the year.

PUBLIC DEPOSITS:

Your Company has not accepted any deposits falling within the meaning of Sec.58A of the Companies Act, 1956 read with the Companies (Acceptance of Deposits) Rules, during the financial year under review.

LISTING:

The equity shares of your company are listed on the Bangalore Stock Exchange Limited.

CAPITAL OF THE COMPANY:

Authorised Share capital of the company stands is Rs.50,000,000/- (Rupees Five Crores

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Only) divided in to 50,00,000 equity shares of Rs.10/- and Issued, Subscribed and Paid up capital of the company is Rs.39,400,000/- (Rupees Three Crores Ninety Four Lakhs only) divided in to 39,40,000 equity shares of Rs.10/- each.

SUBSIDIARY COMPANY:

Your Company does not have any subsidiary company.

MANAGEMENT DISCUSSION AND ANALYSIS:

A detailed review of operations, performance and future outlook of your Company and its businesses is given in the Management Discussion and Analysis, which forms part of this Report.

DIRECTORS:

In accordance with the Companies Act, 1956 read with Articles of Association of the company the Director namely Mr. A. Venkata Ramana retires by rotation and is eligible for re-appointment. Your Board recommends the re appointment of the Director above in the best interests of the company.

During the year two new directors Mr. A. Narsimha Sarma and Mrs. Akella Katyayani were inducted in to the Board on 21.10.2010 and 07.12.2012 respectively as additional directors.

DIRECTORS' RESPONSIBILITY STATEMENT:

In pursuance of Section 217(2AA) of the Companies Amendment Act, 2000 your directors confirm

- i) That the directors in the preparation of the annual accounts the applicable accounting standards have been followed along with proper explanations relating to material departures.
- ii) That the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year.
- iii) That the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safe guarding the assets of the company and for preventing and deleting fraud and other irregularities.
- iv) That the directors had prepared the annual accounts on the going concern basis.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION & FOREIGN EXCHANGE EARNINGS AND OUT GO:

The required information as per Sec.217 (1) (e) of the Companies Act 1956 is provided hereunder:

A. Conservation of Energy:

Your Company's operations are not energy intensive. Adequate measures have

been taken to conserve energy wherever possible by using energy efficient computers and purchase of energy efficient equipment.

B. Technology Absorption:

- | | |
|---|-------|
| 1. Research and Development (R&D) | : NIL |
| 2. Technology absorption, adoption and innovation | : NIL |

C. Foreign Exchange Earnings and Out Go:

- | | |
|---------------------------|-------|
| Foreign Exchange Earnings | : NIL |
| Foreign Exchange Outgo | : NIL |

PARTICULARS OF EMPLOYEES:

There is no employee who is falling under section 217 (2A). Therefore, the disclosures required to be made under section 217 (2A) of the Companies Act, 1956 and the rules made there under are not applicable.

CODE OF CONDUCT:

The Code of Conduct has been circulated to all the members of the Board and Senior Management and the compliance of the same has been affirmed by them. Code of Conduct has also been placed on the website of the company. A declaration to this effect is given in Annexure.

AUDITORS:

Your directors propose the appointment of M/s. Balaji Viswanath & Co., as statutory auditors to hold office until the conclusion of the next Annual General Meeting of the company.

CORPORATE GOVERNANCE:

As a listed company, necessary measures have been taken to comply with the listing agreements of Stock Exchanges. A report on Corporate Governance, along with a certificate of compliance from the practicing company secretary forms part of this Report as Annexure.

ACKNOWLEDGEMENTS:

Your directors would like to express their grateful appreciation for assistance and co-operation received from clients, banks, investors, Government, other statutory authorities and all others associated with the company. Your directors also wish to place on record their deep sense of appreciation for the excellent contribution made by the employees at all levels, which enabled the company to achieve sustained growth in the operational performance during the year under review.

For and on behalf of the Board
K2 SYSTEMS LIMITED

Place: Hyderabad
Date: 02.05.2011

Sd/-
A. Narasimha Sarma
Director

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Forming part of Directors' Report)

a) Economic Overview

The year witnessed a global economic slowdown in general. The market conditions were difficult and there was a volatile currency environment. In view of the difficulties faced on account of economic conditions the main focus of the company was on conserving cost and creating efficiencies thereby enhancing value. Due to slowdown considerable reductions were experienced in IT service spends all over. There was also increased regulation leading to more enterprise regulation, security and reporting, there was also a general slowdown in the IT industry.

b) Industry Structure, Development and Outlook

The earlier trend of smaller companies being marginalized has continued in the year under review. Another distinct trend during the year has been the preference of foreign companies to outsource their entire IT needs to the larger companies and get them to setup large offshore operations to support these contracts.

c) Business performance and Segment Reporting

During the year under review, the company has earned a Net loss of Rs.31301/- as against Net Loss of Rs. 252272/- during the previous year. The performance of the company is expected to Improve during the coming years which years with increasing efforts being made in the direction of improving the working efficiency of the company.

The company is engaged in the development of software, which as per Accounting Standard 17 is considered the only reportable business.

d) Internal Control System and its adequacy

The system of internal control has been established to provide reasonable assurance of safeguarding assets and maintenance of proper Accounting Records and its accuracy. The business risks and its control procedures are reviewed frequently. Systems audit is also conducted regularly to review the systems with respect to Security and its Adequacy. Reports are prepared and circulated to Senior Management and action taken to strengthen controls where necessary.

e) Risk Management

Risk evolution and management is an ongoing process in the company

f) Human resources and Industrial relations

Your company continues to have cordial relations with its employees.

REPORT ON CORPORATE GOVERNANCE

(Forming part of Directors' Report)

I. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

All the procedures, policies and practices followed by your Company are based on sound governance principles.

Comprehensive disclosures, structured accountability in exercise of powers, adhering to international standards and commitment in compliance with regulations and statutes in letter as well as spirit have enabled your Company to enhance shareholder value. In fact, this has become an integral part of the way business is done. The governance practices followed by your Company are continuously reviewed and the same are benchmarked to the best governed companies.

Your Company has complied with all the regulations stipulated by the Securities Exchange Board of India (SEBI) in the Listing Agreement.

II. BOARD OF DIRECTORS

The Board of Directors consists of 5 Members of which 3 are Non-Executive Independent Directors. The Composition of the Board is in conformity with the listing requirements.

The Board of Directors met 6 times during the year on 30.04.2010, 31.07.2010, 01.09.2010, 21.10.2010, 07.12.2010 and 31.01.2011 and the maximum gap between any two meetings was less than four months, as stipulated under Clause 49.

The details of Composition of Board of Directors, directors' attendance at Board Meetings, AGM and details of other directorships, committee chairmanships/ memberships held by the Directors during the year are as follows:

S. No	Name of the Directors	Category	Attendance Particulars			No. of other Directorships and Committee memberships/ chairmanships		
			No. of Board meetings		Last AGM	Other Directorships	Committee Memberships	Committee Chairmanships
			Held	Attended				
1.	# Mr. A. Narsimha Sarma	Executive	3	3	Yes	NIL	NIL	NIL
2.	Mr. K. R. Srinivasa Rao	Independent	6	6	Yes	NIL	NIL	NIL
3.	##Mrs. Akella Katyayani	Non-Executive	2	2	Yes	NIL	NIL	NIL
4.	Mr. Venkata Ramana Akumarth	Independent	6	6	Yes	3	NIL	NIL
5.	Mr. Desiraju Nagaraju	Independent	6	6	Yes	Nil	NIL	NIL

appointed w.e.f: **21.10.2010**

appointed w.e.f: **07.12.2010**

Board's Procedure:

Agenda papers along with explanatory statements were circulated to the directors in advance for each of these meetings. All relevant information as per Clause 49 of the Listing Agreement was placed before the Board from time to time.

Committees of the Board:

Currently, there are three (3) Committees of the Board, namely: Audit Committee, Remuneration Committee, Shareholders/ Investors Grievance Committee and Share Transfer Committee. The Board decides the terms of reference for these Committees. The minutes of the meetings of the Committees are placed before the Board for information. The details as to the composition, terms of reference, number of meetings and related attendance, etc., of these Committees are provided hereunder:

III. AUDIT COMMITTEE

- a) The Audit Committee of the Company is constituted in line with the provisions of Clause 49 of the Listing Agreements with the Stock Exchanges read with Section 292A of the Companies Act, 1956.
- b) The terms of reference of the Audit Committee include a review of;
 - Overview of the Company's financial reporting process and disclosure of its financial information to ensure that the financial statements reflect a true and fair position and that sufficient and credible information is disclosed.
 - Recommending the appointment and removal of external auditors, fixation of audit fee and also approval for payment for any other services.
 - Discussion with external auditors before the audit commences, of the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
 - Reviewing the financial statements and draft audit report including quarterly / half yearly financial information.
 - Reviewing with management the annual financial statements before submission to the Board, focusing on:
 1. Any changes in accounting policies and practices;
 2. Qualification in draft audit report;
 3. Significant adjustments arising out of audit;
 4. The going concern concept;
 5. Compliance with accounting standards;
 6. Compliance with stock exchange and legal requirements concerning financial statements;
 7. Any related party transactions
 - Reviewing the company's financial and risk management's policies.
 - Disclosure of contingent liabilities.
 - Reviewing with management, external and internal auditors, the adequacy of internal control systems.

- Reviewing the adequacy of internal audit function, including the audit character, the structure of the internal audit department, approval of the audit plan and its execution, staffing and seniority of the official heading the department, reporting structure, coverage and frequency of internal audit.
 - Discussion with internal auditors of any significant findings and follow-up thereon.
 - Reviewing the findings of any internal investigations by the internal auditors into the matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
 - Looking into the reasons for substantial defaults in payments to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors.
 - Reviewing compliances as regards the Company's Whistle Blower Policy.
- c) The previous Annual General Meeting of the Company was held on 30th September 2010 and Mr. D. Nagaraju, Chairman of the Audit Committee, attended previous AGM.
- d) The composition of the Audit Committee and the attendance of each member of the Audit Committee are given below:

The Company has complied with all the requirements of Clause 49 (II) (A) of the Listing Agreement relating to the composition of the Audit Committee. During the financial year 2011-2012, (4) four meetings of the Audit Committee were held on the 30.04.2010, 31.07.2010, 21.10.2010, and 31.01.2011.

The details of the composition of the Committee and attendance of the members at the meetings are given below :

Name	Designation	Category	No. of meetings attended
Mr. Desiraju Nagaraju	Chairman	Independent	—
Mr. Venkata Ramana AkumarthiMember	Member	Independent	—
Mr. K.R. Srinivasa Rao	Member	Independent	—

The necessary quorum was present at all the meetings.

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IV. REMUNERATION COMMITTEE:

The details of composition of the Committee are given below:

Name	Designation	Category
Mr. Desiraju Nagaraju	Chairman	Independent
Mr. Venkata Ramana Akumarthi	Member	Independent
Mr. K.R. Srinivasa Rao	Member	Independent

Terms of reference:

The main term of reference of the Committee is to approve the fixation/revision of remuneration of the Managing Director/Whole Time Director or other key employees of the Company and while approving:

- To take into account the financial position of the Company, trend in the industry, appointee's qualification, experience, past performance, past remuneration etc.
- To bring out objectivity in determining the remuneration package while striking a balance between the interest of the Company and the Shareholders.

V. SHAREHOLDERS / INVESTOR GRIEVANCE AND SHARE TRANSFER COMMITTEE

A) Composition, meetings and the attendance during the year:

The Details of composition of the Committee and attendance of the members at the meetings are given below:

Name	Designation	Category
Mr. Desiraju Nagaraju	Chairman	Independent
Mr. Venkata Ramana Akumarthi	Member	Independent
Mr. K.R. Srinivasa Rao	Member	Independent

B) Powers:

The committee has been delegated with the following powers:

- To redress shareholders and investor complaints relating to transfer of shares, dematerialization of shares, non-receipt of balance sheet, non-receipt of declared dividend etc.
- To approve, transfer, transmission, and issue of duplicate/ fresh share certificate(s).
- Consolidate and sub-division of share certificate etc.

- To redress, approve and dispose off any, other complaints, transactions and requests etc. received from any shareholder of the company and investor in general.

The Board has delegated the power to process the transfer and transmission of shares to the Registrar and share Transfer Agents, who process share transfers within a week of lodgment in the case of shares held in physical form.

The Board has designated Mr. A. N. Sarma, Director of the Company as the Compliance Officer.

The Company has designated an exclusive e-mail ID **an_sarma@yahoo.co.in** for redressal of shareholders' complaints/grievances.

Complaints received and redressed by the Company during the financial year:

During the year no complaints were received.

During the year no complaints were received.

S.No	Particulars	Remarks
1.	At the beginning of the year	NIL
2.	Received during the year	NIL
3.	At the end of the year	NIL

VII. OTHER DISCLOSURES

Financial Year	Date	Time	Venue	Special Resolution
2009-10	30.09.2010	10.00 AM	8-2-269/19/S/A/2, Sravana Buildings, Road No. 2, Hyderabad - 500 034.	NIL
2008-09	25.09.2009	10.30 AM	8-2-603/1/10, Ground Floor, Sri Venkateswara Nilayam, Road No. 10, Krishna Puram, Banjara Hills, Hyderabad.	NIL
2007-08	21.08.2008	10.30 AM	8-2-603/1/10, Ground Floor, Sri Venkateswara Nilayam, Road No. 10, Krishna Puram, Banjara Hills, Hyderabad.	NIL

- There were no significant related party transactions that may have potential conflict with the interests of the Company at large.
- In the preparation of financial statements, no treatment materially different from that prescribed in Accounting Standards had been followed.

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- (c) There were no penalties or strictures imposed on the Company by the Stock Exchanges or SEBI or any statutory authority on any matter related to capital markets at any time during the last 3 years.
- (d) **Whistle Blower policy:** The Company have established a mechanism for employees to report concerns about unethical behavior, fraud or violation of code of conduct of the company. The mechanism provided direct access to the Managing Director/Chairman of the Audit Committee for exceptional cases. All employees can also directly meet the Audit Committee members of the company.
- (e) The Company has complied with the non –mandatory requirements to relating to remuneration committee and Whistle Blower policy.
- (f) Managing Director of the Company has furnished the requisite Certificates to the Board of Directors under Clause 49 of the Listing Agreement.

VIII. MEANS OF COMMUNICATION

The quarterly, half yearly and yearly financial results will be sent to the stock Exchanges immediately after the Board approves the same and these results will also be published in one English newspaper and in one vernacular newspaper.

IX. GENERAL SHAREHOLDERS INFORMATION

a) **22ND Annual General Meeting:**

Date and Time	Friday, the 30 th September 2011 at 12.30 P.M.
Venue	6-3-650, 503, Maheswari Chambers, Beside Medinova Diagnostics, Somajiguda, Erranmanzyl, Hyderabad - 500082.

b) **Book Closure Date** : 27.09.2011 to 30.09.2011 (Both days inclusive)

c) **Financial Year and Calendar (Tentative) 2011-12:**

The Company follows April to March as its Financial Year. The results of every quarter beginning from April are declared tentatively as follows:

Financial Calendar

Financial Reporting for 2012-2013 (tentative)	On or before
The First Quarter results	14.08.2011
The Second quarter results	14.11.2011
The Third quarter results	14.02.2012
The Fourth quarter results	15/30.05.2012

d) **Listing on Stock Exchanges:**

Bangalore Stock Exchange Limited

e) **Listing Fees** : Listing fee for the year 2011-12 has been paid

f) **ISIN No.** : For equity shares: - **INE441B01016**

g) **Share Transfer System:**

The Physical shares transfers are processed and the share certificates are returned to the shareholders

Within a maximum period of one month from the date of receipt, subject to the document being valid and complete in all respects.

Any transferee who wishes to demat the shares may approach a Depository Participant along with a duly filled Demat Request Form, who shall, on the basis of the Share Certificate, generate a demat request and send the same to the Registrar and Share Transfer Agents (RTA). On receipt, the Depository Registrar confirms the request.

All the requests for Dematerialization of shares are processed and the confirmation is given to the respective Depositories i.e., National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) within 21 days on receipt.

h) **Shareholding Pattern as on 31st March, 2011:**

Particulars	Category	No. of shares held	Percentage of shareholding
A	Shareholding of Promoter and promoter group		
1.	Promoters & Persons acting in concert	2551740	64.76
	Sub- Total A	2551740	64.76
B	Public Shareholding		
1.	Institutions	NIL	NIL
2.	Non- Institutions		
a)	Bodies Corporate	73600	1.87
b)	Indian public and others	1314660	33.37
c)	Any others	NIL	NIL
	i) NRI's	NIL	NIL
	ii) Clearing Members	NIL	NIL
	Sub Total B	NIL	NIL
	Grand Total (A+B)	3940000	100.00

i) **Dematerialization of Shares:**

The Company's shares are dematerialized on National Securities Depositories limited (NSDL) and Central Depository Services (India) Limited. The Company's ISIN is INE441B01016 . As on 31st March, 2011, 2068701 equity shares are dematerialized which is 52.51% of the paid up capital of the company and out of which 2,48,612 shares are in CDSL and 18,20,089

shares are in NDSL and the balance are in physical form.

j) Registrar and Transfer Agents

Bigshare Services Pvt Ltd,
E-2/3, Ansa Industrial Estate,
Sakivihar Road, Saki Naka,
Andheri (E), Mumbai – 400072

k) Address for Investors Correspondence:

The Shareholders may correspond with the Company for the redressal of their grievances, if any to the registered office of the company.

6-3-650, 503, Maheswari Chambers,
Beside Medinova Diagnostics,
Somajiguda, Erramanzyl
Hyderabad-500082

l) CEO/MD Certification:

As required by the clause 49 (V) of the Listing Agreement, the certificate from Director is attached elsewhere in the annual report.

l) Compliance Certificate:

The Statutory Auditors M/s. Balaji Viswanath & Co has certified that the company has complied with the conditions of the Corporate Governance as stipulated in clause 49 of the listing agreement and the same forms part of the Annual Report. The Certificate will be sent to the stock exchange along with the Annual Report of the Company.

For and on behalf of the Board
K2 SYSTEMS LIMITED

Sd/-

A. Narasimha Sarma
Director

Place: Hyderabad
Date: 02.05.2011

DECLARATION

To
The Members of K2 Systems Limited

This is to declare that the Code of Conduct envisaged by the Company for members of the Board and the Senior Management Personnel have been complied with by all the members of the Board and the Senior Management Personnel of the Company respectively.

For and on behalf of the Board
K2 SYSTEMS LIMITED

Sd/-

A. Narasimha Sarma
Director

Place: Hyderabad
Date: 02.05.2011

Dear Shareholder,

Please find below the Director certificate as per Clause 49(V) of the Listing Agreement:

DIRECTOR CERTIFICATE

I, A. Narasimha Sarma, Director of M/s K2 Systems Limited certify that:

1. We have reviewed the financial statements for the year and that to the best of our knowledge and belief:
 - (a) These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - (b) These statements present a true and fair view of the state of affairs of the Company and of the results of the operations and cash flows. The financial statements have been prepared in conformity, in all material respects, with the existing generally accepted accounting principles including accounting standards, applicable laws and regulations.
2. There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or in violation of Company's code of conduct.
3. We accept overall responsibility for establishing and monitoring the Company's internal control system for financial reporting and evaluating its effectiveness. Internal Audit function monitors the internal control system for financial reporting, which encompasses the examination and evaluation of the adequacy and effectiveness. Internal Audit works with all levels of management and Statutory Auditors, and reports significant issues to the Audit Committee of the Board. The Auditors and Audit Committee are apprised of any corrective action taken with regard to significant deficiencies and material weakness.
4. We indicate to the Auditors and to the Audit Committee:
 - (a) Significant changes in internal controls over financial reporting during the year;
 - (b) Significant changes in the accounting policies during the year;
 - (c) No instances of significant fraud of which we have become aware of and which involve the management or other employees who have significant role in the Company's internal control system over financial reporting.

However, during the year there were no such changes and instances.

For and on behalf of the Board
K2 SYSTEMS LIMITED

Sd/-

A. Narasimha Sarma
Director

Place: Hyderabad
Date: 02.05.2011

CERTIFICATE ON CORPORATE GOVERNANCE

The Members of
K2 Systems Limited

We have examined the compliance of conditions of Corporate Governance by M/s K2 Systems Limited, for the period of 12 months ended on 31st March, 2011 as stipulated in clause 49 of the Listing Agreement of the said Company with Stock Exchanges of India.

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

In our opinion and to the best of our information and according to the explanations given to us, and the representations made by the directors and the management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the abovementioned Listing Agreement.

As required by the Guidance note issued by the Institute of Chartered Accountants of India, we have to state that the Company has certified that as on 31st March, 2011 there were no investor grievances remaining unattended/ pending for a period exceeding one month. We further state that such compliance is neither an assurances 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 BALAJI VISWANATH & Co.
Chartered Accountants
(Firm Reg. No. 008194S)

Sd/-
B. Balaji Viswanath
Proprietor
Membership No. 029357

Place: Hyderabad
Date : 02.05.2011

Auditors' Report

To
The members of **K2 Systems Limited**

We have audited the attached Balance Sheet of M/s **K2 Systems Limited** as at 31st March 2011, the Profit and Loss Account for the period from 1st April 2010 to 31st March 2011 and the Cash Flow Statement for the period ended on that date, both annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether financial statements are free from material misstatements. An audit also 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 the management, as well as evaluating the overall financial statement position. We believe that our audit provides a reasonable basis for our opinion.

1. As required by the Companies (Auditor's Report) Order, 2003, issued by Central Government of India in terms of Section 227 (4-A) of the Companies Act, 1956, we enclose in the Annexure a Statement on the matters specified in paragraphs 4 and 5 of said order, to the extent applicable to the Company.
2. Further to our statement referred to in paragraph 1 above
 - a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
 - b) in our opinion, proper books of accounts as referred by law have been kept by the Company so far as it appears from examinations of such books.
 - c) the Balance Sheet and Profit and Loss account and Cash Flow Statement referred to in the report are in agreement with the books of accounts.
 - d) in our opinion, the Balance Sheet and Profit and Loss account and Cash Flow Statement comply with the Accounting Standards referred in Sub-Section (3C) of Section 211 of the Companies Act, 1956.
 - e) On the basis of written representations received from the Directors and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March 2011 from being appointed as a director under clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956

K2 Systems Limited

- f) In our opinion and to the best of our information and according to the explanations given to us, the said Balance Sheet and Profit and Loss account read together with the notes annexed to and forming part of the accounts, give the information 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 so far as it relates to the Balance Sheet, of the state of the company as at 31st March 2011
- (ii) in so far as it relates to Profit and Loss Account of the profit for the year ended on that date.
- (iii) Cash Flow Statement, of the cash flows of the Company for the period ended on that date.

For BALAJI VISWANATH & Co.
Chartered Accountants
(Firm Reg. No. 008194S)

Sd/-
B. Balaji Viswanath
Proprietor
Membership No. 029357

Place: Hyderabad
Date : 02.05.2011

ANNEXURE TO AUDITOR'S REPORT

(Referred to in Paragraph (1) of our report of even date)

1. a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- b) As explained to us, the management has physically verified most of the fixed assets during the year and there is a regular program of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of the assets. No material discrepancies were noticed on such verification.
- c) The fixed assets disposed off during the year by the company are not substantial and hence, it has not affected the going concern status of the company.
2. a) Inventories were physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.
- b) The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.
- c) The Company is maintaining proper records of inventories. The discrepancies noticed on verification between the physical stock and the book records were not material.
3. a) The company has not granted loans to the parties covered in the register maintained under section 301 of the Companies Act, 1956. The Company has taken unsecured from Companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
- b) We are informed that the unsecured loans taken from the Directors are interest free. In the absence of information relating to terms and conditions of such loans, including their repayment, we are unable to comment as to whether they are prejudicial to the interests of the Company.
4. In our opinion and the according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of inventory, fixed assets and with regard to sale of goods.
5. According to the information and explanations given to us, we are of the opinion that there are no transactions that need to be entered into the Register maintained under Section 301 of the Companies Act, 1956.
6. The company has not accepted any deposits from the Public. Hence, the provisions of Sec. 58A and 58-AA of the Companies Act, 1956, and the Companies (Acceptance of Deposits) Rules, 1975, do not apply to this Company.
7. In our opinion, the company has an adequate internal audit system commensurate with the size and nature of its business.
8. The Central Government has not prescribed under section 209 (1)(d) of the Companies Act, 1956 the maintenance of cost record for the products of the company.

K2 Systems Limited

9. a) According to the information and explanations given to us, the Company is generally regular in depositing with appropriate authorities undisputed statutory dues including Income Tax, Wealth Tax, Sales Tax, Customs Duty and Excise Duty and other material statutory dues applicable to it.
- b) According to the information and explanations given to us, no undisputed amounts payable in respect of Income Tax, Excise Duty, Sales Tax and Customs Duty were in arrears as at 31st March, 2011 or a period of more than six months from the date they became payable.
10. The Accumulated Losses of the Company have exceeded fifty percent of its networth as at the end of the period. The company has incurred no cash losses in the financial year under report and also in the immediately preceding financial year.
11. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to banks.
12. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
13. According to the information and explanations given to us, the term loans have been applied for the purpose for which they were raised.
14. According to the information and explanations given to us and on over all examination of the Balance Sheet of the Company, we report that no funds raised on short term basis has been used for long term investments. No long-term funds have been used to finance, short term assets.
15. During the year, the Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Companies Act, 1956.
16. During the year, the Company has not raised money by Public Issue. Hence the question of disclosure and verification of end use of such monies does not arise.
17. To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the financial year.
18. The clauses (xiii) and (xiv) of the paragraph 4 of the Companies (Auditors Report) Order, 2003 are not applicable to the Company as the Company is neither engaged in the business of a Chit Fund or a Nidhi Mutual Benefit fund / Society not in trading in shares, securities, debentures and other investments.

For BALAJI VISWANATH & Co.

Chartered Accountants
(Firm Reg. No. 008194S)

Sd/-

B. Balaji Viswanath

Proprietor

Membership No. 029357

Place: Hyderabad

Date : 02.05.2011

Balance Sheet As at 31st March, 2011

(Amounts in Rupees)

PARTICULARS	Sch. No.	As at	
		31st March, 2011	31st March, 2010
SOURCES OF FUNDS			
1 SHAREHOLDER'S FUNDS			
a) Share Capital	A	39,400,000	39,400,000
2 LOAN FUNDS			
Secured Loans	—	—	—
Unsecured Loan	B	4,054,185	4,054,184
TOTAL		<u>43,454,185</u>	<u>43,454,184</u>
Application of Funds			
1 Fixed Assets			
Gross Block	C	4,522,893	4,522,893
Less: Depreciation		3,869,173	3,789,253
Net Block		653,720	733,640
2 Current Assets, Loans & Advances			
a) Sundry Debtors	D	40,391	145,491
b) Cash and Bank Balance	E	6,812	255,060
c) Loans and Advances	F	1,273,597	1,195,580
TOTAL		1,320,800	1,596,131
Less: Current Liabilities & Provisions	G	564,344	888,295
		<u>756,456</u>	<u>707,836</u>
Net Current Assets / (Liabilities)			
Misscellaneous Expenditure (to the extent not written off or adjusted)			—
3 Profit and Loss Account		<u>42,044,008</u>	<u>42,012,708</u>
Total		<u>43,454,185</u>	<u>43,454,184</u>
Significant Accounting Policies	J		
Notes to Accounts	K		
the schedules referred to above form an integral part of the Balance Sheet as per our report attached			

The schedules referred to above form an integral part of the Balance Sheet.

This is the Balance Sheet referred

As per our audit report of even date

For and on behalf of the Board

For **BALAJI VISWANATH & Co.**

Chartered Accountants

Firm Reg No : 008194S

Director

B. Balaji Viswanath

Proprietor

Membership No. 029357

Director

Date : 02.05.2011

Place : Hyderabad

K2 Systems Limited

Profit & Loss Account for the year ended 31st March, 2011

(Amounts in Rupees)

PARTICULARS	Sch. No.	As at 31st March, 2011	As at 31st March, 2010
INCOME			
Software Services		1,357,629	4,387,061
Other Income	H	—	85,394
TOTAL		1,357,629	4,472,455
EXPENDITURE			
Operating & Other Expenses	I	1,309,009	4,644,807
Depreciation	C	79,920	79,920
		1,388,929	4,724,727
PROFIT / (LOSS) Before			
Exceptional Items and Taxation		(31,300)	(252,272)
Provisions for Taxes		—	—
- Income Tax (MAT)		—	—
- FBT		—	—
Profit after Tax		(31,300)	(252,272)
Loss brought forward from previous year		(42,012,709)	(41,760,437)
Loss carried to the Balance Sheet		(42,044,009)	(42,012,709)
Basic Earnings Per Share		(0.01)	0.06
Significant Accounting Policies	J		
NOTES TO ACCOUNTS	K		

The schedules referred to above form an integral part of the Profit & Loss Account

As per our audit report of even date

For and on behalf of the Board

For **BALAJI VISWANATH & Co.**

Chartered Accountants

Firm Reg No : 008194S

Director

B. Balaji Viswanath

Proprietor

Membership No. 029357

Director

Date : 02.05.2011

Place : Hyderabad

Cash Flow Statement for the ended 31st March, 2011

(Amounts in Rupees)

Particulars	For the year ended 31.03.2011	For the period ended 31.03.2010
A. CASH FROM OPERATING ACTIVITIES		
Net Profit / (Net loss) After Tax and	(31,300)	(252,272)
Exceptional Items		
Depreciation	79,920	207,843
Interest		
Preliminary & Deferred		
expenses written off	—	—
Bad Debts written off	—	—
Loss on Assets	—	—
Assets written off	—	—
Cash Flow Before working capital changes	48,620	(44,429)
Trade and other receivable	105,100	410,491
Loans & Advances	(78,017)	806,829
Trade payable	(323,951)	58,475
Net Cash from operating activities	<u><u>(248,248)</u></u>	<u><u>1,231,366</u></u>
B. CASH FROM INVESTING ACTIVITIES:		
Purchase of Fixed Assets	—	—
Net Cash flow from Investing Activities	<u>—</u>	<u>—</u>
C. CASH FLOW FROM FINANCING ACTIVITIES:		
Increase / (Decrease) in Bank Borrowing	—	—
Increase / (Decrease) in Other Borrowing	—	(1,566,207)
Interest paid	—	—
Net Cash used in financing activities	<u>—</u>	<u>(1,566,207)</u>
Net increase / decrease in cash		
and cash equivalents	(248,248)	(462,763)
Cash and Cash Equivalents Opening Balances	255,060	717,823
Cash and Cash Equivalents Closing Balances	6,812	255,060

As per our audit report of even date

For and on behalf of the Board

For **BALAJI VISWANATH & Co.**

Chartered Accountants
Firm Reg No : 008194S

Director

B. Balaji Viswanath

Proprietor
Membership No. 029357

Director

Date : 02.05.2011
Place : Hyderabad

**Schedules form Part of Balance Sheet &
as on 31st March, 2011**

(Amounts in Rupees)

Sch No.	Particulars	As on 31st March, 2011	As on 31st March, 2011
A	SCHEDULE-1:		
	Authorised Capital:		
	(50,00,000 Equity shares of Rs.10/- each	50,000,000	50,000,000
	Issued subscribed and paid up		
	(3940000 Equity shares of Rs.10/- each paid)	39,400,000	39,400,000
	Total	<u>39,400,000</u>	<u>39,400,000</u>
B	Unsecured Loan		
	From Associated Foreign Company	1,40,357	1,430,457
	From Directors	2,623,828	2,623,828
	Total	<u>4,054,185</u>	<u>4,054,185</u>
D	Sundry Debtors - Unsecured		
	A) Debts outstanding for a period exceeding six months considered doubtful	—	—
	B) Other Debts (considered good)	40,391	145,491
	Total	<u>40,391</u>	<u>145,491</u>
	Less : Provision for Doubtful Debts		
	Total	<u>40,391</u>	<u>145,491</u>
E.	Cash and Bank Balances		
	Cash On Hand	6,812	16,382
	Balance with Scheduled Banks		
	In Current Accounts	—	170,198
	In Deposit Accounts	—	68,480
	Total	<u>6,812</u>	<u>255,060</u>
F.	Loans and Advances		
	(Unsecured considered good)		
	Tax Deducted at Source	1,273,597	1,195,580
	Deposits	—	—
	Other Advances	—	—
	Total	<u>1,273,597</u>	<u>1,195,580</u>
G.	Current Liabilities		
	Sundry Creditors	—	
	(other than small scale industries	466,030	607,464
	Other Liabilities	15,000	170,991
	Total	<u>481,030</u>	<u>778,455</u>

K2 Systems Limited

SCHEDULE NO. 4 FIXED ASSETS

(Amount in Rupees)

Particulars	Gross Block		Depreciation	Depreciation			Net Block	
	As at 01/04/2010	As at 31/03/2011		As at 01/04/2010	Written off during period	For the period	As at 31/03/2011	As at 31/03/2010
Furniture	715,894	715,894	6.33%	412,734	—	45,316	257,844	303,160
Office Equipment	728,504	728,504	4.85%	298,024	—	34,604	295,876	430,480
Computers	2,610,743	2,610,743	16.21%	2,610,743	—	—	—	—
Vehicles	467,752	467,752		467,752	—	—	—	—
	4,522,893	4,522,893		3,789,253	—	79,920	653,720	733,640
TOTAL	4,522,893	4,522,893		3,709,333	—	79,920	733,640	813,560
Previous Year	4,522,893	4,522,893		3,709,333	—	79,920	733,640	813,560

(Amounts in Rupees)

Sch No.	Particulars	As on 31st March, 2011	As on 31st March, 2011
	Sundry Creditors		
	Note : There are no amounts due to Small scale industrial undertakings		
	Provisions		
	Provisions for Gratuity	83,314	83,314
	Provision for Tax	—	26,526
	Provision for Interest Payable	—	—
	Total	83,314	109,840
H.	Other Income	—	—
	Miscellaneous Income	—	—
	Interest of FD	—	—
	Interest on IT Refund	—	85,394
	Total	—	85,394
I.	Operating and Other Expenses		
	Salaries & Allowances	1,118,285	2,536,879
	Tavelling and Conveyance	8,197	7,424
	Communication Expenses	19,626	35,786
	Electricity Charges	10,248	20,353
	Audit Fee	20,000	40,000
	Office Maintenance	40,862	443,411
	Rent and Maintenance	66,860	253,763
	Vehicle Maintenance	—	38,642
	Bank Charges	9,119	64,961
	Miscellaneous Expenses	16,812	203,588
	Total	1,309,009	4,644,807

the schedules referred to above form an integral part of the Balance Sheet as per our report attached

For and on behalf of the Board

For **BALAJI VISWANATH & Co.**

Chartered Accountants

Firm Reg No : 008194S

Director

B. Balaji Viswanath

Proprietor

Membership No. 029357

Director

Date : 02.05.2011

Place : Hyderabad

SCHEDULE NO I:

1. ACCOUNTING POLICIES

1. Accounting Assumptions

These Financial Statements have been prepared under the historical cost convention in accordance with the generally accepted accounting principles and the provisions of the Companies Act, 1956 as adopted consistently by the company and the accounting standards prescribed by the Institute of Chartered Accountants of India on going concern basis with revenues recognized and expenses accounted for on their accrual including provisions/adjustments for committed obligation and amount determined as payable on receivable during the year.

2. Fixed Assets

Fixed Assets are stated at historical cost of acquisition of net of modvat (Cenvat) which is inclusive of freight, installation charges, duties and incidental expenses and the proportionate expenditure and interest incurred during the installation period capitalized as per the "Guidance Notes on the expenditure incurred during the construction period" issued by the Institute of Chartered Accountants of India.

3. Depreciation

Depreciation on fixed assets is provided on the basis of straight-line method at the rates provided for in Schedule – XIV of the Companies Act, 1956, for the actual period of the usage of the assets.

SCHEDULE NO J:

2. NOTES ON ACCOUNTS

1. Sales Turnover (Rs) (Rs in Lakhs)	Current Year	Previous Year
a) Income from Sales	13.58	43.87
b) Other Income	Nil	0.85

2. Balances under Current Liabilities & Provisions, Sundry Debtors, Loans and Advances are subject to confirmation.

3. Information pursuant to the provisions of paragraph 3 and 4 of part II of Schedule VI of the Companies Act, 1956.

	Current Year	Previous Year
a) Expenditure in foreign currency	NIL	NIL
b) Earnings in Foreign currency	NIL	NIL

4. The company contributes to the funds maintained by the Government towards Provident Fund to employees. Gratuity Liability is accounted on cash basis.

4. No amount exceeding Rs 1,00,000/- for more than 30 days is due to any SSI units.

5. The accumulated losses of the Company as at 31st March 2010 of Rs 420.44 lakhs exceeds its paid up share capital of Rs 394 lakhs and consequently the net worth of the company has been fully eroded. Pending finalization of the revised business plan, the financial statements have been prepared on a Going Concern basis.

6. The Company has accepted loans of Rs 26.24 lakhs from Directors. These loans are interest free. Management is of the view that these loans are outside the purview of the Section 58A of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975.

7. Managerial remuneration paid during the year

	Current year	Previous Year
a) Salary including allowances (Rs in lakhs)	Nil	Nil

8. Particulars of remuneration to the Auditors

	Current year	Previous Year
Audit Fee	20,000	40,000

9. Segment Reporting: - The Company has only one Business Segment i.e., Software Development and the principal geographical segment is India. Consequently, the need for separate disclosure as required under Accounting Standard 17, Segment Reporting as issued by the Institute of Chartered Accountants of India does not arise.

10. Related Party disclosures in accordance with AS-18 issued by The Institute of Chartered Accountants of India by virtue of share holding and key management personnel.

1) **Related Parties Nature of Relationship**

a) K2 Systems Inc Common Director

2) **Transactions with Related Parties**

a) Loan Taken Rs 14.30 Lakhs

14. Deferred Tax Liability:

The Deferred Tax asset in adoption of new A.S.22 "Taxation Income" issued by The Institute of Chartered Accountants of India on account of unabsorbed depreciation and unabsorbed business loss has not been recognized in the books as there is no virtual certainty that sufficient future taxable income will be available against which such deferred tax asset can be realized.

15. Paise have been rounded off to the nearest rupee.

16. Figures have been re-grouped / re-arranged wherever necessary.

the schedules referred to above form an integral part of the Balance Sheet as per our report attached

For and on behalf of the Board

For **BALAJI VISWANATH & Co.**
Chartered Accountants
Firm Reg No : 008194S

Director

B. Balaji Viswanath
Proprietor
Membership No. 029357

Director

Date : 02.05.2011
Place : Hyderabad

K2 SYSTEMS LIMITED

6-3-650, 503, Maheswari Chambers, Beside Medinova Diagnostics,
Somajiguda, Erramanzyl, Hyderabad - 500 082.

PROXY FORM

I/We _____ of _____

In the District of _____ being a member/members of the above named company, hereby appoint Mr/Mrs/Ms _____ in the District of _____ as my/our proxy to attend and vote for me /us on my/ our behalf at the 22nd Annual General Meeting of the Company to be held on 6-3-650, 503, Maheswari Chambers, Beside Medinova Diagnostics, Somajiguda, Erramanzyl, Hyderabad - 500 082. held on Friday the 30th day of September, 2011 at 12.30 P.M. and at any adjournment thereof.

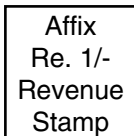
Signed this _____ day of _____ 2011

Address _____

Folio No. / Client ID _____

No. of Shares held : _____

Note: The proxy form duly signed completed must be signed deposited at the Registered Office of the Company not less than 48 hours before the time of holding the meeting.



K2 SYSTEMS LIMITED

6-3-650, 503, Maheswari Chambers, Beside Medinova Diagnostics,
Somajiguda, Erramanzyl, Hyderabad - 500 082.

ATTENDANCE SLIP

I hereby record my presence at the 32nd Annual General Meeting of the Company to be held at 6-3-650, 503, Maheswari Chambers, Beside Medinova Diagnostics, Somajiguda, Erramanzyl, Hyderabad - 500 082. held on Friday the 30th day of September, 2011 at 12.30 P.M. and at any adjournment thereof.

Shareholders/Proxy's Signature _____

Shareholders/Proxy's full name _____
(In Block Letters)

Folio No. / Clind ID _____ No. of Shares held _____

Note: Shareholder attend the meeting in person or by proxy are required to complete the attendance slip and hand it over at the entrance of the meeting hall.

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If undelivered please return to :

K2 Systems Limited

6-3-650, 503, Maheswari Chambers, Beside Medinova
Diagnostics, Somajiguda, Erramanzyl, Hyderabad - 500 082.