

TERA SOFTWARE LIMITED

BOARD OF DIRECTORS:

- | | |
|--------------------------------|---------------------|
| 1. Sri T. GOPI CHAND | MANAGING DIRECTOR |
| 2. Sri V. V. PRASAD NIMMAGADDA | EXECUTIVE DIRECTOR |
| 3. Smt. T. PAVANA DEVI | WHOLE TIME DIRECTOR |
| 4. Sri D. SEETHARAMAIAH | DIRECTOR |
| 5. Sri K. RAMA RAO | DIRECTOR |
| 6. Sri T. BAPAAIAH CHOUDARY | DIRECTOR |
| 7. Sri R. S. BAKKANAVAR | DIRECTOR |
| 8. Dr. T. HANUMAN CHOWDARY | DIRECTOR |
| 9. Dr. T. V. LAKSHMI | DIRECTOR |

REGISTERED OFFICE :

8-3-1113/2B, Kesava Nagar,
Srinagar Colony,
Hyderabad.-500 073.
Tel.Nos.91-40-23736833/23730553.
Fax:91-40-23743526.
E-Mail : hyd1_tspl@sancharnet.in
Internet: www.terasoftware.com

AUDITORS:

M/s. NARVEN ASSOCIATES
Chartered Accountants
313, Lingapur House,
Himayat Nagar,
Hyderabad - 500 029.

BANKERS:

BANK OF MAHARASTRA,
Basheerbagh,
Hyderabad - 500 029.

SYNDICATE BANK,
N.S.Road,
Hyderabad - 500 001.

TERA SOFTWARE LIMITED

NOTICE

Notice is hereby given that the Tenth Annual General Meeting of the members of the company will be held at the Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad - 500 033, on Monday, the 27th day of September, 2004 at 10.00 a.m. to transact the following business:

AS ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2004, Profit & Loss Account for the year ended on that date together with the Reports of the Directors' and Auditors' thereon.
2. To declare dividend on Equity shares.
3. To appoint a Director in place of Sri T. Bapaiah Choudary who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Smt. T. Pavana Devi, who retires by rotation and is eligible for re-appointment.
5. To appoint M/s. NARVEN ASSOCIATES, Chartered Accountants, the retiring auditors as Statutory Auditors of the Company, who shall hold office from the conclusion of this Annual General Meeting up to the conclusion of the next Annual General Meeting and to fix their remuneration.

By Order of the Board of Directors

Date : 23.08.2004
Place : Hyderabad.

Sd/-
(T. Gopi Chand)
Managing Director

Notes :

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to vote at the meeting on his behalf and such proxy need not be a member of the company.
2. The instrument appointing proxy to be valid should be lodged at the Registered Office of the Company not less than forty-eight hours before the commencement of the meeting.
3. Members/Proxies should fill the attendance slip for attending the meeting.
4. Members who hold shares in dematerialized form are requested to bring their Client ID and DP ID numbers for easy identification of attendance at the meeting.
5. The Company has already notified closure of Register of Members and the Share Transfer Books from Monday, 20th September 2004 to Monday, 27th September 2004 (both the days inclusive).
6. Shareholders are requested to bring their copy of Annual Report to the meeting.

Particulars of Directors eligible for re-election, pursuant to Clause 49 of the Listing Agreement:

Serial Number	1	2
Name of the Director	Sri T. Bapaiah Choudary	Smt. T. Pavana Devi
Age	46 Years	42 Years
Date of Appointment	29.9.2001	30.9.2000
Remuneration	Nil	Rs.3,09,360 per annum
No. of outside Directorships held	Nil	Nil
Chairman of the Committee of the Board of Directors of the Company	Shareholders' Grievance Committee	Nil
Member of the Committee of Board of Directors of the Company	Remuneration Committee	Nil
Chairman/member of the Committee of Directors of other Companies	Audit Committee	Nil
	Nil	Nil

By Order of the Board of Directors

Date: 23.08.2004
Place: Hyderabad.

Sd/-
(T. Gopi Chand)
Managing Director

TERA SOFTWARE LIMITED

DIRECTORS' REPORT

Dear Shareholders,

Your Directors have pleasure in presenting the Tenth Annual Report of the company and the Audited Statements of Accounts for the year ended 31st March 2004.

a) Financial Results:

(Rs. In Lakhs)

PARTICULARS	Year Ended 31.03.2004		Year Ended 31.03.2003	
Gross Income	1500.56		1319.20	
Expenditure	919.36		1144.68	
Profit before interest, deprecation & tax	581.20		174.52	
Less: Interest (Financial Cost)	67.96		2.29	
Profit before depreciation & tax	513.24		172.23	
Less: Depreciation	251.59		76.19	
Profit before tax	261.65		96.04	
Less: Provision for tax				
: Current year	22.60		7.77	
: Earlier years	2.48		0.34	
: Deferred tax	75.19	100.27	28.79	36.90
Profit after tax	161.38		59.14	
Surplus brought forward from the previous year	127.29		111.55	
Profit available for distribution	288.67		170.69	
Less:				
Proposed Dividend @ 10%	76.94		38.47	
Tax on distributable profits	9.86	86.80	4.93	43.40
Balance Carried to Balance Sheet	201.87		127.29	

b) Performance:

The Company focused its attention on the e-governance projects and was successful in implementing the KAVERI Project during the year in the State of Karnataka. KAVERI project, under the Department of Registration, is aimed to return the registered documents within thirty minutes to the registeree. The KAVERI project touches the lives of 10 million citizens of the State in 175 sub registrars' offices and 23 district registrar offices in 23 districts. The Company procured the first e-governance project in the year 2002-03 that of the State Government of Andhra Pradesh to impart computer education in primary and secondary schools under the Department of Primary Education Programme and succeed by the KAVERI project. The contribution from the Projects Division helped the company to post a higher net profit. The turnover from the Integrated Division is under pressure because of severe competition and the dwindling margins. The current orders on hand as on 31.03.2004 is to the tune of Rs.50 Crore to be executed in the next four years. The company is contemplating to concentrate more on Projects Division in view of the potential capacity of the projects.

c) Dividend:

Your Directors are pleased to recommend a dividend of 10% absorbing a sum of Rs.86.80 Lakh including the tax on distributable profits.

TERA SOFTWARE LIMITED

d) Listing of Shares in Stock Exchanges:

Your Directors are happy to inform you that the trading permission from the Stock Exchange, Mumbai was received for the equity shares of the Company with effect from 19.4.2004. At present the Equity Shares of your company are listed on The Hyderabad Stock Exchange Limited and Bangalore Stock Exchange Limited. The listing fee was paid up to date.

e) Overseas Office:

During the year under review, the operations of the overseas branch resulted in a loss of Rs. 7.02 Lakh. However the branch is being continued to take the opportunity in participating in the international market.

f) Future Focus of the Company:

As the Central and State Governments' Institutions are implementing e-governance in most of their departments, the Company would focus more on the projects based on Build Own Operate and Transfer (BOOT). The Company quoted against the open tender of the State Government of Maharashtra for their MAHAVIKAS project and was lowest in the commercial bid. The project envisages an investment of Rs. 23 Crore and yields a return of Rs. 100 Crore over a period of five years. The activity on the project will commence immediately on receipt of order and will be operational before the end of the current financial year.

g) Fixed Deposits:

The Company has not accepted any fixed deposits to which the provisions of Section 58A of the Companies Act, 1956 are applicable during the year under review.

h) Directors:

At the ensuing Annual General Meeting Sri T.Bapaiah Choudary and Smt. T. Pavana Devi retire by rotation and are eligible for reappointment.

i) Auditors:

M/s. NARVEN ASSOCIATES, Chartered Accountants retire at the ensuing Annual General Meeting, and are eligible for reappointment. They have furnished the requisite certificate to the effect that their reappointment, if effected, would be in accordance with section 224(1B) of the Companies Act 1956.

j) Particulars of Employees:

There are no employees in the Company whose particulars are to be given pursuant to Section 217(2A) of the Companies Act, 1956.

k) Conservation of energy, technology absorption and foreign exchange earnings/out goings:

The particulars as required U/S 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:

1. **Conservation of energy:** The Company is not an energy intensive unit.
2. **Technology absorption, adaptation & innovation:** The Company has not imported any technology.
3. **Foreign Exchange Earnings and outgo:**

1. Earnings in Foreign Currency (FOB):

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Software Development / Services	1,076,373	559,149
Sales Incentive	63,536	Nil
Total	1,139,909	559,149

2. Expenditure in Foreign Currency (CIF):

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Import of Raw Material	3,068,827	1,175,268
Traveling Expenses	99,007	356,106
Expenses incurred at Overseas branch	2,166,033	1,272,304
Total	5,333,867	2,803,678

TERA SOFTWARE LIMITED

l) Directors' Responsibility Statement

Pursuant to the requirement under section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed:

- a. That in the preparation of the accounts for the financial year ended 31st March, 2004 the applicable accounting standards have been followed along with proper explanation relating to material departures;
- b. That the directors have selected such accounting policies and applied them consistently and made adjustments and estimates that were 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 and of the profit or loss of the company for the year under review;
- c. That the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- d. That the directors have prepared the accounts for the financial year ended 31st March, 2004 on a going concern basis.

m) Acknowledgment

Your directors thank the clients, vendors, investors and bankers for their continued support. Your directors place on record their appreciation of the contribution made by the employees at all levels, who, through their competence, hard work, solidarity, cooperation and support, have enabled the company to achieve rapid growth.

Your directors thank the Government of India, Project Director of District Primary Education Program of the State Government of Andhra Pradesh, Inspector General of Registration of the State Government of Karnataka, Department of Electronics, Department of Space, Department of Information Technology, Software Technology Park and Other Government Agencies for their support during the year and look forward to their continued support.

For and on behalf of the Board of Directors

Date : 23.8.2004
Place : Hyderabad.

Sd/-
(T. Gopi Chand)
Managing Director

Sd/-
(N.V.V.Prasad)
Executive Director

TERA SOFTWARE LIMITED

REPORT ON THE CORPORATE GOVERNANCE

1. Company's philosophy on Code of Governance

The philosophy of the Company envisages the attainment of highest levels of transparency, accountability and equity in all facets of its operations in serving its stakeholders.

2. Board of Directors

Composition and category of Directors is as follows:

Category	Name of the Directors
Promoter/Executive Directors	Sri T. Gopi Chand Sri N.V.V. Prasad. Smt. T. Pavana Devi
Promoter Non-Executive Director	Sri T. Bapaiah Choudary
Non-Promoter Executive Director	Nil
Non-Executive and Independent Directors	Sri D. Seetharamaiah, Sri R.S. Bakkannavar, Dr.T. Hanuman Chowdary, Dr.T.V. Lakshmi and Sri K.Rama Rao.

Attendance of each Director at the Board meetings, last Annual General Meeting and Number of other Directorship and Chairman/Membership of Committee of each Director:

Name of the Director	Attendance Particulars			Committee memberships/ Chairmanships in our Company		Number of other directorships & Committee memberships	
	Board Meetings		Last AGM	Member- ships	Chairman- ships	Director- ships	Member- ships
	Held	Present					
Sri T. Gopi Chand	6	6	Yes	2	Nil	Nil	Nil
Sri N.V.V. Prasad	6	6	Yes	2	Nil	Nil	Nil
Smt. T. Pavana Devi	6	6	Yes	Nil	Nil	Nil	Nil
Sri T. Bapaiah Choudary	6	6	Yes	2	1	Nil	Nil
Sri K. Rama Rao	6	3	No	2	Nil	1	Nil
Sri D. Seetharamaiah	6	6	Yes	2	1	5	5
Sri R.S. Bakkannavar	6	6	Yes	Nil	1	3	1
Dr.T. Hanuman Chowdary	6	5	Yes	Nil	Nil	2	2
Dr.T.V. Lakshmi	6	6	Yes	2	Nil	1	Nil

Number of Board Meetings held and the dates on which held

During the year six Board meetings were held on 17.4.2003, 30.7.2003, 29.8.2003, 27.9.2003, 28.10.2003, 28.1.2004.

The Board of Directors of the Company functioned through the following committees:

1. Audit Committee.
2. Shareholders' Grievance Committee.
3. Remuneration Committee.
4. Investment Committee.
5. Share Transfer Committee.

TERA SOFTWARE LIMITED

3. Audit Committee

The constitution of the audit committee of the Board of directors of the company is as indicated below:

- | | |
|---------------------------|----------|
| a. Sri R.S.Bakkannavar | Chairman |
| b. Sri T.Bapaiah Choudary | Member |
| c. Sri D. Seetharamaiah | Member |

Role of the Audit Committee is as follows:

1. Oversight of the Company's financial reporting process and the disclosure of its financial information.
2. Recommending the appointment and removal of external auditors, fixation of audit fee and also approval for payment for any other services.
3. Reviewing with management the annual financial statements before submission to the board, focusing primarily on:
 - any changes in accounting policies and practices,
 - major accounting entries based on exercise of judgment by management,
 - qualifications in draft audit report,
 - significant adjustments arising out of audit,
 - the going concern assumption,
 - compliance with accounting standards,
 - any related party transactions i.e. transactions of the company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of Company at large.
4. Reviewing with the management, external and internal auditors, and the adequacy of internal control systems.
5. Reviewing the adequacy of internal audit functions.
6. Discussion with internal auditors any significant findings and follow up thereon.
7. Reviewing the findings of any internal investigations by the internal auditors into 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.
8. Discussion with external auditors before the audit commences, nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
9. Reviewing the Company's financial and risk management policies.
10. To look into the reasons for substantial defaults in the payment to the creditors.

During the year, the Committee met 5 times on 17.4.2003, 29.7.2003, 27.8.2003, 28.10.2003 and 27.1.2004. All the members were present at all the meetings except Sri T.B.Choudary who had not attended one meeting on 27.8.2003.

4. Shareholders' Grievance Committee:

The constitution of the shareholder' grievance committee of the Board of Directors of the company is as indicated below:

- | | |
|----------------------------|----------|
| a. Sri T. Bapaiah Choudary | Chairman |
| b. Dr. T.V. Lakshmi | Member |
| c. Sri K. Rama Rao | Member |

The Committee, inter alia, approves issue of duplicate certificates and oversees and reviews all matters connected with the securities transfers. The Committee also looks into redressing of shareholders' complaints like transfer of shares, non-receipts of balance sheet. The Committee oversees the performance of the Registrar and Transfer Agents, and recommends measures for overall improvement in the quality of investor services. The Board of Directors has delegated the power of approving transfer of securities to the Share Transfer Committee.

TERA SOFTWARE LIMITED

During the year, the Committee has met 4 times on 30.6.2003, 30.9.2003, 31.12.2003 and 31.3.2004 respectively.

The total number of complaints received and replied to the satisfaction of shareholders during the year under review was 203. Outstanding complaints as on 31st March 2004 were nil.

5. Remuneration Committee:

The Remuneration Committee was constituted comprising of the following Non-Executive and Independent Directors of the Board:

- a. Sri D.Seetharamaiah -Chairman
- b. Sri K. Rama Rao -Member
- c. Sri T.B.Choudary -Member
- d. Dr.T.V.Lakshmi -Member from 30.7.2003

The Remuneration Committee has been constituted to recommend/review the remuneration package of the Managing Director/Whole Time Director/Executive Director, based on performance and defined criteria.

The remuneration policy is directed towards rewarding performance, based on review of achievements on a periodical basis. The remuneration policy is in consonance with the existing Industry Practice.

During the year the Committee met once on 27.8.2003 and all the members were present at the meeting.

6. Investment Committee:

The Investment Committee was constituted comprising of 3 directors of the company as stated below:

- a. Sri T.Gopi Chand -Member
- b. Sri N.V.V.Prasad -Member
- c. Sri D.Seetharamaiah -Member

During the year, the Committee met once on 29.8.2003. All the members were present at the meeting.

7. Share Transfer Committee:

The Share Transfer Committee was constituted comprising of 2 directors and the Compliance Officer of the Company as indicated below:

- a. Sri T.Gopi Chand -Member
- b. Sri N.V.V.Prasad -Member
- c. Mr. O.Babu Reddy -Member

During the year 23 meetings were held and all the members were present at all the meetings.

Details of remuneration paid to all the Directors for the year:

The aggregate value of Salary, Perquisites and Other Allowances paid to Managing Director, Executive Director and Whole time Directors is as detailed below:

Particulars	CurrentYear (Rs.)	Previous Year (Rs.)
Managing Director (Sri T.Gopi Chand)	669,360	369,360
Executive Director (Sri N.V.V.Prasad)	549,360	309,360
Whole Time Director (Smt. T.Pavana Devi)	309,360	249,360
Total	1,528,080	928,080

TERA SOFTWARE LIMITED

The Company has paid the following sitting fee to the Directors of the Company during the year ended on 31st March 2004.

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Sri D.Seetharamaiah	19,000	11,000
Sri R.S.Bakkannavar	17,000	11,000
Sri T.Bapaiah Choudary	17,000	7,500
Dr. T. Hanuman Chowdary	10,500	7,500
Dr. T.V.Lakshmi	14,000	6,000
Sri K.Rama Rao	8,500	4,500
Total	86,000	47,500

8. General Body Meetings

Location and time for last 3 Annual General Meetings were:

YEAR	AGM	LOCATION	DATE	TIME
2000-01	AGM	Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad.	29th September, 2001	11.30 a.m.
2001-2002	AGM	Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad.	30th September, 2002	10.00 a.m.
2002-2003	AGM	Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad.	27th September, 2003	3.30 p.m.

One resolution was put through the postal ballot during 2003-2004.

9. Disclosures

a. Significant related party transactions:

During the year ended 31.3.2004, there were no materially significant related party transactions that may have potential conflict with the interests of the Company at large.

b. There are no non-compliances, penalties, strictures imposed on the Company by Stock Exchange or SEBI or any statutory authority on any matter related to capital markets, during the year.

10. Means of Communication

The quarterly financial results were published in two widely circulated newspapers (Business Standard and Andhra Bhoomi) in English and vernacular newspapers.

The financial results are intimated to the Stock Exchanges on which the Company's Shares are listed as per the requirements of the listing agreement and also to the Stock Exchange, Mumbai where the equity shares of the Company are permitted to be traded with effect from 19.04.2004.

11. Management Discussion and Analysis

Forward-Looking Statements:

These statements are based on certain assumptions and expectations of future events. There is possibility of the company's actual results, performance or achievements, differing from those projected in any such forward-looking statements on the basis of subsequent unforeseen developments. The company assumes no responsibility to publicly amend, modify or revise any forward-looking statements, on the basis of any subsequent developments, information or events.

Future Outlook:

As most of the State Governments and also the Central Government are implementing the e-governance projects, the future for the Company looks optimistic. The Company had quoted against various tenders floated by different State Governments and is confident of getting such orders against stiff competition based on the real experience it had.

TERA SOFTWARE LIMITED

Opportunities:

The Growing e-governance projects of the Governments envisage a paperless organization and store the data/information in electronic format. This demand is new/modification of software applications, look out for new storage and retrieval technology and increased through put in processing of information. Thus the opportunities look bright.

Challenges:

The greatest challenge is from severe competition and the margins are under pressure. We are taking this situation into account and concentrating to implement e-governance projects. The Company is also planning to reduce the cost of operations to overcome the competition and to capture the market.

Risks and concerns:

The Board is entrusted with the monitoring of risk levels on various parameters and ensures implementation of mitigation measures, if required. The audit committee provides the overall direction on the risk management policies.

Internal control systems and their adequacy:

The well-defined internal control measures ensure appropriate information flow to facilitate effective monitoring. The Company has a proper and adequate internal control system commensurate with the size of its business. The Audit Committee independently reviews all financial data, before placement at the Board, and their views and recommendations are considered for adoption by the full Board. This process ensures recognition of full accountability by the Board, and forms the core of our corporate governance practices. The Company has an internal audit system. An independent Chartered Accountant is conducting the internal audit.

Financial Performance with respect to Operational performance:

The gross turnover of the Company during the year is Rs. 1500.56 Lakh representing an increase of 13.75% over the previous year. The profit before tax for the year is Rs. 261.65 Lakh compared to Rs. 96.04 Lakh for the previous year representing an increase of 172.44%.

Material developments in Human Resources / Industrial Relations front, including number of people employed:

Tera Software Limited considers its employees/consultants as an invaluable asset in its tryst with bringing creativity to technology. The relationship with the employees/consultants is cordial.

12. General Information for Shareholders:

- a. As indicated in the Notice to our shareholders, the Annual General Meeting of the Company will be held on 27th September, 2004 at 10.00 a.m. at Jubilee Hills International Center, Road No. 14, Jubilee Hills, Hyderabad - 500 033.
- b. The Financial Year of the Company is April 1 to March 31.
- c. Date of book closure:
From 20th September 2004 to 27th September 2004 (both days inclusive) for the purpose of the Annual General Meeting.
- d. The Shares of the Company are listed/traded on
 - i. The Hyderabad Stock Exchange Limited (Regional Stock Exchange)
 - ii. Bangalore Stock Exchange Limited.
 - iii. The Stock Exchange, Mumbai (Trading permission with effect from 19.4.2004).
The listing fee for the year 2003 - 2004 has been paid to The Hyderabad Stock Exchange Limited and Bangalore Stock Exchange Limited.
The shares were permitted to trade on the Stock Exchange, Mumbai with effect from 19.4.2004.
- e. **Stock Code:**

Hyderabad Stock Exchange Limited	TERA# (fully paid up)
	TERAPP# (partly paid up)
Bangalore Stock Exchange Limited	TASL
The Stock Exchange, Mumbai	590020

TERA SOFTWARE LIMITED

f. Stock Market Data

Month	Hyderabad Stock Exchange	
	Month's High Price	Month's Low Price
April 2003	-	-
May 2003	-	-
June 2003	-	-
July 2003	13.00	6.90
August 2003	19.00	10.00
September 2003	13.00	9.15
October 2003	-	-
November 2003	-	-
December 2003	10.00	10.00
January 2004	8.50	6.50
February 2004	9.00	7.00
March 2004	10.00	7.25

g. Shares received for physical transfer are generally registered within a period of 15 days from the date of receipt, if the documents are clear in all respects.

h. As of June 30, 2004 the distribution of our shareholding was as follows

S.No	Category	No. of Shareholders	Total Shares	% to Total
1	Promoters	21	2,808,466	36.43
2	Bodies Corporate	54	545,387	07.07
3	NRIs/OCBs	4	86,200	01.12
4	Public	3,427	4,269,447	55.38
	TOTAL	3,506	7,709,500	100.00

i. Dematerialization of Shares:

41,15,490 shares of the Company are in electronic form as on 30.06.2004. The facility for dematerialization of company's shares has been made available to the shareholders of the Company. The company has entered into agreements with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) to enable shareholders to hold the shares in the electronic form.

j. Locations of our software development centers and overseas office.

i. Software development centers:
1st Floor, 8-3-1113/2B, Kesava Nagar,
Srinagar Colony, Hyderabad - 500 073

ii. Overseas Offices:
2015 , S Arlington HTS RD,
Suite # 114 Arlingtons , IL 60005,
United States of America

k. Address for Correspondence:
#8-3-1113/2B, Kesava Nagar,
Srinagar Colony, Hyderabad - 500 073
Phone : +91-04-23736833.

For and on behalf of the Board of Directors

Sd/-
(T. Gopi Chand) Managing Director

Sd/-
(N.V.V.Prasad) Executive Director

Date :23 -08-2004
Place : Hyderabad

TERA SOFTWARE LIMITED

NARVEN ASSOCIATES

Chartered Accountants
313, Lingapur House,
Himayat Nagar,
Hyderabad.

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

To the Members of Tera Software Limited

We have examined the compliance of conditions of Corporate Governance by Tera Software Limited (the Company) for the year ended on 31st March 2004, as stipulated in Clause 49 of the Listing Agreements 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 procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statement of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreements.

We have been explained that no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Company.

We further 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 NARVEN ASSOCIATES
Chartered Accountants

Place: Hyderabad.
Date : 23rd August, 2004.

Sd/-
(D.C.Naidu)
Partner
Membership No. 24643

TERA SOFTWARE LIMITED

NARVEN ASSOCIATES

Chartered Accountants
313, Lingapur House,
Himayat Nagar,
Hyderabad.

AUDITORS' REPORT

To
The Members of
TERA SOFTWARE LIMITED,
Hyderabad.

1. We have audited the attached Balance Sheet of TERA SOFTWARE LIMITED, as at March 31, 2004 and the Profit and Loss Account and also the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in 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 presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
 - (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (ii) In our opinion, proper books of account, as required by law, have been kept by the Company, so far as appears from our examination of those books;
 - (iii) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (iv) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the mandatory accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
 - (v) On the basis of written representations received from the directors as on March 31, 2004 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2004 from being appointed as a director in terms of Clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
 - (vi) In our opinion and to the best of our information and according to the explanations given to us, the said 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 :
 - (a) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2004;
 - (b) In the case of Profit and Loss Account, of the Profit for the year ended on that date; and
 - (c) In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For NARVEN ASSOCIATES
Chartered Accountants

Sd/-
(D.C. Naidu)
Partner

Membership No. 24643

Place: Hyderabad
Date: 23rd August 2004.

TERA SOFTWARE LIMITED

ANNEXURE TO AUDITORS' REPORT REFERRED TO IN PARAGRAPH 3 OF OUR REPORT OF EVEN DATE

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and the situation of its fixed assets.
- (b) A major portion of fixed assets have been physically verified by the management during the year. In our opinion, the frequency of verification of the fixed assets by the management is reasonable having regard to the size of the Company and the nature of its assets. The discrepancies noticed have been properly dealt with in the books of account.
- (c) The company has not disposed off any fixed assets during the year.
- (ii) (a) As explained to us, the inventories of the company have been physically verified by the management at reasonable intervals during the year.
- (b) In our opinion and according to the information and explanations given to us, the procedures for physical verification of inventory followed by the management were reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) In our opinion the Company has maintained proper records of inventory. The discrepancies between the physical stocks and the book stocks were not material.
- (iii) The Company has neither granted nor taken any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Consequently clauses 4(iii)(a) to 4(iii)(d) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.
- (iv) In our opinion and 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 for purchase of inventory, fixed assets and for the sale of goods. In our opinion and according to the information and explanations given to us, there is no continuing failure to correct major weaknesses in internal controls.
- (v) (a) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements, that needed to be entered into in the register maintained under section 301 of the Companies Act, 1956 have been so entered.
- (b) In our opinion and according to the information and explanations given to us, there are no transactions in pursuance of contracts or arrangements entered in the registers maintained under Section 301 of the Companies Act, 1956 aggregating during the year to Rs.5,00,000/- (Rupees Five Lakh) or more in respect of any party.
- (vi) The Company has not accepted any deposits from the public and consequently, the directives issued by the Reserve Bank of India and the provisions of Section 58A and 58AA of the Companies Act, 1956 and the rules framed thereunder are not applicable to the Company.
- (vii) In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business;
- (viii) According to the information and explanations given to us the company is not required to maintain cost records under section 209(1)(d) of the Companies Act, 1956 in respect of the services carried out by the company.

TERA SOFTWARE LIMITED

- (ix) (a) According to the records, of the company and the information and explanations provided to us, the Company is generally regular in depositing with appropriate authorities undisputed amount of provident fund, investor education protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, customs duty, excise duty, cess and other statutory dues applicable to it and no undisputed amounts payable were outstanding as at 31st March, 2004 for a period of more than six months from the date they became payable.
- (b) According to the information and explanations given to us, there are no dues in respect of Income Tax, Excise Duty, Customs Duty, Wealth Tax, Sales Tax and Cess that have not been paid to the concerned authorities on account of any dispute.
- (x) The Company neither has accumulated losses at the end of the financial year nor has incurred any cash losses during the financial year or in the immediately preceding financial year.
- (xi) Based on our audit procedures and on the information and explanations given by the management, the Company has not defaulted in repayment of dues to any financial institution or bank.
- (xii) Based on our examination and according to the information and explanations given to us, the Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly, clause 4(xii) of the Order is not applicable.
- (xiii) The Company is not a chit/nidhi/mutual benefit fund/society. Accordingly, clause 4(xiii) of the Order is not applicable.
- (xiv) The Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, clause 4(xiv) of the Order is not applicable.
- (xv) On the basis of the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
- (xvi) According to the information and explanations given to us and on the basis of our examination of the books of account, the term loans obtained by the Company were applied for the purpose for which such loans were obtained.
- (xvii) On the basis of our examination of the books of account and information and explanation given to us, in our opinion, the funds raised on short-term basis have not been used for long-term investment and vice versa.
- (xviii) 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 Act.
- (xix) The Company did not have any outstanding debentures during the year.
- (xx) The Company has not raised any money by public issues during the year.
- (xxi) Based on the audit procedures performed and information and explanations given to us by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For NARVEN ASSOCIATES
Chartered Accountants

Place: Hyderabad
Date: 23rd August, 2004.

Sd/-
(D.C. Naidu)
Partner
Membership No. 24643

TERA SOFTWARE LIMITED

SCHEDULES FORMING PART OF THE BALANCE SHEET

	As At 31st March 2004 Rs.	As At 31st March 2003 Rs.
1. Share Capital		
Authorised		
15,000,000 Equity Shares of Rs.10/- each	150,000,000	150,000,000
Issued, Subscribed and Paid up		
7,709,500 Equity Shares of Rs. 10/- each (of the above, 168,090 Equity Shares have been allotted other wise than by cash)	77,095,000	77,095,000
Less: Calls in arrear - by others	158,500	159,500
Total	76,936,500	76,935,500
2. Reserves & Surplus		
Profit & Loss Account	20,187,361	12,729,058
Total	20,187,361	12,729,058
3. Secured Loans		
Term Loans:		
from Banks	34,200,000	-
from Financial Institutions and Others	-	5,889
Working Capital Loans from Banks	-	2,234,218
Total	34,200,000	2,240,107
4. Unsecured Loans		
Short Term Loans:		
from Banks	304,750	-
Other Loans:		
Overdraft of current account with Banks	3,209,848	-
Total	3,514,598	-

TERA SOFTWARE LIMITED

SCHEDULE 5 : FIXED ASSETS

(Amount in Rupees)

Particulars	GROSS BLOCK				DEPRECIATION				NETBLOCK	
	As at 31st March 2003	Additions	Deductions	As at 31st March 2004	As at 31st March 2003	During the year	Deductions	As at 31st March 2004	As at 31st March 2004	As at 31st March 2003
	Land	2,254,640	-	-	2,254,640	-	-	-	-	2,254,640
Office Equipment	601,061	36,148	-	637,209	117,654	29,218	-	146,872	490,337	483,407
Computers & Servers	8,177,565	3,824,548	-	12,002,113	3,504,195	1,462,373	-	4,966,568	7,035,545	4,673,370
Furniture & Fixtures	1,029,712	6,700	-	1,036,412	193,277	65,243	-	258,520	777,892	836,435
Capital Expenditure on Projects Division *	61,140,832	77,737,220	-	138,878,052	6,114,084	23,469,365	-	29,583,449	109,294,603	55,026,748
Vehicles	1,402,385	-	-	1,402,385	458,539	133,032	-	591,571	810,814	943,846
Total	74,606,195	81,604,616	-	156,210,811	10,387,749	25,159,231	-	35,546,980	120,663,831	64,218,446
Previous Year	12,026,467	62,579,728	-	74,606,195	2,769,128	7,618,621	-	10,387,749	64,218,446	9,257,339
Capital work in progress	2,710,856	5,000,000	39,856	7,671,000	0	0	0	0	7,671,000	2,710,856

Note: * Total Assets acquired under Projects Division are transferrable to the respective customer at the end of the tenure of the project.

6. Investments

Long Term Investments
(Non trade and unquoted)

Particulars	Opening as on 31st March 2003			Purchase			Sales			Adjustments			Balance as on 31st March 2004		
	No. of Shares	Face Value per share Rs.	Aggregate Value Rs.	No. of Shares	Face Value per share Rs.	Aggregate Value Rs.	Face value Per share Rs.	No. of Shares	Aggregate Value Rs.	Decline Investment	No. of Shares	Face Value per share Rs.	Aggregate Value Rs.		
Investments made in fully paid equity shares in															
1. Poweronics Limited	100,000	10	1,000,000	0	0	0	10	100,000	1,000,000	0	0	0	0		
2. Koganti Power Limited	100,000	10	1,000,000	0	0	0	10	100,000	1,000,000	0	0	0	0		
3. XL Softech Systems Limited	10,000	10	100,000	0	0	0	0	0	0	0	10,000	10	100,000		
Total	210,000		2,100,000	0		0		200,000	2,000,000	0	10,000		100,000		
Previous Year	310,000		3,100,000	0		0		100,000	1,000,000	0	210,000		2,100,000		

TERA SOFTWARE LIMITED

SCHEDULES FORMING PART OF THE BALANCE SHEET

	As At 31st March 2004 Rs.	As At 31st March 2003 Rs.
7. Inventories		
(As taken, valued and certified by management)		
Raw Material	187,479	441,954
Finished Goods/Trading Goods	55,405	402,800
Total	242,884	844,754
8. Sundry Debtors		
(Unsecured)		
Over Six Months		
Considered Good	2,294,671	4,132,205
Considered Doubtful	491,256	528,710
Less : Provision for doubtful debts	491,256	528,710
	2,294,671	4,132,205
Others		
Considered Good	56,253,059	23,235,335
(Includes unbilled work of Rs.1,738,683/-, Previous year Rs. 821,359)		
Total	58,547,730	27,367,540
9. Cash & Bank Balances		
Cash	207,454	29,850
Remittances in Transit/ Cheques on hand	10,000	884,867
Balances with Scheduled Banks		
in Current Accounts*	1,683,650	69,921
in Current Accounts in Foreign Currency	680,441	370,945
in Deposits	15,180,647	26,355,803
Balances with Non-Scheduled Banks		
Harris Trust Bank (in foreign currency)	47,148	264,247
Total	17,809,340	27,975,633
Maximum Balance during the year in non-scheduled bank		
Harris Trust Bank, USA	1,719,305	1,412,784
* Includes Rs. 99,181 (Previous Year Rs.Nil) being balance in Unpaid Dividend Account with ICICI Bank Limited.		
* Includes Rs. 3,886 (Previous Year Rs.2,436) being balance in Public Issue Allotment Account with Bank Of Maharashtra.		
10. Loans & Advances		
(Unsecured)		
Considered good		
Accrued Interest	834,492	1,948,675
Advance Tax & Tax deducted at source (net of provision for tax)	-	173,272
Deposits	2,687,078	994,202
Advances recoverable in cash or in kind or for value to be received *	5,803,874	8,921,263
(*Previous Year figures include Intercompany Deposits Rs.3,000,000)		
Total (a)	9,325,444	12,037,412
Considered doubtful		
Intercompany Deposits	3,088,821	-
(Less): Provision for doubtful loans & advances	(3,088,821)	-
Total(b)	-	-
Total(a+b)	9,325,444	12,037,412

TERA SOFTWARE LIMITED

SCHEDULES FORMING PART OF THE BALANCE SHEET

	As At 31st March 2004 Rs.	As At 31st March 2003 Rs.
11. Current Liabilities		
Interest accrued but not due on loans	13,586	-
Sundry Creditors for goods	35,368,357	35,280,143
for other liabilities and expenses	23,359,622	2,845,842
Unclaimed excess share allotment money (\$)	1,020	10,512
Unclaimed Dividend (\$)	99,181	-
Advances from customers	65,953	500,000
[(\$) Unclaimed Dividend/Excess Share Allotment Money Received do not include any amounts, due and outstanding, to be credited to Investor Education and Protection Fund.]		
Total	58,907,719	38,636,497
12. Provisions		
Proposed Dividend	7,693,650	3,846,775
Tax on Distributed Profit	985,749	492,868
Provision for Tax (net of advance Tax)	877,868	-
Provision for Gratuity	400,200	236,000
Total	9,957,467	4,575,643
13. Miscellaneous Expenditure : (to the extent not written off or adjusted)		
a) Preliminary Expenditure		
Opening Balance	253,550	366,900
(Less) : Written off during the year	(113,350)	(113,350)
Total (a)	<u>140,200</u>	<u>253,550</u>
b) Capital Issue Expenditure		
Opening Balance	1,772,193	2,658,293
(Less) : Written off during the year	(886,100)	(886,100)
Total (b)	<u>886,093</u>	<u>1,772,193</u>
Total(a)+(b)	1,026,293	2,025,743

SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED

	31st March 2004 Rs.	31st March 2003 Rs.
14. Gross Sales and Services		
Sale of Goods (net of returns)	47,394,017	85,043,466
Income from Projects & Services	100,470,681	41,659,426
Total	147,864,698	126,702,892
15. Other Income		
Insurance Claim Recovered	20,660	1,504
Interest Income	1,388,244	3,459,465
(TDS Rs.278,465 Previous Year Rs.440,059/-)		
Discount and Other Incentives Received	777,804	679,917
Income from non trade investments:		
Dividends from mutual fund units	-	619,090
(TDS Rs.Nil Previous Year Rs. 56,682.)		
Profit on Sale of Mutual Funds	-	434,477
Miscellaneous Income	4,997	23,119
Total	2,191,705	5,217,572

TERA SOFTWARE LIMITED

SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED

	31st March 2004 Rs.	31st March 2003 Rs.
16. Cost Of Goods Sold		
(a) Raw Material, Components consumed and Purchase of Trading Goods		
Opening stock	441,954	239,023
Add: Purchases (net of returns)	<u>42,133,607</u>	<u>76,626,658</u>
	42,575,561	76,865,681
(Less): Closing Stock	<u>(187,479)</u>	<u>(441,954)</u>
Total (a)	<u>42,388,082</u>	<u>76,423,727</u>
(b) Increase/(Decrease) in Finished Goods		
Opening stock	402,800	1,087,000
(Less): Closing Stock	<u>(55,405)</u>	<u>(402,800)</u>
Total (b)	<u>347,395</u>	<u>684,200</u>
Total (a+b)	<u>42,735,477</u>	<u>77,107,927</u>
(Less): Capitalized	<u>(402,800)</u>	<u>(900,000)</u>
Total	<u>42,332,677</u>	<u>76,207,927</u>
17. Personnel Cost		
Salaries, Wages, Bonus and other benefits	3,993,493	4,185,816
Contribution to Provident Fund, ESI	263,544	205,199
Staff Welfare	38,054	129,261
Total	<u>4,295,091</u>	<u>4,520,276</u>
18. Operating and other Expenses		
Advertisement & Sales Promotion	161,095	456,372
Consultancy, Professional & Other Charges	33,078,883	25,192,328
Consumables	2,328,740	1,340,846
Donation to Andhra Mahila Trust	-	5,000
Electricity Charges	288,712	224,490
Foreign Travel Expenses	134,007	475,623
Insurance	214,406	91,383
Loss on foreign exchange variation	88,754	-
General Expenses	625,803	617,694
Postage and Telephone	1,226,063	957,240
Printing & Stationery	118,923	54,437
Rates & Taxes	223,541	182,107
Remuneration to Auditors	120,000	120,000
Rent	738,214	1,211,708
Repairs & Maintenance - Others	393,451	118,756
Bad Debts written off	273,109	-
(Less): Provision for Doubtful Debts Written Back	<u>(273,109)</u>	<u>-</u>
Provision for Doubtful Debts	235,655	50,928
Provision for Doubtful loans and advances	3,088,821	-
Sitting fees	86,000	47,500
Travelling & Conveyance	1,499,692	1,574,355
Total	<u>44,650,760</u>	<u>32,720,767</u>
19: Financial Cost		
Interest on Fixed Loans	5,217,608	90,186
Interest on Working Capital & Others	1,578,052	138,976
Total	<u>6,795,660</u>	<u>229,162</u>

TERA SOFTWARE LIMITED

20. SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS:

I. Following are the significant accounting policies adopted by the Company.

1. Preparation and presentation of financial statements:

a. BASIS OF PREPARATION:

The financial statements are prepared under the historical cost convention, in accordance with Indian Generally Accepted Accounting Principles (GAAP), the mandatory accounting standards issued by the Institute of Chartered Accountant of India and the provisions of the Companies Act, 1956, as adopted consistently by the company.

b. USE OF ESTIMATES:

The presentation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amount of revenues and expenses during the reporting period. Difference between the actual and estimates are recognized in the period in which the results are known/materialized.

2. Fixed Assets:

- a) Fixed assets are stated at the cost of acquisition including incidental cost related to acquisition and installation.
- b) Depreciation on the Fixed Assets of the Company is provided on Straight-line method as per Schedule XIV of the Companies Act, 1956 on pro-rata basis.
- c) Capital work-in-progress includes advances paid towards the acquisition of fixed assets, and the cost of assets not put to use before the year-end, are disclosed under capital work-in-progress.
- d) Fixed Assets acquired under finance lease are capitalized at the lower of the fair value and the present value of the minimum lease payments.
- e) Capital Expenditure incurred on Projects Division is written-off over the tenure of the project period.

3. Revenue Recognition:

The company generally follows mercantile system of accounting and recognizes significant items of income on accrual basis.

- a) Revenue from sale of goods is recognized on transfer of significant risks and reward of ownership in the goods to the customers.
- b) Revenue from sale of software products is recognized when the sale is completed with the passing of title to the customers and revenue from software development on the time-and-material basis is recognized based on software developed and billed to clients as per the terms of contracts.
- c) Revenue from Annual Technical Services ("ATS") is recognized on a pro-rata basis over the period in which such services are rendered.
- d) Revenue from Annual Maintenance Contracts ("AMC") is recognized on a pro-rata basis over the period in which such services are rendered.
- e) Revenue from Agency Commission is recognized as and when it is receivable.
- f) Interest Income on term deposits is recognized using the time-proportion method, based on interest rates implicit in the transaction.
- g) Revenue from Projects Division is recognized on pro-rata basis as per the terms of the contract over the life of the project.
- h) Income on investments and dividends on units is recognized as and when right to receive the same is established.

TERA SOFTWARE LIMITED

4. Expenditure:

Expenses are accounted on the accrual basis and provisions are made for all known losses and liabilities. The cost of software purchased for use in software development and services is charged to revenue in the same year.

5. Inventories:

Items of inventories are measured at lower of cost or net realizable value. Cost of inventories comprise of all cost of purchase, cost of conversion and other cost incurred in bringing the inventory to their present location and condition. Raw materials and the finished goods are valued on the basis of First In First Out (FIFO) method.

6. Investments:

Long-Term Investments are carried at cost, and provision is made to recognize any decline, other than temporary, in the value of such investment.

7. Miscellaneous Expenditure:

a. Preliminary Expenses:

Preliminary expenses incurred up to 31st March 1998, has been written off over a period of 10 years and those incurred after 31st March 1998, has been written off over a period of 5 years.

b. Capital Issue Expenditure:

The company has adopted the procedure for writing-off the Capital Issue Expenses over a period of 5 years.

8. Retirement Benefits to employees:

i. Gratuity:

Provision for gratuity has been made for the employees who have completed 5 years of service.

ii. Provident Fund:

The company makes contribution to Provident Fund administered by the Central Government under the Provident Fund Act, 1952.

9. Foreign Currency transaction:

i. Transactions denominated in foreign currencies are normally recorded at the exchange rate prevailing at the time of transaction.

ii. Monetary items denominated in foreign currencies at the year-end and not covered by forward exchange contracts are translated at the rates of exchange at the balance sheet date and resulting gain or loss is recognized in the profit and loss account.

iii. Foreign Branches:

All revenue and expenses transactions during the year are reported at the average rate. Monetary assets and liabilities are translated at the rate prevailing on the balance sheet date whereas non-monetary assets and liabilities are translated at the rate prevailing on the date of the transactions. Net gain/loss on foreign currency translation is recognized in the Profit and Loss account.

Fixed assets purchased at overseas offices are recorded at cost, based on the exchange rate as of the date of purchase. The charge for depreciation is determined as per the company's accounting policy.

10. Product Warranty Expenses:

Liabilities for warranties are recognized at the time, the claim is passed. The necessary provisions are made with respect to warranties claimed and passed pertaining to the year, as are received up to the end of one month from the close of the year.

TERA SOFTWARE LIMITED

11. Claims Receivable:

Claims receivable are accounted for depending on the certainty of receipt and claims payable are accounted at the time of acceptance.

12. Income Tax:

Provision for income tax is made for both current and deferred taxes. Provision for current Income tax is made at current tax rates based on assessable income. Deferred income taxes are recognized for the future tax consequences attributable to timing differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax rates was recognized using the tax rates and tax laws that have been enacted or substantively enacted by balance sheet date. Deferred tax assets are recognized and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized.

13. Earnings per share

In determining earnings per share, the company considers the net profit after tax and includes the post-tax effect of any extra-ordinary items. The number of shares used in computing the basic earnings per share is the weighted average number of shares outstanding during the year.

14. Sales:

Sales are stated at net of returns and inclusive of sales tax.

II Notes on accounts:

1. Secured Loans:

a. Term Loans

Term loan taken from Syndicate Bank is secured by way of hypothecation of Computer and peripherals, Furniture & Fixtures, Stock in trade, Receivables, Outstanding monies and personal guarantee given by the Managing Director, Whole Time Director and Executive Director of the Company.

b. Working Capital Loans

Working Capital Loan taken from and bank guarantees given by Bank of Maharashtra are secured by way of hypothecation of Land, Computers and peripherals, Stock in trade, Software in Process, Book debts and the bank has also taken lien on Company's term deposits worth Rs. 151.81 Lakh (previous year Rs. 193.20 Lakh) with the bank and personal guarantee given by the Managing Director, Whole time Director and Executive Director of the Company.

2. Commitments and Contingencies:

- a. The estimated amount of contracts remaining to be executed on capital accounts, and not provided for (net of advances) is Rs.454 lakhs as at March 31st, 2004 (Previous year Rs. 3.75 Lakh).
- b. The company has outstanding guarantees of Rs.345.99 Lakh as at 31st March 2004 (previous year Rs. 267.22 Lakh).

3. Quantitative details:

The company does trading of various kinds of computer items. It is not practicable to give quantitative details of sales and purchases for trading business. And also the company is engaged in the development and maintenance of computer software. The production and sale of such software cannot be expressed in any generic unit. Hence, it is not practicable to give the quantitative details of sales and certain information as required under paragraphs 3,4C and 4D of Part II of Schedule VI to the Companies Act, 1956.

TERA SOFTWARE LIMITED

4. Directors' Remunerations:

Managerial Remuneration paid to Managing Director, Whole Time Director and Executive Directors.

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Managing Director	6,69,360	3,69,360
Executive Director	5,49,360	3,09,360
Whole Time Director	3,09,360	2,49,360
Total	15,28,080	9,28,080

5. Earnings in Foreign Currency (FOB):

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Software Development /Services	10,76,373	5,59,149
Sales Incentive	63,536	Nil
Total	11,39,909	5,59,149

6. Expenditure in Foreign Currency (CIF):

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Import of Raw Material	30,68,827	11,75,268
Travelling Expenses	99,007	3,56,106
Expenditure incurred at Overseas branches	21,66,033	12,72,304
Total	53,33,867	28,03,678

7. Remuneration to Statutory Auditors:

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Statutory Audit fee	60,000	60,000
Tax Audit fee	20,000	20,000
Limited Review Fee	15,000	15,000
Sales Tax Audit	10,000	10,000
Taxation Matters	10,000	10,000
Certification Fee & Other	5,000	5,000
Total	1,20,000	1,20,000

8. Segmental Reporting:

The Company's operations predominantly relate to providing Integrated Solutions, Technical Division, Projects Division and Software Development Services to customers globally operating. Accordingly, the primary basis of segmental information setout in these financial statements, and secondary segmental reporting is performed on the basis of the geographical location.

Income & Direct expenses in relation to segments is categorized based on items that are individually identifiable to that segment, while the remainder of the costs are allocated on the basis of available information. Certain expenses, which form a significant component of total expenses, are not specifically allocable to specific segments. The Company believes that it is not practicable to provide segmental disclosures relating to those costs and expenses, and accordingly these expenses are separately disclosed as "unallocable" and directly charged against total income.

TERA SOFTWARE LIMITED

a. Business Segments :

Year ended March 31, 2004 and 2003

(all figures in Rs.)

Segment	Integrated Solutions	Technical Division	Projects Division	Software Division	Unallocable	Total
Revenues	45,654,356	16,910,984	82,483,324	3,593,838	-	148,642,502
	<i>74,054,917</i>	<i>23,217,111</i>	<i>17,878,166</i>	<i>12,232,615</i>	-	<i>127,382,809</i>
Identified operating expenses	41,410,309	12,639,890	18,706,035	7,209,127	-	79,965,361
	<i>65,373,447</i>	<i>20,707,551</i>	<i>3,755,342</i>	<i>11,357,213</i>	-	<i>101,193,553</i>
Allocated Expenses	1,385,910	546,190	24,695,146	370,184	-	26,997,430
	<i>3,018,032</i>	<i>3,983,794</i>	<i>8,445,275</i>	<i>597,020</i>	-	<i>16,044,121</i>
Segmental operating income	2,858,137	3,724,904	39,082,143	(3,985,473)	-	41,679,711
	<i>5,663,438</i>	<i>(1,474,234)</i>	<i>5,677,549</i>	<i>278,382</i>	-	<i>10,145,135</i>
Unallocable expenses					10,127,763	10,127,763
					<i>5,077,669</i>	<i>5,077,669</i>
Operating income						31,551,948
						<i>5,067,466</i>
Other income/(expenses), net					20,660	20,660
					<i>1,305,848</i>	<i>1,305,848</i>
Net profit before Interest						31,572,608
						<i>6,373,314</i>
Less: Interest Expenses					(6,795,660)	(6,795,660)
					<i>(229,162)</i>	<i>(229,162)</i>
Add: Interest Income					1,388,244	1,388,244
					<i>3,459,465</i>	<i>3,459,465</i>
Net profit before taxes						26,165,192
						<i>9,603,617</i>
Income Taxes						(9,779,102)
						<i>(3,655,916)</i>
Net Profit after taxes						16,386,090
						<i>5,947,701</i>
Other Information:						
Segment Assets	22,039,992	8,484,789	144,184,013	992,236	39,685,492	215,386,522
	<i>23,388,107</i>	<i>2,930,709</i>	<i>55,036,748</i>	<i>992,236</i>	<i>56,932,584</i>	<i>139,280,384</i>
Segment Liabilities	20,460,921	2,021,680	32,558,283	0	13,824,302	68,865,186
	<i>8,327,585</i>	<i>1,484,821</i>	<i>26,879,722</i>	-	<i>6,520,012</i>	<i>43,212,140</i>
Capital Expenditure	-	3,798,788	77,737,220	-	68,608	81,604,616
	-	-	<i>61,140,832</i>	-	<i>1,438,896</i>	<i>62,579,728</i>
Depreciation	351,368	135,655	23,469,365	232,317	970,526	25,159,231
	<i>261,316</i>	<i>46,115</i>	<i>6,114,084</i>	<i>232,319</i>	<i>964,787</i>	<i>7,618,621</i>

Note: Figures in italics represent previous year's figures.

TERA SOFTWARE LIMITED

b. Geographical Segments :

Year ended March 31, 2004 and 2003

(all figures in Rs.)

SEGMENT	United States of America	India	Total
Revenues	2,016,823	146,625,679	148,642,502
	<i>15,039,533</i>	<i>112,343,276</i>	<i>127,382,809</i>
Identified operating expenses	1,790,011	78,175,350	79,965,361
	<i>14,419,111</i>	<i>86,774,442</i>	<i>101,193,553</i>
Allocated Expenses	929,045	26,068,385	26,997,430
	<i>3,818,826</i>	<i>12,225,295</i>	<i>16,044,121</i>
Segmental operating income	(702,233)	42,381,944	41,679,711
	<i>(3,198,404)</i>	<i>13,343,539</i>	<i>10,145,135</i>
Unallocable expenses			10,127,763
			<i>5,077,669</i>
Operating income			31,551,948
			<i>5,067,466</i>
Other income/(expenses), net			20,660
			<i>1,305,848</i>
Net profit before Interest			31,572,608
			<i>6,373,314</i>
Less: Interest Expenses			(6,795,660)
			<i>(229,162)</i>
Add: Interest Income			1,388,244
			<i>3,459,465</i>
Net profit before taxes			26,165,192
			<i>9,603,617</i>
Income Taxes			(9,779,102)
			<i>(3,655,916)</i>
Net Profit after taxes			16,386,090
			<i>5,947,701</i>
Other Information:			
Segment Assets	4,560,602	210,825,920	215,386,522
	<i>3,342,466</i>	<i>135,937,918</i>	<i>139,280,384</i>
Segment Liabilities	1,283,147	67,582,039	68,865,186
	<i>559,149</i>	<i>222,001</i>	<i>43,212,140</i>
Capital Expenditure	-	81,604,616	81,604,616
	<i>1,338,662</i>	<i>61,241,066</i>	<i>62,579,728</i>
Depreciation	351,368	24,807,863	25,159,231
	<i>307,431</i>	<i>7,311,190</i>	<i>7,618,621</i>

Note: Figures in italics represent previous year's figures.

TERA SOFTWARE LIMITED

9. Related Party Transactions:

a) Name of Related Parties & relationship:

Party Name	Relation
Sri T. Gopi Chand	Key Management Personnel (Managing Director) & Spouse of Smt. T. Pavana Devi.
Smt. T. Pavana Devi	Key Management Personnel (Whole Time Director) & Spouse of Sri T. Gopi Chand.
Sri N.V.V.Prasad	Key Management Personnel (Executive Director)

b) Transactions with related parties:

Name of the related party	Sri T. Gopi Chand	Smt.T. Pavana Devi	Sri N.V.V.Prasad
Description of the Relationship between the parties	Key Management Personnel (Managing Director) & Spouse of Smt. T. Pavana Devi.	Key Management Personnel (Whole Time Director) & Spouse of Sri T. Gopi Chand.	Key Management Personnel (Executive Director)
Description of the nature of transactions	Receiving of Services	a) Receiving of Services. b) Acquisition of existing office premises pending registration (Awaiting for concession in registration charges from the Govt. of Andhra Pradesh).	Receiving of Services
Volume of the transactions either as an amount or as appropriate proportion	a) Managerial Remuneration of Rs. 669,360/-	a) Managerial Remuneration of Rs. 309,360/- b) Advance given for Purchase of the Property Rs. 2,476,000	a) Managerial Remuneration of Rs. 549,360/-
Any other elements of the related party transactions	Managerial Remuneration was approved by Share Holders	Managerial Remuneration was approved by Share Holders	Managerial Remuneration was approved by Share Holders
The amounts or appropriate proportions of outstanding items pertaining to related parties at the Balance Sheet date	Managerial Remuneration Payable Rs. 49,581	Managerial Remuneration Payable Rs. 10,849 Advance outstanding against acquisition of office premises Rs.2,476,000.	Managerial Remuneration Payable Rs. 41,132
Provisions for doubtful debts due from such parties at that date and amounts written off or written back in the period in respect of debts due from or to related parties	NIL	NIL	NIL

10. Sundry debtors, sundry creditors, other liabilities, loans and advances, advances from customers etc. are subject to confirmation and reconciliation. Necessary adjustments, if any will be made when the accounts are reconciled and settled. However the management is fairly confident that the company will not face any undue risk due to this factor. The Company has obtained the confirmations for deposits and balances as at the end of the year from the respective banks.

11. Amount capitalized comprises Raw materials, finished goods (including Trading goods) incurred during the project implementation period Rs.4,02,800 (Previous Year Rs.900,000).

TERA SOFTWARE LIMITED

12. Deferred Tax:

Tax charged to Profit and Loss account is after considering deferred tax impact for the timing difference between accounting income and tax income.

The deferred tax liability as at 31st March, 2004 comprise of the following:

	As At 31st March 2004 (Rs. in Lakhs)	As At 31st March 2003 (Rs. in Lakhs)
A Deferred Tax Liability		
1 Related to fixed assets	131.15	44.44
B Deferred Tax Assets		
1 Disallowance under the Income Tax Act'1961	(1.48)	(0.86)
2 Provision for doubtful debts	<u>(12.84)</u>	<u>(1.94)</u>
C Provision for deferred tax (net)	<u>116.83</u>	<u>41.64</u>

13. Prior period items, material items, non-recurring and extraordinary items are disclosed separately. Prior period items (net) include prior period income Rs 4,31,417 and prior period expenses Rs.89,759 (Previous year prior period items(net) include prior period income Rs.26,640 and expenses Rs.47,284).

14. There were no overdue amounts exceeding Rs.1,00,000/- each, which age outstanding for more than 30 days payable to Small Scale Industrial Undertaking as at March 31, 2004.

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

16. Figures for the corresponding year ended March 31, 2003, wherever necessary, have been regrouped, recast, rearranged to conform to those of the current year.

17. There is no other additional information pursuant to the provisions of Part II Schedule VI of the Companies Act, 1956.

As per our report of even date attached
For **NARVEN ASSOCIATES**
Chartered Accountants

Sd/-
(D.C.NAIDU)
Partner
Membership No. 24643

Place: Hyderabad.
Date : 23rd August 2004

For and on behalf of the board of directors

Sd/- (T.GOPI CHAND) Managing Director	Sd/- (N.V.V.PRASAD) Executive Director
---	--

Sd/-
(B. Dattathreyulu Naidu)
General Manager (Finance)

TERA SOFTWARE LIMITED

Cash Flow Statement Annexed to the Balance Sheet For the Year ended 31st March 2004.

	Current Year		Previous Year	
	Rs.	Rs.	Rs.	Rs.
A. Cash flow from Operating Activities:				
Net Profit Before Tax as per Profit & Loss A/c.		26,165,192		9,603,617
Adjustments:				
Depreciation & Amortization	25,159,231		7,618,621	
Provision for bad & doubtful debts	235,655		50,928	
Provision for doubtful loans and advances	3,088,821		-	
Profit on sale of Mutual Fund Units	-		(434,477)	
Dividend received from Mutual Fund Investments	-		(619,090)	
Prior Period Expenses/(Income)	(341,658)		20,644	
Interest Income	(1,388,244)		(3,459,465)	
Preliminary Expenses Written Off	113,350		113,350	
Capital Issue Expenses Written Off	886,100		886,100	
Interest Expenses	5,217,608		90,186	
		<u>32,970,863</u>		<u>4,266,797</u>
Operating Profit before working capital changes		59,136,055		13,870,414
Adjustments for:				
Inventories	601,870		481,269	
Sundry debtors	(31,415,845)		1,382,650	
Loans and advances	(1,664,308)		(2,226,669)	
Current Liabilities and provisions	5,407,710		26,627,976	
		<u>(27,070,573)</u>		<u>26,265,226</u>
Cash Generated from Operations		32,065,482		40,135,640
Prior Period (Expenses)/Income		341,658		(20,644)
Taxes Paid		(1,457,052)		(950,585)
Net Cash from Operating Activities		30,950,088		39,164,411
B. Cash flow from Investing Activities:				
Purchase of Fixed Assets		(66,680,179)		(62,579,728)
Advances paid for purchase of Fixed Assets(net)		(4,960,144)		(52,856)
Purchase of Investments		-		(98,413)
Sale of Investments		2,000,000		17,682,626
Interest Income		2,502,427		2,192,075
Dividend Income from mutual funds		-		619,090
Net Cash Generated from Investing Activities		(67,137,896)		(42,237,206)
C. Cash flow from Financing Activities:				
Proceeds from Issue of share capital (net)		(8,492)		-
Proceeds from Long term funds		38,000,000		15,704
Repayment of Long term loans		(3,805,889)		(400,343)
Short term loans (net)		1,280,380		(1,265,782)
Interest Paid		(5,204,022)		(132,728)
Dividend Paid		(4,240,462)		-
Net Cash Generated from Financing Activities		26,021,515		(1,783,149)
Net Increase/(Decrease) in Cash and Cash Equivalents		(10,166,293)		(4,855,944)
Opening Balance of Cash and Cash Equivalents		27,975,633		32,831,577
Closing Balance of Cash and Cash Equivalents		17,809,340		27,975,633

For and on behalf of the board of directors

Sd/-
(T.GOPI CHAND)
Managing Director

Sd/-
(N.V.V.PRASAD)
Executive Director

Sd/-
(B. Dattathreyulu Naidu)
General Manager (Finance)

Place: Hyderabad.
Date : 23rd August 2004.

TERA SOFTWARE LIMITED

AUDITORS' CERTIFICATE

We have examined the above cash flow statement of **TERA SOFTWARE LIMITED** for the year ended 31st March 2004. The statement has been prepared by the company in accordance with the listing agreement required by the Stock Exchange and is based on and in agreement with the corresponding Profit & Loss Account and the Balance Sheet of the Company covered by our report of 23rd August 2004 to the members of the company.

For NARVEN ASSOCIATES
Chartered Accountants

Sd/-
(D.C.NAIDU)
Partner
Membership No. 24643

Place: Hyderabad.
Date: 23rd August 2004.

TERA SOFTWARE LIMITED

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

(Inserted by Notification No.GSR 388 (E), dt.15-5-1995)

I Registration Details

Registraion No. State Code

Balance Sheet Date

Date Month Year

II Capital Raised during the Year (Amount in Rs.Thousands)

Public Issue Rights Issue

Bonus Issue Private Placement

III Position of Mobilisation and Deployment of Funds (Amount in Rs.Thousands)

Total Liabilities Total Assets

Sources of Funds:

Paid-up Capital Reserves & Surplus

Loan Funds Deferred Tax

Application of Funds:

Net Fixed Assets Investments

Net Current Assets Misc.Expenditure

Accumulated Losses

IV Performance of Company (Amount in Rs.Thousands)

Pofit Before Tax Profit After Tax

Earning Per Share (Rs.) Dividend Rate on CRPS

Dividend on Equity Shares (Rs.)

V Generic Names of Principal Products of the Company

Item Code No. (ITC Code)

Product Description

Item Code No. (ITC Code)

Product Description

ATTENDANCE SLIP

TERA SOFTWARE LIMITED

Registered Office: #8-3-1113/2B, Kesava Nagar, Srinagar Colony, Hyderabad - 500 073.

PLEASE FILL ATTENDANCE SLIP AND HAND IT OVER AT THE ENTRANCE OF THE MEETING HALL.

Joint shareholders may obtain additional Attendance Slip at the Venue of the meeting

Client ID*:	Folio No.:
D.P ID* :	No. of Share(s) held:

NAME AND ADDRESS OF THE SHAREHOLDER.....

I hereby record my presence at the Tenth Annual General Meeting of the Company held on Monday, the 27th September, 2004 at 10.00 A.M at Jubilee Hills International Center, Road No 14, Jubilee Hills , Hyderabad-500 033.

Signature of the shareholder or proxy

*Applicable for investors holding shares in electronic form.

Signature



TERA SOFTWARE LIMITED

Registered Office: #8-3-1113/2B, Kesava Nagar, Srinagar Colony, Hyderabad - 500 073.

PROXY FORM

Client ID*:	Folio No.:
D.P ID* :	No. of Share(s) held:

I/We.....

ofbeing a member/members of Tera Software Limited hereby appoint of..... or failing him.....ofas my/our proxy to vote for me/us and on my/our behalf at the Tenth Annual General Meeting to be held on Monday, the 27th September, 2004 at 10.00 A.M. or at any adjournment thereof.

Signed this.....day of.....2004.

*Applicable for investors holding shares in electronic form.

**Pl. affix
30 paise
Revenue
Stamp**

Signature

Note:

1. The Proxy in order to be effective should be duly stamped, completed and signed and must be deposited at the Registered Office of the Company not less than 48 hours before the time for holding the aforesaid meeting. The Proxy need not be a member of the Company.
2. Members holding shares under more than one folio may use photocopy of this Proxy Form for other folios. The Company shall provide additional forms on request.
3. No Gifts will be given on the date of AGM.

BOOK - POST
Printed Matter

If undelivered, please return to :

TERA SOFTWARE LIMITED

8-3-1113/2B, Keshava Nagar,

Srinagar Colony,

Hyderabad- 500 073 (A.P)

INDIA

**10th
Annual Report
2003-2004**



TERA SOFTWARE LIMITED