

11th
ANNUAL REPORT
2004-2005



TERA SOFTWARE LIMITED

BOARD OF DIRECTORS:

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

NOTICE

Notice is hereby given that the Eleventh 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 Tuesday, the 27th day of September, 2005 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 2005, 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 K. Rama Rao who retires by rotation and is eligible and offers himself for re-appointment.
4. To appoint a Director in place of Sri D.Seetharamaiah, who retires by rotation and is eligible and offers himself 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.

AS SPECIAL BUSINESS:

1. To consider and, if thought fit, to pass with or without modification the following resolution as an Ordinary Resolution:
"Resolved that the consent of the Company be and is hereby accorded pursuant to the provisions of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, to the Board of Directors of the company (hereinafter referred as "The Board") to mortgage and/or create charge on, sell and/or transfer all the immovable and movable properties or such assets of the company wherever situate, present and future, in favour for the Financial Institutions/Banks/Debentures/Trustees/Government Departments for an aggregate nominal value not exceeding Rupees 100 crores (Rupees One Hundred crores only) to secure the Term Loans/ issue debentures and further that the Board be and is hereby; authorized to finalize and execute the documents and any other deeds, papers and writings for creating the aforesaid mortgages and/or charges, sell and/or transfer and to do all such acts, deeds and things as may be necessary or expedient for implementing this resolution."

By Order of the Board of Directors

Sd/-

(T. Gopi Chand)

V.C. & Managing Director

Date : 27.08.2005
Place : Hyderabad.

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 Friday, 16th September 2005 to Tuesday, 27th September 2005 (both the days inclusive).
6. Shareholders are requested to bring their copy of Annual Report to the meeting.

Explanatory statement pursuant to section 173 (2) of the Companies Act, 1956.

Item 1:

The Company is in the process of implementing more and more e-governance projects and requires borrowings from banks and financial institutions exceeding the aggregate of paid up capital and free reserves. This requires the approval of members. Member's approval is therefore sought for borrowing/sale and/or transfer of the assets to the extent of Rs. 100 crores. As per the provisions of section 192 A of the Companies Act, 1956, the resolution under section 293 (1) (a) should be passed through postal ballot. The Company appointed Sri D. Gopala Krishna, Advocate as scrutinizer and sent the postal ballots to the members on 26.4.2005. The scrutinizer submitted his report and the resolution was passed by majority of votes. The resolution is for ratification purpose.

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

Serial Number	1	2
Name of the Director	Sri K.Rama Rao	Sri D. Seetharamaiah
Age	58Years	79 Years
Date of Appointment	30.09.2002	30.9.2002
Remuneration	Nil	Nil
No. of outside Directorships held	Nil	5
Chairman of the Committee of the Board of Directors of the Company	Nil	Remuneration Committee Projects Review Committee
Member of the Committee of Board of Directors of the Company	Shareholders' Grievance Committee Remuneration Committee	Audit Committee Investment Committee
Chairman/member of the Committee of Directors of other Companies	Nil	5

By Order of the Board of Directors

Sd/-

(T. Gopi Chand)

V.C. & Managing Director

Date: 27.08.2005
Place: Hyderabad.

DIRECTORS' REPORT

Dear Shareholders,

Your Directors have pleasure in presenting the Eleventh Annual Report of the company and the Audited Statements of Accounts for the year ended 31st March 2005.

a) Financial Results:

(Rs. In Lakhs)

PARTICULARS	Year Ended 31.03.2005	Year Ended 31.03.2004
Gross Income	1758.65	1500.56
Less : Expenditure	888.47	919.36
Profit before interest, depreciation & tax	870.18	581.20
Less: Interest (Financial Cost)	95.27	67.96
Profit before depreciation & tax	774.91	513.24
Less: Depreciation	310.26	251.59
Profit before tax	464.64	261.65
Less: Provision for tax		
: Current year	123.79	22.60
: Deferred tax	39.68	75.19
Profit after tax	301.17	163.86
Add: Balance brought forward from Previous Year	201.87	127.29
Add/(Less): Taxation for Earlier years	(0.14)	(2.48)
Profit available for distribution	502.90	288.67
Less:		
Proposed Dividend @ 15% (Previous Year 10%)	115.52	76.94
Tax on distributable profits	16.20	9.86
Tax on dividend for earlier Years	0.20	-
Transferred to General Reserve	25.00	-
Balance Carried to Balance Sheet	345.98	201.87

b) Performance:

The Company continued its focus on e-governance projects and was able to procure two more projects of the State Governments of Kerala and Maharashtra. The performance of the Company was consistently improving and the Company made a preferential allotment of share warrants which are convertible into equity shares of face value of Rs. 10/- each at a premium of Rs. 21/- each. This will strengthen the financial position of the company and the Company is confident of continuing the improved performance.

c) Dividend:

Your Directors are pleased to recommend a dividend of 15% absorbing a sum of Rs. 131.72 Lakh including the tax on distributed profits.

d) Listing of Shares in Stock Exchanges:

At present the Equity Shares of your company are trading under permitted Securities in the Stock Exchange, Mumbai and 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.8,91,144/-. However, the branch is being continued to take the opportunity in participating in the international market.

f) Future Focus of the Company:

The thrust of the Central and State Governments' Institutions in computerizing most of their departments helped the Company to focus more on the projects based on Build Own Operate and Transfer (BOOT). The Company was successful in getting the FAST project of the State Government of Kerala and MAHAVIKAS project of the State Government of Maharashtra. These projects envisage an investment of Rs. 40 Crore and yielding a turnover of Rs. 150 Crore over a period of five years.

g) Fixed Deposits:

The Company has accepted fixed deposits to which the provisions of Section 58A of the Companies Act, 1956 are applicable during the year under review. There are no overdue amounts of deposits including the interest thereon as at the end of the year.

h) Directors:

At the ensuing Annual General Meeting Sri K.Rama Rao and Sri D.Seetharamaiah, retiring by rotation, are eligible and offer themselves 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/outgoings:

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	2,436,000	1,076,373
Sales Incentive	73,296	63,536
Total	<u>2,509,296</u>	<u>1,139,909</u>

2. Expenditure in Foreign Currency (CIF):

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Import of Raw Material	Nil	3,068,827
Traveling Expenses	Nil	99,007
Expenses incurred at Overseas branch	1,475,440	2,166,003
Total	<u>1,475,440</u>	<u>5,333,867</u>

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, 2005 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 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, 2005 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

Sd/-

(T. Gopi Chand)
V.C. & Managing Director

Sd/-

(N.V.V.Prasad)
Executive Director

Date : 27.8.2005
Place : Hyderabad.

REPORT ON THE CORPORATE GOVERNANCE

1. Company's philosophy on Code of Governance

The philosophy of the Company on Code of Governance envisages the attainment of highest levels of transparency, accountability, professionalism, risk management and equity in all facets of its operations in serving its stakeholders.

2. Board of Directors

In furtherance of its corporate governance policy the Company ensures that all statutory, significant material information are placed before the Board/ Committee of directors for their approval to enable them to discharge their responsibilities as trustees.

Composition and category of Directors is as follows:

There are nine directors in the Board comprising a non-executive independent chairman, three whole time promoter directors, one non-executive promoter director, and four independent non-executive directors.

Attendance of each Director at the Meetings of the Board of Directors and the last Annual General Meeting:

During the year the Board met seven times on 19.04.2004, 06.06.2004, 29.07.2004, 23.08.2004, 27.09.2004, 26.10.2004, and 28.01.2005.

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	7	7	Yes	3	Nil	1	Nil
Sri N.V .V. Prasad	7	7	Yes	3	Nil	1	Nil
Smt. T. Pavana Devi	7	7	Yes	Nil	Nil	1	Nil
Sri T. Bapaiah Choudary	7	6	Yes	2	1	Nil	Nil
Sri K. Rama Rao	7	6	Yes	3	Nil	Nil	Nil
Sri D. Seetharamaiah	7	6	Yes	2	2	5	5
Sri R.S. Bakkannavar	7	7	Yes	Nil	1	3	Nil
Dr.T. Hanuman Chowdary	7	5	Yes	Nil	Nil	2	2
Dr.T.V. Lakshmi	7	7	Yes	2	Nil	1	Nil

None of the Director is a member in more than 10 Companies and acts as a Chairman in more than 5 Committees across all companies in which he is a Director.

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.
6. Project Review Committee.

3. Audit Committee

- a. The Board reconstituted the Audit Committee at its meeting held on 29.11.2001. The members of the Committee are
 - a. Sri R.S.Bakkannavar Chairman
 - b. Sri T.Bapaiah Choudary Member
 - c. Sri D. Seetharamaiah Member

- b. Brief description of the terms of reference to the Audit Committee:
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 and recommending the appointment and removal of managerial personnel, fixation of remuneration and also approval for payment for any other services as recommended by the Remuneration Committee.
 4. 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.
 5. Reviewing with the management, external and internal auditors, the adequacy of internal control systems.
 6. Reviewing the adequacy of internal audit functions.
 7. Discussion with internal auditors on any significant findings and follow up thereon.
 8. 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.
 9. Discussion with external auditors before the audit commences, the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
 10. Reviewing the Company's financial and risk management policies.
 11. To look into the reasons for substantial defaults in the payment to the creditors.
 12. To consider and review any other matter as may be directed by the Board.

During the year, the Committee met 5 times on 19.4.2004, 29.7.2004, 17.8.2004, 26.10.2004 and 28.1.2005. All the members were present at all the meetings.

4. Shareholders' Grievance Committee:

The Board constituted the shareholders' grievance committee comprising the following Directors

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

The Committee oversees the performance of the Registrar and Transfer Agents, and recommends measures for overall improvement in the quality of investor services. The Committee, inter alia, recommends issue of duplicate certificates and reviews all matters connected with the securities transfers, redressal of shareholders' complaints. During the year, the Committee met 4 times on 30.6.2004, 30.9.2004, 31.12.2004 and 31.3.2005 respectively.

The total number of complaints received and replied to the satisfaction of shareholders during the year under review was 402. Outstanding complaints as on 31st March 2005 were nil.

5. Remuneration Committee:

The Board constituted the Remuneration Committee 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 |

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

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

During the year the Committee met once on 28.1.2005 and all the members were present at the meeting.

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

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

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Vice Chairman & Managing Director (Sri T.Gopi Chand)	9,40,373	669,360
Executive Director (Sri N.V.V.Prasad)	7,54,613	549,360
Whole Time Director (Smt. T.Pavana Devi)	4,26,743	309,360
Total	21,21,729	1,528,080

The Company has paid the following sitting fee to the Directors of the Company during the year ended on 31st March 2005 vis a vis the previous financial year ended on 31st March 2004:

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Sri D.Seetharamaiah	22,000	19,000
Sri R.S.Bakkannavar	22,500	17,000
Sri T.Bapaiah Choudary	21,000	17,000
Dr. T. Hanuman Chowdary	12,500	10,500
Dr. T.V.Lakshmi	18,500	14,000
Sri K.Rama Rao	16,000	8,500
Total	1,12,500	86,000

6. Investment Committee:

The Investment Committee was constituted with 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 11.8.2004. All the members were present at the meeting.

12. Management Discussions and Analysis

Cautionary Statement:

Statements in the Management Discussion and Analysis Report describing our company's objectives, expectations or predictions may be forward looking within the meaning of applicable regulations and other legislations. Actual results may differ materially from those expressed in the statement. Important factors that could influence company's operations include global and domestic financial market conditions affecting the interest rates, availability of resources for the financial sector, market for lending, changes in regulatory directions issued by the Government, tax laws, economic situation and other relevant factors.

Industry Structure And Developments

The new information and communication technology (ICT) developments in different states of India and the world have changed the way government offices used to work and also the lifestyle of the villagers and other citizens. The new ICT revolution has connected the villages to networks that are accessible from any specified location and need not move every now and then to district headquarters for getting things done.

With the spread of information technologies and World Wide Web, certain demands have emerged, touching the vital areas of Governmental functioning such as right to information, transparency in functioning and speedier decisions. As Professor V N Garg observes Governments worldwide are faced with the challenge of transformation and the need to reinvent government systems in order to deliver efficient and cost effective services, information and knowledge through information and communication technologies. Development of information and communication technologies catalyzed and led up to E-Governance, which has now become the most talked buzzword the world over. With a view to explore the challenges in implementation, how to face these challenges and after meeting the challenges how to move in the direction which leads to a successful e-government; we are proceeding with our analysis of business environment. This analysis defines e-Governance, discusses the issues involved in its implementation and some examples of e-Governance practices in India. The analysis also discusses some of the benefits resulted and are likely to result from e-Governance. Before touching the issues, it is quite important to clearly understand the meaning of e-Governance and E government. The following definitions of E-governance are considered.

The application of electronic means in (1) the interaction between government and citizens (G2C) and the government and business (G2B), as well as (2) in internal government operations (G2G) to simplify and improve democratic, government and business aspects of governance.

e-governance is that form of governance which seeks to realize processes and structures by harnessing the potentialities of information and communication technologies (ICTs) on various levels of government and the public sector and beyond, for the purpose of enhancing good governance.

E- government on the other hand refers to the facilitation of the delivery of government services; it has a focus on information technology. It can be defined as this: E government uses computing and telecommunications technologies to make radical changes to the delivery of government services to their citizen customers and the general public (G2C), businesses (G2B), employees (G2E), and other governments (G2G).

Objectives of e-Governance:

With a strategic objective to support and simplify governance for all parties, government, citizens and business, by using ICT for attaining good governance, following broad objectives of the E-governance can be identified according to Prof V N Garg:

- * Improve connections between citizens and government and encourage their participation in governance
- * Open up avenues for direct participation of women in government policy making process
- * Reduce poverty
- * Enhance democratization and citizen empowerment.

Major aspects of e-Governance:

Two major dimensions of e-governance include application of ICT for the betterment of administration, and application of governance to the cyber society.

Following pillars support the E-Governance System. Some of these have also been included in the '8C model', as implemented successfully in the state of Andhra Pradesh:

- * Computers: All hardware and software requirements of governance
- * Connectivity: All carrier systems, bandwidth etc.
- * Content: The information that is exchanged between the "consumers" of the system
- * Consumers: All the human substitute systems that access and use the "content"
- * Confidence Building: Those measures that help the citizens develop confidence in the e-governance and encourage them to take to the e transformation.

- * Cyber Laws (IT Act 2000)
- * Citizen Interface Options
- * Capital

E-Governance is the next big trend occurring in India with at least half a dozen states jumping onto the bandwagon. While these are individual state government initiatives, they lack a national perspective. Yet, with the realization of the benefits of e-Governance among the central and state governments, in India it can actually become a reality. This will enable a healthy citizen-government interface. State governments who are jumping onto the e-Governance bandwagon are taking initiatives in this direction. Clearly the southern states of AP, Tamil Nadu and Karnataka have taken the lead in terms of implementing these projects at different citizen-government interface departments. Other states across the country have been swiftly moving to keep up with the changes in the south, and states like Rajasthan, Gujarat, Maharashtra and West Bengal have been trying to catch up fast. Also coming up are Kerala, Orissa, Punjab and Madhya Pradesh, to name a few.

- A study conducted by Indian Market Research Bureau (IMRB) on the state of e-governance readiness in various central ministries and departments found that India was at the threshold of ICT initiatives at the government level with several structural changes in the existing process of governance already underway. About 61 per cent of the central ministries and departments were found to have a precise definition of e-governance and defined it as a creator of a simple, moral, accountable, responsive and transparent (SMART) government.
- 55 per cent of the ministries and departments considered IT as one of the key areas where performance was regularly monitored by the top officials. Most ministries and departments had completed their basic automation in terms of PC, printers, scanners etc. IMRB study indicated that though India was currently at the first stage of e-governance readiness but levels of adoption are fairly high and were increasing rapidly.
- The use of Information technology helps the Governments in storing large database and retrieving the same at the fastest rate, aids in quick and correct decisions in time. The E-Governance Projects also help in maintaining a paperless administration.

The Company has a huge opportunity to create systems, modules, procedures and documentation of E-Governance and also to train the Government officers and personnel in E-Governance.

Future Outlook:

E-Governance:

The Government's thrust on reforms, Infrastructure development and improving quality of life depends on effective implementation of E-Governance Projects in all spheres of administration. The company has been able to secure prestigious orders from State governments of AP, Kerala, Karnataka and Maharashtra. AP Schools, KAVERI project Karnataka, RTA Kerala, Maharashtra MAHAVIKAS projects are proceeding smoothly and the company hopes to maintain compounded annual growth rate of 40 percent on Total Sales on a conservative estimate.

Infrastructure:

The company has already intimated stock exchanges its intention to demerge infrastructure properties into a separate listed company to take up infrastructure and real estate projects. The board of the company has approved in principle the proposal for de-merger of the Company's infrastructure assets located on the outskirts of Hyderabad that include surplus prime land of 19.63 acres and buildings situated therein into a separate listed Company. This will enable the Company to focus on its core area of providing E-Governance solutions and at the same time provide an opportunity to unlock shareholder value.

The demerged entity plans to undertake business of real estate, construction and execution of medium Infrastructure Projects after necessary regulatory and other approvals.

Opportunities and Threats:

Infrastructure Issues:

The infrastructure issues, which are important, are poor rural telecommunications network, power problems in various states, and network connectivity. Unless these three areas are improved, an effective e-governance programme cannot be implemented.

Social and cultural issues:

E-governance implementation leads to information sharing at each small unit level in the masses, high awareness and transparency in governmental functioning. This also needs a strong back-end functional support to successfully maintain the e-governance initiative; in the absence of which the system will collapse. Under the present political and administrative system, majority of the people at the authoritative positions in the respective functional

departments may dislike the transparent and smooth working after e-governance initiative. Such cultural habits are difficult to fight with which is an essential prerequisite of the e-governance. Resistance of staff is also a very likely aspect, which needs to be taken care of by taking steps in advance and by spreading goodwill among the employees.

On the other hand, people always fear to experiment new things, newer means of functioning. In the initial stages, any e-governance project is likely to face criticism and setbacks because of lesser public participation. Further owing to lower literacy rate in majority of the Indian states, the reach of the project remains restricted to the literate people in the society.

To catalyze the tremendous social returns that are possible, the sheer magnitude of available capital must increase exponentially, and the capital must be invested strategically. Poor requirement-gathering (particularly in the case of frequent policy changes) and non-involvement of end-users during this process, poor or negligible IT awareness among decision-makers, poor management of knowledge and human resources, non-compatibility between IT projects and business processes, poor risk management, choice of technology and over-ambitious projects are among the root causes of problems in achieving significant e-governance benefits.

Poor overall literacy rate and language barriers are yet few issues, which limit the usage of such projects

Security issues

Defining a security policy can be a complicated task as each Government must decide beforehand which aspects of protection are most important, thereby compromising between security and ease of use. Various security issues involved are:

Authenticity of the information sent across the web. The use of digital signatures is therefore much more required in case of Government documents.

Confidentiality of any transaction or information available on the network is a very crucial matter and is therefore of vital importance to the successful e-governance implementation. Protecting the information and important governmental documents from unauthorized users is all the more important in e-governance.

Cryptography is an important process to protect the information from unauthorized users and is an inseparable part of network security. Tested encryption software is to be installed before initiating the e-governance.

Maintaining and assuring Integrity of the information is also an important aspect of digital security, which becomes all the more important in e-governance. In the absence of encryption and digital signatures, information integrity cannot be guaranteed and this may lead to new forms of fraud, as digital documents are the easiest to forge.

Continuous availability of information 24 hrs a day is important for efficient and effective functioning of the e-governance system. This is in fact, a key distinguishing feature of the e-governance system. Therefore any anticipated hardware problems, network errors, link failures etc. need to be safeguarded beforehand.

Network Security by using multi level barriers is in place for effective protection of the networks. These may use password schemes, biometrics, SMART card authentication and firewalls.

Hardware and software issues

Identifying the appropriate hardware platforms and software application packages for cost effective delivery of public services is an important ingredient of the e-governance system. This can be achieved by:

Making the knowledge repository widely available through appropriate Demo Mechanisms.

Offering a basket of these models to the Departments both in the Center and the State, which could be suitably customized as per location and work specific requirements. Towards this end we envisage to have State level models, District level models and Ministry/Department level models.

This offer is to be supplemented by incubating and initiating efforts in this direction by various organs of the Govt., by amendment in State laws through study and consultation.

Administration issues

A strong political will encompassing potential changes with regard to physical, technical and human resource infrastructures and honest welfare measures are central to effective administration of e-governance. A change in the mindset of people in the government and clear thinking about what needs to be achieved and where to get the expertise and solutions to achieve it in a cost-effective, time-bound manner leads to effective e-governance. Setting up a governing body on e-Governance for the country might help. The idea should be to further the governance processes toward easier, better citizen-friendly schemes as and where required. According to an observation, hardware and software constitute only 10% of the problem, while 85% of the problem is an organization management problem that is internal to the government.

Delivery of public services like Utilities, Rural and Urban development schemes through EDI, Internet and other IT based technologies would necessitate procedural and legal changes in the decision and delivery making processes as well as institutions, which would mean a complete revamp of the Government decision management

involving faster decision mechanisms, less red tapism, changes in organization structures making it more flatter, higher delegation of authority and changes in legal provisions. These measures would lead to:

- * Organizational and institutional changes effecting both people and methods at all interfaces of the delivery Chain.
- * For this, acceptance of this changed processes would have to be properly understood, accepted, internalized, adopted and improved to enable full advantages of the technology being adopted in the first part of Smart Governance.
- * De-layering of the decision-making levels leading to re-engineering and appropriate sizing of the decision-making machinery.
- * Training and acclimatization of the personnel at all levels more so at the lower rung of Government management organizations.
- * Loss of vested interests and assumed power as well as authority both amongst the legislature and the executive.

Financial Issues

Apart from the ambitious work plans, the financial issues related to e-governance have to be weighed in terms of available resources both in the Plan sector and outside. It is here that leveraging of ongoing projects can be made more cost and value effective with the use of IT in a modulated fashion without any critical incremental costs. The Private sector resources have also to be carefully dovetailed with their commercial interests and those of the Government to provide value added services. The Kiosks by themselves can bring in little in terms of better delivery of Services, unless the same are made economically viable and of demonstrated use to the stakeholders, viz. the public and the citizenry. Higher cost for high-end applications is another attention area.

Benefits of e-Governance

- * Enhanced access to information and communication across large distances
- * Improved access to governmental and quasi-governmental resources and services
- * Opportunities to trade or bank online through kiosks
- * Opportunities to design, manufacture, and market products through Internet or intranet systems
- * Education through computers or about computers or both
- * Superior medical advice, diagnosis or information about local resources
- * Opportunities to earn a better living by learning a new skill in the knowledge based economy
- * Improving agricultural productivity
- * Technological benefits
- * Targeted applications of technology can help government agencies; community groups and other organizations deliver services more effectively and at a lower cost.
- * Technology applications can enable certain individuals, especially "early stage adopters", to spark catalytic change in their communities.
- * Technology applications can help create and sustain online and offline networks that introduce and interconnect people who are working towards similar goals.

RISK MANAGEMENT

In E-Governance industry, changes in Govt. Policies relating to the company's E-Governance area will have an impact. As seen in the recent past the Govt. Policies have been supportive of E-Governance initiatives and give important thrust and hence the company expects minimum business risks. However the company has adequately planned for the risks by leveraging finances and products.

Internal control systems and their adequacy:

The company through its extensive experience has system that ensures control over various functions in its business. On the financial side, periodic audits by internal auditor, statutory auditors and regulatory authorities provide a means whereby any weakness is exposed and rectified.

Further, keeping in mind the spirit of Corporate Governance, the company has also formed an Audit Committee, which looks into matters with respect to the company's financial reporting process and the disclosures of its financial information to ensure that the financial information is correct, sufficient and credible.

Financial Performance with respect to Operational performance:

The management has established a tight and prudent financial control system in the company. The financial highlights are shown in the Directors' report and the audited balance sheet, profit and loss account.

The gross turnover of the Company during the year is Rs.1758.65 lakh representing an increase of 17.2 % over the previous year. The profit before tax for the year is Rs.464.64 lakh compared to Rs.261.65 lakh for the previous year representing an increase of 77.6 %.

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

The company places importance in the customer satisfaction and it is the Company's belief that Human Resources are the driving force towards progress and Human Resources are the most valuable assets of the company. The company provides challenges, encourages initiatives and recognizes and rewards excellence in performance. The company reviews and evolves policies/processes to attract the best technical and managerial talent. Relations with the employees remained cordial throughout the year. The Management and the employees are dedicated to achieve the corporate objectives and the target set before the company.

13. 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, 2005 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 16th September 2005 to 27th September 2005 (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
 - ii. Bangalore Stock Exchange Limited.
 - iii. The Stock Exchange, Mumbai (Trading permission with effect from 19.4.2004).

The listing fee for the year 2004 - 2005 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

f. Stock Market Data

Month	Hyderabad Stock Exchange		Mumbai Stock Exchange	
	Month's High Price	Month's Low Price	Month's High Price	Month's Low Price
April 2004	10.80	10.80	14.80	07.00
May 2004	-	-	08.50	05.55
June 2004	-	-	08.62	05.85
July 2004	-	-	09.75	06.51
August 2004	-	-	12.35	08.01
September 2004	-	-	12.16	08.52
October 2004	-	-	19.95	12.50
November 2004	-	-	28.20	15.50
December 2004	-	-	31.50	22.60
January 2005	-	-	28.05	21.10
February 2005	-	-	37.50	22.35
March 2005	-	-	32.00	24.00

The equity shares of the company were not traded on the Bangalore Stock Exchange as reported by the Stock Exchange.

- 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, 2005 the distribution of our shareholding was as follows:

S.No	Category	No. of Shareholders	Total Shares	% to Total
1	Promoters	19	2,984,702	38.72
2	Bodies Corporate	216	997,218	12.93
3	NRIs/OCBs	8	53,110	00.69
4	Clearing Members	40	36,480	00.47
5	Public	3,785	3,637,990	47.19
TOTAL		4,068	7,709,500	100.00

i. Dematerialization of Shares:

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.

During the year many of the shareholders converted their holding to electronic form from physical form. As such 66,77,734 shares of the Company are in electronic form as on 30.6.2005.

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

- i. Software development center:
1st Floor, 8-3-1113/2B, Kesava Nagar,
Srinagar Colony, Hyderabad - 500 073
- ii. Overseas Office:
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)
V.C.&Managing Director

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

Date :27 -08-2005
Place : Hyderabad

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 for the year ended on 31st March 2005, 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 statements 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 state that no investor grievances were pending for a period exceeding one month against the company as per the records maintained by the Share Transfer and Shareholders' Grievance Committee.

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 : 27th August,2005.

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

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

AUDITORS' REPORT

To
The Members of
TERA SOFTWARE LIMITED,

1. We have audited the attached Balance Sheet of **TERA SOFTWARE LIMITED**, as at March 31, 2005 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 in paragraph 3 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, 2005 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2005 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, 2005;
 - (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

Place: Hyderabad
Date: 27th August, 2005.

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

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) In our opinion, the company has not disposed of substantial part of fixed assets during the year and the going concern status of the company is not affected.
- (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) a. The Company had not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.
- b. In view of our comment in paragraph iii (a) above, clauses (iii)(b) to (iii)(d) of the aforesaid order are not applicable to the company.
- c. During the year, the company had taken unsecured loans from one party covered in the register maintained under section 301 of the Companies Act, 1956 and the maximum amount involved during the year was Rs.2 lakhs.
- d. In our opinion the rate of interest and other terms and conditions on which loans have been taken from the other parties listed in the register maintained under section 301 of the Companies Act, 1956 are not prima facie prejudicial to the interest of the Company.
- e. The company is regular in payment of the principal amount and interest thereon as stipulated.
- (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 and Services. 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 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 register 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) In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 58A, 58AA and other relevant provisions of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public.
- (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.
- (ix) (a) According to the records, the company is regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty, Cess and other statutory dues with appropriate authorities.
- According to the information and explanations given to us, no undisputed amounts payable in respect of the aforesaid dues were outstanding as at 31st March, 2005 for a period of more than six months from the date of becoming payable.

- (b) According to the records of the company and the information and explanation given to us, the dues of Sales Tax/Income Tax/Customs Duty/Wealth Tax/Service Tax/Excise Duty/ Cess, which have not been deposited on account of any dispute are as follows:

Nature of the dues	Amount (Rs)	Period which the amount relates	Forum where dispute is pending
Sales Tax	26,48,617	2003-04	High Court

- (x) The Company has no accumulated losses at the end of the financial year and has not 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 or deposit holders as at the balance sheet date.
- (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.
- (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 bank or financial institution.
- (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 loan were obtained.
- (xvii) On the basis of our examination of the books of account and the information and explanation given to us, in our opinion, the funds raised on short-term basis have not been used for long-term investment.
- (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 Companies Act, 1956.
- (xix) The Company has not issued any Debentures during the year.
- (xx) The Company has not raised any money by public issue 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

Sd/-

(D.C. Naidu)

Partner

Membership No: 24643

Place: Hyderabad
Date: 27th August, 2005.

BALANCE SHEET AS AT 31.03.2005

	Schedules	As At		As At	
		31st March 2005	31st March 2004	31st March 2005	31st March 2004
		Rs.	Rs.	Rs.	Rs.
I. SOURCES OF FUNDS					
A. SHAREHOLDERS' FUNDS					
Share Capital	1	77,014,075		76,936,500	
Reserves & Surplus	2	<u>37,098,065</u>	114,112,140	<u>20,187,361</u>	97,123,861
B. LOAN FUNDS					
Secured Loans	3	62,990,928		34,200,000	
Unsecured Loans	4	<u>1,800,000</u>	64,790,928	<u>3,514,598</u>	37,714,598
C. Deferred Tax Liability			15,651,154		11,682,877
TOTAL			194,554,222		146,521,336
II. APPLICATION OF FUNDS					
A. FIXED ASSETS					
Gross Block	5	168,652,960		156,210,811	
Less : Depreciation		<u>66,567,672</u>		<u>35,546,980</u>	
Net Block		102,085,288		120,663,831	
Add : Capital work in progress		<u>53,595,190</u>	155,680,478	<u>7,671,000</u>	128,334,831
B. INVESTMENTS					
	6		6,119,830		100,000
C. CURRENT ASSETS, LOANS & ADVANCES					
Inventories	7	246,850		242,884	
Sundry Debtors	8	72,751,285		58,547,730	
Cash & Bank Balances	9	20,864,088		17,809,340	
Loans & Advances	10	<u>16,140,566</u>		<u>9,325,444</u>	
		<u>110,002,789</u>		<u>85,925,398</u>	
Less : Current Liabilities & Provisions					
Current Liabilities	11	55,490,386		58,907,719	
Provisions	12	<u>21,828,589</u>		<u>9,957,467</u>	
		<u>77,318,975</u>		<u>68,865,186</u>	
NET CURRENT ASSETS			32,683,814		17,060,212
D. MISCELLANEOUS EXPENDITURE	13		70,100		1,026,293
(to the extent not written off or adjusted)					
TOTAL			194,554,222		146,521,336

SIGNIFICANT ACCOUNTING POLICIES
AND NOTES ON ACCOUNTS

20

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

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

Place: Hyderabad.
Date:27th August, 2005

For and on behalf of the board of directors

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

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

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2005

	Schedules	For the year ended 31st March 2005 Rs.	For the year ended 31st March 2004 Rs.
I. INCOME:			
Gross Sales & Services	14	174,331,093	147,864,698
Other Income	15	1,533,867	2,191,705
Total		175,864,960	150,056,403
II. EXPENDITURE:			
Cost Of Goods Sold	16	15,939,339	42,332,677
Personnel Cost	17	13,197,490	4,295,091
Operating and other expenses	18	57,518,160	44,650,760
Financial Cost	19	9,527,407	6,795,660
Depreciation & Amortization		31,025,808	25,159,231
Preliminary Expenses written off		70,100	113,350
Capital Issue Expenditure written off		886,093	886,100
Prior Period (Income)/Expenses (net)		1,235,834	(341,658)
Total		129,400,231	123,891,211
Profit before Tax		46,464,729	26,165,192
Less : Current Year			
- Provision for tax (including provision for wealth tax Rs.11,266/-, Previous Year Rs.14,000)	12,378,985		2,259,804
- Deferred tax	3,968,277	16,347,262	7,519,298
Profit after Tax		30,117,467	16,386,090
Add: Balance brought forward from previous year	20,187,361		12,729,058
Add/(Less): Taxation for Earlier Year	(14,753)	20,172,608	(248,388)
Profit available for distributions		50,290,075	28,866,760
Less: Appropriations			
Transferred to General Reserve	2,500,000		-
Proposed Final Dividend on Equity Shares	11,552,111		7,693,650
Tax on distributed profit	1,620,184		985,749
Tax on dividend for earlier years	19,715		-
		15,692,010	86,79,399
Balance Carried to Balance Sheet		34,598,065	20,187,361
Basic and diluted Earnings per share Rs.10 each (Rs)		3.91	2.10
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS			
	20		

As per our report of even date attached

For **NARVEN ASSOCIATES**

Chartered Accountants

Sd/-
(D.C.NAIDU)

Partner

Membership No:24643

Place: Hyderabad.

Date:27th August, 2005

For and on behalf of the board of directors

Sd/-
(T. GOPI CHAND)
V.C. & Managing Director

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

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

SCHEDULES FORMING PART OF THE BALANCE SHEET

	As At 31st March'2005 Rs.	As At 31st March'2004 Rs.
1. Share Capital		
Authorised		
150,00,000 Equity Shares of Rs.10/- each	150,000,000	150,000,000
Issued, Subscribed and Paid up		
77,09,500 Equity Shares of Rs. 10/- each (of the above, 1,68,090 Equity Shares have been allotted other wise than by cash)	77,095,000	77,095,000
Less: Calls in arrear - by others	80,925	158,500
Total	77,014,075	76,936,500
2. Reserves & Surplus		
General Reserve		
Opening Balance	-	-
Add: Transfer From Profit & Loss Account	2,500,000	-
Total (a)	2,500,000	-
Profit & Loss Account	34,598,065	20,187,361
Total (b)	34,598,065	20,187,361
Total (a)+(b)	37,098,065	20,187,361
3. Secured Loans		
Term Loans		
from Banks		
-Syndicate Bank	22,800,000	34,200,000
-Bank of Maharashtra	39,165,996	-
(Term loans taken from Syndicate Bank and from Bank of Maharashtra are secured by way of hypothecation of Land situated at Jubilee Hills, Hyderabad, Computers and peripherals, furniture & fixtures, stock in trade, receivables, outstanding monies and personal guarantee given by the V.C. & Managing Director, Whole Time Director and Executive Director of the Company.)		
- ICICI Bank Limited (Secured against hypothecation of vehicle)	1,024,932	-
Total	62,990,928	34,200,000
4. Unsecured Loans		
a. Short Term Loans		
from Banks	-	304,750
b. Other Loans		
Overdraft of current account with Banks	-	3,209,848
c. Public Deposits		
from Share holders	1,800,000	-
Total	1,800,000	3,514,598

5 : FIXED ASSETS

(Amount in Rupees)

Particulars	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at 31st March 2004	Additions	(Deductions)	As at 31st March 2005	As at 31st March 2004	During the year	(Deductions)	As at 31st March 2005	As at 31st March 2005	As at 31st March 2004
Land	2,254,640	9,429,435	-	11,684,075	-	-	-	-	11,684,075	2,254,640
Office Equipment	637,209	14,800	-	652,009	146,872	30,853	-	177,725	474,284	490,337
Computers & Servers	12,002,113	1,325,977	-	13,328,090	4,966,568	2,051,846	-	7,018,414	6,309,676	7,035,545
Furniture & Fixtures	1,036,412	15,000	-	1,051,412	258,520	65,568	-	324,088	727,324	777,882
Capital Expenditure on Projects Division *	138,878,052	495,377	-	139,373,429	29,583,449	28,694,020	-	58,277,469	81,095,960	109,294,603
Vehicles**	1,402,385	1,182,560	(21,000)	2,563,945	591,571	183,521	(5,116)	769,976	1,793,969	810,814
Total	156,210,811	12,463,149	(21,000)	168,652,960	35,546,980	31,025,808	(5,116)	66,567,672	102,085,288	120,663,831
Previous Year	74,606,195	81,604,616	-	156,210,811	10,387,749	25,159,231	-	35,546,980	120,663,831	64,218,446
Capital work in progress	7,671,000	45,924,190	-	53,595,190	-	-	-	-	53,595,190	7,671,000

Note:

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

**Includes vehicles financed Gross Block Rs.11,82,560 Net Block Rs.11,31,774

6. Investments

Long Term Investments
(Non trade and unquoted)

Sl. no.	Particulars	Opening as on 31st March 2004			Purchases			Sales			Adjustments		Balance as on 31st March 2005		
		No. of Shares	Rs.	Aggregate Value	No. of Share	Rs.	Aggregate Value	No. of Shares	Rs.	Aggregate Value	Decline in Investment	No. of shares	Rs.	Face Value per Share	Aggregate per Value
A	Investments made in fully paid equity shares in														
1	XL Softech Systems Limited	10,000	10	100,000	0	-	0	0	0	0	0	0	10,000	10	100,000
	Total (A)	10,000		100,000	0		0	0	0	0	0	0	10,000		100,000
B	Investment in Mutual Funds														
1	Investment in GFRF (floating rate fund-daily div)	0	0	0	2,197,311	10	22,126,704	2,197,311	10	22,126,703	0	0	0	0	0
2	Investment in GFRF (Instant plan B-daily div)	0	0	0	2,732,803	10	27,525,689	2,732,803	10	27,525,689	0	0	0	0	0
3	HDFC Floating Rate Fund	0	0	0	1,327,193	10	13,819,324	727,316	10	7,823,867	0	598,877	10	6,019,830	6,019,830
	Total (B)	0	0	0	6,257,307	10	63,471,409	5,657,430	10	57,476,269	0	599,877	10	6,019,830	6,019,830
	Grand Total (A+B)	10,000	0	100,000	6,257,307	-	63,471,409	5,657,430	-	57,476,269	0	609,877	10	6,119,830	6,119,830
	Previous Year	210,000		2,100,000	0		2,000,000	200,000		2,000,000	0	10,000		100,000	

SCHEDULES FORMING PART OF THE BALANCE SHEET

	As At 31st March'2005 Rs.	As At 31st March'2004 Rs.
7. Inventories (As taken, valued and certified by management)		
Raw Material	92,010	187,479
Finished Goods/Trading Goods	154,840	55,405
Total	246,850	242,884
8. Sundry Debtors (Unsecured)		
Over Six Months		
Considered Good	13,615,920	2,294,671
Considered Doubtful	-	491,256
Less : Provision for doubtful debts	-	491,256
	13,615,920	2,294,671
Others		
Considered Good	59,135,365	56,253,059
(Includes unbilled work of Rs.91,61,186/-, Previous year Rs.17,38,683/-)		
Total	72,751,285	58,547,730
9. Cash & Bank Balances		
Cash	133,300	207,454
Remittance in Transit/ Cheques on hand	-	10,000
Balances with Scheduled Banks in Current Accounts*	4,831,897	1,683,650
in Current Accounts in Foreign Currency	73,653	680,441
in Deposits	15,742,000	15,180,647
Balances with Non-Scheduled Banks Harris Trust Bank (in foreign currency)	83,238	47,148
Total	20,864,088	17,809,340
Maximum Balance during the year in non-scheduled bank Harris Trust Bank, USA.	491,439	1,719,305
* Includes Rs.89,531 (Previous Year Rs.99,181) being balance in Unpaid Dividend Account with ICICI Bank Limited and Rs.2,47,254 (Previous Year Rs. NIL) with HDFC Bank Ltd.		
* Includes Rs.37,139/- (Previous Year Rs.3,886) being balance in Public Issue Allotment Account with Bank Of Maharashtra.		
10. Loans & Advances (Unsecured)		
Considered good		
Accrued Interest	393,070	834,492
Deposits	10,217,920	2,687,078
Advances recoverable in cash or in kind or for value to be received	5,529,576	5,803,874
Total (a)	16,140,566	9,325,444
Considered doubtful		
Inter-corporate Deposits	-	3,088,821
Less: Provision for doubtful loans & advances	-	3,088,821
Total (b)	-	-
Total (a+b)	16,140,566	9,325,444

SCHEDULES FORMING PART OF THE BALANCE SHEET

	As At 31st March'2005 Rs.	As At 31st March'2004 Rs.
11. Current Liabilities		
Interest accrued but not due on loans	485,694	13,586
Sundry Creditors		
for trading goods	1,628,278	20,424,508
for Capital Goods	31,248,567	15,013,017
for other liabilities and expenses	21,762,542	23,290,454
Unclaimed excess share allotment money (\$)	1,020	1,020
Unclaimed Dividend (\$)	336,785	99,181
Advances from customers	27,500	65,953
((\$) 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	55,490,386	58,907,719
12. Provisions		
Proposed Dividend	11,552,111	7,693,650
Tax on Distributed Profit	1,620,184	985,749
Provision for Tax (net of advance Tax)	8,112,257	877,868
Provision for Gratuity	544,037	400,200
Total	21,828,589	9,957,467
13. Miscellaneous Expenditure :		
(to the extent not written off or adjusted)		
a) Preliminary Expenditure		
Opening Balance	140,200	253,550
Add : Addition During the year	-	-
	140,200	253,550
Less : Written off during the year	70,100	113,350
Total (a)	70,100	140,200
b) Capital Issue Expenditure		
Opening Balance	886,093	1,772,193
Add : Addition During the year	-	-
	886,093	1,772,193
Less : Written off during the year	886,093	886,100
Total (b)	-	886,093
Total (a)+(b)	70,100	1,026,293

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

	31st March 2005 Rs.	31st March 2004 Rs.
14. Gross Sales and Services		
Sale of Goods (net of returns)	17,395,108	47,394,017
Income from Projects & Services	156,935,985	100,470,681
Total	174,331,093	147,864,698
15. Other Income		
Insurance Claim Recovered	121,629	20,660
Interest Income (TDS Rs.2,11,480/- Previous Year Rs.Rs.2,78,465/-)	1,037,500	1,388,244
Discount and Other Incentives Received	170,955	777,804
Income from non trade investments:		
Dividends from mutual fund units	97,711	-
Profit on Sale of Mutual Funds	24,690	-
Miscellaneous Income	81,382	4,997
Total	1,533,867	2,191,705
16. Cost Of Goods Sold		
(a) Raw Material, Components consumed and Purchase of Trading Goods		
Opening stock	187,479	441,954
Add: Purchases (net of returns)	15,943,305	42,133,607
	16,130,784	42,575,561
(Less): Closing stock	92,010	187,479
Total (a)	16,038,774	42,388,082
(b) (Increase)/Decrease in Finished Goods		
Opening stock	55,405	402,800
Less: Closing stock	154,840	55,405
Total (b)	(99,435)	347,395
Total (a+b)	15,939,339	42,735,477
Less: Capitalized	-	402,800
Total	15,939,339	42,332,677
17. Personnel Cost		
Salaries, wages, Bonus and other benefits	11,865,306	3,993,493
Commission to whole time directors	482,592	-
Contribution to Provident Fund, ESI etc.	745,890	263,544
Staff Welfare	103,702	38,054
Total	13,197,490	4,295,091

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

	31st March 2005 Rs.	31st March 2004 Rs.
18. Operating and other Expenses		
Advertisement & Sales Promotion	687,849	161,095
Consultancy, Professional & Other Charges	40,486,570	33,078,883
Consumables	5,311,890	2,328,740
Donations	20,000	-
Electricity Charges	860,136	288,712
Foreign Travel Expenses	-	134,007
Insurance	220,029	214,406
Loss on foreign exchange variation	52,827	88,754
Loss on sale of Fixed Assets	10,884	-
General Expenses	1,132,837	625,803
Postage and Telephone	1,804,288	1,226,063
Printing & Stationery	228,243	118,923
Rates & Taxes	214,265	223,541
Remuneration to Auditors	180,000	120,000
Rent	691,923	738,214
Repairs & Maintenance - Others	1,178,168	393,451
Bad Debts written off	1,168,854	273,109
Less: Provision for Doubtful Debts Written Back	(491,256)	(273,109)
Provision for Doubtful Debts	-	235,655
Advances Written Off	3,338,821	-
Less: Provision for Doubtful loans and advances written back	(3,088,821)	-
Provision for Doubtful loans and advances	-	3,088,821
Sitting fees	112,500	86,000
Travelling & Conveyance	3,398,153	1,499,692
Total	57,518,160	44,650,760
19: Financial Cost		
Interest on Fixed Loans	8,114,467	5,217,608
Interest on Working Capital & Others	1,412,940	1,578,052
Total	9,527,407	6,795,660

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.

1. 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.

2. 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-rate 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.

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:

- i. Long-Term Investments are carried at cost, and provision is made to recognize any decline, other than temporary, in the value of such investment.
- ii. Current investments are carried at the lower of cost and quoted/fair value, computed category wise.

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. Impairment of Assets

An asset is treated as impaired when the carrying cost of assets exceeds its recoverable value. An impairment loss is charged to the Profit and Loss Account in the year in which an asset is identified as impaired. The impairment loss recognized in prior accounting periods is reversed if there has been a change in the estimate of recoverable amount.

9. 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.

10. 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.

11. Borrowing Costs

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalized as part of the cost of such assets. A qualifying asset is one that necessarily takes substantial period of time to get ready for intended use. All other borrowing costs are charged to revenue.

12. Provision, Contingent Liabilities and Contingent Assets

Provisions involving substantial degree of estimation in measurement are recognized when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent Liabilities are not recognized but are disclosed in the notes. Contingent Assets are neither recognized nor disclosed in the financial statement.

13. 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.

14. Claims Receivable:

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

15. 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.

16. 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.

17. Sales:

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

II Notes on accounts:

1. Secured Loans:

a. Working Capital loans and bank guarantees given by Bank of Maharashtra are secured by way of hypothecation of Land situated at Jubilee Hills, Hyderabad, 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.157.42 Lakh (previous year Rs. 151.81 Lakh) with the bank and personal guarantee given by the Managing Director, Whole Time Director and Executive Director of the Company.

b. Future commitments in respect of assets acquired under Finance Schemes

Due	Total Minimum Lease Payments Outstanding (Rs)	Future Interest on Outstandings(Rs)
Payable within one year	1,95,102	78,102
Later than over year and not later than five years	8,29,830	1,49,151
Later than five years	-	-
Total	10,24,932	2,27,253

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.874 lakh as at March 31st, 2005 (Previous year Rs. 454 Lakh).

b. The company has outstanding guarantees of Rs.373.81 Lakh as at 31st March 2005 (previous year Rs. 345.99 Lakh).

c. Demand for sales tax not provided for pending appeal Rs.26.48 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.

4. Managerial Remunerations:

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

Particulars	Current Year (Rs)	Previous Year (Rs)
Salaries & Allowances	1,500,000	1,500,000
Contribution to Provident	28,080	28,080
Provision for Gratuity	111,057	160,000
Commission	482,592	-
Directors Sitting Fee	112,500	86,000
Total	2,234,229	1,774,080

5. Computation of Net Profit in accordance with section 309(5) of the Companies Act'1956.

Particulars		Year ended March 31,2005
Profit before Tax		46,464,729
Add:		
1. Wholetime directors' remuneration	1,639,137	
2. Directors sitting fee	112,500	
3. Commission to whole time directors	482,592	
4. Depreciaion as per books of accounts	31,025,808	
5. Loss on Sale of Fixed Assets	<u>10,884</u>	<u>33,270,921</u>
		79,735,650
Less:		
1. Depreciaiton as envisaged under section 350 of the Companies Act	31,451,806	
2. Profit on Sale of Mutal Funds/Investments	<u>24,690</u>	<u>31,476,496</u>
Net Profit on which commission is payable		<u>48,259,154</u>
Maximum permissible commission as per the Companies Act 1%		482,592
Commission Payable to :		
a) Vice Chairman & Managing Director		217,167
b) Executive Director		168,907
c) Whole Time Director		96,518

6. Earnings in Foreign Currency (FOB):

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Software Development /Services	24,36,000	10,76,373
Sales Incentive	73,296	63,536
Total	25,09,296	11,39,909

7. Expenditure in Foreign Currency (CIF):

Particulars	Current Year (Rs.)	Previous Year(Rs.)
Import of Raw Material	Nil	30,68,827
Traveling	Nil	99,007
Expenditure incurred at Overseas branches	14,75,440	21,66,033
Total	14,75,440	53,33,867

8. Remuneration to Statutory Auditors:

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Statutory Audit fee	90,000	60,000
Tax Audit fee	30,000	20,000
Limited Review Fee	20,000	15,000
Sales Tax Audit	10,000	10,000
Taxation Matters	20,000	10,000
Certification Fee & Other	10,000	5,000
Total	1,80,000	1,20,000

9. 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 set out 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 bases 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.

a. Business Segments:

Year ended March 31, 2005 and 2004

(all figures in Rs.)

Segment	Integrated Solutions	Technical Division	Projects Division	Others	Unallocable	Total
Revenues	17,013,786	32,130,435	122,369,550	2,988,277	-	174,502,048
	<i>45,654,356</i>	<i>16,910,984</i>	<i>82,483,324</i>	<i>3,593,838</i>	-	<i>148,642,502</i>
Identified operating expenses	15,987,648	19,113,124	36,137,795	1,772,777	-	73,011,344
	<i>41,410,309</i>	<i>12,639,890</i>	<i>18,706,035</i>	<i>7,209,127</i>	-	<i>79,965,361</i>
Allocated Expenses	100,148	2,259,243	30,255,764	268,320	-	32,883,475
	<i>1,385,910</i>	<i>546,190</i>	<i>24,695,146</i>	<i>370,184</i>	-	<i>26,997,430</i>
Segmental operating income	925,990	10,758,068	55,975,991	947,180	-	68,607,229
	<i>2,858,137</i>	<i>3,724,904</i>	<i>39,082,143</i>	<i>(3,985,473)</i>	-	<i>41,679,711</i>
Unallocable expenses					13,978,005	13,978,005
					<i>10,127,763</i>	<i>10,127,763</i>
Operating income						54,629,224
						<i>31,551,948</i>
Other income/(expenses), net					325,412	325,412
					<i>20,660</i>	<i>20,660</i>
Net profit before Interest						54,954,636
						<i>31,572,608</i>
Less: Interest Expenses					(9,527,407)	(9,527,407)
					<i>(6,795,660)</i>	<i>(6,795,660)</i>
Add: Interest Income					1,037,500	1,037,500
					<i>1,388,244</i>	<i>1,388,244</i>
Net profit before taxes						46,464,729
						<i>26,165,192</i>
Income Taxes						(16,347,262)
						<i>(9,779,102)</i>
Net Profit after taxes						30,117,467
						<i>16,386,090</i>
Other Information						
Segment Assets	5,028,724	22,373,254	164,096,407	481,796	79,893,016	271,873,197
	<i>22,039,992</i>	<i>8,484,789</i>	<i>144,184,013</i>	<i>992,236</i>	<i>39,685,492</i>	<i>215,386,522</i>
Segment Liabilities	1,526,923	2,634,897	42,390,659	0	30,766,496	77,318,975
	<i>20,460,921</i>	<i>2,021,680</i>	<i>32,558,283</i>	-	<i>13,824,302</i>	<i>68,865,186</i>
Capital Expenditure	-	1,053,473	495,377	-	10,914,299	12,463,149
	-	<i>3,798,788</i>	<i>77,737,220</i>	-	<i>68,608</i>	<i>81,604,616</i>
Depreciation	-	705,134	28,694,020	232,319	1,394,335	31,025,808
	<i>351,368</i>	<i>135,655</i>	<i>23,469,365</i>	<i>232,317</i>	<i>970,526</i>	<i>25,159,231</i>

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

b. Geographical Segment

As the company also exports (but the exports are not significant), the secondary segment for the company is based on the location of the customers. Out of the total sale the export sale is Rs.25.09 lakh (Previous year Rs.11.40 lakh).

10. Related Party Transactions:

a) Name of Related Parties & relationship:

Party Name	Relation
Mr. T. Gopi Chand	Key Management Personnel (Vice Chairman & Managing Director) & Spouse of Mrs. T. Pavana Devi.
Mrs. T. Pavana Devi	Key Management Personnel (Whole Time Director) & Spouse of Mr.T. Gopi Chand.
Mr. N.V.V.Prasad	Key Management Personnel (Executive Director)
Mrs. Seetha Ramamma	Director's mother

b) Transactions with related parties:

Name of the related party	Mr. T. Gopi Chand	Mrs.T. Pavana Devi	Mr. N.V.V.Prasad	Mrs.Seetha Ramamma.
Description of the Relationship between the parties	Key Management Personnel (Vice Chairman & Managing Director) & Spouse of Mrs. T. Pavana Devi.	Key Management Personnel (Whole Time Director) & Spouse of Mr.T. Gopi Chand.	Key Management Personnel (Executive Directors)	Directors Mother
Description of the nature of transactions	a)Receiving of Services b)Commission on Profits	a)Receiving of Services. b) Acquisition of existing office premises pending registration (Awaiting for concession in registration charges from the Govt. of Andhra Pradesh). c) Commission on profit	a) Receiving of Services. b) Commission on Profits	Interest Paid on Public Deposits.
Volume of the transactions either as an amount or as appropriate proportion	a) Managerial Remuneration of Rs. 7,23,206 b) Commission of Rs. 2,17,167	a) Managerial Remuneration of Rs. 3,30,225 b) Advance given for Purchase of the Property Rs.24,76,000 c) Commission of Rs.96,518	a) Managerial Remuneration of Rs. 5,85,706/- c) Commission of Rs.1,68,907.	a) Interest paid on Deposits Rs.370.
Any other elements of the related party transactions	Managerial Remuneration & Commission was approved by Share Holders	Managerial Remuneration & Commission was approved by Share Holders	Managerial Remuneration & Commission was approved by Share Holders	NIL
The amounts or appropriate proportions of outstanding items pertaining to related parties at the Balance Sheet date	a) Managerial Remuneration Payable Rs. 33,699 b) Commission payable Rs.2,17,167	a) Managerial Remuneration Payable Rs. 14,695 b) Advance outstanding against acquisition of office premises Rs.24,76,000. c)Commission payable Rs.96,518	a) Managerial Remuneration Payable Rs.31,552. b) Commission payable Rs.1,68,907.	a) Interest Payable Rs.370. b) Fixed Deposit payable Rs.2,00,000
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	NIL

11. 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.
12. Amount capitalized comprises Raw materials, finished goods (including Trading goods) incurred during the project implementation period Rs.Nil (Previous Year Rs. 4,02,800)
13. **Deferred Tax**
Tax charged to Profit and Loss account is after considering deferred tax impact for the timing difference between accounting income and taxable income.

The deferred tax liability as at 31st March'2005 comprise of the following:

	As At 31st March'2005	Rs. In lakh As At 31st March'2004
A Deferred Tax Liability		
1 Related to fixed assets	158.38	131.15
B Deferred Tax Assets		
1 Disallowance under the Income Tax Act, 1961 (1.87)	(1.87)	(1.48)
2 Provision for doubtful debts -	(1.87)	(12.84)
C Provision for deferred tax (net)	156.51	116.83

14. Prior period items, material items, non-recurring and extraordinary items are disclosed separately. Prior period items (net) include prior period income Rs. 15,000 and prior period expenses Rs.12,50,834 (Previous year prior period items(net) include prior period income Rs.4,31,417 and expenses Rs. 89,759).
15. 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, 2005.
16. Earnings per Share.

	Current Year	Previous Year
a) Net Profit as per Profit and Loss Account (Rs)	30,117,467	16,386,090
b) (Less): Taxation for earlier year(Rs)	(14,753)	(248,388)
c) Profit available for equity share holders(Rs)	30,102,714	16,137,702
d) Weighted average number of Equity Shares used as denominator for calculating EPS	7,709,500	7,709,500
e) Basic and Diluted Earnings per share of Rs.10/- each.	3.91	2.10

17. Paise have been rounded off to the nearest rupee.
18. Figures for the corresponding year ended March 31, 2004, wherever necessary, have been regrouped, recast, rearranged to conform to those of the current year.
19. 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

For and on behalf of the board of directors

Sd/-
(T.GOPI CHAND)
V.C. & Managing Director

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

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

Place: Hyderabad.

Date : 27th August 2005.

Cash Flow Statement Annexed to the Balance Sheet For the Year ended 31st March 2005

Notes	Current Year 31st Mar'2005		Previous Year 31st Mar'2004	
	Rs.	Rs.	Rs.	Rs.
A. Cash flow from Operating Activities:				
Net Profit Before Tax as per Profit & Loss A/c.		46,464,729		26,165,192
Adjustments:				
Depreciation & Amortization	31,025,808		25,159,231	
Provision for bad & doubtful debts	-		235,655	
Provision for doubtful loans and advances	-		3,088,821	
Profit on sale of Mutual Fund Units	(24,690)		-	
Loss on Sale of Fixed Assets	10,884		-	
Dividend received from Mutual Fund Investments	(97,711)		-	
Prior Period Expenses/(Income)	1,235,834		(341,658)	
Interest Income	(1,037,500)		(1,388,244)	
Preliminary Expenses Written Off	70,100		113,350	
Capital Issue Expenses Written Off	886,093		886,100	
Interest Expenses	8,114,467		5,217,608	
		<u>40,183,285</u>	<u>32,970,863</u>	
Operating Profit before working capital changes		86,648,014		59,136,055
Adjustments for:				
Inventories	(3,966)		601,870	
Sundry debtors	(14,203,555)		(31,415,845)	
Loans and advances	(7,256,544)		(1,664,308)	
Current Liabilities and provisions	(20,218,758)		5,407,710	
		<u>(41,682,823)</u>	<u>(27,070,573)</u>	
Cash Generated from Operations		44,965,191		32,065,482
Prior Period (Expenses)/Income		(1,235,834)		341,658
Taxes Paid		(5,159,349)		(1,457,052)
Net Cash from Operating Activities		38,570,008		30,950,088
B. Cash flow from Investing Activities:				
Purchase of Fixed Assets & Advances paid	1	(42,151,789)		(71,640,323)
Sale of Fixed Assets	2	5,000		-
Purchase of Investments	3	(63,471,409)		-
Sale of Investments	4	57,476,269		2,000,000
Interest Income		1,478,922		2,502,427
Dividend Income from mutual funds		97,711		-
Net Cash Generated from Investing Activities		(46,565,296)		(67,137,896)
C. Cash flow from Financing Activities:				
Proceeds from Issue of share capital (net)		77,575		(8,492)
Proceeds from Long term funds	5	45,748,442		38,000,000
Repayment of Long term loans	6	(15,157,514)		(3,805,889)
Short term loans (net)	7	(3,514,598)		1,280,380
Interest Paid		(7,642,359)		(5,204,022)
Dividend Paid	8	(8,461,510)		(4,240,462)
Net Cash Generated from Financing Activities		11,050,036		26,021,515
Net Increase/(Decrease) in Cash and Cash Equivalents		3,054,748		(10,166,293)
Opening Balance of Cash and Cash Equivalents		17,809,340		27,975,633
Closing Balance of Cash and Cash Equivalents		20,864,088		17,809,340

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

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

Place: Hyderabad.
Date:27th August, 2005

For and on behalf of the board of directors

Sd/-
(T. GOPI CHAND)
V.C. & Managing Director

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

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

Notes On Cash Flow Statement for the year 2004-05

Particulars	Amount(Rs)
1. Purchase of Fixed Assets(including) :	
Additions as per Schedule 5	(58,387,339)
Movement in CWIP	-
Reduction in creditors for Capital Expenditure	16,235,550
Total	(42,151,789)
2. Sale of Fixed Assets	
Deductions from Gross Block as per Schedule 5	21,000
Cumulative Depreciation on Deductions	(5,116)
Net Loss on Sale	(10,884)
Total	5,000
3. Purchase of Investment	
Increase in Current Investments	(63,471,409)
Total	(63,471,409)
4. Sale of Investment	
Decrease in Current Investments	57,451,579
Profit on Sale of Investment	24,690
Total	57,476,269
5. Proceeds from Long term funds	
Increase in Secured Term Loans from Banks	42,923,510
Increase in Vehicle Loans	1,024,932
Proceeds from Public Deposits	1,800,000
Total	45,748,442
6. Repayment of Long term funds	
Repayment of Term Loans	(15,157,514)
Total	(15,157,514)
7. Movement in Short Term Loans	
Reduction in Secured Loans	(3,514,598)
Total	(3,514,598)
8. Dividend Paid	
Dividends and Tax On Dividend	(8,441,795)
Tax on Dividend for earlier years	(19,715)
Total	(8,461,510)

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

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

I Registration Details

Registration No.

		1	8	3	9	1
--	--	---	---	---	---	---

 State Code

0	1
---	---

Balance Sheet Date

3	1		0	3		2	0	0	5
---	---	--	---	---	--	---	---	---	---

Date Month Year

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

Public Issue

				N	I	L
--	--	--	--	---	---	---

 Rights Issue

				N	I	L
--	--	--	--	---	---	---

Bonus Issue

				N	I	L
--	--	--	--	---	---	---

 Private Placement

				N	I	L
--	--	--	--	---	---	---

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

Total Liabilities

		1	9	4	5	5	4
--	--	---	---	---	---	---	---

 Total Assets

		1	9	4	5	5	4
--	--	---	---	---	---	---	---

Sources of Funds:

Paid-up Capital

		7	7	0	1	4
--	--	---	---	---	---	---

 Reserves & Surplus

		3	7	0	9	8
--	--	---	---	---	---	---

Loan Funds

		6	4	7	9	1
--	--	---	---	---	---	---

 Deferred Tax

		1	5	6	5	1
--	--	---	---	---	---	---

Application of Funds:

Net Fixed Assets

		1	5	5	6	8	0
--	--	---	---	---	---	---	---

 Investments

				6	1	2	0
--	--	--	--	---	---	---	---

Net Current Assets

		3	2	6	8	4
--	--	---	---	---	---	---

 Misc.Expenditure

						7	0
--	--	--	--	--	--	---	---

Accumulated Losses

				N	I	L
--	--	--	--	---	---	---

IV Performance of Company (Amount in Rs.Thousands)

Profit Before Tax

		4	6	4	6	5
--	--	---	---	---	---	---

 Profit After Tax

		3	0	1	1	7
--	--	---	---	---	---	---

Earning Per Share (Rs.)

3	.	9	1
---	---	---	---

 Dividend Rate on CRPS

N	I	L
---	---	---

Dividend on Equity Shares (Rs.)

1	.	5
---	---	---

V Generic Names of Principal Products of the Company

Item Code No. (ITC Code)

N	O	T		A	P	P	L	I	C	A	B	L	E
---	---	---	--	---	---	---	---	---	---	---	---	---	---

Product Description

S	O	F	T	W	A	R	E		D	E	V	E	L	O	P	M	E	N	T
---	---	---	---	---	---	---	---	--	---	---	---	---	---	---	---	---	---	---	---

Item Code No. (ITC Code)

N	O	T		A	P	P	L	I	C	A	B	L	E
---	---	---	--	---	---	---	---	---	---	---	---	---	---

Product Description

C	O	M	P	U	T	E	R		S	E	R	V	I	C	E	S
---	---	---	---	---	---	---	---	--	---	---	---	---	---	---	---	---

Tera Software Limied

Regd. Office: 8-3-1113/2B, Keshavanagar, Srinagar Colony, Hyderabad-500 073

Dear Shareholder,

Re: Payment of Dividend through Electronic Clearing Services (ECS)

In case you have not already sent the ECS particulars to the company or to your Depository Participant (in case of demat holdings), we would request you to provide the particulars in the format given below to facilitate prompt and safe payment of future dividend. If you maintain more than one bank account, payment can be received at any one of your existing accounts.

Please ensure that the details submitted are correct, as any error therein could result in the dividend amount being credited to wrong account.

Kindly help us in our endeavor to serve you better.

Yours faithfully

For **Tera Software Limited**

V.C. & Managing Director

In case you are holding shares in demat form, please also advise your Depository Participant to take note of your ECS mandate.

FORM FOR ELECTRONIC CLEARING SERVICE (ECS) FOR PAYMENT OF DIVIDEND

Please fill-in information in **CAPITAL LETTERS** in English Only.

For Shares held in physical Form:

Folio No:

For Shares held in Demat Form :

DP ID:

Client ID:

Name of First / Sole Share holder.....

Bank Name:.....

Branch Address:.....

Branch Code

--	--	--	--	--	--	--	--	--	--

(9 Digit MICR Code Number appearing on the Cheque supplied by the Bank)

Account

	Saving
--	--------

	Current
--	---------

	Cash Credit
--	-------------

Please (_ /)

A/c.No. (As appearing
In the Cheque Book)

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

I/We hereby declare that the particulars given above are correct and complete. If any transaction is delayed or not effected at all for reasons of incompleteness or incorrectness of information supplied above, the Company will not be held responsible. I/We agree to inform the Company any change in my/our Bank/branch and account number.

Date:

Place:

(Signature of Shareholder)

(Please attach photocopy of a blank cheque of your bank, duly cancelled, for ensuring accuracy of the Bank's name, branch and 9 digit MICR Code)

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 Eleventh Annual General Meeting of the Company held on Tuesday, the 27th September, 2005 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 Eleventh Annual General Meeting to be held on Tuesday, the 27th September, 2005 at 10.00 A.M. or at any adjournment thereof.

Signed this.....day of.....2005.

*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