

Tera Software Limited

BOARD OF DIRECTORS:

- | | |
|-----------------------------|-------------------------------------|
| 1. Sri D. SEETHARAMAIAH | CHAIRMAN |
| 2. Sri K. RAMA RAO | DIRECTOR |
| 3. Sri T. BAPAI AH CHOUDARY | DIRECTOR |
| 4. Sri R. S. BAKKANAVAR | DIRECTOR |
| 5. Dr. T. HANUMAN CHOWDARY | DIRECTOR |
| 6. Dr. T. V. LAKSHMI | DIRECTOR |
| 7. Smt. T. PAVANA DEVI | WHOLE TIME DIRECTOR |
| 8. Sri N.V. V. PRASAD | EXECUTIVE DIRECTOR |
| 9. Sri T. GOPI CHAND | VICE CHAIRMAN and 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
Url: www.terasoftware.com

AUDITORS:

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

BANKERS:

BANK OF MAHARASHTRA,
Basheer Bagh,
Hyderabad - 500 029.

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

NOTICE

Notice is hereby given that the Twelfth 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 Friday, the 29th day of September, 2006 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 2006, Profit & Loss Account for the year ended on that date together with the Reports of the Directors and Auditors thereon.
2. To declare dividend on Equity shares.
3. To appoint a Director in place of Sri T. Gopi Chand, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Sri N.V.V.Prasad, who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint a Director in place of Sri R.S.Bakkannavar, who retires by rotation and being eligible offers himself for re-appointment.
6. 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:

7. To consider and if thought fit, to pass with or without modification, the following resolution as a Special Resolution:
"Resolved that pursuant to the provisions of Sections 198,269,309,310,314 and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to such other approvals and consents as may be required, the approval and consent of the Company be and is hereby accorded to the appointment of Sri.T.Gopichand, as Vice Chairman and Managing Director of the Company, not liable to retire by rotation pursuant to Article 51 of the Articles of Association of the Company for a period of five years with effect from 29th September, 2006 on the revised remuneration, commission, perquisites and other allowances mentioned below:

- | | |
|-------------------|--|
| i) Salary: | Rs.1,25,000/- per month with an annual increment of Rs.30,000/- |
| ii) Commission: | @0.90% on the net profits of the Company and |
| iii) Perquisites: | a) Contribution to provident Fund, Superannuation Fund or Annuity Fund, as per the rules of the Company. |
| | b) Gratuity payable shall not exceed half month's salary for each completed year of service. |
| | c) Free use of Company's car with driver. |
| | d) Free communication facilities like Telephones/Mobiles/Fax at residence. |

"Resolved Further that the remuneration aforesaid including the perquisites and other allowances shall be paid and allowed to Sri. T. Gopichand, Vice Chairman and Managing Director, as minimum remuneration during the Currency of his tenure in the event of loss or inadequacy of profits in any financial year for a period not exceeding three years".

8. To consider and if thought fit, to pass with or without modification, the following resolution as a Special Resolution:
"Resolved that pursuant to the provisions of Sections 198,269,309,310,314 and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to such other approvals and consents as may be required, the approval and consent of the Company be and is hereby accorded to the appointment of Sri.N.V.V.Prasad, as Executive Director of the Company, not liable to retire by rotation pursuant to Article 51 of the Articles of Association of the Company for a period of five years with effect from 29th September, 2006 on the revised remuneration, commission, perquisites and other allowances mentioned below:

- | | |
|-------------------|--|
| i) Salary: | Rs.1,00,000/- per month with an annual increment of Rs.20,000/- |
| ii) Commission: | @0.70% on the net profits of the Company and |
| iii) Perquisites: | a) Contribution to provident Fund, Superannuation Fund or Annuity Fund, as per the rules of the Company. |
| | b) Gratuity payable shall not exceed half month's salary for each completed year of service. |
| | c) Free use of Company's car with driver. |
| | d) Free communication facilities like Telephones/Mobiles/Fax at residence. |

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"Resolved Further that the remuneration aforesaid including the perquisites and other allowances shall be paid and allowed to Sri. N.V.V. Prasad, Executive Director, as minimum remuneration during the currency of his tenure in the event of loss or inadequacy of profits in any financial year for a period not exceeding three years".

9. To consider and if thought fit, to pass with or without modification, the following resolution as a Special Resolution:
"Resolved that pursuant to the provisions of Sections 198,269,309,310,311,314 and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to such other approvals and consents as may be required, the remuneration, commission, perquisites and other allowances payable to Smt. T. Pavana Devi, Whole Time Director of the Company, be revised and enhanced with effect from 29th September, 2006 for the remainder of her tenure, as under:

- i) Salary: Rs.50,000/- per month with an annual increment of Rs.10,000/-
- ii) Commission: @0.40% on the net profits of the Company and
- iii) Perquisites:
 - a) Contribution to provident Fund, Superannuation Fund or Annuity Fund, as per the rules of the Company.
 - b) Gratuity payable shall not exceed half month's salary for each completed year of service.
 - c) Free use of Company's car with driver.
 - d) Free communication facilities like Telephone/Mobiles/Fax at residence.

"Resolved Further that the remuneration aforesaid including the perquisites and other allowances shall be paid and allowed to Smt. T. Pavana Devi, Whole Time Director, as minimum remuneration during the remaining period of her tenure, in the event of loss or inadequacy of profits in any financial year for a period not exceeding three years".

10. To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:

"Resolved that the Company be and is hereby authorized to capitalize its reserves by allotting one equity share of Rs. 10/- each for every four equity shares of Rs. 10/- each fully paid up held by the members as fully paid bonus shares".

"Resolved further that the Company be and is hereby authorized to make a provision to allot 2,00,000 equity shares of Rs.10/- each as fully paid up bonus shares to the holders of 8,00,000 warrants convertible into equity shares upon conversion as per the guidelines concerning the issue of bonus shares."

"Resolved further that the Board be and is hereby authorized to do all the things, deeds necessary to implement the above resolution and take necessary steps for the issue of bonus shares including fixing the record date, allotment of shares to the entitled members as on record date and dealing with fractional entitlement as it may deem fit".

By Order of the Board of Directors

Sd/-

(T. Gopi Chand)

Vice Chairman and Managing Director

Date : 28.08.2006
Place : Hyderabad.

Notes:

1. *The explanatory statement in respect of item numbers 7 to 10 of the Notice, pursuant to Section 173 (2) of the Companies Act, 1956 is annexed hereto.*
2. *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.*
3. *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.*
4. *Members/Proxies should fill the attendance slip for attending the meeting.*
5. *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.*
6. *The Company has already notified closure of Register of Members and the Share Transfer Books from Saturday, 23rd September 2006 to Friday, 29th September 2006 (both days inclusive).*
7. *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.

Items 7 & 8 :

The members at their meeting held on 20.05.2005 fixed the remuneration of working directors. The Audit Committee on 25.08.2006 reviewed the remuneration as recommended by the Remuneration Committee and the Board of Directors at their meeting held on 28.08.2006 proposed the revision for the approval of the members. It is also proposed to appoint Sri. T. Gopichand and Sri N.V.V. Prasad, as non rotational Directors pursuant to Article 51 of the Articles of Association of the Company.

To commensurate with the services rendered by them, your directors commend the resolution.

None of the directors are interested/deemed to be interested in the resolution except Sri T.Gopichand, the Vice Chairman and Managing Director, Sri N.V.V.Prasad, the Executive Director.

Smt. T. Pavana Devi is interested in the resolution at item 7 concerning Sri. T. Gopichand being Spouse as per Section 6 (B) of the Companies Act, 1956.

Sri T.Bapaiah Choudary is interested item 7 being relative of Sri T. Gopichand as per Schedule IA of the Companies Act, 1956.

Item 9:

The members at their meeting held on 20.05.2005 fixed the remuneration of Whole time Director. The Audit Committee on 25.08.2006 reviewed the remuneration as recommended by the Remuneration Committee and the Board of Directors at their meeting held on 28.08.2006 proposed the revision of remuneration for the approval of the members.

To commensurate with the services rendered by the Whole time Director, your directors commend the resolution.

None of the directors are interested/deemed to be interested in the resolution except, Smt T.Pavana Devi, Whole time Director.

Sri. T. Gopichand is interested in the resolution concerning Smt. T. Pavana Devi being Spouse as per Section 6 (B) of the Companies Act, 1956.

Sri T.Bapaiah Choudary is interested being relative of Smt. T. Pavana Devi as per Schedule IA of the Companies Act, 1956.

Item 10:

The Company's accumulated reserves including the securities premium exceeds the paid up capital of the Company and the Board considered at their meeting held on 28.8.2006, capitalization of reserves by allotting fully paid bonus shares in the ratio of 1 equity share of Rs. 10/- each for every 4 equity shares of Rs. 10/- each fully paid up. The members at their meeting held on 4.6.2006 approved allotment of 8,00,000 share warrants convertible into equity shares on preferential basis. As per the guidelines concerning the issue of bonus shares, even the warrant holders are entitled to bonus shares on conversion of warrants to equity shares. Member's approval is sought for issue and allotment of bonus shares.

Your directors commend the resolution

None of the directors are interested/deemed to be interested in the resolution except to the extent they are entitled to the bonus shares.

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

Serial Number	1	2	3
Name	Sri T. Gopi Chand	Sri N.V.V.Prasad	Sri R.S.Bakkannavar
Designation	V C & M D	E D	Director
Age	47 Years (9.6.1959)	46 Years (14.4.1960)	65 Years (17.6.1941)
Qualification	M. Tech.	B. Tech.	Post Graduate
Date of Appointment	27.09.2003	27.09.2003	27.9.2003
Nature of expertise in specific functional areas	Incharge of all facets of Management with special emphasis on Negotiations, Project Coordination & Implementation and Technical functions.	Incharge of Project Coordination, Marketing, Integrated Services, Post Sales Services and Technical functions.	Over three decades of rich experience in banking sector. Providing guidance on project financing.
Remuneration	Rs.11,32,761/-p.a. As approved by Members	Rs.9,25,339/- p.a. As approved by Members	Rs.39,500/- p.a. (Sitting Fees)
No. of outside Directorships held	1	1	3
Chairman of the Committee of Board of Directors of the Company	Nil	Nil	(1) Audit Committee
Member of the Committee of Board of Directors of the Company	(1) Investment Committee (2) Share Transfer Committee (3) Management Committee	(1) Investment Committee (2) Share Transfer Committee (3) Management Committee	(1) Management Committee
Chairman/member of the Committees of other Companies	Nil	Nil	NIL

By Order of the Board of Directors

Date: 28.08.2006
Place: Hyderabad.Sd/-
(T. Gopi Chand)
Vice Chairman and Managing Director

DIRECTORS' REPORT

Dear Shareholders,

Your Directors have pleasure in presenting the Twelfth Annual Report and the audited accounts of the company for the year ended 31st March 2006 together with Auditors' report thereon.

a) Financial Results: (Rs. In Lakhs)

PARTICULARS	Year Ended 31.03.2006		Year Ended 31.03.2005	
Gross Income		3529.69		1758.65
Expenditure		2138.25		888.47
Profit before interest, depreciation & tax		1391.44		870.18
Less: Interest (Financial Cost)		101.02		95.27
Profit before depreciation & tax		1290.42		774.91
Less: Depreciation		368.20		310.26
Profit before tax		922.22		464.64
Less : Provision for tax				
: Current year	281.17		123.79	
: Deferred tax	24.96		39.68	
: Fringe Benefit tax	4.60	310.73	–	163.47
Profit after tax		611.48		301.17
Add: Balance brought forward from Previous Year	345.98		201.87	
Add/(Less): Excess provision of Taxation for Earlier years	1.39	347.37	(0.14)	201.73
Profit available for distribution		958.85		502.90
Less:				
Proposed Dividend @ 20% (Previous Year 15%)	184.19		115.52	
Tax on distributable profits	25.83		16.20	
Tax on dividend for earlier Years	0.01		0.20	
Transferred to General Reserve	500.00		25.00	
Residual dividend earlier years	0.04	710.07	–	156.92
Balance Carried to Balance Sheet		248.78		345.98

b) Dividend:

Your Directors are pleased to recommend a dividend of 20% absorbing a sum of Rs.210.02 Lakh including the tax on distributable profits.

c) Listing of Shares in Stock Exchanges:

At present the Equity Shares of your company are traded under permitted Securities on 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.

d) Overseas Office:

The foreign branch in U.S.A. is being continued to take the opportunity in participating in the international market.

e) 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.

f) Directors:

In accordance with the provisions of the Companies Act, 1956, and the Articles of Association of the Company, Sri T. Gopi Chand, Vice chairman and Managing Director, Sri N.V.V.Prasad, Executive Director and Sri R.S.Bakkannavar, Director, will be retiring by rotation at this annual general meeting and being eligible offer themselves for reappointment.

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g) 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.

h) 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.

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

The particulars as required U/S 217(1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the report of the Board of Directors) Rules 1988 are:

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

1. Earnings in Foreign Currency (FOB):

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Software Development / Services	12,710,000	2,436,000
Sales Incentive	Nil	73,296
Total	12,710,000	2,509,296

2. Expenditure in Foreign Currency (CIF):

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Import of Raw Material	Nil	NIL
Traveling Expenses	Nil	NIL
Expenses incurred at Overseas branch	131,565	1,475,440
Total	131,565	1,475,440

j) 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, 2006 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, 2006 on a going concern basis.

k) 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. Your directors thank the Government of India, State Governments, Electronic Corporation India Limited and Other Government Agencies for their support during the year and look forward to their patronized support.

For and on behalf of the Board of Directors

Date: 28.08.2006
Place: Hyderabad.

Sd/-
(T. Gopi Chand)
Vice Chairman and Managing Director

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

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 ten times on 24.04.2005, 28.05.2005, 04.06.2005, 27.07.2005, 27.08.2005, 27.09.2005, 27.10.2005, 10.11.2005, 03.12.2005, and 21.01.2006.

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	10	10	Yes	Nil	Nil	1	Nil
Sri N.V .V. Prasad	10	10	Yes	Nil	Nil	1	Nil
Smt. T. Pavana Devi	10	10	Yes	Nil	Nil	1	Nil
Sri T. Bapaiah Choudary	10	9	Yes	Nil	1	Nil	Nil
Sri K. Rama Rao	10	10	Yes	2	Nil	Nil	Nil
Sri D. Seetharamaiah	10	10	Yes	1	Nil	5	3
Sri R.S. Bakkannavar	10	9	Yes	Nil	1	3	Nil
Dr. T. Hanuman Chowdary	10	9	Yes	Nil	Nil	2	Nil
Dr. T.V. Lakshmi	10	9	Yes	1	Nil	1	Nil

None of the Director is a member in more than 10 Committees 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. Management Committee.

3. Audit Committee

a. The Board reconstituted the Audit Committee at its meeting held on 21.01.2006 by appointing Sri K. Rama Rao in place of Sri T. Bapaiah Choudary. The present members of the Committee are:

1. Sri R.S.Bakkannavar Chairman
2. Sri D. Seetharamaiah Member
3. Sri K. Rama Rao Member

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- 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 of 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, and the adequacy of internal control systems.
 6. Reviewing the adequacy of internal audit functions.
 7. Discussion with internal auditors on any significant findings and followup there on.
 8. Reviewing the findings of any internal investigations by the internal auditors into the matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
 9. Discussion with external auditors before the audit commences of nature and scope of audit as well as have 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 24.04.2005, 23.07.2005, 25.08.2005, 26.10.2005 and 21.01.2006. All the members were present at all the meetings.

4. Shareholders' Grievance Committee:

The Board constituted the shareholder' 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, redressing of shareholders' complaints.

During the year, the Committee has met 5 times on 30.6.2005, 30.9.2005, 31.12.2005, 30.01.2006 and 31.3.2006 respectively.

The total number of complaints received and replied to the satisfaction of shareholders during the year under review was 457. Outstanding complaints as on 31st March 2006 were 3.

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 periodical basis. The remuneration policy is in consonance with the existing Industry Practice.

During the year the Committee met once on 26.10.2005 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	CurrentYear (Rs.)	Previous Year (Rs.)
Vice Chairman & Managing Director (Sri T.Gopi Chand)	11,32,761	9,40,373
Executive Director (Sri N.V.V.Prasad)	9,25,339	7,54,613
Whole Time Director (Smt. T.Pavana Devi)	5,19,205	4,26,743
Total	25,77,305	21,21,729

The Company has paid the following sitting fee to the Directors of the Company during the year ended on 31st March 2006 vis a vis the previous financial year ended on 31st March 2005.

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Sri D.Seetharamaiah	45,500	22,000
Sri R.S.Bakkannavar	39,500	22,500
Sri T.Bapaiah Choudary	41,000	21,000
Dr. T. Hanuman Chowdary	26,500	12,500
Dr. T.V.Lakshmi	28,000	18,500
Sri K.Rama Rao	31,000	16,000
Total	2,11,500	1,12,500

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 03.12.2005. All the members were present at the meeting.

7. Share Transfer Committee:

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

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

During the year 41 meetings were held and all the members were present at all the meetings.

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Compliance Officer Name and Address:

O. Babu Reddy, 8-3-1113/2B, Kesava Nagar, Srinagar Colony, Hyderabad - 500 073.

8. Management Committee:

The Management Committee was constituted on 28.4.2006 with 4 directors of the company as stated below:

- | | | |
|----|---------------------|----------|
| a. | Sri D.Seetharamaiah | Chairman |
| b. | Sri R.S.Bakkannavar | Member |
| c. | Sri T.Gopi Chand | Member |
| d. | Sri N.V.V.Prasad | Member |

9. General Body Meetings

Location and time for last 3 Annual General Meetings were:

YEAR	AGM	LOCATION	DATE	TIME
2002-2003	AGM	Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad.	27th September 2003	3.30 p.m.
2003-2004	AGM	Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad.	27th September 2004	10.00 a.m.
2004-2005	AGM	Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad.	27th September 2005	10.00 a.m.

During the year the Company passed a resolution through postal ballot for the purpose of section 293 (1) (a) increasing the borrowing powers of the Board to an extent of Rs. 100 crores.

The following special resolutions were passed during the year by the members

Date	Type of meeting	Section	Brief particulars
20.5.2005	EGM	81 (1) (A)	To issue convertible warrants on preferential basis

10. Disclosures

a. Significant related party transactions:

The related party transactions are reported in the notes to the accounts as per the requirements of the concerned Accounting Standards.

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

11. Means of Communication

The quarterly financial results were published in two widely circulated newspapers {The Financial Express (All India) and Andhra Jyothi (Hyderabad)} in English and vernacular newspapers. The financial results are intimated to the Stock Exchanges on which the Company's Shares are listed as per the requirements of the listing agreement and also to the Stock Exchange, Mumbai where the equity shares of the Company are permitted to be traded.

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.

Opportunities and Threats:

With the introduction of the concept of e-governance, both the Central and State Governments are keen on implementing different projects to keep the activities of the Governments transparent, timely and cost effective. There is an absolute increase in the fund allotment by the Governments for implementing the projects. This creates an opportunity for the experienced and expert organizations to broaden their horizon and support the Government in faster implementation of the projects.

Tera Software Limited

The increased volume of work attracts more number of players in the field and the competition becomes severe. Only the effective and efficient organizations could stand such a situation. The management is confident that with its exposure and experience in this field of e-governance, it stands a better chance than others.

Internal control systems and their adequacy:

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

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.

12. General Information for Shareholders:

- a. As indicated in the Notice to our shareholders, the Annual General Meeting of the Company will be held on 29th September, 2006 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 23rd September 2006 to 29th September 2006 (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 2006 - 2007 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	Mumbai Stock Exchange	
	Month's High Price	Month's Low Price
April 2005	46.00	26.75
May 2005	62.00	37.00
June 2005	61.40	48.10
July 2005	62.70	49.50
August 2005	72.40	48.00
September 2005	84.90	54.20
October 2005	75.90	51.25
November 2005	70.80	59.60
December 2005	74.90	63.20
January 2006	76.65	63.00
February 2006	68.00	57.55
March 2006	76.00	57.50

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

Tera Software Limited

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. 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 87,98,729 shares of the Company are in electronic form as on 30.6.2006.

i. As of June 30, 2006 the distribution of our shareholding was as follows:

S.No	Category	No. of Shareholders	Total Shares	% to Total
A.	Shareholding of Promoter & Promoter Group:			
1.	Indian			
A.	Individuals/HUF	20	34,28,913	37.23
2.	Foreign	Nil	Nil	NIL
B.	Public Shareholding:			
1.	Institutions			
A.	Foreign Institutional Investors	1	4,00,000	4.34
2.	Non-Institutions:			
A.	Bodies Corporate	224	9,28,400	10.08
B.	Individuals			
1.	Individual Shareholders holding nominal share capital up to Rs.1 Lakh.	5013	24,27,713	26.37
2.	Individual Shareholders holding nominal share capital in excess of Rs.1 Lakh.	50	19,59,168	21.27
C.	Any Other (Specify) NRI/OCB	39	65,306	0.71
C.	Shares held by Custodians etc.	Nil	Nil	Nil
	TOTAL	5,347	92,09,500	100.00

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

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

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

k. Address for Correspondence:

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

For and on behalf of the Board of Directors

Date : 28-08-2006
Place : Hyderabad

Sd/-
(T. Gopi Chand)
Vice Chairman and Managing Director

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

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

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

To the Members of Tera Software Limited,

We have examined the compliance of conditions of Corporate Governance by Tera Software Limited (the Company), for the year ended on 31st March 2006, 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 has been limited to a review procedures and implementations thereof adopted by the Company for ensuring the compliance with the conditions of the Corporate Governance as stipulated in the said Clause. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, and based on the representations made by the Directors and the Management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above-mentioned Listing Agreements.

We state that such compliance is neither an assurance as to the future viability of the Company nor of the efficiency or effectiveness with which the Management has conducted the affairs of the Company.

For NARVEN ASSOCIATES
Chartered Accountants

Place: Hyderabad.
Date : 28th August, 2006.

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

DECLARATION BY CHIEF EXECUTIVE OFFICER (CEO)

I, T. Gopi Chand, Vice Chairman and Managing Director of Tera Software Limited hereby declare that all the board members and senior managerial personnel have affirmed for the year ended 31 March 2006 compliance with the code of conduct of the company laid down for them.

Date: 28.08.2006
Place: Hyderabad.

Sd/-

(T. Gopi Chand)
Vice Chairman and Managing Director

CERTIFICATE BY CHIEF EXECUTIVE OFFICER (CEO) AND CHIEF FINANCIAL OFFICER (CFO)

We, T. Gopi Chand, Vice Chairman and Managing Director and B. Dattathreyulu Naidu, General Manager (Finance) of Tera Software Limited, certify:

1. That we have reviewed the financial statements and the cash flow statement for the year ended 31 March 2006 and that to the best of our knowledge and belief;
 - i. these statements do not contain any materially untrue statement nor omit any material fact nor contain statements that might be misleading, and
 - ii. these statements present a true and fair view of the company's affairs and are in compliance with the existing accounting standards, applicable laws and regulations.
2. That there are, to the best of our knowledge and belief, no transactions entered into by the company during the year, which are fraudulent, illegal or violative of the company's code of conduct;
3. That we accept responsibility for establishing and maintaining internal controls, we have evaluated the effectiveness of the internal control systems of the company and we have disclosed to the auditors and the audit committee, deficiencies in the design or operation of internal controls, if any, of which we are aware and the steps that we have taken or propose to take to rectify the identified deficiencies and
4. That we have informed the auditors and the audit committee of:
 - i. significant changes in internal control during the year;
 - ii. significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
 - iii. instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system.

Date: 28.08.2006
Place: Hyderabad.

Sd/-
(T. Gopi Chand)
Vice Chairman and Managing Director

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

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, 2006 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, 2006 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2006 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, 2006;
 - (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.

Place: Hyderabad
Date: 28th August 2006.

For NARVEN ASSOCIATES
Chartered Accountants
Sd/-
(D.C. Naidu)
Partner
Membership No: 24643

Annexure to Auditor's 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 two parties covered in the register maintained under section 301 of the Companies Act, 1956 and the Company had taken unsecured loan in the past from one party, the maximum amount involved during the year was Rs.7.80 lakhs and the same is outstanding at the end of the year.
- 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 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 into in the register maintained under section 301 of the Companies Act,1956 have been so entered.
- (b) In our opinion and according to the information and explanations given to us, there are no transactions in pursuance of contracts or arrangements entered in the registers maintained under Section 301 of the Companies Act, 1956 aggregating during the year to Rs.5,00,000/- (Rupees five lakh) or more in respect of any party.
- (vi) 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 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 of the company and the information and explanations provided to us, the Company is generally regular in depositing with appropriate authorities undisputed amount of provident

Tera Software Limited

fund, investor education protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, cess and other statutory dues applicable to it and no undisputed amounts payable were outstanding as at 31st March, 2006 for a period of more than six months from the date they became payable. As explained to us, the Service Tax, Excise Duty and Customs Duty are not applicable to the company;

- (b) According to the information and explanations given to us, there are no dues in respect of Income Tax, Excise Duty, Customs Duty, Wealth Tax, Service tax, Sales Tax and Cess that have not been paid to the concerned authorities on account of any dispute other than the following;

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
Sales Tax	14,30,253	2002-03	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 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. Accordingly, clause 4(xii) of the Order is not applicable.
- (xiii) The Company is not a chit/nidhi/mutual benefit fund/society. Accordingly, clause 4 (xiii) of the Order is not applicable.
- (xiv) The Company is not dealing or trading in shares, securities, debentures and other investments; Accordingly, clause 4(xiv) of the Order is not applicable.
- (xv) On the basis of the information and explanations given to us the Company has not given any guarantee for loans taken by others from bank or financial institutions;
- (xvi) According to the information and explanations given to us and on the basis of our examination of the books of account, the term loans obtained by the Company were applied for the purpose for which such loans were obtained.
- (xvii) On the basis of our examination of the books of accounts 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 and vice versa.
- (xviii) The company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.
- (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

Place: Hyderabad
Date: 28th August 2006.

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

BALANCE SHEET AS AT 31.03.2006

SCHEDULE	As At		As At	
	Rs.	31st March 2006 Rs.	Rs.	31st March 2005 Rs.
I. SOURCES OF FUNDS				
A. SHAREHOLDERS' FUNDS				
Share Capital	1	92,048,475	77,014,075	
Reserves & Surplus	2	<u>108,878,419</u>	<u>37,098,065</u>	114,112,140
B. LOAN FUNDS				
Secured Loans	3	152,793,411	62,990,928	
Unsecured Loans	4	<u>1,880,000</u>	<u>1,800,000</u>	64,790,928
C. Deferred Tax Liability(net)			18,147,215	15,651,154
TOTAL		373,747,520		194,554,222
II. APPLICATION OF FUNDS				
A. FIXED ASSETS				
Gross Block	5	255,866,649	168,652,960	
Less : Depreciation		<u>103,387,764</u>	<u>66,567,672</u>	
Net Block		152,478,885	102,085,288	
Add : Capital work in progress		<u>102,617,198</u>	<u>53,595,190</u>	155,680,478
B. INVESTMENTS				
	6	-	-	6,119,830
C. CURRENT ASSETS, LOANS & ADVANCES				
Inventories	7	2,236,604	246,850	
Sundry Debtors	8	200,674,974	72,751,285	
Cash & Bank Balances	9	20,460,242	20,864,088	
Loans & Advances	10	17,541,793	16,140,566	
		<u>240,913,613</u>	<u>110,002,789</u>	
Less : Current Liabilities & Provisions				
Current Liabilities	11	88,385,364	55,490,386	
Provisions	12	33,876,812	21,828,589	
		<u>122,262,176</u>	<u>77,318,975</u>	
NET CURRENT ASSETS		118,651,437		32,683,814
MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)	13	-	-	70,100
TOTAL		373,747,520		194,554,222
SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS				
	20			

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

For and on behalf of the board of directors

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

Sd/-
(T.GOPI CHAND)
Vice Chairman and Managing Director

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

Place: Hyderabad.
Date : 28th August 2006.

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

PROFIT and LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2006

	SCHEDULE	For the year ended		For the year ended	
		31st March 2006	31st March 2005	31st March 2006	31st March 2005
		Rs.	Rs.	Rs.	Rs.
I. INCOME:					
Gross Sales & Services	14	350,769,820		174,331,093	
Other Income	15	2,198,999		1,533,867	
Total		352,968,819		175,864,960	
II. EXPENDITURE:					
Cost Of Goods Sold	16	64,266,700		15,939,339	
Personnel Cost	17	20,073,653		13,197,490	
Operating and other expenses	18	129,165,039		57,518,160	
Financial Cost	19	10,101,917		9,527,407	
Depreciation & Amortization		36,820,092		31,025,808	
Preliminary Expenses written off		70,100		70,100	
Capital Issue Expenditure written off		-		886,093	
Prior Period (Income)/Expenses(net)		249,300		1,235,834	
Total		260,746,801		129,400,231	
Profit before Tax		92,222,018		46,464,729	
Less : Current Year					
- Provision for tax (including provision for wealth tax Rs. 11,200/-, Previous year Rs. 11,266)	28,117,460		12,378,985		
- Fringe Benefit Tax	460,000		-		
- Deferred tax (net)	2,496,061	31,073,521	3,968,277	16,347,262	
Profit after Tax		61,148,497		30,117,467	
Add: Balance brought forward from previous year	34,598,065		20,187,361		
Add: Taxation Provision for the earlier years written Back	138,772		-		
Add/(Less): Taxation for Earlier Year	-	34,736,837	(14,753)	20,172,608	
Profit available for appropriations		95,885,334		50,290,075	
Less: Appropriations					
Transferred to General Reserve	50,000,000		2,500,000		
Proposed Final Dividend on Equity Shares	18,419,000		11,552,111		
Tax on distributed profit	2,583,265		1,620,184		
Residual dividend earlier Years	4,078		-		
Tax on residual dividend for earlier years	572		19,715		
		71,006,915		15,692,010	
Balance Carried to Balance Sheet		24,878,419		34,598,065	
Basic and diluted Earnings per share Rs.10 each (Rs)		7.46		3.91	

SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

20

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

For and on behalf of the board of directors

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

Sd/-
(T.GOPI CHAND)
Vice Chairman and Managing Director

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

Place: Hyderabad.
Date : 28th August 2006.

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

SCHEDULES FORMING PART OF THE BALANCE SHEET

	As At 31st March' 2006 Rs.	As At 31st March' 2005 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		
92,09,500 Equity Shares of Rs.10/- each (Previous year 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)	92,095,000	77,095,000
Less: Calls in arrear - by others	46,525	80,925
Total	92,048,475	77,014,075
2. Reserves & Surplus		
Securities Premium Account Amount received during the year	31,500,000	-
Total(a)	31,500,000	-
General Reserve		
Opening Balance	2,500,000	-
Add: Transfer From Profit & Loss Account	50,000,000	2,500,000
Total(b)	52,500,000	2,500,000
Profit & Loss Account	24,878,419	34,598,065
Total(c)	24,878,419	34,598,065
Total(a)+(b)+(c)	108,878,419	37,098,065
3. Secured Loans:		
I. Term Loans:		
from Banks		
-Syndicate Bank	15,300,962	22,800,000
-Bank of Maharashtra	104,896,466	39,165,996
(Term loan taken from Syndicate Bank and 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 moneys and personal guarantee given by the Vice Chairman & Managing Director, Whole Time Director and Executive Director of the Company)		
-ICICI Bank Limited (Secured against hypothecation of vehicle)	829,830	1,024,932
II. Working Capital Loans from Banks:		
- Bank of Maharashtra (refer note 1 (a) of notes on Accounts)	31,766,153	-
Total	152,793,411	62,990,928
4. Unsecured Loans		
Public Deposits from Share holders	1,880,000	1,800,000
Total	1,880,000	1,800,000

(Amount in Rupees)

Particulars	GROSS BLOCK				DEPRECIATION/AMORTISATION				NETBLOCK	
	As at 31st March 2005	Additions	(Deductions)	As at 31st March 2006	As at 31st March 2005	During	(Deductions)	As at 31st March 2006	As at 31st March 2006	As at 31st March 2005
Land	11,684,075	-	-	11,684,075	-	-	-	-	11,684,075	11,684,075
Buildings	-	22,452,750	-	22,452,750	-	202,729	-	202,729	22,250,021	-
Office Equipment	652,009	25,932	-	677,941	177,725	31,567	-	209,292	468,649	474,284
Computers & Servers	13,328,090	22,106,160	-	35,434,250	7,018,414	3,941,125	-	10,959,539	24,474,711	6,309,676
Electrical Equipment	-	1,408,608	-	1,408,608	-	38,627	-	38,627	1,369,981	-
Furniture & Fixtures	1,051,412	468,195	-	1,519,607	324,088	721,32	-	396,220	1,123,387	727,324
Capital Expenditure on Projects Division *	139,373,429	40,752,044	-	180,125,473	58,277,469	32,290,533	-	90,568,002	89,557,471	81,095,960
Vehicles**	2,563,945	-	-	2,563,945	769,976	243,379	-	1,013,355	1,550,590	1,793,969
Total	168,652,960	87,213,689	-	255,866,649	66,567,672	36,820,092	-	103,387,764	152,478,885	102,085,288
Previous Year	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
Capital work in progress	53,595,190	71,428,468	(22,406,460)	102,617,198	0	0	-	-	102,617,198	53,595,190

Note:

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

** Includes vehicles financed Gross Block Rs. 11,82,560 Net Block Rs. 11,02,060.

6. Investments

Long Term Investments
(Non trade and unquoted)

Sl no.	Particulars	Opening as on 31st March 2005			Purchases			Sales			Adjustments			Balance as on 31st March 2006		
		No. of Shares	Face Value per Share Rs.	Aggregate Value Rs.	No. of Shares	Face Value per Share Rs.	Aggregate Value Rs.	No. of Shares	Face Value per Share Rs.	Aggregate Value Rs.	Decline in Investment	No. of Shares	Face Value per Share Rs.	Aggregate Value Rs.		
A	Investments made in fully paid equity shares in															
1	XI. Softech Systems Limited	10,000	10	100,000	0	-	0	10,000	10	98,800	0	-	-	-	-	-
	Total	10,000		100,000	0		0	10,000		98,800	0					
B	Investment in Mutual Funds															
1	HDFC Floating Rate Fund	599,877	10.04	6,019,830	1,410	10	14,152	601,287	10	6,038,379	0	-	-	-	-	-
		599,877	10	6,019,830	1,410		14,152	601,287		6,038,379	0					
	Grand Total (A+B)	609,877	10	6,119,830	1,410		14,152	611,287		6,137,179	0					
	Previous Year	10,000		100,000	6,257,307		63,471,409	5,657,430		57,476,269	0				609,877	6,119,830

SCHEDULES FORMING PART OF THE BALANCE SHEET

	As At 31st March' 2006 Rs.	As At 31st March' 2005 Rs.
7. Inventories		
(As taken, valued and certified by management)		
Raw Material	46,040	92,010
Finished Goods/Trading Goods	2,190,564	154,840
Total	2,236,604	246,850
8. Sundry Debtors		
(Unsecured)		
Over Six Months		
Considered Good	36,406,929	13,615,920
Others		
Considered Good (Includes unbilled work of Rs.576.06 Lakhs, Previous year Rs.91.61 Lakhs)	164,268,045	59,135,365
Total	200,674,974	72,751,285
9. Cash & Bank Balances		
Cash	394,431	133,300
Balances with Scheduled Banks in Current Accounts*	1,408,477	4,831,897
in Current Accounts in Foreign Currency	74,088	73,653
in Deposit Accounts	18,500,175	15,742,000
Balances with Non-Scheduled Banks Harris Trust Bank (in foreign currency)	83,071	83,238
Total	20,460,242	20,864,088
Maximum Balance during the year in non-scheduled bank Harris Trust Bank, USA.	83,240	491,439
* Includes Rs. 83,431 (Previous Year Rs.Rs. 89,531) being balance in Unpaid Dividend Account with ICICI Bank Limited and Rs.418,004 (Previous Year Rs. 2,47,254) with HDFC Bank Ltd.		
* Includes Rs.24,725/- (Previous Year Rs.37,139/-) being balance in Public Issue Allotment Account with Bank Of Maharashtra.		
10. Loans & Advances		
(Unsecured)		
Considered good		
Accrued Interest	346,224	393,070
Deposits	11,453,610	10,217,920
Advances recoverable in cash or in kind or for value to be received	5,741,959	5,529,576
Total	17,541,793	16,140,566

SCHEDULES FORMING PART OF THE BALANCE SHEET

	As At 31st March' 2006 Rs.	As At 31st March' 2005 Rs.
11. Current Liabilities		
Interest accrued but not due on loans	177,984	485,694
Sundry Creditors for trading goods	2,412,610	1,628,278
for Capital Goods	45,409,344	31,248,567
for other liabilities and expenses	39,867,771	21,762,542
Unclaimed excess share allotment money (\$)	1,020	1,020
Unclaimed Dividend (\$)	501,435	336,785
Advances from customers	15,200	27,500
(((\$)) 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	88,385,364	55,490,386
12. Provisions		
Proposed Dividend	18,419,000	11,552,111
Tax on Distributed Profit	2,583,265	1,620,184
Provision for Tax (net of advance Tax)	12,150,539	8,112,257
Provision for Gratuity	724,008	544,037
Total	33,876,812	21,828,589
13. Miscellaneous Expenditure :		
(to the extent not written off or adjusted)		
a) Preliminary Expenditure		
Opening Balance	70,100	140,200
Add : Addition During the year	-	-
	70,100	140,200
Less : Written off during the year	70,100	70,100
Total (a)	-	70,100
b) Capital Issue Expenditure		
Opening Balance	-	886,093
Add : Addition During the year	-	-
	-	886,093
Less : Written off during the year	-	886,093
Total (b)	-	-
Total(a)+(b)	-	70,100

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

	31st March 2006 Rs.	31st March 2005 Rs.
14. Gross Sales and Services		
Sale of Goods (net of returns)	68,867,388	17,395,108
Income from Projects & Services	281,902,432	156,935,985
Total	350,769,820	174,331,093
15. Other Income		
Insurance Claim Recovered	-	121,629
Interest Income (TDS Rs.2,22,617/- Previous Year Rs.2,11,480/-)	1,207,433	1,037,500
Discount and Other Incentives Received	682,116	170,955
Income from non trade investments:		
Dividends from mutual fund units	14,152	97,711
Profit on Sale of Mutual Funds	4,397	24,690
Miscellaneous Income	290,901	81,382
Total	2,198,999	1,533,867
16. Cost Of Goods Sold		
(a) Raw Material, Components consumed and Purchase of Trading Goods		
Opening stock	92,010	187,479
Add: Purchases (net of returns)	66,256,454	15,943,305
	66,348,464	16,130,784
(Less): Closing stock	46,040	92,010
Total (a)	66,302,424	16,038,774
(b) (Increase)/Decrease in Finished Goods		
Opening stock	154,840	55,405
Less: Closing stock	2,190,564	154,840
Total (b)	(2,035,724)	(99,435)
Total(a+b)	64,266,700	15,939,339
17. Personnel Cost		
Salaries, wages, Bonus and other benefits	17,908,762	11,865,306
Commission to whole time directors	874,225	482,592
Contribution to Provident Fund, ESI etc.	1,209,433	745,890
Staff Welfare	81,233	103,702
Total	20,073,653	13,197,490

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

	31st March 2006 Rs.	31st March 2005 Rs.
18. Operating and other Expenses		
Advertisement & Sales Promotion	170,505	687,849
Consultancy, Professional & Other Charges	102,265,497	40,486,570
Consumables	9,789,833	5,311,890
Donations	-	20,000
Electricity Charges	2,020,821	860,136
Insurance	256,327	220,029
Loss on foreign exchange variation	-	52,827
Loss on sale of Investments	1,200	-
Loss on sale of Fixed Assets	-	10,884
General Expenses	1,229,580	1,132,837
Postage and Telephone	2,077,727	1,804,288
Printing & Stationery	366,019	228,243
Rates & Taxes	2,278,355	214,265
Remuneration to Auditors	190,000	180,000
Rent	778,658	691,923
Repairs & Maintenance - Others	3,130,152	1,178,168
Bad Debts written off	138,850	1,168,854
Provision for Doubtful Debts Written Back	-	(491,256)
Advances Written Off	-	3,338,821
Less: Provision for Doubtful loans and advances written back	-	(3,088,821)
Sitting fees	211,500	112,500
Travelling & Conveyance	4,260,015	3,398,153
Total	129,165,039	57,518,160
19: Financial Cost		
Interest on Fixed Loans	7,524,658	8,114,467
Interest on Working Capital & Others	2,577,259	1,412,940
Total	10,101,917	9,527,407

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 Accountants 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 for the projects where the company is required to transfer the assets to the customer at the end of the project period and for other capital assets the depreciation is provided as per the clause (b) above.

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 Technical Services is recognized on a pro-rata basis over the period in which such services are rendered.
- d) Revenue from Maintenance Contracts 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 the project of Capturing Beneficiary Information and Printing of Household Cards of Andhra Pradesh Government has been recognized on the basis of the terms of contract and adjustments have been made for the revenue on the basis of proceedings received from the respective Government Authorities till the end of July'2006.

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- h) Revenue from Projects Division is recognized on pro-rate basis as per the terms of the contract over the life of the project.
- i) Unbilled revenues represent cost and earnings in excess of billings as at the balance sheet date.
- j) 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. Defined Benefit Plan-Gratuity:

Gratuity is a Defined Benefit Plan. The Company is liable to pay gratuity in terms of the relevant statute. In order to meet this liability, a provision is carried forward in the balance sheet, equivalent to an amount calculated based on a half month's salary of the last month of the financial year of all employees for each completed year of service, commencing from the first year of service. The resulting difference between brought forward provision at the beginning of a year and the carried forward provision at the end of a year is dealt with in the income statement, after making due adjustments for any payments.

The gratuity liability is not funded nor actuarially valued. This item is grouped under Current Liabilities & Provisions in the Balance Sheet.

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.

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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 on 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 lien on company's term deposits worth Rs. 185.00 Lakh (previous year Rs. 157.42 Lakh) with the bank and personal guarantee given by the Vice Chairman & 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	212,002	61,202
Later than over year and not later than five years	617,828	87,949
Total	829,830	149,151

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2. Commitments and Contingencies:

- The estimated amount of contracts remaining to be executed on capital account, and not provided for (net of advances) is Rs.975 lakh as at March 31, 2006 (Previous year Rs. 874 Lakh).
- The company has outstanding guarantees of Rs.607.62 Lakh as at 31st March 2006 (previous year Rs. 373.81 Lakh).
- Sales tax matters under dispute Rs.40.78 (Previous Year 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:

	Current Year (Rs)	Previous Year (Rs)
Salaries & Allowances	1,675,000	1,500,000
Contribution to Provident	28,080	28,080
Provision for Gratuity	53,366	111,057
Commission	874,225	482,592
Directors Sitting Fee	211,500	112,500
Total	2,842,171	2,234,229

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

- During the year the company issued Fully Convertible Warrants and these warrants were converted in to 15,00,000 Equity Shares of Rs. 10/- each at a premium of Rs. 21/- each.
- In the opinion of the board of directors the Current assets, Loans & Advances are expected to realize approximately the values stated in the accounts in the ordinary course of business, and provisions for all known liabilities have been adequately made in the accounts.
- Computation of Net Profit in accordance with section 309(5) of the Companies Act'1956.**

Particulars		Year ended March 31,2006		Year ended March 31,2005
Profit before Tax		92,222,018		46,464,729
Add:				
1. Wholetime directors remuneration	1,756,446		1,639,137	
2. Directors sitting fee	211,500		112,500	
3. Commission to wholetime directors	874,225		482,592	
4. Depreciaion as per books of accounts	36,820,092		31,025,808	
5. Loss on Sale of Investments	1,200		-	
6. Loss on Sale of Fixed Assets	-	39,663,463	10,884	33,270,921
		131,885,481		79,735,650
Less:				
1. Depreciaiton as envisaged under section 350 of the Companies Act	44,458,562		31,451,806	
2. Profit on Sale of Mutal Funds/Investments	4,397		24,690	
		44,462,959		31,476,496
Net Profit on which commission is payable		87,422,522		48,259,154
Maximum permissible commission as per the companies Act 1%		874,225		482,592
Commission Payable to :				
a) Managing Director		393,401		217,166
b) Executive Director		305,979		168,907
c)Whole Time Director		174,845		96,518

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8. Earnings in Foreign Currency (FOB):

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Software Development /Services(including unbilled)	12710,000	24,36,000
Sales Incentive	0	73,296
Total	12710,000	25,09,296

9. Expenditure in Foreign Currency (CIF):

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Import of Raw Material	Nil	Nil
Traveling	Nil	Nil
Expenditure incurred at Overseas branches	131,565	14,75,440
Total	131,565	14,75,440

10. Remuneration to Statutory Auditors:

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

11. 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.

Tera Software Limited

a. Business Segments :

Year ended March 31, 2006 and 2005

(All figures in Rs.)

	Integrated Solutions	Technical Division	Projects Division	Others	Unallocable	Total
Revenues	68,237,234	119,994,218	149,232,515	13,305,853	-	350,769,820
	<i>17,013,786</i>	<i>32,130,435</i>	<i>122,369,550</i>	<i>2,988,277</i>	-	<i>174,502,048</i>
Identified operating expenses	64,642,652	68,119,053	54,156,554	7,372,326	-	194,290,585
	<i>15,987,648</i>	<i>19,113,124</i>	<i>36,137,795</i>	<i>1,772,777</i>	-	<i>73,011,344</i>
Allocated Expenses	67,999	3,480,123	36,081,536	313,570	-	39,943,228
	<i>100,148</i>	<i>2,259,243</i>	<i>30,255,764</i>	<i>268,320</i>	-	<i>32,883,475</i>
Segmental operating income	3,526,583	48,395,042	58,994,425	5,619,957	-	116,536,007
	<i>925,990</i>	<i>10,758,068</i>	<i>55,975,991</i>	<i>947,180</i>	-	<i>68,607,229</i>
Unallocable expenses					16,411,071	16,411,071
					<i>13,978,005</i>	<i>13,978,005</i>
Operating income						100,124,936
						<i>54,629,224</i>
Other income/(expenses), net					991,566	991,566
					<i>325,412</i>	<i>325,412</i>
Net profit before Interest						101,116,502
						<i>54,954,636</i>
(Less): Interest Expenses					(10,101,917)	(10,101,917)
					<i>(9,527,407)</i>	<i>(9,527,407)</i>
Add: Interest Income					1,207,433	1,207,433
					<i>1,037,500</i>	<i>1,037,500</i>
Net profit before taxes						92,222,018
						<i>46,464,729</i>
Income Taxes (including FBTRs. 460,000)						(31,073,521)
						<i>(16,347,262)</i>
Net Profit after taxes						61,148,497
						<i>30,117,467</i>
Other Information						
Segment Assets	12,759,349	78,912,871	315,471,846	12,925,176	75,940,454	496,009,696
	<i>5,028,724</i>	<i>22,373,254</i>	<i>164,096,407</i>	<i>481,796</i>	<i>79,893,016</i>	<i>271,873,197</i>
Segment Liabilities	1,920,184	9,983,175	62,669,578	0	47,689,239	122,262,176
	<i>1,526,923</i>	<i>2,634,897</i>	<i>42,390,659</i>	-	<i>30,766,496</i>	<i>77,318,975</i>
Capital Expenditure	-	23,982,963	40,752,044	-	22,478,682	87,213,689
	-	<i>1,053,473</i>	<i>495,377</i>	-	<i>10,914,299</i>	<i>12,463,149</i>
Depreciation	-	851,243	32,290,533	232,320	3,445,996	36,820,092
	-	<i>705,134</i>	<i>28,694,020</i>	<i>232,319</i>	<i>1,394,335</i>	<i>31,025,808</i>

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

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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.127.10 (lakhs)(Previous year Rs. 25.09 lakhs).

12. 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	Mother of the Directors
Mrs. N. Sridurga	Sister of the Director
Mrs. T. Tulasi Rani	Wife of the Director

b) Transactions with related parties:

Name of the related party	Mr. T. Gopi Chand	Mrs.T. Pavana Devi	Mr. N.V.V.Prasad	Mrs.T. Seetha Ramamma.	Mrs.N.Sridurga	Mrs.T. Tulasi Rani
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 Director)	Mother of the Director	Sister of the Director	Wife of the Director
Description of the nature of transactions	a)Receiving of Services b)Commission on Profits	a) Receiving of Services. b)Acquisition of existing office premises registration c)Commission on profit	a) Receiving of Services. b)Commission on Profits	Interest Paid on Public Deposits.	Interest Paid on Public Deposits.	Interest Paid on Public Deposits.
Volume of the transactions either as an amount or as appropriate proportion	a) Managerial Remuneration of Rs. 739,360 b)Commission of Rs.393,401	a) Managerial Remuneration of Rs. 344,360 b) Purchase of the Property Rs.24,76,000 c) Commission of Rs.174,845	a) Managerial Remuneration of Rs.619,360 b)Commission of Rs.305,979	a) Interest paid on Deposits Rs.18,598	a) Interest paid on Deposits Rs.7,215	a) Interest Paid on Deposit Rs.24,076
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	NIL	NIL
The amounts or appropriate proportions of outstanding items pertaining to related parties at the Balance Sheet date	a) Managerial Remuneration Payable Rs.33,275 b) Commission payable Rs.393,401	a) Managerial Remuneration Payable Rs. 13051 b) Commission payable Rs.174,845	a) Managerial Remuneration Payable Rs.32,733 b) Commission payable Rs.305,979	a) Interest Payable Rs.17,002 b) Fixed Deposit payable Rs.200,000	a) Interest Payable Rs.7,215 b) Fixed Deposit Payable Rs.80,000	a) Interest Payable Rs.24,076 b) Fixed Deposit Payable Rs.500,000
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	NIL	NIL

Tera Software Limited

13. 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.

14. 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'2006 comprise of the following:

		Rs. In lakhs		Rs. In lakhs	
		As At 31st March '2006		As At 31st March' 2005	
A	Deferred Tax Liability				
1	Related to fixed assets		211.04		158.38
B	Deferred Tax Assets				
1	Disallowance under the Income Tax Act'1961	(29.57)		(1.87)	
			(29.57)		(1.87)
C	Provision for deferred tax (net)		181.47		156.51

15. Prior period items, material items, non-recurring and extraordinary items are disclosed separately. Prior period items (net) include prior period income Rs. NIL and prior period expenses Rs.249,300.(Previous year prior period income Rs. 15,000 and prior period expenses Rs.12,50,834)
16. 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.

17. Earnings per Share.

	Current Year	Previous Year
a) Net Profit as per Profit and Loss Account(Rs)	61,148,497	30,117,467
b) (Less): Taxation for earlier year(Rs)	-	(14,753)
c) Profit available for equity share holders(Rs)	61,148,497	30,102,714
d) Weighted average number of Equity Shares used as denominator for calculating EPS	8,198,541	7,709,500
e) Basic and Diluted Earnings per share of Rs.10/- each.	7.46	3.91

18. Paise have been rounded off to the nearest rupee.
19. Figures for the corresponding year ended March 31, 2005, wherever necessary, have been regrouped, recast, rearranged to conform to those of the current year.
20. 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

For and on behalf of the board of directors

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

Sd/-
(T.GOPI CHAND)
Vice Chairman and Managing Director

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

Place: Hyderabad.
Date : 28th August 2006.

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

Cash Flow Statement Annexed to the Balance Sheet For the Year ended 31st March 2006

SCHEDULE	Current Year 31st Mar'2006		Previous Year 31st Mar'2005	
	Rs.	Rs.	Rs.	Rs.
A. Cash flow from Operating Activities:				
Net Profit Before Tax as per Profit & Loss A/c.		92,222,018		46,464,729
Adjustments for:				
Depreciation & Amortization	36,820,092		31,025,808	
Profit on sale of Mutual Fund Units	(4,397)		(24,690)	
Loss on Sale of Investments	1,200		-	
Loss on Sale of Fixed Assets	-		10,884	
Dividend received from Mutual Fund Investments	(14,152)		(97,711)	
Prior Period Expenses/(Income)	249,300		1,235,834	
Interest Income	(1,207,433)		(1,037,500)	
Preliminary Expenses Written Off	70,100		70,100	
Capital Issue Expenses Written Off	-		886,093	
Interest Expenses	7,524,658		8,114,467	
		<u>43,439,368</u>		<u>40,183,285</u>
Operating Profit before working capital changes		135,661,386		86,648,014
Adjustments for:				
Inventories	(1,989,754)		(3,966)	
Sundry debtors	(127,923,689)		(14,203,555)	
Loans and advances	(1,448,073)		(7,256,544)	
Current Liabilities and provisions	19,057,232		(20,218,758)	
		<u>(112,304,284)</u>		<u>(41,682,823)</u>
Cash Generated from Operations		23,357,102		44,965,191
Prior Period (Expenses)/Income		(249,300)		(1,235,834)
Taxes Paid		(24,400,406)		(5,159,349)
Net Cash from Operating Activities		(1,292,604)		38,570,008
B. Cash flow from Investing Activities:				
Purchase of Fixed Assets & Advances paid	1	(122,074,920)		(42,151,789)
Sale of Fixed Assets	2	-		5,000
Purchase of Investments	3	(14,152)		(63,471,409)
Sale of Investments	4	6,137,179		57,476,269
Interest Income		1,254,279		1,478,922
Dividend Income from mutual funds		14,152		97,711
Net Cash Generated from Investing Activities		(114,683,462)		(46,565,296)
C. Cash flow from Financing Activities:				
Proceeds from Issue of share capital (net)		46,534,400		77,575
Proceeds from Long term funds	5	76,965,036		45,748,442
Repayment of Long term loans	6	(18,848,706)		(15,157,514)
Short term loans (net)	7	31,766,153		(3,514,598)
Interest Paid		(7,832,368)		(7,642,359)
Dividend Paid	8	(13,012,295)		(8,461,510)
Net Cash Generated from Financing Activities		115,572,220		11,050,036
Net Increase/(Decrease) in Cash and Cash Equivalents		(403,846)		3,054,748
Opening Balance of Cash and Cash Equivalents		20,864,088		17,809,340
Closing Balance of Cash and Cash Equivalents		20,460,242		20,864,088

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

For and on behalf of the board of directors

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

Sd/-
(T.GOPI CHAND)
Vice Chairman and Managing Director

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

Place: Hyderabad.
Date : 28th August 2006.

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

Notes On Cash Flow Statement for the year 2005-06

Particulars	Amount(Rs)	Amount(Rs)
1. Purchase of Fixed Assets(including) :		
Additions as per Schedule 5	(158,341,857)	(58,387,339)
Movement in CWIP	22,106,160	-
Increase in creditors for Capital Expenditure	14,160,777	16,235,550
Total	(122,074,920)	(42,151,789)
2. Sale of Fixed Assets		
Deductions from Gross Block as per Schedule 5	-	21,000
Cummulative Depreciation on Deductions	-	(5,116)
Net Loss on Sale	-	(10,884)
	-	-
Total	-	5,000
3. Purchase of Investment		
Increase in Current Investments	(14,152)	(63,471,409)
Total	(14,152)	(63,471,409)
4. Sale of Investment		
Decrease in Current Investments	6,133,982	57,451,579
Profit on Sale of Investment	3,197	24,690
Total	6,137,179	57,476,269
5. Proceeds from Long term funds		
Increase in Secured Term Loans from Banks	76,385,036	42,923,510
Increase in Vehicle Loans	-	1,024,932
Proceeds from Public Deposits	580,000	1,800,000
Total	76,965,036	45,748,442
6. Repayment of Long term funds		
Repayment of Term Loans	(18,848,706)	(15,157,514)
Total	(18,848,706)	(15,157,514)
7. Movement in Short Term Loans		
Reduction in Secured Loans	31,766,153	(3,514,598)
Total	31,766,153	(3,514,598)
8. Dividend Paid		
Dividends and Tax On Dividend	(13,011,723)	(8,441,795)
Tax on Dividend for earlier years	(572)	(19,715)
Total	(13,012,295)	(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	6
---	---	--	---	---	--	---	---	---	---

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

 Issue of preferential Warrants
 Conversion of Equity Shares

		1	5	0	0	0
--	--	---	---	---	---	---

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

Total Liabilities

		3	7	3	7	4	7
--	--	---	---	---	---	---	---

 Total Assets

		3	7	3	7	4	7
--	--	---	---	---	---	---	---

Sources of Funds:
 Paid-up Capital

		9	2	0	4	8
--	--	---	---	---	---	---

 Reserves & Surplus

		1	0	8	8	7	8
--	--	---	---	---	---	---	---

 Loan Funds

		1	5	4	6	7	3
--	--	---	---	---	---	---	---

 Deferred Tax

				1	8	1	4	7
--	--	--	--	---	---	---	---	---

Application of Funds:
 Net Fixed Assets

		2	5	5	0	9	6
--	--	---	---	---	---	---	---

 Investments

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

 Net Current Assets

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

 Misc.Expenditure

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

 Accumulated Losses

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

IV Performance of Company (Amount in Rs.Thousands)

Profit Before Tax

		9	2	2	2	2
--	--	---	---	---	---	---

 Profit After Tax

		6	1	1	4	8
--	--	---	---	---	---	---

 Earning Per Share (Rs.)

7	.	4	6
---	---	---	---

 Dividend Rate on CRPS

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

 Dividend on Equity Shares (Rs.)

2	.	0	0
---	---	---	---

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 Limited

Regd. Office: 8-3-1113/2B, Kesavanagar, 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

Sd/-

(T. Gopi Chand)

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 Twelfth Annual General Meeting of the Company held on Friday, the 29th September, 2006 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 electronics form.

Signature



PROXY FORM

TERA SOFTWARE LIMITED

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

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 Twelfth Annual General Meeting to be held on Friday, the 29th September,2006 at 10.00 A.M. or at any adjournment thereof.

Signed this.....day of.....2006

*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, Kesava Nagar,
Srinagar Colony,
Hyderabad - 500 073 (A.P.)
India.