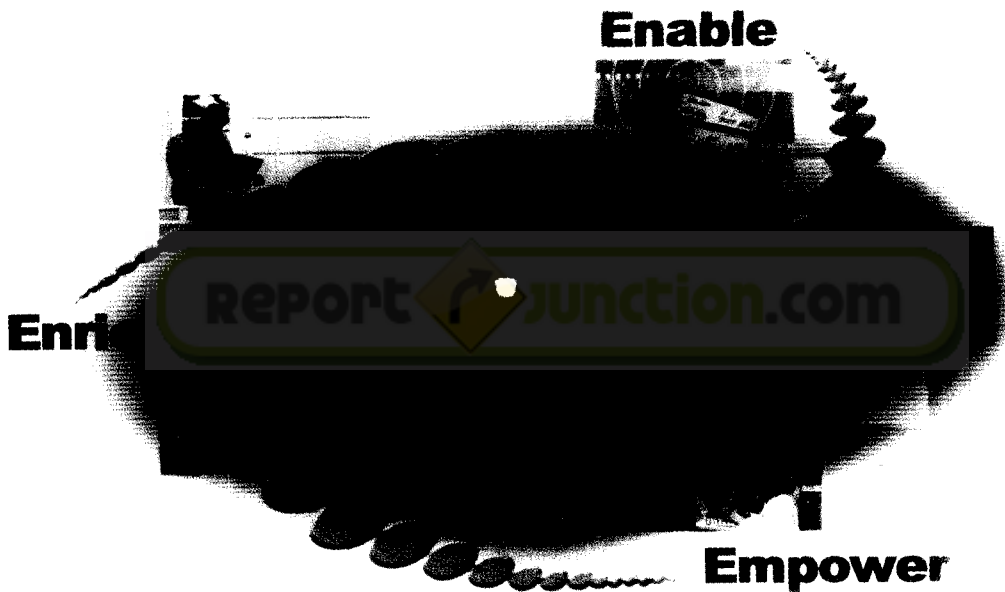




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**Annual Report
2004 - 2005**



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AVANTEL SOFTECH LIMITED

Board of Directors

Sri A.Venkateswara Rao	Chairman
Sri A.Vidya Sagar	Managing Director
Smt. A. Sarada	Director
Maj.Gen. (Retd) S. Balakrishnan, VSM	Director
Sri K.B.K. Moorthi	Director
Cmde.(Retd) K.V.Subramaniam, YSM	Director (w.e.f. 29th July,2005)

Auditors

M/s. A.Madhusudana & Co.,
Chartered Accountants
8-3-319/11,
101, Doyen Chambers,
Yellareddy Guda,
Hyderabad – 500 073.

Bankers

Canara Bank,
I.F.Branch, S.P.Road,
Secunderabad – 500 003.

Registered Office & Works

Plot No. 16, Sector –III,
Huda Techno Enclave,
Madhapur,
Opp. VSNL ,
Hyderabad – 500 081.

Registrars & Share Transfer Agents

Karvy Computer Share P Ltd,
46, Avenue 4, Street No.1,
Banjara Hills,
Hyderabad – 500 034.

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NOTICE

Notice is hereby given that the Fifteenth Annual General Meeting of the members of the Company will be held on **22nd September, 2005 at 11.00 A.M.** at the Registered office of the Company at Plot No: 16, Sector III, Huda Techno Enclave, Opp. VSNL Building, Madhapur, Hyderabad - 500 081 to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the audited balance sheet of the company as at 31st March, 2005 and the profit & loss account for the financial year ended as on that date together with the report of Directors and Auditors thereon.
2. To appoint a director in place of Sri A. Venkateswara Rao, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a director in place of Maj. Gen. (Retd.) S. Balakrishnan, VSM, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint auditors and to fix their remuneration by passing the following resolution:

"RESOLVED THAT pursuant to the provisions of Section 224 of the Companies Act, 1956, M/s A. Madhusudana & Co., Chartered Accountants be and are hereby re-appointed as Auditors of the company who shall hold office as Auditors from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting at such remuneration as may be decided by the Board of Directors."

SPECIAL BUSINESS:

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

"RESOLVED THAT Cmde. (Retd) K. V. Subramaniam, YSM who was co-opted as an Additional Director of the company by the Board of Directors and who holds office under Section 260 of the Companies Act, 1956 until the date of the Annual General Meeting and in respect of whom the Company

has received a special notice in writing proposing his candidature for the office of a director under Section 257 of the Companies Act, 1956 along with requisite deposit, be and is hereby appointed as a director of the Company liable to retire by rotation."

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

"RESOLVED THAT Pursuant to Section 314 (1) (a) and other applicable provisions of the Companies Act, 1956 consent of the members of the company be and is hereby accorded for payment of consultancy fee of Rs. 21,000/- (Twenty One Thousand Only) per month to Cmde. (Retd) K. V. Subramaniam, YSM w.e.f. 29th July, 2005."

7. To consider and if thought fit, to pass with or without modification, the following resolution as a **ORDINARY RESOLUTION**:

"RESOLVED THAT pursuant to the provisions of Section 198, 269, 310 and 311 read with Schedule XIII and other applicable provisions if any, of the Companies Act, 1956 and subject to approval of the Central Government consent of the members be and is hereby accorded to the company to re-appointment of Smt. A. Sarada as Director (Accounts) for another term of Five years w.e.f. 16th February, 2005 at a remuneration of Rs. 25,000/- (Rupees Twenty Five thousands only) per month as approved by the Remuneration Committee of the Company."

"FURTHER RESOLVED THAT Sri A. Vidyasagar, Managing Director be and is hereby authorised to file the requisite form with the Registrar of Companies, Andhra Pradesh to give effect to the above said resolution in this regard."

BY ORDER OF THE BOARD

Sd/-

Place : Hyderabad

Date : 12.08.2005

A. Vidyasagar

Managing Director

**NOTES:**

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH A PROXY NEED NOT BE A MEMBER OF THE COMPANY. Proxy forms in order to be effective must be received by the company not less than 48 hours before the meeting.**
2. In accordance with Section 173 of the Companies Act, 1956, Explanatory statement in respect of items of Special Business is annexed to the Notice of the Meeting.
3. The register of members and share transfer books will remain closed from 16.09.2005 to 22.09.2005 (both days inclusive) for the annual general meeting.
4. Members seeking any information with regard to accounts of the company are requested to send their queries so as to reach at least 7 days before the meeting, to enable the management to keep the information ready.
5. Members are requested to notify immediately changes, if any, in their addresses to the company, quoting their folio number.
6. Members holding shares in dematerialised form are requested to bring their Client ID and DPID numbers for easy identification of members at the meeting.
7. Shareholders are requested to bring their copy of the Annual report to the meeting.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956.

ITEM NO: 5 & 6

The Board Co-opted Cmde.(Retd) K.V. Subramaniam, YSM as an Additional Director of the Company in order to broad-base the Board at their meeting held on 29th July, 2005. Pursuant to Section 260 of the Companies Act, 1956 Cmde.(Retd) K.V.

Subramaniam, YSM hold office of director up to the date of this Annual General Meeting.

Considering his rich experience, the Board recommends that he should be appointed as a director liable to retire by rotation. Further the Company has received a special notice in writing from a member as per the provisions of Section 257 of the Companies Act, 1956 requires the approval of the members in their meeting.

Further considering the vast experience of Cmde.(Retd) K.V. Subramaniam, YSM experience spanning over 34 years, he served in various Naval ships, Submarines & Establishments and handled a number of important assignments involving very high level of personnel Management, Planning & Execution ability, high sense of responsibility and has an ability to analyse any critical/difficult situation.

Cmde.(Retd) K.V. Subramaniam, YSM will contribute his technical expertise in the field of electronics to the company on day to day basis. In order to reward his contribution, it is proposed to pay Rs.21,000/- per month as consultancy. As payment to any director other than in his capacity as director would attract the provisions of the Section 314 (1) (a) of the Companies Act, 1956 which requires approval of members by way of Special Resolution.

The Board commends this resolution for your approval.

None of the Directors except Cmde.(Retd) K.V. Subramaniam, YSM is interested in this resolution.

ITEM NO: 7

The tenure of Mrs. A.Sarada as the Director (Accounts) of the company expired on 15th February, 2005 and taking into consideration her experience and the valuable services rendered by her to the company as the Director (Accounts) during her previous tenure, the Board of Directors at their meeting held on 24th January, 2005, Subject to approval of the members and Central Government, re-appointed her for another term of 5 years w.e.f. 16th February, 2005 at a remuneration as approved by the remuneration committee of the Company.



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The provisions of Sections 269 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII of the said Act, requires appointment/re-appointment of the managerial to be ratified by the members in the General Meeting. As company has made delay of 89 days in repayment of instalment of the term loan of Technology Development Board approval of the Central Government is required for this appointment. Hence the above resolution is commended for your approval.

None of the Directors except Mr.A.Venkateswara Rao and Mr.A.Vidyasagar is interested in the resolution.

BY ORDER OF THE BOARD

Sd/-

Place : Hyderabad

A.Vidyasagar

Date : 12.08.2005

Managing Director

ADDITIONAL INFORMATION ON DIRECTORS RETIRING BY ROTATION AND SEEKING RE-APPOINTMENT AT THE ANNUAL GENERAL MEETING (PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT)

A.Sarada

Smt. A.Sarada has been functioning as the Director(Accounts) since 1995 and her term comes to an end by 15th February,2005. The Board re-appointed her as Director(Accounts) in their meeting held on 24th January,2005 for a further period of Five years. In terms of Sections 269 read with part III of Schedule XIII of the Companies Act,1956 consent of the members is required to be obtained for the said appointment by passing ordinary resolution in general meeting. Her experience in Finance & Accounts will definitely help the company.

Cmdr.(Retd) K.V.Subramaniam, YSM

He holds a Post graduate degree in Science from Chennai University. He is a distinguished person from

the Armed Forces who served in the Indian Navy as Commodore. Over a long career spanning over 34 years, he served in various Naval ships, Submarines & Establishments and handled a number of important assignments involving very high level of Personnel Management, Planning & execution ability, high score of responsibility and ability to analyze any critical/difficult situation.

Sri A.Venkateswara Rao

He is a graduate and is having rich experience of 34 years in business development and administration of LIC of India. He was Divisional Manager of LIC before joining Avantel. He is the Chairman of your company and his experience in administration will definitely help the company.

Maj.Gen.(Retd) S.Balakrishnan, VSM

He has done his Bachelor in Engineering in 1959 from Madras University, Coimbatore. He has done Ptsc in Electronics from IAT, Pune in 1973. In 1976 he did PGDIE&M from JNTU, Hyderabad. In 1977 he completed M.Tech from JNTU, Hyderabad. He has got fellowship from the Institution of Engineers (India). He received awards namely Commendation Card, Distinguished Service Medal (Seva Medal). He has very rich experience in the field of Electrical, Electronics and Mechanical. He worked in the Indian Army in the Corps of Electrical, Mechanical Engineers, maintaining all equipment/systems like wireless set, radar, vehicles, instruments and armaments. He has experience in the areas of production commitment in DLRL, carrying technical co-ordination works of DLRL, Project co-ordinator of a Naval Project. In the years 1992-95 he generated proposal for a major project required by the Army costing Rs.500 crores and obtained Government sanction. In the year 1995-98 he worked as a full time director of a Private Company involved in the manufacture of power plants for DOT and BOS to the Solar Photovoltaic System. He has constant interaction with large PSUs like BEL, HAL, ECIL etc.



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DIRECTORS' REPORT

Dear Shareholders,

Your Directors present before you the 15th Annual Report together with the Audited Accounts for the financial year ended 31st March, 2005.

1. FINANCIAL HIGHLIGHTS:

The profit and loss account presented to you gives the operational results for the year ended March 31st, 2005.

The operations during the year resulted in profit of Rs. 44.84 Lakhs as compared to previous year profit of Rs. 5.40 lakhs, as detailed below:

Particulars	Current Year 2004-2005 (Rs. in Lakhs)	Previous Year 2003-2004 (Rs. in Lakhs)
Sales	1148.01	850.67
Income from Software Development	4.46	6.75
Other income	26.81	8.25
TOTAL	1179.28	865.67
Manufacturing and other Expenditure	914.61	561.28
Administrative and other Expenditure	95.95	85.45
Depreciation & Amortisation	61.47	73.89
Financial expenses	48.01	62.37
Extraordinary Items	—	(142.67)
Profit before Tax	59.24	(59.99)
Provision for tax	5.50	—
Reversal/(Provision) for deferred tax	2.56	50.32
Excess /(Short) provision relating to Earlier years	(11.46)	15.07
Profit after tax	44.84	5.40
Profit/(loss) brought forward	5.40	—
Balance carried to balance sheet	50.24	5.40
Earning per share	0.87	0.10

2. DIVIDEND:

Your directors regret their inability to recommend any dividend for the financial year under review due to lack of distributable profits.

3. MANAGEMENT DISCUSSIONS & ANALYSIS REPORT:

A. MACRO-ECONOMIC OVERVIEW:

TELECOM : GSM as well as CDMA Cellular/WLL networks were continuously expanding over the last few years. The overall market for the Cellular/WLL equipment was estimated to be around Rs. 11,277 crores during financial year 2004-05. It is expected to touch a record 15,000 crores during the financial year 2005-06. The subscriber base crossed 53 million as on 31st March, 2005 from about 33 million as on 31st March, 2004. All the major service providers like BSNL, Bharti, Reliance, Idea and Hutch were in an expansion mode. The Cellular/WLL facility may reach 75,000,000 by the end of financial year 2005-06.

Ericsson emerged as the top equipment vendor of financial year 2004-05 with a market share of almost 28.10 percent and revenue of Rs. 3,165 crores. Nortel, Nokia, Siemens, Motorola are also enjoying their equity in the market and gearing rapid growth. The simple arithmetic number of subscribers being added indicates a massive demand for expansion in the number of lines by all the major operators.

BSNL is planning for 40 million lines tender and investment of almost Rs.75,000 crores in the next three years on its network expansion. Similarly MTNL is planning a tender for 4 million lines. Reliance and Bharti has announced their aggressive plans to enter "B" and "C" class cities. Data enabled networks and wireless broad band are the key focus areas.

DEFENCE : The Defence spending in India has increased to protect India's sovereignty and attain self reliance in strategic areas. The capital



expenditure on Defence also has increased both in value terms and as a percentage of total Defence expenditure.

The Indian government's capital expenditure on Defence has doubled over the past 5 years from 0.6% of GDP for FY 2000 to 1% for FY 2006 and in the quest of achieving self sufficiency, the R & D expenditure on Defence has also seen an increase of 20% in FY 2006. The Indian government is seeking to increase the indigenisation of the Defence capital expenditure through more private sector participation.

India has also been making considerable investments in Defence research and development. The thrust areas in Defence R & D are Missile programmes, Electronic Warfare, Communication and Space programmes. Electronic Warfare in low intensity conflict areas is important and equipments and systems need to be developed indigenously, to meet the varying and yet customised requirements particularly in sensitive Border States.

The government is encouraging private sector participation to reduce imports of equipments and attain self sufficiency. The continuous emphasis of the Indian government on achieving self sufficiency in the defence sector has resulted in increasing defence spending and players in the private sector have emerged as the major beneficiaries. This can be proved by the government's encouragement given to the private sector for developing key components for the defence sector.

The role of the private enterprise has been extended to becoming a partner in the manufacture of complete Defence equipment systems. The Defence Minister, Mr. Pranab Mukherjee, is of the opinion that the Indian industry should attempt to pick up Defence production orders through increased public-private participation, and suggests that Rs. 40 Bn for the Rs. 343 Bn allocated for capital expenditure on Defence will be available for indigenous production.

Avantel has been working closely with Defence labs, Defence public sector undertakings, ISRO and Defence services since its inception and could establish a technology base to develop critical subsystems and systems. Avantel's focus areas are Electronic Warfare equipments in low intensity conflict like Jammers and Pre-initiators and satellite communication systems for Defence services. Avantel could successfully integrate multiple technologies in the areas of microwave products, digital signal processing and application software to offer customised solutions to Defence services.

B. ACCOMPLISHMENTS:

During the year under review, company has developed products to meet the requirements of Cellular service operators. They are very well accepted by the customers and we could get export orders for some of the products. The company successfully executed bulk orders to wireless equipment manufacturers and service providers/ Cellular operators.

C. OVERVIEW OF OPERATIONS:

During the year under review, your company has achieved a turnover of Rs. 1,152.47 lakhs as against Rs. 857.42 lakhs for the previous year and achieved a net profit of Rs. 44.84 Lakhs as against Rs. 5.40 lakhs during the previous year.

D. OUTLOOK AND STRATEGY FOR CURRENT YEAR:

Your company has developed new products for the mobile communications market and major orders are expected during this financial year.

The company is also expecting prestigious orders from Defence establishments during the current year, which are likely to be continued for the next two years in the field of Electronic Warfare, RF/ Microwave products and satellite communication.

The company is offering Satellite based services to meet the requirements of Defence services.

The company is also expecting increase in the volume of exports during the current year.

E. INTERNAL CONTROL SYSTEMS:

You are aware that the company has ISO 9001 accreditation for telecom division since 1997 with a smooth transition to the revised standards ISO 9000:2000 in the year 2003. Periodical internal quality audits and management review meeting ensure successful implementation of the quality management system. The ISO compliant management information system seamlessly integrates all the intra and inter- departmental activities of the organisation simultaneously ensuring data integrity and effective monitoring of the day-to-day operations. In addition, it has appointed an independent internal auditor to carry out the internal audit on a regular basis.

F. HUMAN RESOURCES/ INDUSTRIAL RELATIONS:

As in the past the industrial relations have been cordial. The services of senior staff have been recognised and rewarded. Training and recreational facilities have been provided. Attrition rate is low comparatively. Spirit of team-work and commitment is visible.

4. DIRECTORS' RESPONSIBILITY STATEMENT:

Pursuant to Section 217 (2AA) of the Companies Act, 1956, Board of Directors hereby confirm that:-

- i. in the preparation of the Annual accounts, the applicable Accounting Standards have been followed and there is no material departure.
- ii. Appropriate accounting policies have been selected and applied consistently and have made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year ended 31st March, 2005 and of the Profit of the company for that period.

- iii. Proper and sufficient care has been taken 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 frauds and other irregularities.
- iv. Annual accounts have been prepared on a 'going concern' basis.

5. DEPOSITS:

During the year the company accepted deposits of Rs. 30 Lakhs falling within the provisions of Sec.58A of the Companies Act, 1956 read with the companies (Acceptance of the Deposit Rules), 1975, and fully repaid by the end of the March.2005 and there were no overdue deposits at the year-end.

6. AUDIT REMARK:

With reference to observations made by auditors regarding Depreciation, note is Self-explanatory.

The Board of Directors re- appointed Whole time Director w.e.f. 16th February and subject to approval of the members in ensuing Annual General Meeting.

7. PARTICULARS OF EMPLOYEES :

The particulars of employees required to be given under Sec 217 (2A) of the Companies Act,1956 read with the Companies (Particulars of employees) Amendment Rules, 2000.

- | | |
|---|-----|
| a. Particulars of employees who are in receipt of Rs.24 lakhs or more per annum | NIL |
| b. Particulars of employees employed for a part of the financial year with a salary of Rs.2 lakh or above per month | NIL |



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8. CONSERVATION OF ENERGY & FOREIGN EXCHANGE INFLOW AND OUTFLOW:

The details as required under Sec 217 (1) (e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, are given in Annexure - I.

9. CORPORATE GOVERNANCE:

Attention of the members is drawn to Annexure-II to this report dealing with the practices of corporate governance being followed by the company.

10. AUDITORS :

M/s. A.Madhusudana & Co., Chartered Accountants, auditors of the company retires at this ensuing Annual General Meeting and are eligible for re-appointment.

11. DIRECTORS:

In accordance with the provisions of the Companies Act, 1956, Sri A.Venkateswara Rao, and Maj.Gen.(Retd.) S.Blakrishnan, VSM, directors retire

by rotation and being eligible for re-appointment, offer themselves for re-appointment.

Cmde.(Retd) K.V. Subramaniam, YSM appointed as an Additional Director of the Company by the Board at their meeting held on 29th July, 2005.

12. ACKNOWLEDGEMENT:

Your directors express their sincere appreciation and gratitude to Canara Bank, Technology Development Board for their continued support and to all Employees, Shareholders, Suppliers, Customers and various statutory authorities who have extended their immense support to the company.

BY ORDER OF THE BOARD

Sd/-

A.VENKATESWARA RAO

Chairman

Place : Hyderabad

Date : 12.08.2005

Annexure - I to Directors' Report

Information pursuant to Section 217 (1) (e) of the Companies Act, 1956, read with the companies (disclosure of particulars in the report of Board of Directors) Rules, 1988.

A. Conservation of Energy : Not applicable

B. Particulars with respect to absorption of Technology, Research and development (R&D) specific areas in which R & D was carried out by the company:

1. The company has successfully developed repeaters (RF & IF Band selective repeaters) for cellular service operators.
2. The company has successfully developed Tower Mount Amplifiers and Tower Mount Boosters for Cellular service providers.
3. The company has successfully developed Mobile Satellite Services (MSS) Reporting Terminals and NMS for MSS net work.
4. The company has successfully developed subsystems of Communication Intelligence (COMINT) equipment Electronic Warfare equipment.

Benefits derived as a result of the above R & D

The company could design, develop and manufacture products which are import substitutes resulting in saving of valuable foreign exchange for various Public sector undertakings and government organisations.

Future plan of Action:

The company would further wish to develop Trans Receive Modules, Frequency Translating Repeater, optical repeaters, satellite report terminals with enhanced capabilities and Electronic Warfare equipment.

Expenditure on Research & Development:

	Rs. in Lakhs
Capital	2.38
Recurring	36.30
Total	38.68
Total R & D expenditure %	3.35 % of Turnover

C. Foreign Exchange Earnings and Outgo:

The foreign exchange earnings and outgo during the year under review are as follows:

Foreign exchange earnings	:	Rs. 88.65 Lakhs
Foreign exchange outgo	:	
a. Purchases	:	Rs. 76.79 Lakhs
b. Others	:	Rs. 0.17 Lakhs