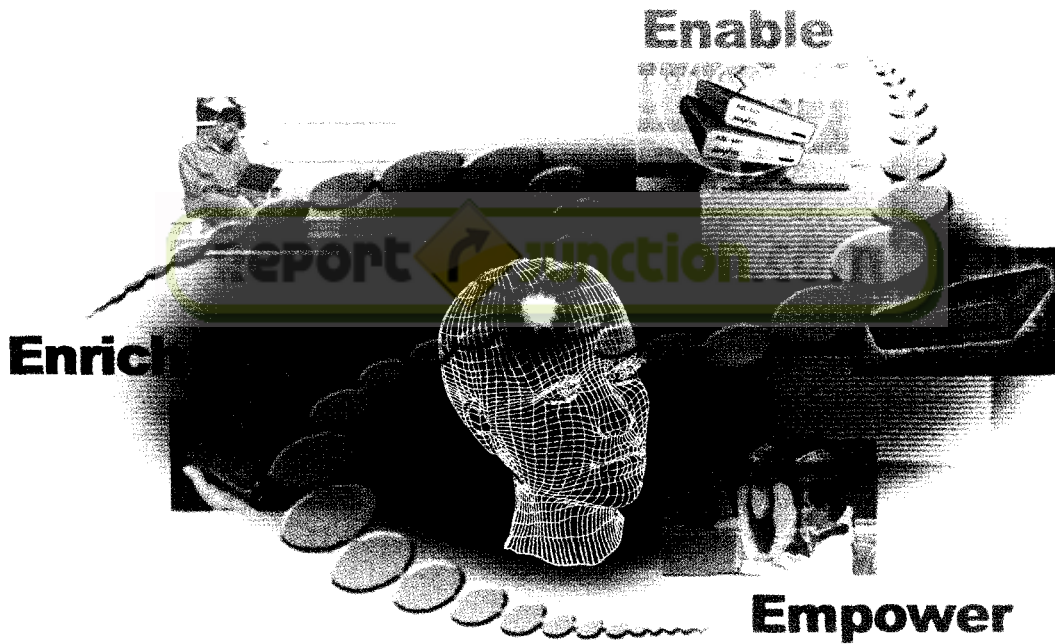




access to knowledge





AVANTEL SOFTECH LIMITED

Board of Directors

Sri A.Venkateswara Rao - Chairman
Sri A.Vidyasagar - Managing Director
Smt. A. Sarada - Director
Maj Gen (Retd) S Balakrishnan, VSM - Director
Sri K.B.K. Moorthi - Director
Cmde(Retd) K V Subrahmaniyam, YSM - Director
Sri M.Venkata Rao - Director(w.e.f.28.04.06)
Sri N. Divakar - Director(w.e.f.28.07.06)

Dy. General Manager - F & A

Sri D. V. Chowdary

Company Secretary

Sri P. Satish

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.

Senior Management

Sri K. Ramesh - Vice President (Operations)
Sri K. Surendra Babu - Vice President (Marketing)
Sri P. Bala Bhaskara Rao - General Manager (R&D)
Col (Retd) J S Rajpal - General Manager (QA)
Sri G.R. Shinde - Chief Designer (R & D)

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NOTICE

Notice is hereby given that the **Sixteenth Annual General Meeting** of the members of the Company will be held on **Wednesday, 20th September, 2006** at **11.00 A.M.** at the Registered office of the Company at Plot No:16, Sector III, Huda Techno Enclave, Opp. VSNL, 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, 2006 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 K.B.K.Moorthi, who retires by rotation and being eligible offers himself for re-appointment.
3. 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:

4. To consider and if thought fit, to pass with or without modification(s), the following resolution as an ORDINARY RESOLUTION:
 “RESOLVED THAT Sri M.Venkata Rao 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, 1961 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”.
5. To consider and if, thought fit, to pass with or without modification(s) the following resolution as an ORDINARY RESOLUTION:
 “RESOLVED THAT Sri. N. Divakar, 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 a SPECIAL RESOLUTION:

“RESOLVED THAT Pursuant to Section 314(1)(a) and other applicable provisions, if any, of the Companies Act, 1956 consent of the members of the Company be and is hereby accorded for appointment of Mr. N. Divakar, director of the Company to hold office or place of profit as consultant at a fee of Rs.40,000/- (Forty Thousand Only) per month w.e.f 1st October, 2006.”

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

“RESOLVED THAT pursuant to the provisions of Section 17 and all other applicable provisions, if any, contained under the Companies Act, 1956 Clause III (A) of the Memorandum of Association of the Company be and is hereby amended by inserting Clause III (A) 10 which shall read as follows:

Clause III (A) 10

To carry on the business of INSAT Mobile Satellite System Reporting Service, all types of Communication Services, Satellite Based services including VSAT/EDUSAT/

Telemedicine/MSS communications and to obtain licenses, authorisations, approvals from Ministry of Communications, ISRO and such other Government designated authorities in this connection.

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

“RESOLVED THAT pursuant to the provisions of Section 31 and all other applicable provisions, if any, contained under the Companies Act, 1956, Articles of Association of the Company be and is hereby amended by inserting a new article 160 A after Article 160 which shall read as follows:

160 A

Company is bound to comply with terms of the license agreements as may be awarded by the DOT/ISRO/ANY OTHER GOVT AGENCY responsible for due compliance of the same.

BY ORDER OF THE BOARD
Sd/-

Place : Hyderabad
Date : 28.07.2006

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 14th September, 2006 to 20th September, 2006 (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.
- * 8. **Members are hereby informed that Item No 7 required to be passed by Postal Ballot under Section 192 A of the Companies Act, 1956 read along with Companies (Passing of resolution by Postal Ballot) (Amendment) Rules, 2001**

9. A brief profile of the rotational Directors pursuant to Clause 49 of the Listing Agreement is annexed to this notice.

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

ITEM NO: 4

The Board Co-opted Sri M.Venkata Rao as an Additional Director of the Company in order to broad-base the Board at their meeting held on 28th April, 2006. Pursuant to Section 260 of the Companies Act, 1956 Sri M.Venkata Rao hold office of director upto the date of this Annual General Meeting.

Considering his rich experience, the Board recommends that he would 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.

The Board commends this resolution for your approval.

None of the Directors except Sri. M. Venkata Rao is interested in this resolution.

ITEM NO: 5 & 6

The Board Co-opted Sri N. Divakar as an Additional Director of the Company in order to broad-base the Board at their meeting held on 28th July, 2006. Pursuant to Section 260 of the Companies Act, 1956 Sri N. Divakar hold office of director upto the date of this Annual General Meeting.

Considering his rich experience, the Board recommends that he would 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.



Sri. N. Divakar is an outstanding Scientist of Defence Research and Development Organization (DRDO). He has done his Bachelor in Engineering from REC, Warangal, Andhra Pradesh in 1965. He did his Master of Engineering with distinction from IISc, Bangalore in 1967 with specialization in Applied Electronics and Servo mechanisms and latter joined Defence Electronics Research Laboratory (DLRL). As a strategist he has developed a consortium of industries of both public and private sectors to realize systems. He is instrumental in providing to the Armed Forces, EW systems worth a few thousand crores through Public Sector industries like Bharat Electronics and Electronics Corporation of India Ltd (ECIL).

Sri. N. Divakar will contribute his technical expertise in the filed of electronics to the Company on day to day basis. In order to reward his contribution, it is proposed to pay Rs. 40,000/- per month as consultancy fees. 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 Sri. N. Divakar is interested in this resolution.

ITEM NO: 7

The Board of Directors would like to bring to your kind notice that your Company applied to Ministry of Communications for INSAT MSS Reporting Service License. As per the license agreement norms, the Company is required to have a specific object in the Objects Clause of the Memorandum of Association of the Company.

As per the provisions of section 17 of the Companies Act, 1956, to alter Objects Clause of the Memorandum of Association, the members need to approve such a proposal by passing a Special Resolution in their General Meeting.

Hence, the resolution is commended for your approval.

None of the Directors is interested or concerned in the above proposed resolution.

As per Section 192 A of the Companies Act, 1956 read along with Companies (Passing of resolution by Postal Ballot) (Amendment) Rules, 2001, amendment to Objects Clause of the Memorandum of Association of the Company is required to carry out through Postal Ballot. A copy of the Postal Ballot is enclosed to this Notice.

ITEM NO: 8

The Board of Directors would like to bring to your kind notice that your Company applied to Ministry of Communications for INSAT MSS Reporting Service License. As per the license agreement norms, the Company is required to have a specific article in the Articles of Association of the Company to acknowledge the compliance of the license agreement terms and conditions.

As per the provisions of section 31 of the Companies Act, 1956, in order to amend the Articles of Association, the members need to approve such a proposal by passing a Special Resolution in their General Meeting.

Hence, the resolution is commended for your approval.

None of the Directors is interested or concerned in the above proposed resolution.

BY ORDER OF THE BOARD

Sd/-

Place : Hyderabad
Date : 28.07.2006

A.Vidyasagar
Managing Director



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

Sri K.B.K. Moorthi:

Sri K.B.K.Moorhti is a commerce Graduate and a Fellow Member of the Institute of Chartered Accountants of India.

He was employed with the Life Insurance Corporation of India (LIC) and held various senior management positions before he retired from LIC in 1995 as Regional Manager (Marketing) (Zonal Manager) from North Central Zone of LIC, Kanpur. He also represented LIC as Nominee Director in various companies during his tenure.

His expertise in the field of Accounting and Financial Management continue to be of immense benefit to the Company.

Sri. M. Venkata Rao:

Sri M. Venkata Rao has done his MTech in Systems Engineering with 1st rank in the University of Mysore and BTech in Industrial Engineering and is having 15 years of rich and varied experience at senior managerial level in private, public and government sectors in the IT & Communications domains, has contributed lot for the growth of his previous organizations with his innovative and market

leading strategies. He has unique experience of working with start up organizations, building long lasting culture with highly agile teams to make them commercially successful in the International markets. He is instrumental in building award winning world class products in the International markets, establishing close relationships with Fortune 500 companies to deliver enterprise solutions for the verticals like Insurance, Retail, High Technology Sectors and so on.

Sri. N. Divakar:

Sri N. Divakar is a fellow of the Electronics & Telecommunication Engineers, fellow of Institution of Engineers (India) and fellow of Andhra Pradesh Academy of Sciences. He received 'IETE-IRSI Award' for the year 1998-1999, for outstanding contributions in the filed of RADAR Science and Microwave Systems. He received many departmental awards for his contributions including the prestigious DRDO's "Scientist of the Year Award" for the year 2000 for his work in Electronic Warfare Systems Integration. He also received "DRDO Performance Excellence Award".

His vision is to prepare a road map for the realization of advanced and indigenous futuristic EW Systems to place India at the cutting edge of this critical technology. He has been decorated with "Padmasri" award for the year 2004 by Government of India.

DIRECTORS' REPORT

Dear Shareholders,

Your Directors present before you the 16th Annual Report together with the Audited Accounts for the financial year ended 31st March, 2006.

1. FINANCIAL HIGHLIGHTS:

The profit and loss account presented to you gives the operational results for the year ended March 31st, 2006.

The operations during the year resulted in profit of Rs. 80.46 Lakhs as compared to previous year profit of Rs. 44.85 lakhs, as detailed below:

Particulars	Current Year 2005-2006 (Rs. in Lakhs)	Previous Year 2004-2005 (Rs. in Lakhs)
Sales and Services	1597.35	1148.76
Income from Software Development	—	4.46
Other income	39.40	26.05
TOTAL	1636.75	1179.27
Manufacturing and other Expenditure	1323.62	914.59
Administrative and other Expenditure	91.18	95.95
Depreciation & Amortisation	71.54	61.47
Financial expenses	58.39	48.01
Profit before Tax	92.02	59.25
Provision for tax (Current)	9.00	5.50
Provision for tax (Fringe Benefit)	2.50	—
Reversal/(Provision) for deferred tax	12.92	2.56
Excess /(Short) provision relating to earlier years	(12.98)	(11.46)
Profit after tax	80.46	44.85
Profit/(loss) brought forward	50.25	5.40
Balance carried to balance sheet	130.71	50.25
Earning per share	1.56	0.87

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:

The GDP growth rate in the financial year 2005-2006 is about 8%, which indicates that economy growth in India reached sustainable levels with strong contribution from investment. Foreign investment touched US \$12.9Bln, a growth of 64% with FDI rising to US \$4.7Bln and portfolio investment around US \$8.2Bln. Industrial growth is around 8% with manufacturing sector growing at an average 9% over the past 20 months. The BSE sensex, a leading economic indicator scaled new heights reflecting the optimism and perception of a bright future. Industry and services propel over all growth of the economy supported by faster development of physical infrastructure and growth in exports.

Telecom:

The unprecedented boom in telecom services in past couple of years can be attributed to the tremendous growth in mobile services. In India, there are about 92 million mobile subscribers as on 31st March 2006 as against 48 million Fixed Wireline subscribers and the major players are Airtel, BSNL, Hutch and Idea. The sector has been growing by 30% over the past few years and is expected to grow at 40% in the future.

As the market matures, telecom operators face new challenges to sustain current high level of growth. On the other hand, customer expectations and demand for services including data services and other bandwidth hungry applications such as video clip, mobile TV etc are increasing. There is an



immediate need of ensuring the availability of additional spectrum for the growth of mobile services. Thus it is time that the Indian telecom players start considering 3G as a potential technology for future telecommunication services. The main drivers for 3G technology are converged devices such as camera phones, fixed broadband adoption by youth and availability of enabling technology. The challenge for the operators would be to make the service affordable and content developers shall come up with applications which would address the needs of the subscribers.

Avantel has developed wide range of products for wireless applications and supplied to reputed companies like Nokia & Siemens. The expansion of wireless network and the increase in subscriber base provides opportunities to Avantel. Avantel products help the service providers to enhance the capacity and coverage of their Base stations.

Defence Overview:

India aspires to become self-reliant in Defence to effectively meet the fast changing ground realities of defence operations. India needs to keep pace with the changes taking place by induction of new equipment, up-gradation of existing military hardware and changing over to new strategies and tactics. The Defence Industry in India has traversed a long path from being reserved entirely for the public sector to moving towards greater participation from the private sector. The sector was opened up for private sector participation. The Indian defence budget for FY 2006-07 is Rs 89, 000 crore. This is 7.23 per cent more than the budget in FY 2005-06. As a percentage of GDP, the defence budget is 2.29 per cent as against 2.39 per cent in the previous year.

Avantel developed import substitute products for EW applications and actively participated in the joint development of system level solutions for protection of Army convoys. Avantel has also developed various products for Communication Intelligence in collaboration with Defence Labs. Indian Defence services are now using satellite-

based products for communication and other strategic applications. Avantel is the first and the only company from private sector to establish a satellite based network for Indian Navy.

Defence Production is a highly sophisticated process involving unique challenges of safety, reliability, consistency in quality and capability of operation in various climates and terrains. Defence Industry in India has matured and can be considered comparable to established Defence Industries in the developed countries. Avantel has established the infrastructure, resources and processes to meet the challenges of the Defence Production.

B: ACCOMPLISHMENTS:

Avantel has developed wide range of products for wireless applications and supplied to reputed companies like Nokia & Siemens. 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. 1597.35 lakhs as against Rs. 1,153.22 lakhs for the previous year and earned a net profit of Rs.80.46 Lakhs as against Rs. 44.85 lakhs during the previous year.

D. OUTLOOK AND STRATEGY FOR CURRENT YEAR:

- **Telecom Products:** Company developed new products for the Mobile Communications Market and orders are expected during the current financial year.
- **ECM Equipment:** To combat the insurgency, the government has decided to equip its military and para-military forces with suitable counter measures. Avantel developed critical