AFTEK HOUSE

BOARD OF DIRECTORS

Mr. Ranjit Dhuru	Chairman
Mr. Nitin Shukla	Executive Director
Mr. Mahesh Vaidya	Executive Director
Mr. Sunil Desai	Executive Director
Mr. Promod Broota	Executive Director
Dr. S.S.S.P. Rao	Non-Executive Director
Mr. Shrikant Inamdar	Non-Executive Director
Mr. V. J. Masurekar	Non-Executive Director
Mr. Mahesh Naik	Non-Executive Director
Mr. Sandip Save	Non-Executive Director

MANAGEMENT TEAM

Mr. Ranjit Dhuru	CEO
Mr. Nitin Shukla	CFO
Mr. Mahesh Vaidya	CTO
Mr. Sunil Desai	Ex Director - Centre for Excellence
Mr. Promod Broota	Ex Director - Planning
Mr. Ashutosh V. Humnabadkar	Sr Vice President - Products
Mr. Charuhas V. Khopkar	Sr Vice President - Quality
Mr. Ravindranath U. Malekar	Sr Vice President - Support
Mr. Mukul S. Dalal	Sr Vice President - Smart Products

COMPANY SECRETARY

Mr. C.G. Deshmukh

REGISTERED OFFICE

Aftek House, 265 Veer Savarkar Marg, Shivaji Park,
Dadar, Mumbai 400 028

BANKERS

Bank of India
Gohil House, L. J. Road,
Mumbai 400 026.

The Hongkong and Shanghai
Banking Corpn. Ltd.,
Asha Mahal,
46/B Dr. G. Deshmukh Marg,
Mumbai 400 026.

AUDITORS

M/s. V.D. Joshi & Co.,
Chartered Accountants,
2 Jai Ashirwad, Y.R. Tawde Road,
Dahisar (West), Mumbai 400 068.

REGISTRARS & TRANSFER AGENTS

M/s. Bigshare Services Pvt. Ltd.
E-2/3, Ansa Industrial Estate,
Sakivihar Road, Andheri (East),
Mumbai 400 072.

AFTEK INFOSYS LIMITED
2004 - 2005

Financial Snapshot

(Rs. crore)

	FY'05	FY'04	FY'03	FY'02	FY'01	FY'00
Total Income	198.00	140.50	99.36	67.44	50.71	20.81
Export Sale	191.36	134.37	91.44	57.37	40.92	15.86
Total Expenses	119.18	77.94	51.93	1.75	23.45	11.16
Operating Profit	78.82	62.56	47.43	35.69	27.26	9.65
Profit Before Tax	60.80	47.72	42.70	34.65	26.41	8.94
Profit After Tax	59.80	47.31	40.08	33.67	25.10	8.46
EPS (Rs.) Rs. 10 per share	-	-	53.06	56.11	41.47	14.09
EPS (Rs.) Rs. 2 per share - Basic	7.73	6.31	10.61	-	-	-
EPS (Rs.) Rs. 2 per share - Diluted	7.68	6.31	-	-	-	-
Networth	459.44	280.18	238.58	132.04	101.52	78.29
Fixed Assets	24.04	40.44	43.83	8.47	9.46	5.81
Net Current Assets	374.40	178.35	132.84	14.53	81.91	64.58
Dividend Per Share (%)	50.00	50.00	50.00	35.00	25.00	20.00
Share Capital	15.00	10.00	10.00	6.00	6.00	6.00
Reserves & Surplus	313.41	270.18	228.58	126.04	95.52	72.29

AFTEK®

Aftek Infosys Limited

ANNUAL REPORT ▪ 2004 - 2005

Message from the Chairman and CEO

Ranjit Dhuru

Dear Shareholder,

Last year your Company turned in a sterling performance yet again, keeping the growth pace above 42 per cent. Your Company is now in the Rs. 200 crore region (USD 45.5 million). In this, the good news is not just that we have landed fish; the good news is that we have mastered the art of fishing. This consistent growth and scaling up of operations is neither magic nor happenstance but a result of your Company's evolved business model and sound business strategy.

On the global canvas, western economies, particularly US and Europe, are finally crawling out of economic slowdown. The corporate world in the West has acknowledged the imperative reality of outsourcing as a means of cost-cutting. As a consequence, India Inc. stands to benefit as the world's preferred destination for IT outsourcing. Several recent western publications *(Business Week* and *Fortune* among them) validate the emergence of India Inc. as a global IT outsourcing base. Simultaneously, we find IT spearheading economic growth back home in India. This has positioned India as a strong competitor to China in the Asian economic zone.

The huge opportunity proffered by globalization continues to draw a large number of players to the IT industry and, in the years to come, we are likely to witness the inevitable impact of the forces of demand and supply. Indian IT companies that purely leverage the cost benefit as a USP are likely to be squeezed between wafer thin margins (due to a dwindling dollar coupled with escalating service cost) and the migration of business to more cost efficient countries. Thus, there is a strong need to innovate a business model where the differentiator is not cost alone but tangible value addition. The business model thus evolved should be based on the strengths and capabilities of individual organizations.

We believe that following the hoofprints of the herd can often lead one to the edge of the precipice.

Thinking differently

Your Company's niche is high-end technology and as such technology leveraging has to be the pivot of Aftek's business model. Your Company's business model was created not by accident but by a thought process that was simultaneously meticulous, evolving and lateral. At Aftek we call this the 'Thinking Out Of The Box' concept. In other words, we believe that following the hoof-prints of the herd can often lead one to the edge of the precipice.

Thinking Out of The Box is not only intellectually simulating but commercially imperative to stay relevant in today's competitive market. Think differently or drown in anonymity, that is the single most important learning from the intense jostling in the global marketplace. Fortunately for Aftek, it has always ridden the 'technology' horse rather than the 'lower-cost' mare. Leveraging of technology and IPRs has bestowed a special capability on Aftek vis-à-vis its competitors while delivering solutions to its clients. Aftek's business model thus evolved has proven so efficient and scalable that in the last five years it has powered a phenomenal growth of over 46 per cent CAGR.

A vindication of the success of your Company's business model comes from yet another source. *Red Herring*, a highly acclaimed US based global technology publication, has selected your Company amongst small-cap companies (USD 300 million – 1 billion) for the 'Red Herring Small Cap 100 Awards'. According to *Red Herring*, these unheralded companies are the barometers for new opportunities and challenges in the global economy, possessing innovative technology and smart business models that can drive them to the next level of competition. You will be glad to know that yours is the only Indian company to have featured in the 200 short listed companies world-wide (*you may read more about this at* www.redherring.com).

Early in its life, along with becoming technology savvy Aftek became debt-free too. Aftek's financial strength was not only the excess cash it had accumulated but also as its capability for raising more. When you have been growing steadily for the past five years, you need to consolidate and manage growth. You need to chart out your route to further growth. One approach is organic, calling for vertical and horizontal scaling. The other approach is inorganic where you acquire or invest in companies that could become spokes to your hub.

With this in mind and with an appetite for increasing the stakeholders' value, Aftek evolved a concept of the 'Inorganic Ring' or 'Value Ring'. On this outer ring sit Aftek's invested companies who need independent management and business plans to bring efficiency and growth in their respective markets. These companies are either in Aftek's focus area or are in the process of monetizing its IPRs.

For instance when Aftek acquired Arexera in 2003, the objective was limited: to gain a strong entry into European markets for software professional services. On closer look,

'Think differently or drown in anonymity', is the single most important learning from the global marketplace.

Aftek's management sensed a new opportunity that could be exploited by monetizing the acquired IP not only in the enterprise space but also in the internet space. Hence, even as Arexera was empowered to address the enterprise market, a new company was created - which we now call 'Seekport' - to address the internet markets.

Seekport's potential

Today, both the companies are on a strong growth path. Seekport particularly has, in a short span, established itself amongst the leading search engines in Europe. In fact, it would be flattering when Seekport is considered as a serious threat for Google in Europe.

With 'Baidu', a relatively unknown search-engine from China (operating only in China and Chinese speaking areas) getting phenomenal valuation (over USD 4 billion) on listing at NASDAQ, it is felt that a similar opportunity exists for Seekport in Europe. This is how the Aftek business model, with its inorganic ring of companies, creates larger stakeholder value and wealth.

The recent investment in V-soft Inc. *(www.v-softinc.com)* has enhanced your Company's footprint in the software professional services arena in USA. V-soft now sits on Aftek's inorganic ring of invested companies with a possibility of fully integrating with your Company in future. New and large clients especially from the telecommunications, engineering and security area have been added to Aftek's list of customers. This marketing and front-end engine is expected to spearhead strong growth in the United States for the next few years.

With its meticulously thought-out and carefully executed business strategy Aftek is now poised to grow at an even stronger pace aiming at realization of more wealth and stakeholder value.

Yours truly,

Ranjit Dhuru

Management Discussion & Analysis

Industry Structure & Developments

For the past five years Information Technology has been the prime force driving India Inc. It was the IT industry that earned India global recognition and it was from its success that young Indians got energized. However, today it is not the IT sector alone that is booming; all sectors of the economy are poised to grow at a pace that would have been unimaginable in the near past. As India's IT industry matures, companies are moving up the value chain. IT enabled services too are blossoming. The growth of the IT industry is far outpacing all other industries and it is estimated that by 2010 it will be the largest contributor to India's exports. Different IT companies have different strategies beginning with a call center at the lowest end to cutting-edge technology creators at the top end. The IT Industry is growing on a CAGR of 28% and exports are expected to touch USD 87 billion in 2008.

Opportunities & Threats

Aftek is positioned in the cutting-edge technology creator arena where very few India companies exist. However, with the success of this pioneering group of companies the industry is bound to see several other Indian companies heading in this direction in the future. The bulk of companies who refuse to graduate from a 'cost-only advantage' model to either a 'technology creator' or a consulting model are unlikely to extend their existence into the next decade. The cost of doing business, particularly the remuneration of knowledge-based worker, is going up. (According to press reports, India has the highest salary revision percentage in comparison to its Asian neighbors). This situation creates a low-margin and near-zero profit situation for companies that survive on the cost-only advantage. This is the biggest threat faced by the IT industry.

On one hand is the high attrition rate in the industry, with professional mobility increasing with acquired experience; on the other hand is a striking scarcity of trained manpower. Hence the huge opportunity created by the large demand for outsourcing to India co-exists with the threat as mentioned above. Like other nations (Israel, for instance) who metamorphosed from being outsourcing IT destinations to cutting-edge technology creators, India too needs to hone its strategy for converting this huge outsourced opportunity.

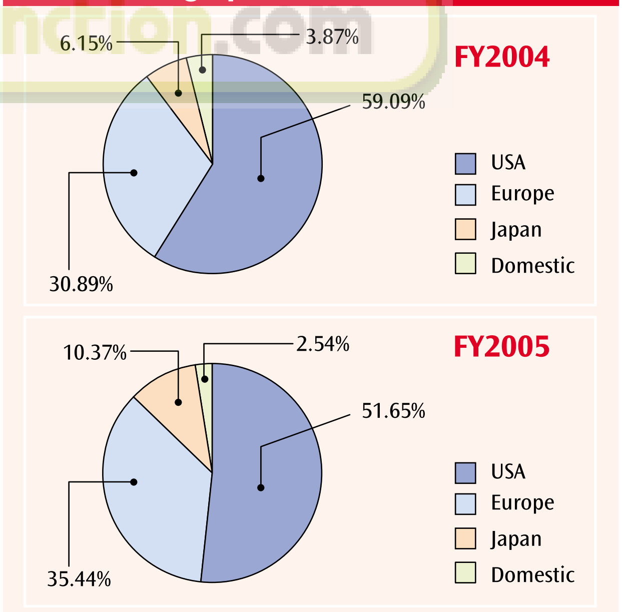
Aftek has successfully transformed itself into a cutting-edge technology company and, leveraging its financial muscle, has taken a strong position in western technology companies particularly in Europe where Aftek is a proud owner of a cutting-edge German IT company in the Enterprise Search Space. Aftek has not only managed and integrated its acquisition but has spun out an exciting company, Seekport, which is making huge waves in the search engine arena. In fact, it is the only European engine to compete with the likes of Google and Yahoo. Today, reputed financial publications like *Euro* have singled out Seekport along with MSN and Yahoo as serious threats to Google in Europe. This is the enviable status that Aftek enjoys.

Nitin Shukla
CFO

Business Review

Aftek's revenues from the software services business has gone up by 57.88% from Rs 1073 million during FY04 to Rs 1694 million in FY05. The Company's revenues from its software services out of Europe have been to the tune of 40.85% and the revenue from US and Japan were 59.15%.

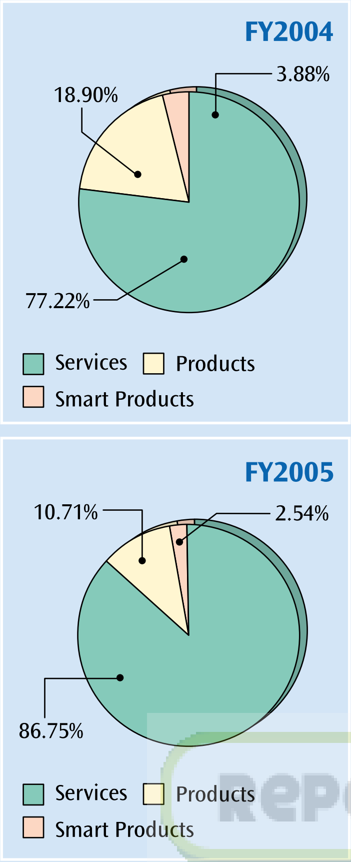
Geographical Revenue Mix



Business Mix

For the year ended June 2005 while revenues from Products business contributed 10.71% of the revenues, Services contributed 86.75% and the balance came from Smart Products Group. It should be remembered that the contribution of Smart Products Group (2.54%) is a segment of a larger pie in the year 2005 as compared to the year 2004.

Segment-wise Revenue Mix

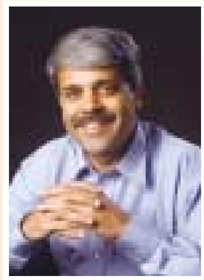


Expenditure

Cost of Revenue and Employee Cost

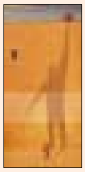
Cost of Revenues include raw material cost, salary and other benefits to employees and Directors and direct cost of software development, installation and testing cost, including that paid to consultants. Total cost of revenue in the year ended June 2005 stood at Rs 1022.34 million, an increase of 42% over the previous year. The cost of revenue represented 52% of total revenues for the year ended 2005 as against 51% in the previous year. Software development, testing, installation and other charges grew by 41% to Rs 889.36 million in June 2005. The increase is in line with the increased services and product sales.

TECHNOLOGY



Mahesh Vaidya

DIRECTOR AND CHIEF TECHNOLOGY OFFICER



Intellectual Property forms the very core of Aftek's business model. And, much like the sun's core, it burns Intellectual Fuel to promote Aftek's health and wealth. Over the years, it has helped Aftek maintain its cutting edge in Technology and Business, a fact recently acknowledged by *Red Herring* too. Aftek's commitment to technology is vindicated by its continued and significant investments of time, effort and money towards development of Intellectual Property. Aftek is one of very few Indian companies recognizing the need for Chief Technology Officer's position and office. Aftek's out-of-the-box approach to Technological supremacy has returned rich dividends.

The CTO's office acts as the focal point for Aftek's technology drive.

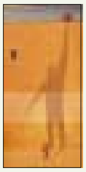
- It prepares technology roadmaps, manages development and/or acquisition, dissemination and implementation of technologies for developing cutting-edge technology solutions. Here, it works very closely with the Centre of Excellence for incubating new ideas and research.
- It leads the development of flagship products.
- It oversees the publication of technical literature like Whitepapers, Presentations, etc.
- It coordinates the filing of Trademarks, Copyrights and Patents.
- It is responsible for Knowledge Management and Technology Training as well as Mentoring within Aftek.
- Design and Implementation of Operations Support Systems come within its purview.
- It drives Technology Certifications, Partnerships and Standards Compliance within Aftek.
- Aftek values and respects the potential of Academic Institutions in research and the CTO's office very carefully nurtures these relationships.
- As Aftek's Technical mouthpiece, the CTO's office directs Market Communications.

In recent years, Aftek has focused on the fast-growing Wireless Networking & Tele-communications domain and has developed several Intellectual Properties (IPs) based on technologies like Bluetooth, WiFi, VoIP etc. As we continue to excel and keep pace with the changes in these segments, we have identified emerging technologies like UWB, WiMax etc. for further IP development this year. We are consolidating our Switching and Routing expertise into reusable IPs. We remain strongly committed to Open Source technologies like Linux and Java. In the Search domain, we are developing products in the areas of Performance-based Advertising, Desktop and Local Search, as well as Collaboration. You will see all these technologies powering Aftek's Products, Solutions and Services - and cumulatively they will make a big difference!

Centre For Excellence

Sunil Desai

DIRECTOR - ENGINEERING



At Aftek, we have always worked on cutting edge technologies hand in hand with MCS and engineering colleges of Pune and Shivaji universities. Most of our talent is gleaned from these colleges as part of our strategy of 'Technology Research through University Association' and our social commitment to 'Quality in Education'. This has consistently helped us stay laps ahead of the competition on the technology front. The world's first 'Dual Mode' phone, developed by Aftek, is the result of our Centre of Excellence (COE) strategy.

Inspired by the success of this strategy and our need for fast growth, we now have a dedicated COE whose mandate covers:

- Technology Management
- Competency Development
- University association
- IP Creation, Patents
- Process enhancement
- Technology consultancy

The single most important factor driving success in the IT industry today is human resources – both in terms of knowledge skills and approach to work. In other words, a bright aptitude backed with the right attitude. Aftek's experience has been that in a high-obsolescence-prone sector like IT, a nimble young team is at par with an experienced one as its members can be easily motivated and are eager to absorb new technologies and changes.

Aftek's focus on talent farming in Pune is a result of its out-of-the-box thinking. Pune is known as India's Educational Capital. It boasts of the country's oldest engineering college, offers a wide spectrum of educational options and attracts the largest number of foreign students. There are over 25 excellent colleges in Pune city which provide talented manpower for IT.

Our strategy to work with these colleges helps us create technology savvy, passionate resources who out-perform experienced professionals from the IT industry. Our association with Pune University/Shivaji University in their 'Industry Association Program' helps bridge the gap between industry and academics. Our participation - ranging from sponsoring projects to students and setting examination papers to assisting in syllabus determination and as examiners - is in sync with our 'Quality in Education' strategy. With this, we can identify and access the finest talent from these colleges and then, when these students work with us on projects, we assist them imbibe our vision, mission and values.

If you study any technology, it follows the familiar cycle:

Research – High Risk, Highest Investment, Low Value

Acceptance – Medium Risk, High Investment, High Value

Maturity – Low Risk, Low Investment, Low Value

Maintenance – High Risk, Low Investment, High Value

Typically Adoption is the time when emerging standards start becoming available and resource demand starts increasing, so the value we get for this technology is high. Risk is also considerably lower as compared to the Research phase but the investment is still high. With very few senior experts from COE and talented college students we bring down this cost and still achieve the desired result of bringing in new technology skills to Aftek. This out-of-the-box approach keeps our Research costs way below industry levels.

COE not only helps students quickly train and get oriented to industry demands but also helps our senior experts get trained on soft skills. Every year, as part of a Knowledge Management initiative, all senior resources from the Development team are put through COE's rotation program. This helps them upgrade their skills in new technologies and methodologies. This program has been very effective in boosting employee satisfaction as it keeps the value of their skillsets very high. On its part, Aftek gets itself a constant pool of resources ready to tackle new technology challenges much before the competition for our customers.

Selling, General and Administration

Selling, General and Administration expenses consist of expenses relating to marketing, travel, communication, rents, legal expenses, sales tax, insurance and other general and administration expenses. The total selling, general and administration expenses increased from Rs 59.32 million to Rs 169.48 million.

Operating Margins

Operating Profit for the year ended June 2005 has been at Rs 788.16 million compared to that in the year ended June 2004 at Rs 625.55 million.

Other Income

The other income during the last year increased from Rs 15.60 million to Rs 27.51 million.

Depreciation & Tax Provisions

Depreciation rose to Rs 180.21 million in the year ended June 2005 from Rs 148.30 during the last year. This is due to purchase of IPRs and amortization of IPRs.

Provision for taxation also increased to Rs 9.94 million in the year under review from Rs 0.53 million in the last year.

Net Profit

Aftek registered a net profit of Rs 597.92 million for the year ended June 2005 registering an increase of 26.38% as against Rs 473.12 million for the last fiscal.

Dividend

The Company proposes to declare a dividend of 50% for the year ended June 2005 and has made a provision of Rs 85.28 million for the payout. This also takes care of the dividend payable on equity shares resulting from the conversion of Foreign Currency Convertible Bonds (FCCBs) in the current year. The Company has also made a provision of Rs 11.14 million for tax on dividend.

Balance Sheet

Equity Capital

The paid up equity share capital of the Company is Rs 150 million as at June 30, 2005 after taking into account the bonus issue made on January 31, 2005 in proportion of one equity share for every two equity shares held.

Reserves and Surplus

Reserves and Surplus rose to Rs 3134.07 million at the end of June 2005 from Rs 2701.82 million reported in June 2004.

Investments

Investment marginally increased from Rs 591.76 million to Rs 594.89 million in the year ended June 2005. It may be noted that major investments for consolidation of Arexera holding and investments in V-Soft will be reflected in the next financial year.

Debtors

Debtors at the end of June 2005 were Rs 471.38 million as compared to Rs 326.86 million of previous fiscal. Debtors amount to 24% as compared to last year's 23% of total turnover.

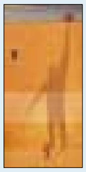
Liabilities

Current liabilities which included sundry creditor, advance from customers and provisions for tax, dividend and other adjustments were at Rs 243.94 million.

DELIVERY MECHANISM

Dhananjay Kulkarni

GLOBAL DELIVERY HEAD



Aftek aims at converting its high-quality, process-driven delivery mechanism into a consistent repeatable software factory. Aftek delivers products and services based on latest technologies in hardware and software including WiFi, Bluetooth, WiMax, UWB, Zigbee, power line communication etc. It is imperative for us to invest sizable amount in training our delivery teams on cutting edge technologies. In addition, we are working on building lean processes which will be suitable for teams consisting of hardware, firmware and software engineers. Our continuous interest and contribution in various Standards bodies help us remain ahead of the pack. We are investing significant resources into building a Knowledge Management System which will be used as a repository of best practices, lessons learnt, and technical know-how. With help of these, we create an ability to quickly ramp-up the team, cross-train team members, and be highly responsive to client needs.