

ERP SOFT SYSTEMS LIMITED

TWELVETH ANNUAL REPORT | 2005 - 2006



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BOARD OF DIRECTORS

Mrs. K Parvathi
Chairman

A-21, Anna Nagar, Chennai 600 102

Mr. D S Reddy
Director

A-21, Anna Nagar, Chennai 600 102

Mr. K Radha Krishna Reddy
Director

16/1754, Ramamurthy Nagar
Nellore, Andhra Pradesh

Mrs. R.Kamalamohan
Director

New No.8, Perumal Nagar,
II main Road,
Chennai 600 117.

Mr. Surendranath Annam
Director

35-B , Unnamalai Ammal Street
North Usman Road , T.Nagar
Chennai 600 017

EXTERNAL AUDITORS

Vijayaraghavan Associates:
Chartered Accountants
New No.51, Giri Road, T Nagar
Chennai 600 017

BANKERS

ICICI Bank Limited
Bazullah Road,
T.Nagar Branch
Chennai

REGISTERED OFFICE

"A" Block – 21, Anna Nagar
Chennai 600 102
Tamil Nadu

NOTICE TO THE SHARE HOLDERS

Notice is hereby given that the Twelveth Annual General Meeting of the shareholders of ERP SOFT SYSTEMS LIMITED will be held on the **27th December 2006** at the Registered office of the company at A-21 Anna Nagar, Chennai 600 102 at **11 a.m.** to transact the following business:

Ordinary Business:

1. To receive consider and adopt the Director's Report, audited Profit & Loss account for the year ended **30th June 2006** and the Balance Sheet as at **30th June 2006** and the Auditors' Report thereon.
2. To appoint the Director in the place of Mr.Surendranath Annam who retires by rotation at this Annual General Meeting and being eligible offers himself for reappointment.
3. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting by passing the following resolution with or without modification, as an ordinary resolution.

“ RESOLVED that M/s Vijayaraghavan & Associates, Chartered Accountants, be and are hereby appointed as the auditors of the company to hold office until the conclusion of the next Annual General Meeting on such remuneration as may be decided by the board, in addition to reimbursement of out of pocket expenses.

By Order of the Board

Director.

Chennai
1st December 2006

Note:

1. A member entitled to attend and vote at the meeting is entered to appoint a proxy to attend and vote instead of himself and the proxy need not be a member.
2. The Proxy form duly stamped and executed, should reach the Registered Office of the company at least 48 hours before the time Fixed for the commencement of the meeting.

DIRECTOR'S REPORT

Dear Shareholders,

The Director have pleasure in presenting the **Twelveth** Annual Report on the business and operations of the company and audited statement of accounts for the year ended **30th June 2006**.

Financial Results:

The summarized financial results is furnished below for your ready reference:

(Rs. in Lakhs)

Profit during the year	127.61
Loss brought forward	230.10
Loss carried over to Balance Sheet	102.48

Performance:

The US subsidiary has which is one of the growing company has shown good results during the year under report. The company primarily concentrates on software services to have its presence in all the states. One of the main feature that the company outsource the jobs and contracts to Indian counterpart thereby the cost is reduced. The company is in the process of developing delivery models which will help companies in continuous business improvements which are industry specific. The US subsidiary has shown a good margin and the management is satisfactory with its performance.

Future:

The strength of the company is in the financial services, domain and the same can be exploited as there is tremendous potentiality in the said field. Most of the Business sourced outside was in this sector. The presence of subsidiary company in US brings in good recognition. The future of the company is very bright and the Directors are confident of achieving much higher turnover and profits in the years to come.

Subsidiary Companies:

Pursuant to Section 212 of the Companies Act, 1956 the particulars of subsidiary company are furnished in the Annexure.

Directors:

Mr.Surendranath Annam retires at this meeting by rotation and is eligible for re-appointment.

DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO SECTION 217 (2AA) OF THE COMPANIES ACT, 1956

The Directors hereby confirm:

- i) that in the preparation of the Annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- ii) that the directors had selected such accounting policies and applied them consistently and made judgement 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 and of the profit and loss of the Company for that period;
- iii) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) that the directors had prepared the annual accounts on a going concern basis.

Corporate Governance:

A separate report on Corporate Governance along with Auditor's Certificate on its compliance is attached as Annexure.

Compliance:

All Board Members and senior personnel affirm that they comply with code on an Annual Basis

Auditors & Auditors' Report:

M/s Vijayaraghavan & Associates, Chartered Accountants, Chennai, Auditors of the company retire at the ensuing Annual General Meeting and are eligible for re-appointment.

Disclosure under section 217 of Companies Act, 1956

During the year no employee, had drawn salary in excess of the amounts prescribed under section 217(2A) of the Companies Act, 1956. The requirement of section 217 (1) (e) of the Companies Act, 1956 are not applicable to the company.

Earnings Information Exchange Acknowledgement:

The Inflow of Foreign Exchange Rs.1.44 Lakhs and Outflow - Nil.

By Order of the Board

Director.

Chennai
1st December 2006

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

INDUSTRY STRUCTURE AND DEVELOPMENT

Computer Software Development and processing is the nerve centre of Economy. Wherein high earnings in Foreign Exchange is involved. India is emerging as a favourite destination for processing outside jobs, on account of availability of skilled work force. This sector has shown sizeable growth in past few years.

Future Outlook:

The future of this sector looks very bright as many overseas corporate bodies are identifying India as the best destination for outsourcing the data processing. The company is primarily focused into software services and into other segments like Knowledge process outsourcing which is the upcoming boom in the outsourcing industry..

Exports:

This sectors, is the major earner of Foreign Exchange and almost entire business is for overseas customers. The Export potential is very high, in this line of activity.

Opportunities and Challenges:

The opportunities are wide open in this sector as every companies in the US are now looking for cost reduction options particularly in software, Healthcare industries and this sector is widely developed in view of incentive packages announced by government. There is a good potential for the knowledge-based companies to tap the market as the US clients are now opting for secured and organized companies to ensure the secrecy of their data. The risks and threats posed are the mushroom growth of small players and heavy turnover of manpower. The company will have edge over others in view of presence in US and good relationship with employees.

Risk and Concerns:

At present there is no element categorizing as risk. The main concerns is meeting the expectations of the customers, timely and prompt execution of jobs. Even one bad delivery will likely to spoil the entire goodwill.

Internal Control Systems:

The company has established framework of internal controls for ensuring optimum use of resources. The capital and revenue expenditure is monitored and controlled by periodical review.

Chennai
1st December 2006

On behalf of board

K.Parvathi
Director.

STATEMENT IN PURSUANCE OF SECTION 212 OF THE COMPANIES ACT, 1956

- | | | |
|----|--|---|
| 1. | Name of the Subsidiary Company | LIBERTYCOM LLC |
| 2. | Financial year of the Subsidiary ended on | 30.06.2006 |
| 3. | Holding Company's interest in the Subsidiary | 215174 Equity Shares of Rs. 10/- each
(100%) |
| 4. | Net aggregate amount of the Profits of the Subsidiary not dealt with in the holding Company's Accounts | |
| | a) For the current financial year of the Subsidiary Company | Rs. 39,92,034 |
| | b) For the previous financial years of the Subsidiary Company | Rs. Nil |
| 5. | Net aggregate amount of the Profits Of the Subsidiary dealt with in the Holding Company's Accounts | |
| | a) For the current financial year of the Subsidiary Company | Nil |
| | b) For the previous financial years of the Subsidiary Company | Nil |

REPORT ON CORPORATE GOVERNANCE FOR THE YEAR ENDED 30th JUNE 2006

Company's Code of Corporate Governance
(As required by Clause-49 of the Listing Agreement of the Stock Exchanges)

COMPANY'S PHILOSOPHY

The Company firmly believes in and has consistently endeavored to practice good Corporate Governance to ensure that the company operates not only within in the regulatory frame work but is also guided by broader business ethics.

The Company firmly believes in the values of transparency, professionalism, reliability and accountability in all its dealings with its customers, dealers, employees, shareholders and with every individual who comes in contact with the company. The Company believes that effective systems and practices alone can enhance the Corporate Performance.

BOARD OF DIRECTORS

COMPOSITION OF THE BOARD

The board consists of five directors, out of which K.Parvathy is an Executive Director and the remaining four directors are Non Executive

COMPOSITION OF THE BOARD OF DIRECTORS OF ERP SOFT SYSTEMS LIMITED

The Company administration is kept under the Direct Supervision of Executive and Independent Directors during the period ended 30th June 2006.

Name	Status	Board meeting attendance	Attendance at previous AGM held on 30.12.2005
K.Parvathy	Executive	4	Yes
D.S.Reddy	Independent	4	Yes
K.Radhakrishna Reddy	Independent	4	Yes
R.Kamalamohan	Independent	3	Yes
Surrendranath Annam	Independent	3	No

Board Meetings held during the year 2005-2006:

During the year 2005-2006 four Board Meetings were held on 29.10.2005, 30.01.2005, 27.04.2006, 18.09.2006. the gap between the last two board meetings exceeded four months as the decided to publish the Audited Results for the Fourth Quarter.

REMUNERATION OF DIRECTORS

During 2005-2006 none of the directors held any position or membership of any committee, in any other company. No remuneration is being paid to any director of the company during the year.

COMMITTEES OF THE BOARD

The Board has set up the following committees as per the requirements of the code of Corporate Governance.

a. Audit Committee:

The audit committee of the company comprises of three independent directors. The constitution of the committee meets the requirements of Section 292A of the companies Act, 1956 as well as clause-49 of the listing Agreement. The members are:

Mrs K.Radhakrihna Reddy – Independent Director & Non Executive Director

Mrs R.Kamalamohan – Independent Director

Surrendranath Annam – Independent Director

The Terms of reference of ERP SOFT SYSTEMS Audit Committee are:

- ~~✗~~ To Oversee the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct , sufficient and credible.
- ~~✗~~ To recommend and appoint the removal of external auditor , fixation of audit fee and also approval for payment for any other services.
- ~~✗~~ To review with management the annual financial statements before submission to the board , focusing primarily on:
 - Any changes in accounting policies and practices
 - Major accounting entries based on exercise of judgment by management
- ~~✗~~ Qualifications in draft audit report.
 - Significant adjustment arising out of audit
 - The going concern assumption
 - Compliance with accounting standards
 - Compliance with stock exchanges and Legal requirements concerning Financial Statements
 - Any related party transactions i.e. transaction of the company of material material nature, with promoters or the management, their subsidiaries or relatives etc that may have the potential conflict with the interests of the company at large.