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**Registered Office**  
 Software Technology  
 Group International Limited  
 F-35, South Extension-I  
 New Delhi-110 049  
 Phone : (011) 24649561,  
 24656926/27  
 Fax: (011) 24649563

**Company Secretary &  
Compliance Officer**

**MR. RAJEEV SINGAL**

**Auditors of the Company**

Jain Singhal and Associates,  
 Chartered Accountants,  
 E-169, Masjid Moth,  
 Greater Kailash-III,  
 New Delhi-110 048

**Bankers to the Company**  
***The Jammu & Kashmir Bank***

G-40, Connaught Circus,  
 New Delhi-110001  
 Phone : 23352102, 23350863

**HDFC Bank**

C-5 Commercial Complex,  
 SDA, New Delhi-110 016  
 Phone : (011) 2652 6750/51/52

**Standard Chartered  
Grindlays Bank**

M-1, South Extension-II,  
 New Delhi-110 049  
 Phone : (011) 51644863



## BOARD OF DIRECTORS

<b>SHRI YOGESH VAIDYA</b>	—	<i>Chairman &amp; Chief Executive Officer</i>
<b>DR. RAJAN SAXENA</b>	—	<i>Director</i>
<b>DR. S. M. PATHAK</b>	—	<i>Director</i>
<b>DR. M. C. VAIDYA</b>	—	<i>Director</i>
<b>DR. S. P. SHRIVASTAVA</b>	—	<i>Director</i>
<b>MS. PRASANNA VAIDYA</b>	—	<i>Director</i>

### Committees in pursuance of Corporate Governance

<u>Remuneration Committee</u>	<u>Compensation Committee</u>	<u>Investment Committee</u>	<u>Audit Committee</u>	<u>Shareholders/Investors Grievance Committee</u>	<u>Share Transfer Committee</u>
Dr. S. M. Pathak Dr. Rajan Saxena Dr. S. P. Shrivastava	Shri Yogesh Vaidya Dr. Rajan Saxena Dr. S.M. Pathak	Shri Yogesh Vaidya Dr. Rajan Saxena	Dr. Rajan Saxena Dr. S.M. Pathak Dr. S. P. Shrivastava	Dr. S.M. Pathak Dr. S. P. Shrivastava Dr. M. C. Vaidya	Dr. S. P. Shrivastava Dr. M. C. Vaidya

**13TH ANNUAL REPORT 2004-2005****NOTICE**

Notice is hereby given that the Thirteenth Annual General Meeting of the members of the Company will be held on Friday, the 30th December, 2005 at 9.30 A.M at Shah Auditorium, 2, Gujarati Samaj Marg, Civil Lines, Delhi-110054 to transact the following business:

**ORDINARY BUSINESS**

1. To receive, consider and adopt the Audited Balance Sheet as at 30th June, 2005 and the Profit and Loss Account of the company for the period ended on that date together with the Reports of the Directors' and Auditors thereon.
2. To appoint a Director in place of Shri Yogesh Vaidya, who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Dr. Rajan Saxena, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint Auditors and to fix their remuneration and to pass, with or without modification, the following resolution as an **Ordinary Resolution**:

"RESOLVED THAT M/s Jain Singhal & Associates, Chartered Accountants, New Delhi, Company's retiring Auditors, being eligible and offering themselves for reappointment, be and are hereby reappointed as Auditors of the Company to hold the office until the conclusion of the next Annual General Meeting on the remuneration as may be decided by the Board of Directors of the company along with permissible travelling and out of pocket expenses."

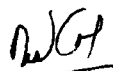
**SPECIAL BUSINESS**

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

**5. An Ordinary Resolution:**

"RESOLVED THAT pursuant to the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956 Ms. Prasanna Vaidya, appointed as Additional Director and who under Section 260 of the Act, *ibid*, holds office only up to the date of this Annual General Meeting and being eligible, offers herself for appointment and in respect of whom, the Company has received notices in writing from some members signifying their intention to propose the candidature of Ms. Prasanna Vaidya for the office of Director, be and is hereby appointed as a Director of the Company liable to retire by rotation."

By order of the Board  
For Software Technology Group International Limited



**RAJEEV SINGAL**  
Company Secretary

Place: New Delhi  
Date: 31st October, 2005

**NOTES**

1. The relative Explanatory Statement pursuant to section 173 (2) of the Companies Act, 1956, in respect of the business under item 5 as set out above is annexed hereto.
2. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER. THE INSTRUMENT APPOINTING PROXY, IN ORDER TO BE EFFECTIVE, SHOULD REACH THE REGISTERED OFFICE OF THE COMPANY AT LEAST 48 HOURS BEFORE THE TIME OF THE MEETING.
3. **The Register of Members and Transfer Books of the Company will be closed from 20th December, 2005 to 30th December, 2005, both days inclusive.**
4. As per amended provisions of the Companies Act, 1956, facility for making nominations is now available for shareholders in respect of shares held by them. Nomination forms can be obtained from Registrars of the company namely: M/s Karvy Computershare Pvt. Limited.
5. Members seeking any information with regard to accounts or operations of the company are requested to send their queries so as to reach *at least 10 days* before the meeting, to enable the management to keep the information ready.
6. Members are requested to inform the Company's Registrars and Share Transfer Agents viz., *Karvy Computershare Pvt. Limited*, Unit: Software Technology Group International Limited, Karvy House, 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad. - 500 034 about the changes, if any, in their registered addresses along with the PIN Code number and quoting their folio number. All correspondence relating to transfer of shares may be sent directly to the aforesaid Registrar & Transfer Agents of the Company.
7. All documents referred to in the accompanying Notice and Explanatory statement are open for inspection at the registered office of the Company on all working days except Saturdays, Sundays & holidays between 11.00 A.M and 1.00 P.M up to the date of the Annual General Meeting.
8. Members are requested to bring their copies of the Annual Report to the Meeting.
9. Shareholders/ Proxy Holders are requested to produce at the entrance, the attached Attendance Slip duly completed and signed as per Specimen Signatures recorded with the Company for admission to the Meeting Hall.
10. Members, who are holding shares in identical names in more than one folio are hereby requested to write to the Company Secretary or Registrar enclosing their Share Certificates to enable the company to consolidate their holdings.
11. Pursuant to provisions of Section 205(c) of Companies Act, 1956 the amount of dividend remaining unclaimed for a period of 7 years from the date of payment shall be transferred to the Investor Education & Protection Fund. The aforesaid dividend once transferred to Investor Education & Protection Fund will



not be refundable to any shareholder. Hence, shareholders who have not claimed their dividend are requested to claim the same from the company before it falls due for transfer to aforesaid fund.

## 12. ADDITIONAL INFORMATION AS PER CLAUSE 49 OF THE LISTING AGREEMENT:

### Brief Profile of Shri Yogesh Vaidya, Chairman & CEO, recommended for reappointment:

Shri Yogesh Vaidya, aged 59 years is a BE Electronics from BITS, Pilani and has over 38 years of extensive experience in the IT Industry. He is the main promoter of the company. In 1975, he started the HCL Group with other professional associates. He relocated to California in 1989 to set up the international operations for HCL. During his tenure, as the founder and CEO of HCL, America, he was responsible for setting up joint ventures in Singapore, Hongkong and Europe. Presently, he has no association with HCL group. His areas of specialisation are Information Technology, Strong organization building, Strategic Alliances, Mergers and Acquisition, Marketing, Overseas Operations, Productivity etc. and are responsible for overall operations of the company as CEO of the company under the superintendence and control of Board of Directors of the company.

Shri Vaidya, is on the Board of Associated Techno Plastics Private Limited, Crescent Software Solutions Private Limited, DNA Lab & Research (P) Limited, Y. P. Associates Private Limited, Vaidya Associates Private Limited, eWeb Univ. Limited, Confluence Communication Limited, and STG Inc., USA and also a member of Compensation Committee and Investment Committee of your company.

He has ably steered the company through a single-minded focus of making it into a highly successful quality organization, providing business solutions through technology, training and consultation. Due to his proven track record, wide knowledge and extensive experience in knowledge based industry, his presence in Board has helped the company in understanding the needs of new products, latest developments and taking various business decisions at proper time.

None of the directors except Mr. Yogesh Vaidya is interested in proposed resolution. However, Dr. M. C. Vaidya and Ms. Prasanna Vaidya, Directors being related to him may also be deemed to be interested in the proposed reappointment.

### Brief Profile of Dr. Rajan Saxena, Director, recommended for reappointment:

Dr. Rajan Saxena, aged 56 years is M.Com, Ph.D and presently Director of ICFAI Business School. He is possessing a wide and varied experience of 33 years in the management of Finance & Marketing and Industry and was the Dean, Academics and Management Development at NMIMS, Mumbai, besides being the Director of Indian Institute of Management (IIM) Indore. He is also on the Board of various pre-eminent academic & research bodies.

Dr. Saxena's knowledge and vast experience in the Industry particularly in Management of Marketing Arena will be of

immense benefit to the company. He does not hold Directorship in any other company and is member of Audit Committee, Compensation Committee, Investment Committee and Remuneration Committee of your Company.

Besides Dr. Saxena none of the Directors is concerned or interested in the proposed reappointment.

By order of the Board  
For Software Technology Group International Limited

Place: New Delhi  
Date: 31st October, 2005

**RAJEEV SINGAL**  
Company Secretary

## EXPLANATORY STATEMENT

As required under Section 173(2) of the companies Act, 1956, the following Explanatory Statement sets out the material facts relating to business item no. 5 of the accompanying Notice dated 31st October, 2005.

### ITEM No. 5

The Board of Directors of your company at its meeting held on 21st September, 2005 has appointed Ms. Prasanna Vaidya as Additional Director pursuant to the provisions contained in the Articles of Association and Section 260 of the Companies Act, 1956.

Ms. Prasanna Vaidya, aged 56 years has a Masters Degree in Literature and postgraduate degree in Education besides having diploma in French and has 16 years of rich experience in business and Industry in US. She has been actively involved with Local School Board in California as an advisor for many years in the past and is actively involved in the investment decisions.

She will be holding the office as Director only up to the date of this Annual General Meeting. As required under Section 257 of the Act, *ibid*, notices have been received from members signifying their intention to propose Ms. Vaidya as a candidate for the office of Director. The Directors are of the opinion that Ms. Vaidya's knowledge and experience in the industry will be of immense benefit to the company. The Board, therefore, recommends the acceptance of the resolution.

Ms. Vaidya is also on the Board of Associated Techno Plastics (P) Ltd., Vaidya Associates (P) Ltd. and Y.P. Associates (P) Ltd.

None of the directors except Ms. Prasanna Vaidya is interested in proposed resolution. However, Mr. Yogesh Vaidya and Dr. M. C. Vaidya, Directors being related to her may also be deemed to be interested in the proposed appointment.

By order of the Board  
For Software Technology Group International Limited

Place: New Delhi  
Date: 31st October, 2005

**RAJEEV SINGAL**  
Company Secretary



## DIRECTORS' REPORT

Your Directors are pleased to present the Annual Report of the Company together with the Audited Statements of Accounts for the year ended June 30, 2005.

### FINANCIAL RESULTS

(Rs. in Lacs)

Particulars	Year Ended June 30, 2005	Year Ended June 30, 2004
Operating Income	1352.88	1131.35
Gross Profit after Interest but before Depreciation & Tax.	75.25	(129.75)
Less : Depreciation	125.96	160.96
Provision for Taxation	(41.43)	(153.82)
Net Profit / (loss) before Extra-Ordinary items	(9.28)	(136.89)
Less : Extra Ordinary items	22.30	133.97
Net Profit / (loss) after Extra Ordinary items	(31.58)	(270.86)

### REVIEW OF OPERATIONS

The Board of Directors are pleased to report that the tempo of recovery which was observed during last year has been further strengthened during year 2004-05 as your company has succeeded in containing the losses to Rs. 31.58 Lacs as against Rs. 270.86 Lacs of previous corresponding year inspite of adverse conditions like the pressure on billing rates, competition from unbranded players having the advantage of low cost of operation, extraordinary provisioning for writing off a sum of Rs. 22.30 Lacs relating to unrealised sales of previous periods and others. The aforesaid provisioning is essential for the good health of the financial system as well as compliance with requirements of full disclosure & prudent and conservative accounting policies.

In view of absence of profits for the period under review, your Directors are unable to recommend any dividend. Pursuant to provisions of Section 217(1)(d) of the Companies Act, 1956, there has been no material change and commitment affecting the financial position of the Company, between the end of the financial year of the company to which the balance sheet relates and the date of this report.

### FINANCE

Your company has been continuing with the necessary working capital facilities viz. Cash Credit, Working Capital Term Loan and Bank Guarantee with the Jammu and Kashmir Bank and has been generally regular in repayment etc. However, the company's focus will be on to meet most of the requirements through internal cash generation, besides to strive for reduction in the cost of borrowing in significant manner.

### COST CONTROL INITIATIVES

As indicated in the previous reports, your company continues to focus on cost reduction, procurement of materials at competitive prices, reinforcement of financial discipline and adequate control on overhead costs on continuous basis. Towards this, it has shifted the company's consulting division located at Hauz Khas to Company's Corporate Office at Gurgaon to observe the economy in operations. All these initiatives for cost control and efficiency enhancement are expected to lead to improvement and consolidation in all segments of the business in future also.

### NEW PROJECTS / PRODUCTS

We are pleased to inform you that Company has attained Gold Certified status in the Microsoft Partner Program with a competency in Learning Solutions, etc. This is recognition of STG's expertise and total impact in the technology market place. As a Gold Certified Partner, STG has demonstrated expertise with Microsoft technologies and proven ability to meet customer needs. As a Microsoft Gold Certified Partner, your company will receive a rich set of benefits, including access, training and support giving your company a competitive advantage in the market place. The benefits provided through our Gold status will allow us to continue to enhance the offerings we provide to our customers. Customers are looking for partner companies that can bridge the gap between the business demands and technology capabilities. They need to trust in someone that can act as an expert adviser for their long-term strategic technology plans. Microsoft Gold Certified Partners like STG who have certified expertise and direct training and support from Microsoft can build a positive customer satisfaction with Microsoft products and technology.

Further, your Company is continuously updating course offerings with technologies that are gaining strength. A step towards this is our recent tie up with IBM under the Education Centres for IBM Software (ECIS) program to offer training on IBM technologies such as Lotus Notes, Websphere and DB2.

Moreover our alliance with Pearson Vue helps our students to appear for certification tests at our own centres.

At the same time your company is also focussing on tie ups with Graduate degree and engineering colleges to provide up to date specialized programs to meet their curricula needs. SPEX- Software Project Experience offers projects to provide hands on experience of situations that a student would face in real life.

STG has also introduced Pro-Smart, a short duration program specially designed for engineers and graduates looking for a serious career in the IT industry. This diploma program leads to specialization in any of the 3 options in J2EE, .Net and networking. This program has been designed keeping in mind the shift in trends towards more specialized software programs.

### INFRASTRUCTURE

With a view to observe economy in operations and at the same time provide for future horizontal expansion, the company's consulting division located at Hauz Khas has been shifted to company's corporate office at Gurgaon, which offers several advantages like a strategic geographical location with its proximity to Delhi, access to urban environment, good telecommunication, quality workforce etc.

Moreover, Your Company's state of the art offshore software development center is fully operational and employs a high powered team of technology specialists and Software professionals to support the offshore development needs of international clients.

STG's offshore development team focuses on a unique model of providing "Customisable modules" to its international clients and is implementing projects for Optical Fiber Networks Equipment Manufactures, K-12 Education Providers and Corporate e-learning.

### EMPLOYEE STOCK OPTION PLAN

With the intent of retaining and rewarding deserving/ talented employees, the Employee Stock Option Plan (ESOP) was introduced and implemented initially in August, 1999 through "STG-ESOP Welfare Trust" to enable the employees of the company to participate in future growth and success of the company. The company introduced fresh ESOP 2002-IInd phase by offering fresh options on the terms and conditions as depicted and approved by Members at their 10th Annual General Meeting, which shall be administrated within the statutory norms by the compensation committee comprising of majority of independent directors through "STG-ESOP Welfare Trust" who will



implement the same either with new shares or acquiring the same from open market or with the combination of both. The Compensation Committee had offered 4,02,500 Options at a price as per pricing formula to various senior employees of the company and modified the vesting schedule at a rate of 25% each on completion of 12, 24, 36 and 48 months respectively from the date of grant of options.

### **CORPORATE GOVERNANCE**

Pursuant to Clause 49 of the listing agreement with Stock Exchanges, a report on Corporate Governance along with auditors' certificate of its compliance is included as part of this annual report.

### **CONSOLIDATED FINANCIAL STATEMENTS**

As required under clause 32 of listing agreement with Stock Exchanges and new accounting standards, the audited consolidated financial statements are being published and form part of this annual report.

### **MANAGEMENT DISCUSSION & ANALYSIS**

Management Discussion & Analysis Report pursuant to clause 49 of the listing agreement is as under:

#### **Industry Structure & Developments:**

The Indian Software Industry is one of the most high profile and widely tracked industries of the economy as it has grown at a scorching pace over the past few years, showcasing Indian technical and Managerial talent to the world. It has consistently grown at a rate well above the GDP growth rate and has been instrumental in giving the country some serious economic leverage in today's highly globalised world. With its low cost and high skill base, India has been the destination of Choice for Global Corporations looking to cut costs and become more competitive through creating a sustainable competitive advantage by the strategic deployment of technology in their respective organisations, which is in sync with their overall business objectives.

The period 2004-2005 was a year of consolidation and cautious recovery for the IT industry. Not fully geared to match the rising demand of IT professionals in the country, the education segment recovered gradually, doing marginally better in FY 2004-2005 than the previous fiscal. Retail training continued to grow, but the real sustainer was Corporate training, led by the Government's investment on this end.

SME segment training is also increasing with the IT investments made by companies, to become more competitive. Earlier a high revenue generator, short terms IT awareness programs showed a decline in revenues because of the availability of these basic programs in schools and colleges as part of the curriculum. Technical certifications continued to be in high demand among aspiring professionals. The market size here increased due to new students as well as earlier certified professionals looking for further skill upgradation. While Microsoft led the market, Cisco, Oracle, Sun, IBM and Linux certifications too kept a stronghold.

.Net and J2EE (A Java technology) used for web based applications and web services drove the demand in the market. ICT and tech enthusiasts also opted for new and specialist technologies like Perl and Php. Certifications like MCSE, MCDST, Oracle, Java, A+, Red Hat Linux, Cisco, networking and firewalls saw rising demand. Demand for security, hardware administration and project implementation skills also rose.

The last year also witnessed the traditional individual vs corporate ratio seeing a shift. Though both sides continue to display growth, revenues from corporate training are increasing at a faster rate. Also, the corporate training market is not as fickle as the commodity market. Investment in training by corporates continued growth with a view to leverage their IT investments better. This is a rising trend both in big enterprises as well as SMEs.

In the corporate sector, the government emerged as a major spender on training. There was high stress on certifications, not just training. While

applications training continued to grow in corporates, database training grew substantially in the government vertical. The hot areas in the corporate training were database administration, business intelligence, data warehousing and application server.

The burgeoning BPO markets has also led many players to venture into the BPO training market providing services like training delivery, consulting, assessment and placement.

The growth of the e-learning wave is also gaining momentum in the country. While the pace of e-learning software development is increasing fervently, the adoption has been relatively slower, specially in the K-12 segment. Corporates in India are driving the usage of e-learning software, and in the long run, e-learning is poised to become a de facto standard in the industry, thereby becoming a major revenue generator for the country.

Finally, biotech is emerging as another opportunity area for training companies. The Biotech market in India, which crossed the \$1bn mark this year is poised for greater thrust and generate revenues to the tune of \$ 5 bn and create 1m jobs by 2010.

A recent study conducted by NASSCOM (available at their website) indicates that despite the availability of training manpower, a demand supply gap still exists in the IT manpower market. If India's IT software and services sector is to achieve an annual revenue of US\$ 70-80 billion in 2008, it will have to educate at least 2 million additional knowledge workers over the next 8 years. While India currently boasts of one of the world's largest most qualified pools of scientific and engineering manpower, growing global demand for appropriately skilled, industry-oriented professionals and a gradually enlarging demand-supply gap are expected to test to the limits, India's ICT manpower development capabilities. Clearly the way forward for India is quality education, that conforms to key global standards and creates professionals that are equipped with international level certifications and accreditations.

#### **Opportunities & Threats:**

Increasing number of companies looking at outsourcing and increase in offshoring by already established companies provides attractive opportunity for growth. Indian companies historically had a cost advantage over their western counterparts due to availability of cheaper manpower. Many top rung IT service providers have now started exploring the possibility of getting the work done in India and have started offshore development centers. Further, IT enabled services (ITES), Call Center & Business Process Outsourcing (BPO), Institution Training; Strategic alliances etc. are some of the growth areas, which your company has been pursuing on continuous basis. ITES is a long-term strategy and IT service companies enjoy a number of synergies between their BPO operations and IT service offerings. The increased public sector spending on IT and IT Training and core banking solutions augur well for the company as it is actively pursuing these growth areas. IT consulting is another area of strength where the company is putting its major thrust; Margins are on higher side in consulting domain, especially since such projects are mission-critical in nature. Moreover, Indian offshoring story is gathering pace as more and more global corporations vie to improve profitability through outsourcing are eyeing low cost high quality destination like India and biggest beneficiaries will be companies that have proven execution capabilities and scalable businesses.

On the other side, Competition from global MNCs is increasingly looming on the horizon, who are replicating the Indian offshore model. The need of the hour for these Indian companies is to rapidly move up the software value chain. For Indian IT software industry, one of the biggest concerns in the medium term is the outsourcing backlash in the US. However, to grow in the long term, scalability and quality offering would be the key. High competitions resulting into high attrition, pressure on margins due to rise in employee expenses without consequent rise



in anticipated revenues, technological obsolescence etc. are some of the other major concerns.

#### **Segment wise performance:**

Segment wise revenue, results and capitals employed are provided in notes on accounts forming part of the Annual Report.

#### **Outlook & Future prospects:**

The Indian IT Sector has been country's fastest growing segment, even in the recent globally challenging economic environment, the Software and service Industry has been a major component of India's IT sector and showed significant momentum which is higher than any of other Industry space in the country. With Indian vendors widening their service offerings to keep pace with changing customer demand, a research report has estimated a 38% two year compounded annual growth (CAGR) in Indian IT services exports to \$23 billion in financial year 2006. This is likely to expand market share of Indian vendors in the global market. IT service industry has been transformed with customers focusing on return on investment (ROI), which has resulted in enhanced demand for integrated end to end services, value based pricing models, competitive global delivery and domain focused solutions. As demand picks up and western system integrators (SI) set up in India, supply constraints are surfacing. Increasing competition and pressure on billing rates are among the key reasons forcing the Indian software industry to make a fast move up the software value chain and expanding their service offering to include IT consulting, systems integration and technology infrastructure management to provide high value services, thereby to increase customer wallet share. On the demand side, IT consulting had become more an upfront activity rather than a stand alone offering and customers were looking at IT sourcing as part of long term business strategy; and the IT demand was picking up, led by macro-economic recovery. A number of players are entering the ITES segment to provide solutions in areas of customer care and telemarketing to domestic companies. This is likely to drive demand for services from this segment.

Also the Indian Corporate sector, going forward is likely to make investments in areas of CRM, SCM and ERP in order to become more efficient.

STG has set itself firmly in the path of being top most learning corporation with continued focus on providing quality IT training and is one of the strongest brands in IT education industry. Also it has been honored by Red Hat for the "Highest numbers of enrollments on Red Hat standard courses in India" in 2004 for the second time in a row.

Further, education business is poised for a growth in 2005-2006 as government and institutional training market is expected to increase, while enrollment in individual students segment is also expected to rise on the back of recovery in the US market. With people increasingly realizing that global exposure is vital for a successful career, more and more students are opting for globally recognized certifications from technology vendors such as Oracle, IBM, Microsoft, Red Hat, Cisco, Sun etc. Other than these certifications, software skills in vogue are Microsoft. Net, Oracle 9i, SQL server 2000, Linux and web based applications.

With nationwide presence of training centers, your company is well equipped to encash this opportunity.

On the consulting front, the long-term association with Infosys along with the major thrust for quality, efficiency and cost effectiveness has given us a confidence to get a substantial business in future also. It is gratifying that your company has successfully implemented Infosys's flagship banking product "Finacle" in leading nationalized banks.

The success of "Finacle" in the Indian banking industry implies that STG has got very good future prospects in the field of Banking & Financial Services Industry (BFSI), system integration (SI) and Enterprise wide application integration (EAI). Integration, put simply,

is a combination of processes, software standards and hardware resulting in the seamless integration of two or more enterprises systems (CRM, SCM etc.) allowing them to operate as one. This involves implementation of technology to enable dissimilar systems to share data effectively. Further, negotiations are under way for offering services for outsourcing software consulting, which are likely to be materialized soon.

Moreover, the company's foray into strategic tie-ups and new business areas is expected to improve its position. The company's strategies to improve its performance includes:

- Concentrating on niche segments like Telecom, Banking and Financial services and Education and Corporate e-learning segments, which accounts for a major portion of total IT services exports.
- Focus towards newer service areas like IT consulting, Package Implementation, Enterprise wide Application Integration (EAI), etc.
- Launch of new lines of highly specialized programs in IT education to cater to the need of new verticals.
- Renewed focus on corporate / institutional training market and online education. Also, pursue to partner with the Government in implementing the 'Sarv Siksha Abhiyan'.
- Increased thrust on software business and international operations through strategic tie-ups etc.
- Focus on maintaining profitability and cash flow positive business.
- Improvement in cost structure by observing economy in operations.
- Consolidation of operations by focusing on medium and large customers.
- Expanding the existing franchisee network.

With these steps and new projects launched during the year, your company is likely to surge ahead in future.

#### **Risks & Concerns:**

Among serious concerns the replication of the Indian off shoring model by the global tech biggies, high competition resulting into high attrition, high reliance on US markets, small size thus volatile revenue streams, intense competition from small unorganised players in the Industry, continuing pressure on billing rates, client concentration, rising overheads, imposition of Fringe Benefit Tax in the present form, change in government policies, foreign exchange fluctuation may affect the IT Industry in general, which may have impact on company's operations.

An integrated approach to risk management will form an important element of company's overall business strategy.

#### **Internal Control Systems and their adequacy:**

Your company has in place adequate system of internal control commensurate with its size and nature of its operations to ensure that all assets are safeguarded and protected against loss from unauthorised use or disposition and that transactions are authorised, recorded and reported correctly. Management continuously reviews the Internal Control Systems and procedures to ensure orderly efficient conduct of business.

An extensive program of internal audit supplements the internal control and review by management based on documented policies, guidelines and procedures. The internal control is designed to ensure that the financial and other records are in order for preparing financial statements and other data and for maintaining accountability of assets. Internal Audit reports have been placed before the Audit Committee at regular intervals for its review.

#### **Human Resources Development:**

Your company operates in knowledge intensive industry and considers its employees as its one of the most valuable asset and lays great emphasis on nurturing an organisational culture that creates job





satisfaction and performance oriented environment. The staff of your company, at all levels, contributed, significantly in pegging the overheads at the lowest possible levels, without compromising on the quality and efficiency of deliverables, which act in unison is highly appreciated. The company for their benefit has initiated various employees benefit measures including implementation of Employee Stock Option Plans from time to time.

The Company believes in nurturing young talents through its people interventions and management-training schemes, which strives to develop business managers of tomorrow.

It has restructured internally its organisation levels with a view to maintain individual and organisational productivity at the optimum with minimum possible workforce. The total employee strength was marginally increased to 268 against 266 in previous corresponding period in order to build up its resources & expertise in the specialized area of focus.

There has been no other material development in this area and industrial relations remain good during the year.

#### **FIXED DEPOSITS**

The Company has not accepted any deposit from the public, and as such there are no outstanding deposits in terms of Companies (Acceptance of Deposits) Rules, 1975.

#### **OVERSEAS SUBSIDIARIES**

As the company's subsidiary namely STG Australia Pty Ltd. was closed and investment was written off vide RBI's approval letter No. FE.CO.OID.1165/19.19.305/2004-2005 dated 6th October, 2004, the financial statements with value in Indian Rupees and other related documents of company's two other subsidiaries namely Software Technology Group International Inc., New Jersey and Software Technology Group Inc., San Jose, California, USA are annexed with the Annual Accounts of your company in terms of section 212 of the Companies Act, 1956.

#### **STOCK EXCHANGES**

The equity shares of your company are listed with Delhi Stock Exchange, Bombay Stock Exchange Ltd. and The National Stock Exchange of India Limited and the company has paid/is in the process of paying listing fee for the current year. With effect from July 24, 2000 trading in equity shares of the company at the Stock Exchanges are permitted only in Dematerialized form. The Company's shares are available for trading in the depository systems, of both the National Securities Depository Services (India) Limited (NSDL) and Central Depository Services (India) Limited (CDSL). As on date 1.21.64.792 Equity Shares of the company, constituting 97.32% of the share capital of the company are dematerialized.

#### **DIRECTORS' RESPONSIBILITY STATEMENT**

In terms of provisions of Section 217 (2AA) of the Companies Act, 1956 your Directors confirm as under:

- 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 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 financial period and of profit or 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 the Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; and
- iv) That the directors had prepared the annual accounts on a "going concern basis".

#### **DIRECTORATE**

In accordance with the provisions of the Companies Act, 1956 and the Company's Articles of Association, Shri Yogesh Vaidya, Chairman & CEO and Dr. Rajan Saxena, Director, retire by rotation and being eligible, offer themselves for re-appointment.

Ms. Prasanna Vaidya was inducted on the Board as "Additional Director" effective from 21st September, 2005. Accordingly, she holds office upto the following Annual General Meeting and is eligible for reappointment. The company has received notices from some members proposing her candidature for being appointed as Director of the company. Necessary resolution for confirmation of her appointment is proposed and incorporated in the notice of the Annual General Meeting. Your directors are confident that with her association, vast knowledge and managerial expertise, your company would be benefited immensely.

The information on the particulars of Directors eligible for reappointment in terms of clause 49 of the listing agreement has been provided in notes and explanatory statement of notice convening the Annual General Meeting.

#### **AUDITORS & AUDITORS' REPORT**

M/s Jain Singhal & Associates, Chartered Accountants, the retiring Auditors of the Company who hold office until conclusion of the Annual General Meeting, being eligible, offer themselves for re-appointment. The Company has received a certificate from them that their re-appointment, if made, would be within the prescribed limits under Section 224 (1B) of the Companies Act, 1956.

Regarding Auditors' observation on Annual Accounts, the Board of Directors' wish to state that non-realisation of convertible foreign exchange during year 2001-02 is very difficult as the concerned company has gone into liquidation. However, as it is for the previous years, there will not be any significant impact on the financial results of the current reporting year.

#### **PARTICULARS OF EMPLOYEES**

During the year, there was no employee in the company drawing remuneration within ceiling limits whose particulars are required to be disclosed in terms of Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended.

#### **CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO**

The particulars required to be furnished under Section 217(1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars of Board of Directors) Rules, 1988 are set out in Annexure 'A', which forms an integral part of the Report.

#### **ACKNOWLEDGEMENTS**

Your Directors wish to place on record their appreciation of the contributions made by the employees at all levels, whose continued commitment and dedication helped the Company in its operations in these trying times.

Your Directors would also like to take this opportunity to express their gratitude for the co-operation and support from its Bankers The Jammu & Kashmir bank Limited, and other organizations like STPI, the Reserve Bank of India and other statutory bodies of the Government of India. We look forward to their continued support in the future also.

Last but not the least, we sincerely thank our shareholders for their constant support and co-operation in the difficult times.

For and on behalf of the Board.

Place: New Delhi  
Dated: 31st October, 2005

**YOGESH VAIDYA**  
**CHAIRMAN & CEO**

**ANNEXURE "A" TO THE DIRECTORS' REPORT**

PARTICULARS REQUIRED UNDER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988.

**A. Conservation of Energy**

The operations of company are not energy intensive, however, Energy conservation has always been given focus from point of view of cost control. Adequate Measures have been taken to conserve and optimize the use of energy by using energy efficient computers and equipment with latest technologies.

**B. Technology Absorption, Research and Development (R&D)**

In its endeavour to obtain and deliver the best, your company continuously develops and adopts new technologies to aid efficient management of its resources. It has various renowned strategic alliance partners and is continuously adapting the technology through these partners.

STG has developed and announced the launch of programs like Pro-Smart for students looking for a serious career in the IT industry which leads to certifications in current and emerging technologies like J2EE, .Net and networking. Further, STG's program Advanced Diploma in Bioinformatics caters to the needs of several fast emerging industries such as geonomics, pharma, agro and biotechnology.

Research & Development continues to be given high priority. The company deploys its resources from time to time enabling it to keep abreast of continuously changing technology.

**C. Foreign Exchange Earning and Outgo**

Efforts continue to enlarge the product range and geographical reach on export market in order to maximize foreign exchange inflow and every effort is being made to minimise the foreign exchange outflow.

Total Foreign Exchange Earnings on accrual basis during the year are Rs. 3,84,39,069 against Rs 1,77,97,509 of previous year.

Total Foreign exchange Outgo on accrual basis during the year amounted to Rs. 1,53,727 against Rs 43,74,730 of previous year.

For and on behalf of the Board.

Place: New Delhi

Dated: 31st October, 2005

**YOGESH VAIDYA**  
**CHAIRMAN & CEO**