

ANNUAL REPORT



2005-06

14TH ANNUAL REPORT 2005-2006

CONTENTS

Board of Directors	3
Notice & Explanatory Statement	4-5
Directors' Report with Annexure	6-10
Corporate Governance Report & Auditors Certification thereon	11-13
Auditors' Report	14-15
Balance Sheet	16
Profit & Loss Account	17
Schedules Forming Part of Accounts	18-27
Balance Sheet Abstract	28
Cash Flow Statement & Reconciliation	29
Statement of Interest in Subsidiaries	30
Consolidated Financial Statements	31-41
Subsidiaries Financial Statements	42-52
Shareholders' Information	53-54

Registered Office

Software Technology
Group International Limited
G-31, Cellular House,
Second Floor, Kalkaji,
New Delhi-110019 (India)
Phone : (011) 40560941/42
26479561/63
Fax : (011) 26479561

**Company Secretary &
Compliance Officer****MR. RAJEEV SINGAL****Auditors of the Company**

Jain Singhal and Associates,
Chartered Accountants,
M-6, IInd Floor,
M-Block Market, G.K.-II,
New Delhi-110 048

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

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

HDFC Bank

C-5/32, SDA,
New Delhi-110 016
Phone : (011) 41514332

**Standard Chartered
Grindlays Bank**

M-1, South Extension-II,
New Delhi-110 049
Phone : (011) 41644863 / 64



BOARD OF DIRECTORS

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

14TH ANNUAL REPORT 2005-2006

NOTICE

Notice is hereby given that the Fourteenth Annual General Meeting of the members of the Company will be held on Friday, the 29th December, 2006 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 September, 2006 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 Dr. M. C. Vaidya, who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Dr. S. P. Shrivastava, 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 traveling 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. A Special Resolution:

"RESOLVED THAT subject to the applicable provisions of the Companies Act, 1956, the Securities Contract (Regulation) Act, 1956, the Securities and Exchange Board of India (SEBI) Act, 1992 and the Rules framed thereunder, the Listing Agreements and all the other applicable laws, rules, regulations, notifications, clarifications and guidelines including the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 and any amendments, modifications thereto as may be in force from time to time, and subject to such other statutory and / or contractual approvals, permissions, consents and sanctions as may be required from any relevant authority, including the Stock Exchange where the Equity Shares of the Company are listed, and subject to any conditions and / or modifications as may be imposed and / or suggested by the relevant authorities while granting such approvals, permissions, consents and sanctions, which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall include any committee constituted/ to be constituted by the Board for exercising the power conferred on the Board by this resolution) in the best interest of the Company, the consent of the Company be and is hereby accorded to the Board to seek voluntary delisting of equity shares from the Delhi Stock Exchange Association Limited (DSE), where the equity shares of the company are presently listed at such time as the Board may decide considering the facts that the fee payable to the aforesaid Stock Exchange is disproportionate to the trading volumes thereat and exit opportunity is not required to be given in the terms of Clause 5 of the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 as the equity shares would continue to remain listed on the Bombay Stock Exchange Ltd. and the National Stock Exchange of India Ltd. which are having nation-wide trading terminal."

"FURTHER RESOLVED THAT the Board be and is hereby authorized to take all the necessary steps in regard to voluntary delisting of equity shares of the Company and to do and perform all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary, expedient, desirable or appropriate in the best interest of the Company, to settle any question, query, doubt or difficulty that may arise in regard to voluntary delisting, and to execute/ publish all such notice(s), applications, deeds, agreements, documents, papers, undertakings/ bonds and writings as may be necessary or required for giving effect to this resolution without requiring the Board to secure any further consent or approval of the members of the Company in the aforesaid matter of delisting of securities."

By order of the Board

For Software Technology Group International Limited



RAJEEV SINGHAL
Company Secretary

Place: New Delhi

Date: 24th November, 2006

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 19th December, 2006 to 29th December, 2006, 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 account(s) 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 Dr. M. C. Vaidya, Director, recommended for reappointment :

Dr. Vaidya, aged 76 years is Ex-Professor of All India Institute of Medical Science (AIIMS) and is M.B.B.S. M.S. Ph.D., F.I.M.S.A., F.R.S.T.M & H (London) with over 30 years rich experience in advisory capacity.

He had been short term consultant of World Health Organisation (WHO), visiting professor at the Stanford University, Medical School, California, U.S.A., Arabian Gulf University, Bahrain and University of Oxford, besides having the memberships of Planning Commission, Government of India (Medical & Health & Research for preparation of Seventh & Eight Five year plan), Advisory Committee for programme Management (ACPM) and expert Group medicine, Health & Nutrition of Commission of European countries (CEC), Brussels, Belgium. Dr. Vaidya's experience will be of benefit to the company.

Dr. M. C. Vaidya is also holding the Directorship in DNA Lab & Research (P) Limited., Y.P Associates Private Limited., Vaidya Associates Private Limited., Crescent Software Solutions Private Limited and Associated Techno Plastics Private Limited. Further, he is also a member of Share Transfer Committee and Shareholders'/Investors' Grievance Committee of your Company. None of the directors except Dr. M. C. Vaidya is interested in proposed resolution. However, Shri Yogesh Vaidya and Ms. Prasanna Vaidya, Directors being related to him may also be deemed to be interested in the proposed appointment.

Brief Profile of Dr. S. P. Shrivastava, Director, recommended for reappointment:

Dr. S.P Shrivastava, aged 66 years is Post Graduate from I.I.T Kharagpur and is Ph. D. from University of Roorkee. He was offered a Netherlands Govt. fellowship for postgraduate studies in the university of Delft, Netherland in 1967. He worked as Scientist in Central Building Research Institute and Asst. Director with Govt. of India in CWPC Department. He was one of the founder promoter of Unitech Limited, one of the leading construction company besides being the Director on the Board of various leading Companies. He has been instrumental in establishing a number of joint ventures with various international Companies of repute and has also organised a charitable trust, which provides education and healthcare to rural population. He holds a wide and varied experience of over four decades in allied services sector connected with Organisation & Management of Education and Charitable Institution, Office organization and Corporations.

Dr. Shrivastava's knowledge and rich experience in the industry will be of immense benefit to the company.

Dr. Shrivastava is also on the Board of RHW Hotel Management Services Ltd, Unimet Profiles Pvt. Ltd, Calyx Exports Pvt. Ltd., Mediasoft Solutions Pvt. Ltd, Mast Mobile media Pvt. Ltd, (formerly iitSoft Pvt. Ltd) and Iterate India Pvt. Ltd, and is member of Audit Committee, Remuneration Committee, Shareholders/ Investors Grievance Committee and Share Transfer Committee of your Company.

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

By order of the Board

For Software Technology Group International Limited

RAJEEV SINGAL
Company Secretary

Place: New Delhi
Date: 24th November, 2006

EXPLANATORY STATEMENT

As required by 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 24th November, 2006.

ITEM No. 5

The members may recollect that although the equity Shares of the Company are presently listed on the Bombay Stock Exchange (BSE), the National Stock Exchange Ltd. (NSE) and the Delhi Stock Exchange Association Ltd. (DSE), these are being traded regularly only on BSE & NSE and there has been negligible or no trading at DSE as there has been a perceptible shift in trading to BSE & NSE consequent to the electronic trading terminals introduced across the country by these two Stock Exchanges.

Further, SEBI (Delisting of Securities) guidelines, 2003 provides that a company may voluntarily delist its securities from Stock Exchanges where its securities are listed, provided that the company continues to be listed on the Stock Exchanges having nation wide terminals.

As BSE & NSE both are having nation wide terminals, which provides full liquidity to Investors, it is therefore proposed to delist Company's Securities from DSE. As these continued to be listed on BSE & NSE, no exit option is required to be offered to the members of the Company.

The proposed delisting from DSE will not have any adverse impact on Investors; rather it will contribute to save on listing fee, cost of compliances, administrative Costs etc. Therefore, in line with aforesaid SEBI guidelines, this proposal for voluntary delisting has been placed by way of Special Resolution at item No. 5 of the Notice for the approval of members.

The proposal, once approved by members will take effect only after all relevant approvals, permissions, sanctions are received in this regard. The exact date on which delisting will take effect will be suitably notified at that time.

None of the Directors of the Company except and to the extent they are members of the Company shall be deemed to be concerned or interested in this proposal.

By order of the Board

For Software Technology Group International Limited

RAJEEV SINGAL
Company Secretary

Place: New Delhi
Date: 24th November, 2006

14TH ANNUAL REPORT 2005-2006

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 September 30, 2006.

FINANCIAL RESULTS

(Rs. in Laes)

Particulars	Year Ended June 30, 2006 (15 Months)	Year Ended June 30, 2005 (12 Months)
Operating Income	1666.55	1352.88
Gross Profit after Interest but before Depreciation & Tax.	181.74	75.25
Less : Depreciation	116.84	125.96
Provision for Taxation	125.89	(41.43)
Net Profit / (loss) before Extra-Ordinary items	(60.99)	(9.28)
Less : Extra Ordinary items	30.00	22.30
Net Profit / (loss) after Extra Ordinary items	(90.99)	(31.58)

REVIEW OF OPERATIONS

The Board of Directors report that the tempo of recovery which was observed during last two years has been maintained during the current year also as your company has posted a gross profit after interest but before depreciation and taxes of Rs. 181.74 laes as against Rs. 75.25 Laes 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, rising overheads etc. 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. After providing a higher provision for taxation on account of adjustment on past years losses, higher extraordinary provisioning for writing off relating to unrealized sales of previous periods etc., the Company has incurred a net loss of Rs. 90.99 laes.

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 Ltd. 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. Your Company has also shifted the Registered Office with in NCRT of Delhi from F-35, N.D.S.E.-I, New Delhi-49 to G-31, Cellular House, Second Floor, Kalkaji, New Delhi-19 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 once again STG is the first Nationwide IT Training Company to launch the course "Diploma in Testing Technologies" during the year. Testing Tools account for almost 30% of the software development market. The global testing market is estimated to be a \$13 billion industry. With the boom of the third party software testing business, the need for quality and trained manpower has become a critical issue in the industry. The size of the Indian testing market is estimated to be Rs. 150-200 Crores. Based upon the number of enrollments since launch for Diploma in Testing Technology, it is clear that it will be a major revenue earner for STG for the current year.

Further, Software Technology Group International's subsidiary Company namely STG Inc. has become a Microsoft Certified Gold Partner this year. This is based upon its ISV/SS and Networking Infrastructure Solutions Competencies. Company's e-learning platform SMART LINK 5.0 is now certified as the SQL Server "FRONT RUNNER APPLICATION ". It has been successfully tested on Windows Server 2003 & SQL Server 2005. STG is marketing "Smart Link" in Co-operation with Microsoft in the US Market. STG also plans to introduce this in Indian Market sometimes during this year.

This is recognition of STG's expertise and total impact in the technology market place. Besides, 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 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.

INFRASTRUCTURE

Your Company's state of the art offshore software development center at Gurgaon 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 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 administered 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 Growth Story of Indian Software Industry is well and truly on. After going through turbulent times post the bursting of the tech bubble, the Industry has roared back into contention and grew at its fastest rate since then. According to recent NASSCOM estimates, the Indian ICT industry will contribute 7% of the country's GDP by 2009, providing direct employment to more than 2.2 million people and indirect employment to nearly twice that number.

The Indian IT software and services market is expected to grow to US\$50 billion by 2009, recording a CAGR of 27%. A recent study by NASSCOM indicates that the demand for Information Communication Technology (ICT) knowledge workers is going to outstrip supply, creating a major gap in the coming years. An estimated 1.1 million IT workers will be required by 2008, as compared to the current supply of 8.5 lakh professionals. The numbers are expected to jump substantially and grow into a vast need by 2012. By 2012, analysts say, India will have a requirement of around 5 million new IT/ITES jobs. However, NASSCOM estimates suggest that the supply of skilled IT manpower may fall short of requirements by 2009, if specific issues are not addressed and India's HR challenges successfully met.

Industry surveys have also shown that while India is expected to be one of the few manpower surplus countries capable of meeting global requirements, the manpower is unlikely to be readily deployable on account of ineffective education and skills development.

2001 World Bank Study on Science and Technology Manpower in India had shown that generic shortcomings in India's education system, would be a hurdle in the path of quality ICT manpower development.

According to the study, the Indian ICT sector would face the manpower challenges:

- Inability of the IT services and ITES -BPO industries to maintain and share common infrastructure facilities across institutions.
- Shortage of skilled faculty for providing relevant industry-oriented training.
- Inadequate industry exposure.
- Increasing discrepancy between the education focus and the quality of skills developed at top -tier educational institutions and other private and public centers of learning.
- Lack of correlation and synchronization between the existing technical education system and industry requirements -absence of adequate academia-industry linkages.
- Rigidity in the curriculum and evaluation system.

So, while the IT industry in India is growing at a scorching pace and India is witnessing an IT revolution, rapid automation however creates a tremendous need for relevantly skilled professionals who can spearhead IT implementation within their organization. In the globalized environment where new products are hitting the market with great frequency and new technology developments have become a business compulsion in order to enhance productivity and better turnaround time, training has become a crucial part of the technology deployment cycle.

The year 2005-2006 has indeed been an eventful for the IT industry.

In many ways, the year can be considered as a landmark one, where numerous events unfolded and large deals were signed, acquisitions were made, growth was witnessed in some companies and so on. From FY 2001-02 till FY 2003-04, the training sector revenues consistently went down; subsequently, there was a turnaround last year when the industry recorded a 10% growth and in FY 2005-06, this was further consolidated through a 14% growth as the training market size was pegged at Rs. 1,453 crores. True, it might takes ages for the industry to again touch the 2000-01 zenith of Rs. 2,594 crores, but the last fiscal did prove to be healthy for the Indian IT Training players, albeit in a market where dynamics have changed drastically from what they used to be five years back. Revenues from corporate training witnessed an impressive 47% upswing; in comparison, individual training revenues fell by 5%.

Higher demand was for shorter courses on Technologies like C++, Java, .Net. 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.

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.

Opportunities & Threats:

A growing domestic market is complementing India's IT enabled services export growth and strong domestic demand makes India one of the fastest growing IT markets in a Asia Pacific region, which is likely to coming into its own and is likely to post good growth in this year. Traditionally, India-centric, indigenous players are beginning to build a noticeable presence through organic growth in other low-cost locations. Global majors are ramping up their offshore delivery capabilities, predominantly in India and have started offshore development centers. 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. 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

14TH ANNUAL REPORT 2005-2006

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, attracting and retaining the right talent, high competitions, pressure on margins due to rise in employee expenses without consequent rise in anticipated revenues, technological obsolescence etc. are some of the major concerns.

Further, 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.

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:

Given the pick up in the IT training Industry, improvement in sentiments, for IT as a career, favourable trends in recruiting IT personnel and strong growth in the IT Industry as a whole, the company is expected to be a major beneficiary. The increase in corporate spends on training in the US, new product launches by technology majors like Microsoft and greater interest in training outsourcing from European Corporates also provides a good opportunity to grow at a faster rate in the long term.

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. 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 in 2005 for the third time in a row, as the Best Training Centre in Metro Region.

Further, education business is poised for a growth in 2006-2007 as government and institutional training market is expected to increase, while enrollment in individual students segment is also expected to rise. 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, SQL server, Linux and web based applications.

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 strategy to improve its performance includes:

- Launch of new lines of highly specialized programs in IT education to cater to the need of new verticals.
- Focus towards newer service areas like IT consulting, Package Implementation, Enterprise wide Application Integration (EAI) etc.
- 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.
- Renewed focus on corporate / institutional training market and online education.
- Increased thrust on software business and international operations through strategic tie-ups etc.
- Expanding the existing franchisee network.
- Improvement in cost structure by observing economy in operations.
- Focus on maintaining profitability and cash flow positive business.
- Consolidation of operations by focusing on medium and large customers.

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, availability of skilled personnel, 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 reduced to 256 against 268 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

The financial statements with value in Indian Rupees and other related documents of company's two 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 the Delhi Stock Exchange, the Bombay Stock Exchange Ltd. and The National Stock Exchange of India Limited and the company has paid listing fee to the Bombay Stock Exchange & the National Stock Exchange Ltd. for the current year. Further, the Company proposes to delist its shares from the Delhi Stock Exchange Association Ltd. and accordingly, necessary resolution has been placed at this Annual General Meeting for the Approval of the Members. 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 1,21,91,188 Equity Shares of the company, constituting 97.53% 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, Dr. M. C. Vaidya and Dr. S. P. Shrivastava, Directors, retire by rotation and being eligible, offer themselves for re-appointment.

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. Regarding realization of convertible foreign exchange in the year 2005-06, the Company has applied for extension of time for realization etc. Further, the company is confident that the pending statutory dues will be cleared soon.

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 : 24th November, 2006

YOGESH VAIDYA
CHAIRMAN & CEO

14TH ANNUAL REPORT 2005-2006**ANNEXURE "A"**

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

A. Conservation of Energy

Measures have been taken to conserve and optimize the use 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 equipments 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.

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. 3,64,02,700/- against Rs 3,84,39,069/- of previous year.

Total Foreign exchange Outgo on accrual basis during the year amounted to Rs. 1,31,126.60/- against Rs 1,53,727/- of previous year.

For and on behalf of the Board.

Place : New Delhi

Dated : 24th November, 2006

YOGESH VAIDYA
CHAIRMAN & CEO