

7th
Annual Report
2000-2001



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TERA SOFTWARE LIMITED

TERA SOFTWARE LIMITED**BOARD OF DIRECTORS:**

- | | |
|----------------------------|--|
| 1. T. GOPI CHAND | MANAGING DIRECTOR |
| 2. V. V. PRASAD NIMMAGADDA | EXECUTIVE DIRECTOR |
| 3. T. PAVANA DEVI | WHOLE TIME DIRECTOR |
| 4. D. SEETHARAMAIAH | DIRECTOR |
| 5. K. RAMA RAO | DIRECTOR |
| 6. T. B. CHOUDHARY | DIRECTOR |
| 7. BHAVANI P VEMURI | (T.H.L. PRASAD ALTERNATE
DIRECTOR TO BHAVANI P VEMURI) |
| 8. VIJAY P GADDE | (PARTHA SARATHI NAIDU. N
ALTERNATE DIRECTOR TO VIJAY P GADDE) |

REGISTERED OFFICE : # 8-3-1113/2B, Kesava Nagar,
Srinagar Colony,
Hyderabad.-500 073.
Tel.Nos.91-40-3736833/3730553.
Fax:91-40-3743526.
E-Mail : tspl@hd1.vsnl.net.in
Internet: www.terasoftware.com

AUDITORS : **M/S. NARVEN ASSOCIATES**
Chartered Accountants
313, Lingapur House,
Himayat Nagar,
Hyderabad.

BANKERS : **BANK OF MAHARASHTRA,**
Basheerbagh Branch,
Hyderabad.-500029.

**THE A.P. MAHESH CO-OPERATIVE
URBAN BANK LIMITED,**
Ameerpet,
Hyderabad-500016.

CITI BANK N.A
Begumpet,
Hyderabad-500016.

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TERA SOFTWARE LIMITED**NOTICE**

Notice is hereby given that the Seventh Annual General Meeting of the members of the company, will be held at the Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad-500 033, on the Saturday, 29th day of September, 2001 at 3.30 p.m to transact the following business:

AS ORDINARY BUSINESS:

- 1) To receive, consider and adopt the Audited Balance Sheet as at 31st March 2001, Profit & Loss Account for the year ended on that date together with the Reports of the Directors' & Auditors' thereon.
- 2) To appoint a director in place of Mr. BHAVANI P VEMURI, who retires by rotation.
- 3) To appoint a director in place of Mr. VIJAY P GADDE, who retires by rotation.
- 4) To appoint a director in place of Mr. T.B.CHOUDHARY, who retires by rotation and being eligible offers himself for re-appointment.
- 5) To appoint M/s. NARVEN ASSOCIATES, Chartered Accountants as Auditors, who shall hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

By Order of the Board of Directors

Date : 30-06-2001
Place : Hyderabad.

Sd/-
(T. GOPI CHAND)
Managing Director

NOTES :

1. *A member entitled to attend and vote at the meeting is entitled to appoint a proxy to vote at the meeting on his behalf and such proxy need not be a member of the company. The instrument appointing proxy should, however, be deposited at the Registered Office of the Company not less than forty-eight hours before the commencement of the meeting.*
2. Members/Proxies should fill the attendance slip for attending the meeting.
3. Members who hold shares in dematerialized form are requested to bring their Client ID and DP ID numbers for easy identification of attendance at the meeting.
4. The Company has already notified closure of Register of Members and the Share Transfer Books from Tuesday, 25th September 2001 to Friday, 28th September 2001 (both the days inclusive).
5. Shareholders are requested to bring their copy of Annual Report to the meeting.

TERA SOFTWARE LIMITED

DIRECTORS' REPORT

Your Directors have the pleasure in presenting to you the Seventh Annual Report on the working of the company and Audited Statements of Accounts for the year ended 31st March 2001.

a) Financial Results:

(Rs. in Lakhs)

PARTICULARS	Year Ended 31.03.2001	Year Ended 31.03.2000
Gross Income	1004.66	300.81
Expenditure	891.98	285.03
Profit before interest, depreciation & tax	112.68	15.78
Less: Interest (Financial Cost)	12.04	0.23
Profit before depreciation & tax	100.64	15.55
Less: Depreciation	8.82	2.84
Profit before tax	91.82	12.71
Less: Provision for tax	8.16	3.00
Profit after tax	83.66	9.71
Surplus brought forward from the previous year	16.19	6.48
Balance Carried to Balance Sheet	99.85	16.19

b) Results of operations for the financial year 2000-2001:

Your Company has progressed well during the current year of operations. The total income has grown from Rs. 300.81 lakhs during the previous year to Rs. 1004.66 lakhs during the current year registering a growth rate of 234%. The net profit has increased from Rs. 9.71 lakhs to Rs. 83.66 lakhs in the current year registering a growth rate of 762%. The earning per share as on 31st March, 2001 stands at Rs. 1.08 as compared to the previous year Rs. 0.18.

c) Dividend:

As your company is in the growing stage and is under processes of making investment in a Build Own Operate and Transfer (BOOT) project of Andhra Pradesh State Government, the Directors of the Company have not declared any dividend for the financial year 2000-2001.

d) Increase of Share Capital:

During the year, Your Company had gone for the Public Issue for 20,00,000 Equity Shares of Rs. 10/- each, which was resulting in 1.78 times Over Subscription. The Board of Directors thanks the investing public for their response to the Public Issue. Subsequent to the allotment of the Public Issue Shares, the paid-up share capital of the Company has been increased from Rs. 527.48 lakhs to Rs. 768.64 lakhs divided into 77,09,500 equity shares of Rs. 10/- each fully paid up.

e) Listing of Shares in Stock Exchanges:

At present Equity Share of your company is listing in Hyderabad Stock Exchange and Bangalore Stock Exchange.

f) Overseas Office:

During the year under review, your Company opened up a Trading and Marketing Offices in United States

TERA SOFTWARE LIMITED

of America and Australia. The opening up of Trading and Marketing Offices is to accelerate the sales efforts in overseas markets and to access new markets and broaden its client base.

g) Future Focus of the Company:

Your Company sees a good potential for Integrated Services Division of your company in India. Government Sector (i.e. the Central Government and State Government Institutions) is heading towards e-governance. Most of these e-governance projects are based on Build Own Operate and Transfer (BOOT). The slow down economy of USA results in low revenue of Technical services division. To substantiate the business, your company looks at providing DSL Technology based Broadband services on existing telephone copper pair. This technology being proven and implemented in other parts of the world. We intended to introduce this innovative DSL technology on existing telephone cable in India. Your company is already under negotiations with M/S Chaparala LLC, USA, who are the licence holders for the LUCENTS DSL TECHNOLOGY for India and other countries. To implement this project Nation Wide huge funds are required. The companies we are negotiating to bring in DSL Technology in to India, are interested to take the equity in your company. Your company may have to offer equity of 25% to 30% on preferential allotment basis, if required.

h) Fixed Deposits:

The Company has not accepted any fixed deposits to which the provisions of Section 58A of the Companies Act, 1956 are applicable to the Company.

i) Directors:

As per Articles of Association of the Company, Mr. Bhavani P Vemuri, Mr. Vijay P Gadde and Mr. T.B. Choudhary retire by rotation in the forthcoming Annual General Meeting. Mr. T.B. Choudhary being eligible, offer him-selves for reappointment. Mr. Bhavani P Vemuri and Mr. Vijay P Gadde have expressed their intention not to seek re-election. Your directors place on record their deep appreciation of the service rendered by Mr. Bhavani P Vemuri and Mr. Vijay P Gadde during their tenure on the board. And also during the period Mrs. T. Bhavani has also resigned from the board, directors place on record her deep appreciation of the service rendered by Mrs. T. Bhavani during her tenure on the board.

j) Auditors:

M/s. NARVEN ASSOCIATES, Chartered Accountants retire at the ensuing Annual General Meeting, and are eligible for reappointment. They have furnished the requisite certificate to the effect that their reappointment, if effected would be in accordance with section 224(1B) of the Companies Act, 1956.

k) PARTICULARS OF EMPLOYEES:

There are no employees in the Company whose particulars are to be given pursuant to Section 217(2A) of the Companies Act, 1956.

l) CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS/ OUT GOINGS:

As required U/S 217(1) (e) of the Companies Act, 1956, need with the Companies (Disclosure) of particulars in the report of the Board of Directors Rule 1988.

1. Conservation of energy

The operations of your company are not energy-intensive. Adequate measures have, however, been taken to reduce energy consumption by using energy-efficient computer terminals and by the purchase of energy-efficient equipment incorporating the latest technology. Energy-efficient transformers and UPS systems have been purchased. Energy-saving air conditioners are being purchased and air-conditioned areas have been treated with heat-resistant material to reduce heat absorption. As energy cost forms a very small part of total costs, the impact on costs is not material.

TERA SOFTWARE LIMITED**2. Research and Development (R&D):****i) Specific Areas In which Research & Development (R&D) is being carried out by the company.**

During the year, your company has developed an innovative and unique solution for Banking Industry to provide any where Banking Services. This solution is cost effective to effect on line Banking Transactions . The solution results in a better customer service for out station cheque clearance, Mail Transfer realization of DD. This product is based on SMS of GSM technology. The Product is tested and looking forward for a strategic partner to market this product into banking sector.

And your company has also developed a concept of process plant monitoring system in four means that are a) Cell Phone b) SMS message c) Over telephone d) Through FA and E-Mail. This concept is unique and being implement in the NFCL Fertilizer plant at Kakinada. Since the Beta testing is complete we want to expand this concept in to other processing industries like paper, power, chemical and oil.

ii) Benefits derived as a result of the above R&D activity:

These initiatives have given significant tangible and intangible benefits to the organization to develop products and provide solutions to its customers, thereby contributing to the company's revenues.

iii) Future plan of action:

Current year we are working on an enterprise Net Based Solution in association with M/S NET PRISE .COM, USA.

iv) Expenditure on R&D for the year ended 31st March, 2001.

Capital Expenditure	nil
Revenue Expenditure	Rs.6,75,532
Total	Rs.6,75,532

Total R&D expenditure as a percentage of total revenue 0.7%

v) Technology absorption, adaptation and Innovation

Your company will continue to focus and invest in its R&D activities in software engineering, technologies and products. Your Company leverages its excellence in technology by adapting it to produce world-class products and solutions. The continual exposure to new technologies has helped maintain high motivation levels of productivity, efficiency and quality.

3. Foreign Exchange Earnings and outgo:**1. Earnings in Foreign Currency (FOB):**

Particulars	Current Year (Rs)	Previous Year (Rs)
Software Development / Services	77,16,900	Nil
Total	77,16,900	Nil

TERA SOFTWARE LIMITED**2. Expenditure in Foreign Currency (CIF):**

Particulars	Current Year (Rs)	Previous Year (Rs)
Import of Raw Material	2,22,937	1,40,324
Traveling	8,80,839	36,117
Expenditures incurred at Overseas branches	44,95,208	Nil
Total	55,98,984	1,76,441

m) Directors' Responsibility Statement

Pursuant to the requirement under section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed:

- That in the preparation of the accounts for the financial year ended 31st march, 2001 the applicable accounting standards have been followed along with proper explanation relating to material departures;
- That the directors have selected such accounting policies and applied them consistently and made adjustments and estimates that were 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 or loss of the company for the year under review;
- That the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- That the directors have prepared the accounts for the financial year ended 31st march, 2001 on a going concern basis.

n) Acknowledgment

Your directors thank the clients, vendors, investors and bankers for their continued support of your company's growth. Your directors place on record their appreciation of the contribution made by the employees at all levels, who, though their competence, hard work, solidarity, co-operation and support, have enable the company to achieve rapid growth.

Your directors thank the Government of India, Government of Andhra Pradesh, Department of Electronics, Department of Space, Department of Information Technology, Software Technology Park and Other Government Agencies for their support during the year and look forward to their continued support.

For and on behalf of the Board of Directors

Date : 30-06-2001

Place : Hyderabad.

Sd/-

(T. GOPI CHAND)

Managing Director

TERA SOFTWARE LIMITED

REPORT ON THE CORPORATE GOVERNANCE**1. Company's philosophy on Code of Governance**

Tera Software's philosophy on corporate governance envisages the attainment of the highest levels of transparency, accountability and equity, in all facets of its operations, and in all its interactions with its stake holders, including shareholders, employees, the government and lenders.

Tera Software is committed to achieving the highest international standards of corporate governance.

Tera Software believes that all its operations and actions must serve the underlying goal of enhancing overall shareholder value, over a sustained period of time.

2. Board of Directors

The Board of Directors consists of 8 directors & 2 alternate directors.

Composition and category of Directors is as follows:

Category	Name of the Directors
Promoter/Executive Directors	T. Gopi Chand N.V.V. Prasad. T. Pavana Devi
Promoter Non-Executive Director	T.B. Choudhary,
Non-Promoter Executive Director	Nil
Non-Executive and Independent Directors	D.Seetharamaiah, Bhavani P Venuri, Vijay P Gadde & K. Rama Rao.
Alternate directors	T.H.L. Prasad, N. Partha Sarathi Naidu

Attendance of each Director at the Board meetings, last Annual General Meeting and Number of other Directorship and Chairman/Membership of Committee of each Director:

Name of the Director	Attendance Particulars		No. of other directorships and committee member/ Chairmanship		
	Board Meetings	Last AGM	Other Directorships	Committee Memberships@	Committee Chairmanships@
T. Gopi Chand	19	Yes	Nil	Nil	Nil
N.V.V Prasad	19	Yes	Nil	Nil	Nil
T. Pavana Devi	19	Yes	Nil	1	Nil
T.B.Choudhary	15	Yes	Nil	1	1
K. Rama Rao	14	No	Nil	2	Nil
D.Seetharamaiah	5	No	14	1	Nil
Bhavani P Vemuri	1	No	Nil	Nil	Nil
Vijay P Gadde	1	No	Nil	Nil	Nil
T. Bhavani*	17	Yes	Nil	Nil	Nil
T.H.L.Prasad**	4	Yes	Nil	1	1
N.Partha Sarathi Naidu***	4	No	Nil	Nil	1

* Resigned from the Board of Director from 21st March 2001.

** Alternate Director to Bhavani P Vemuri.

*** Alternate Director to Vijay P Gadde.

@ in our company.

TERA SOFTWARE LIMITED**Number of Board Meetings held and the dates on which held**

19 Board meetings were held during the year, as against the minimum requirements of 4 meetings. The dates on which the meetings were held are as follows: 15.04.2000, 05.06.2000, 07.06.2000, 08.06.2000, 20.06.2000, 22.06.2000, 03.07.2000, 04.07.2000, 08.08.2000, 09.08.2000, 10.08.2000, 15.09.2000, 22.09.2000, 30.09.2000, 03.10.2000, 17.11.2000, 23.12.2000, 27.01.2001, 21.03.2001.

To comply with the requirements of the listing agreement, the Company has constituted the following committees:

1. Audit Committee.
2. Shareholders' Grievance Committee.
3. Remuneration Committee.

3. Audit Committee

The Board of the company has constituted an Audit Committee, comprising of following composition.

- | | | |
|--------------------------|---|----------|
| a. Shri T.H.L. PRASAD | - | Chairman |
| b. Shri T.B. CHOUDHARY | - | Member |
| c. Shri D. SEETHARAMAIAH | - | Member |

Role of the Audit Committee is as follows.

1. Oversight of the Company's financial reporting process and the disclosure of its financial information.
2. Recommending the appointment and removal of external auditors, fixation of audit fee and also approval for payment for any other services.
3. Reviewing 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 adjustments arising out of audit,
 - the going concern assumption,
 - compliance with accounting standard,
 - any related party transactions i.e transactions of the company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of Company at large.
4. Reviewing with the management, external and internal auditors, and the adequacy of internal control systems.
5. Reviewing the adequacy of internal audit functions.
6. Discussion with internal auditors any significant findings and follow up there on.
7. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
8. Discussion with external auditors before the audit commences nature and scope of audit as well as has post-audit discussion to ascertain any area of concern.
9. Reviewing the Company's financial and risk management policies.
10. To look into the reasons for substantial defaults in the payment to the creditors.

During the year, the Committee has met 3 times, as against the minimum requirement of 3 meetings. Shri T.H.L. PRASAD was present for 3 meetings, Shri D. SEETHARAMAIAH was present for 1 meeting, Shri T.B. CHOUDHARY was present for 3 meetings.

TERA SOFTWARE LIMITED**4. Shareholders' Grievance Committee:**

The Board of the Company has constituted a Shareholders Grievance Committee, Comprising of,

- a. Shri N. PARTHA SARATHI NAIDU, - Chairman
- b. Smt T. PAVANA DEVI and - Member
- c. Shri K. RAMA RAO - Member

The Committee, inter alia, approves issue of duplicate certificates and overseas and reviews all matters connected with the securities transfers. The Committee also looks into redressing of shareholders' complaints like transfer of shares, non-receipts of balance sheet. The Committee oversees the performance of the Registrar and Transfer Agents, and recommends measures for overall improvement in the quality of investor services. The Board of Director has delegated the power of approving transfer of securities to the Managing Director.

During the year, the Committee has met 3 times, as against the minimum requirement of 3 meetings. Sri N. PARATHA SARATHI NAIDU was present for 3 meetings, Smt T.PAVANA DEVI was present for 1 meeting, and Sri K. RAMA RAO was present for 3 meetings.

The total number of complaints received and replied to the satisfaction of shareholders during the year under review was 28. Outstanding complaints as on 31st March, 2001 were 8, which were attended/replied by 25th April, 2001.

5. Remuneration Committee:

The Board of the Company has constituted a Remuneration Committee, Comprising of 3 directors of the company,

- a. Shri T.B. CHOUDHARY - Chairman
- b. Shri K. RAMA RAO - Member
- c. Shri T.H.L. PRASAD - Member

The Remuneration Committee has been constituted to recommend/review the remuneration package of the Managing Directors/Whole Time Director, based on performance and defined criteria.

During the year the Committee has met once and all the members of the Committee were present at the meeting.

The remuneration policy is directed towards rewarding performance, based on review of achievements on a periodical basis. The remuneration policy is in consonance with the existing Industry Practice.

Details of remuneration paid to all the Directors for the year:

The aggregate value of Salary, Perquisites and Other Allowances paid to Managing Director, Whole time Director and Executive Directors.

Particulars	Current Year (Rs)	Previous Year (Rs)
Managing Director (Mr.T. Gopi Chand)	3,60,000	2,40,000
Whole Time Director (Mrs T. Pavana Devi)	2,40,000	1,20,000
Executive Director (Mr. N.V.V. Prasad)	3,00,000	45,000 (part of the year)
Total	9,00,000	4,05,000

The Company has not paid any sitting fee to any Director of the Company during the year ended with 31st March 2001.