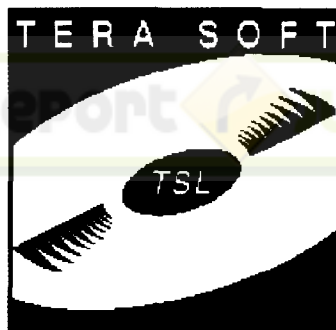
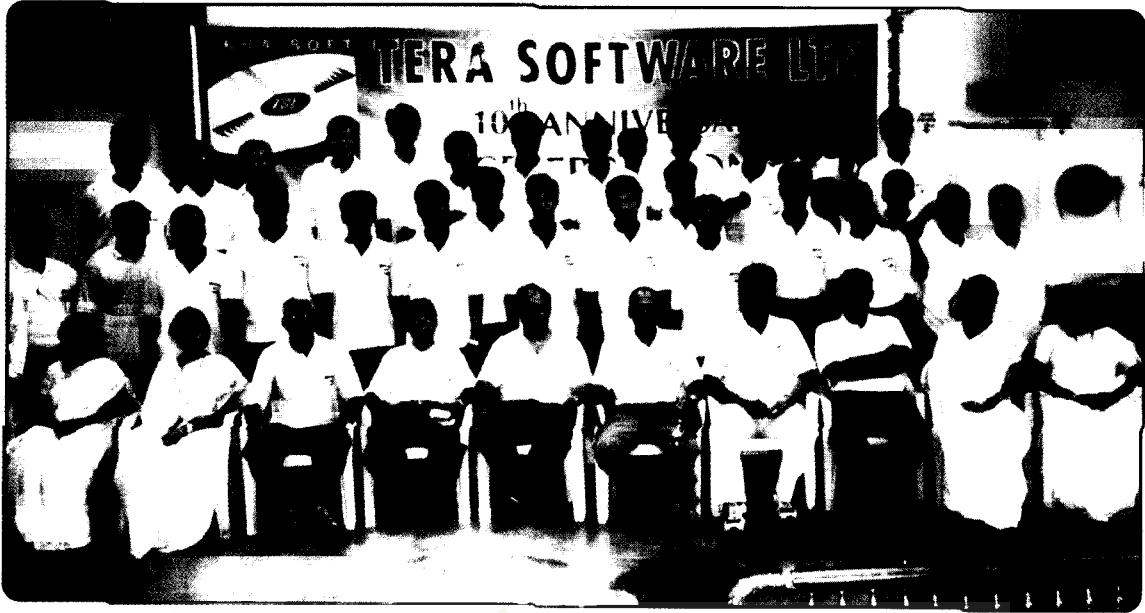


**11<sup>th</sup>**  
**ANNUAL REPORT**  
**2004-2005**



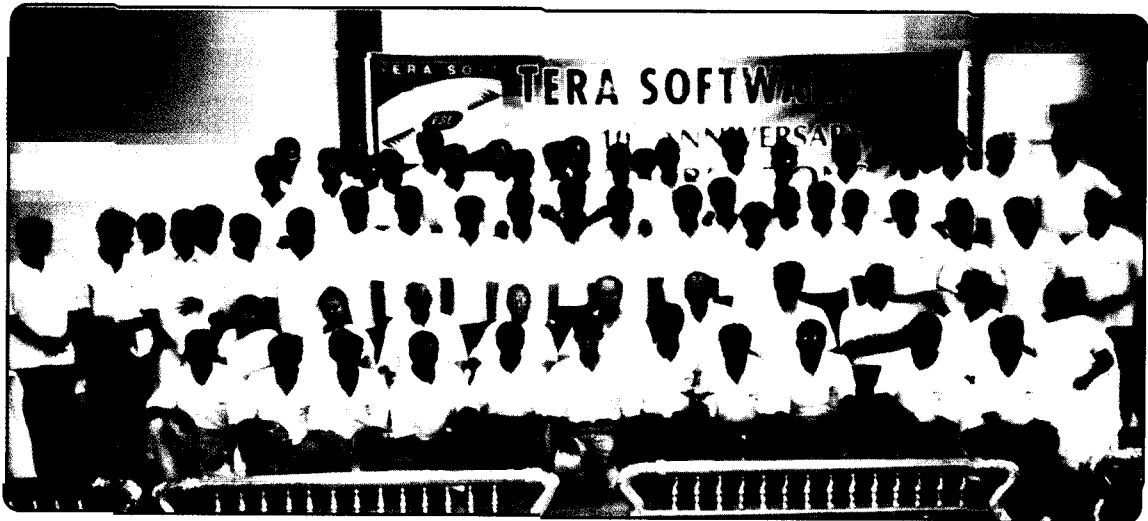
**TERA SOFTWARE LIMITED**

## TEAMS BEHIND OUR SUCCESS



CORPORATE OFFICE

ReportJunction.com



KAVERI PROJECT

**BOARD OF DIRECTORS:**

1. Sri D. SEETHARAMAIAH	CHAIRMAN
2. Sri K. RAMA RAO	DIRECTOR
3. Sri T. BAPAAIAH CHOUDARY	DIRECTOR
4. Sri R. S. BAKKANNAVAR	DIRECTOR
5. Dr. T. HANUMAN CHOWDARY	DIRECTOR
6. Dr. T. V. LAKSHMI	DIRECTOR
7. Smt. T. PAVANA DEVI	WHOLE TIME DIRECTOR
8. Sri V. V. PRASAD NIMMAGADDA	EXECUTIVE DIRECTOR
9. Sri T. GOPI CHAND	V.C. & MANAGING DIRECTOR

**REGISTERED OFFICE :**

8-3-1113/2B, Kesava Nagar,  
Srinagar Colony,  
Hyderabad.-500 073.  
Tel.Nos.91-40-23736833/23730553.  
Fax:91-40-23743526.  
E-Mail : hyd1\_tspl@sancharnet.in  
Internet: www.terasoftware.com

**AUDITORS:**

M/s. NARVEN ASSOCIATES  
Chartered Accountants  
313, Lingapur House,  
Himayat Nagar,  
Hyderabad - 500 029.

**BANKERS:**

BANK OF MAHARASTRA,  
Basheerbagh,  
Hyderabad - 500 029.

SYNDICATE BANK,  
N.S.Road,  
Hyderabad - 500 001.

**NOTICE**

Notice is hereby given that the Eleventh 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 Tuesday, the 27th day of September, 2005 at 10.00 a.m. to transact the following business:

**AS ORDINARY BUSINESS:**

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2005, Profit & Loss Account for the year ended on that date together with the Reports of the Directors' and Auditors' thereon.
2. To declare dividend on Equity shares.
3. To appoint a Director in place of Sri K. Rama Rao who retires by rotation and is eligible and offers himself for re-appointment.
4. To appoint a Director in place of Sri D.Seetharamaiah, who retires by rotation and is eligible and offers himself for re-appointment.
5. To appoint M/s. NARVEN ASSOCIATES, Chartered Accountants, the retiring auditors as Statutory Auditors of the Company, who shall hold office from the conclusion of this Annual General Meeting up to the conclusion of the next Annual General Meeting and to fix their remuneration.

**AS SPECIAL BUSINESS:**

1. To consider and, if thought fit, to pass with or without modification the following resolution as an Ordinary Resolution:  
 "Resolved that the consent of the Company be and is hereby accorded pursuant to the provisions of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, to the Board of Directors of the company (hereinafter referred as "The Board") to mortgage and/or create charge on, sell and/or transfer all the immovable and movable properties or such assets of the company wherever situate, present and future, in favour for the Financial Institutions/Banks/Debentures/Trustees/Government Departments for an aggregate nominal value not exceeding Rupees 100 crores (Rupees One Hundred crores only) to secure the Term Loans/issue debentures and further that the Board be and is hereby; authorized to finalize and execute the documents and any other deeds, papers and writings for creating the aforesaid mortgages and/or charges, sell and/or transfer and to do all such acts, deeds and things as may be necessary or expedient for implementing this resolution."

By Order of the Board of Directors

Sd/-

**(T. Gopi Chand)**

V.C. & Managing Director

Date : 27.08.2005  
Place : Hyderabad.

**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.
2. The instrument appointing proxy to be valid should be lodged at the Registered Office of the Company not less than forty-eight hours before the commencement of the meeting.
3. Members/Proxies should fill the attendance slip for attending the meeting.
4. 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.
5. The Company has already notified closure of Register of Members and the Share Transfer Books from Friday, 16th September 2005 to Tuesday, 27th September 2005 (both the days inclusive).
6. Shareholders are requested to bring their copy of Annual Report to the meeting.

**Explanatory statement pursuant to section 173 (2) of the Companies Act, 1956.**

Item 1:

The Company is in the process of implementing more and more e-governance projects and requires borrowings from banks and financial institutions exceeding the aggregate of paid up capital and free reserves. This requires the approval of members. Member's approval is therefore sought for borrowing/sale and/or transfer of the assets to the extent of Rs. 100 crores. As per the provisions of section 192 A of the Companies Act, 1956, the resolution under section 293 (1) (a) should be passed through postal ballot. The Company appointed Sri D. Gopala Krishna, Advocate as scrutinizer and sent the postal ballots to the members on 26.4.2005. The scrutinizer submitted his report and the resolution was passed by majority of votes. The resolution is for ratification purpose.

**Particulars of Directors eligible for re-election, pursuant to Clause 49 of the Listing Agreement:**

Serial Number	1	2
Name of the Director	Sri K.Rama Rao	Sri D. Seetharamaiah
Age	58Years	79 Years
Date of Appointment	30.09.2002	30.9.2002
Remuneration	Nil	Nil
No. of outside Directorships held	Nil	5
Chairman of the Committee of the Board of Directors of the Company	Nil	Remuneration Committee Projects Review Committee
Member of the Committee of Board of Directors of the Company	Shareholders' Grievance Committee Remuneration Committee	Audit Committee Investment Committee
Chairman/member of the Committee of Directors of other Companies	Nil	5

By Order of the Board of Directors

Sd/-

**(T. Gopi Chand)**

V.C. &amp; Managing Director

Date: 27.08.2005  
Place: Hyderabad.

**DIRECTORS' REPORT**

Dear Shareholders,

Your Directors have pleasure in presenting the Eleventh Annual Report of the company and the Audited Statements of Accounts for the year ended 31st March 2005.

**a) Financial Results:****(Rs. In Lakhs)**

<b>PARTICULARS</b>	<b>Year Ended 31.03.2005</b>		<b>Year Ended 31.03.2004</b>	
Gross Income		1758.65		1500.56
Less : Expenditure		888.47		919.36
Profit before interest, deprecation & tax		870.18		581.20
Less: Interest (Financial Cost)		95.27		67.96
Profit before depreciation & tax		774.91		513.24
Less: Depreciation		310.26		251.59
Profit before tax		464.64		261.65
Less: Provision for tax				
: Current year	123.79		22.60	
: Deferred tax	39.68	163.47	75.19	97.79
Profit after tax		301.17		163.86
Add: Balance brought forward from Previous Year	201.87		127.29	
Add/(Less):Taxation for Earlier years	(0.14)	201.73	(2.48)	124.81
Profit available for distribution		502.90		288.67
Less:				
Proposed Dividend @ 15% (Previous Year 10%)	115.52		76.94	
Tax on distributable profits	16.20		9.86	
Tax on dividend for earlier Years	0.20		—	
Transferred to General Reserve	25.00	156.92	—	86.80
Balance Carried to Balance Sheet		345.98		201.87

**b) Performance:**

The Company continued its focus on e-governance projects and was able to procure two more projects of the State Governments of Kerala and Maharashtra. The performance of the Company was consistently improving and the Company made a preferential allotment of share warrants which are convertible into equity shares of face value of Rs. 10/- each at a premium of Rs. 21/- each. This will strengthen the financial position of the company and the Company is confident of continuing the improved performance.

**c) Dividend:**

Your Directors are pleased to recommend a dividend of 15% absorbing a sum of Rs. 131.72 Lakh including the tax on distributed profits.

**d) Listing of Shares in Stock Exchanges:**

At present the Equity Shares of your company are trading under permitted Securities in the Stock Exchange, Mumbai and listed on The Hyderabad Stock Exchange Limited and Bangalore Stock Exchange Limited. The listing fee was paid up to date.

**e) Overseas Office:**

During the year under review, the operations of the overseas branch resulted in a loss of Rs.8,91,144/-. However, the branch is being continued to take the opportunity in participating in the international market.

**f) Future Focus of the Company:**

The thrust of the Central and State Governments' Institutions in computerizing most of their departments helped the Company to focus more on the projects based on Build Own Operate and Transfer (BOOT). The Company was successful in getting the FAST project of the State Government of Kerala and MAHAVIKAS project of the State Government of Maharashtra. These projects envisage an investment of Rs. 40 Crore and yielding a turnover of Rs. 150 Crore over a period of five years.

**g) Fixed Deposits:**

The Company has accepted fixed deposits to which the provisions of Section 58A of the Companies Act, 1956 are applicable during the year under review. There are no overdue amounts of deposits including the interest thereon as at the end of the year.

**h) Directors:**

At the ensuing Annual General Meeting Sri K.Rama Rao and Sri D.Seetharamaiah, retiring by rotation, are eligible and offer themselves for reappointment.

**i) 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.

**j) 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.

**k) Conservation of energy, technology absorption and foreign exchange earnings/outgoings:**

The particulars as required U/S 217(1) (e) of the Companies Act, 1956, read with the Companies (Disclosure) of particulars in the report of the Board of Directors Rules 1988 are:

- 1 **Conservation of energy:** The Company is not an energy intensive unit.
- 2 **Technology absorption, adaptation & innovation:** The Company has not imported any technology.
- 3 **Foreign Exchange Earnings and outgo:**

**1. Earnings in Foreign Currency (FOB):**

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Software Development / Services	2,436,000	1,076,373
Sales Incentive	73,296	63,536
<b>Total</b>	<b><u>2,509,296</u></b>	<b><u>1,139,909</u></b>

**2. Expenditure in Foreign Currency (CIF):**

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Import of Raw Material	Nil	3,068,827
Traveling Expenses	Nil	99,007
Expenses incurred at Overseas branch	1,475,440	2,166,003
<b>Total</b>	<b><u>1,475,440</u></b>	<b><u>5,333,867</u></b>

**l) 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:

- a. That in the preparation of the accounts for the financial year ended 31st March, 2005 the applicable accounting standards have been followed along with proper explanation relating to material departures;
- b. 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 of the company for the year under review;
- c. 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;
- d. That the directors have prepared the accounts for the financial year ended 31st March, 2005 on a going concern basis.

**m) Acknowledgment**

Your directors thank the clients, vendors, investors and bankers for their continued support. Your directors place on record their appreciation of the contribution made by the employees at all levels, who, through their competence, hard work, solidarity, cooperation and support, have enabled the company to achieve rapid growth. Your directors thank the Government of India, Project Director of District Primary Education Program of the State Government of Andhra Pradesh, Inspector General of Registration of the State Government of Karnataka, 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.

Report

For and on behalf of the Board of Directors

Sd/-

**(T. Gopi Chand)**  
V.C. & Managing Director

Sd/-

**(N.V.V.Prasad)**  
Executive Director

Date : 27.8.2005  
Place : Hyderabad.



## REPORT ON THE CORPORATE GOVERNANCE

### 1. Company's philosophy on Code of Governance

The philosophy of the Company on Code of Governance envisages the attainment of highest levels of transparency, accountability, professionalism, risk management and equity in all facets of its operations in serving its stakeholders.

### 2. Board of Directors

In furtherance of its corporate governance policy the Company ensures that all statutory, significant material information are placed before the Board/ Committee of directors for their approval to enable them to discharge their responsibilities as trustees.

#### Composition and category of Directors is as follows:

There are nine directors in the Board comprising a non-executive independent chairman, three whole time promoter directors, one non-executive promoter director, and four independent non-executive directors.

#### Attendance of each Director at the Meetings of the Board of Directors and the last Annual General Meeting:

During the year the Board met seven times on 19.04.2004, 06.06.2004, 29.07.2004, 23.08.2004, 27.09.2004, 26.10.2004, and 28.01.2005.

Name of the Director	Attendance Particulars			Committee memberships/ Chairmanships in our Company		Number of other directorships & Committee memberships	
	Board Meetings		Last AGM	Member-ships	Chairman-ships	Director-ships	Member-ships
	Held	Present					
Sri T. Gopi Chand	7	7	Yes	3	Nil	1	Nil
Sri N.V .V. Prasad	7	7	Yes	3	Nil	1	Nil
Smt. T. Pavana Devi	7	7	Yes	Nil	Nil	1	Nil
Sri T. Bapaiah Choudary	7	6	Yes	2	1	Nil	Nil
Sri K. Rama Rao	7	6	Yes	3	Nil	Nil	Nil
Sri D. Seetharamaiah	7	6	Yes	2	2	5	5
Sri R.S. Bakkannavar	7	7	Yes	Nil	1	3	Nil
Dr.T. Hanuman Chowdary	7	5	Yes	Nil	Nil	2	2
Dr.T.V. Lakshmi	7	7	Yes	2	Nil	1	Nil

None of the Director is a member in more than 10 Companies and acts as a Chairman in more than 5 Committees across all companies in which he is a Director.

#### The Board of Directors of the Company functioned through the following committees:

1. Audit Committee.
2. Shareholders' Grievance Committee.
3. Remuneration Committee.
4. Investment Committee.
5. Share Transfer Committee.
6. Project Review Committee.

### 3. Audit Committee

- a. The Board reconstituted the Audit Committee at its meeting held on 29.11.2001.The members of the Committee are

- |                           |          |
|---------------------------|----------|
| a. Sri R.S.Bakkannavar    | Chairman |
| b. Sri T.Bapaiah Choudary | Member   |
| c. Sri D. Seetharamaiah   | Member   |

## b. Brief description of the terms of reference to the Audit Committee:

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 and recommending the appointment and removal of managerial personnel, fixation of remuneration and also approval for payment for any other services as recommended by the Remuneration Committee.
4. 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 standards,
  - 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.
5. Reviewing with the management, external and internal auditors, the adequacy of internal control systems.
6. Reviewing the adequacy of internal audit functions.
7. Discussion with internal auditors on any significant findings and follow up thereon.
8. 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.
9. Discussion with external auditors before the audit commences, the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
10. Reviewing the Company's financial and risk management policies.
11. To look into the reasons for substantial defaults in the payment to the creditors.
12. To consider and review any other matter as may be directed by the Board.

During the year, the Committee met 5 times on 19.4.2004, 29.7.2004, 17.8.2004, 26.10.2004 and 28.1.2005. All the members were present at all the meetings.

**4. Shareholders' Grievance Committee:**

The Board constituted the shareholders' grievance committee comprising the following Directors

- |   |                         |          |
|---|-------------------------|----------|
| a | Sri T. Bapaiah Choudary | Chairman |
| b | Dr. T.V. Lakshmi        | Member   |
| c | Sri K. Rama Rao         | Member   |

The Committee oversees the performance of the Registrar and Transfer Agents, and recommends measures for overall improvement in the quality of investor services. The Committee, inter alia, recommends issue of duplicate certificates and reviews all matters connected with the securities transfers, redressal of shareholders' complaints. During the year, the Committee met 4 times on 30.6.2004, 30.9.2004, 31.12.2004 and 31.3.2005 respectively.

The total number of complaints received and replied to the satisfaction of shareholders during the year under review was 402. Outstanding complaints as on 31st March 2005 were nil.