

13TH ANNUAL
REPORT
2005-2006

"THE WAY IS IN THE TRAINING"



being there...

ZEN TECHNOLOGIES LIMITED



"THE WAY IS IN THE TRAINING"



Definition of ZEN

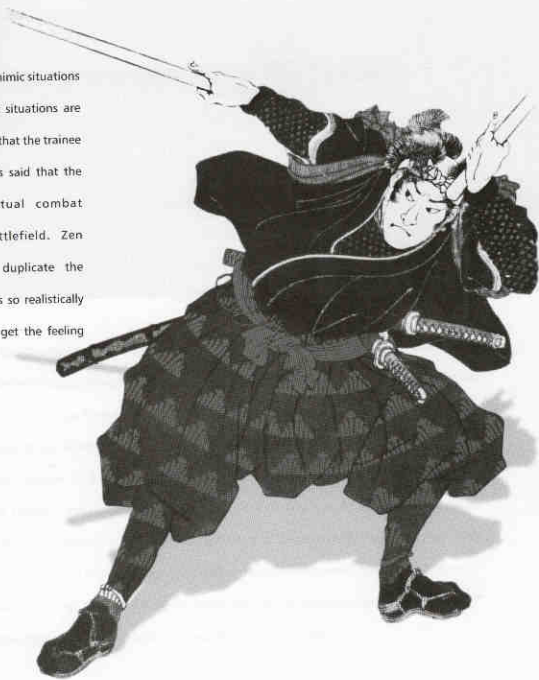
Zen (zen) n. [[Jpn <Chin ch'an, ult. <Sans *dhyāna*, thinking, meditation]] a variety of Buddhism, seeking to attain an intuitive illumination of mind and spirit through meditation.

- From Webster's New World Dictionary



being there...

Our training simulators mimic situations realistically. The combat situations are patterned in such a way that the trainee benefits immensely. It is said that the best training is actual combat experience in a battlefield. Zen simulators artificially duplicate the actual combat scenarios so realistically that personnel trained get the feeling actually being there...





OUR PRODUCTS

ZEN has been at the forefront of applying new technologies and developing new products and is actively involved in indigenisation of technologies, which are helpful for Indian security forces and civilian simulation market.



ZEN ADVANCED WEAPONS SIMULATOR (ZEN AWeSim™)



ZEN has developed an advanced version of ZEN Interactive Firearms Training Simulator called Advanced Weapons Simulator (ZEN AWeSim™). The simulator has been designed to impart training on various firearms in a simulated environment to hone the skills of the trainees. All types of direct firearms can be integrated including GLOCK, 9 mm Pistol, Revolver, .303 Rifle, INSAS 5.56 mm, 7.62 mm Rifle, AK-47, MP-5, AK-56, 7.62 Dragnov Sniper Rifle, Sten Guns, Steyr, Musket, Carbine, LMG, Rocket Launcher, M16 A1 and M16 A4 and so on. The system simulates real world scenarios to boost confidence to face real world threats. The simulator provides an option of integrating untethered weapons which allows unparalleled freedom in weapon handling. The state-of-the-art 3D visualization software employed by ZEN AWeSim™ enables the trainees to practice firing in realistic projected terrains.





ZEN DRIVING SIMULATOR (ZEN DS)



ZEN Driving Simulator (ZEN DS) is a multi-station classroom driving training simulator. The basic system is configured with a single instructor station and one driver station. The driver station of the simulator is provided with actual controls and instrumentation along with a wide screen to display realistic driving scenarios. The instructor can control the sessions and driving exercises individually for each trainee and is able to monitor the trainees selectively or collectively. Customers have the option of adding up to 10 driving stations to one instructor station. The driver station is available as a light, medium or heavy vehicle station.

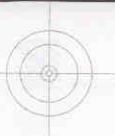


ZEN TACTICAL ENGAGEMENT SIMULATOR (ZEN TacSim™)

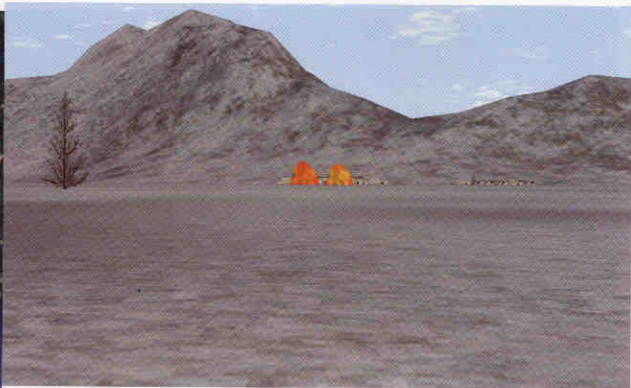


ZEN Tactical Engagement Simulator (ZEN TacSim™) provides realistic force-on-force live training to personnel ranging from individual skill training to platoon (company) level collective training. ZEN TacSim™ is modular and scalable and can meet the training needs up to brigade level. ZEN TacSim™ is available in three configurations viz. Basic, Medium and Advanced. The simulator is being manufactured by ZEN in technical collaboration with SAAB Training System, Sweden.





ZEN FORWARD OBSERVER SIMULATOR (ZEN FOS)



The Forward Observer Simulator manufactured by ZEN trains in acquiring and enhancing the skills of Forward Observers (FO) / Mortar Fire Controllers (MFC) in the techniques of engaging and effectively neutralizing mortar targets, besides imparting training to Mortar Position Controllers (MPC) and Mortar Detachment Numbers (MDN). The system is provided with instructor station, trainee station, sound simulation, FO/MFC equipment and Mortars (optional). The system facilitates in development of various skills for operators viz., FO/MFC, MPC and MDN. The system provides wide range of 3D scenarios for all types of terrain, variety of targets, effect of temperature, altitudes, smoke screen, flare patterns, environment effects (like clouds, fog, day/night) and generates realistic sound effects. It facilitates engagement of target by single or multiple fire units



ZEN TACTICAL RECONNAISSANCE SYSTEM (ZEN TReS)



ZEN TReS is a soldier wearable/mountable wireless reconnaissance system through which the soldier deployed in forward/threat perceived area can wirelessly transmit video, audio and text data to the command post to take decisions.

The system comprises of a light weight Manpack and a Base Station. The remote unit comprises of a control unit and camera mounted on helmet/shoulder/rifle, GPS receiver and communication equipment. The Base Station unit may be vehicle mounted and consists of a ruggedized laptop and communication equipment. The system has immense utility in intelligence gathering exercises. It can be deployed in operational role i.e., anti-terrorist operation. The ZEN TReS is also an invaluable tool for security agencies deployed in industrial and other environments.



RESEARCH & DEVELOPMENT

Zen accords high priority to relentless innovation in in-house research activities and is constantly engaged in the efforts to utilize available and emerging cutting edge technologies to develop simulators and related technologies. The Department of Industrial and Scientific Research (DSIR), Government of India has recognized Zen as an in-house R&D unit.

Zen's special strengths are its rigorous discipline in software development in the areas of

- Visual Simulation
- Micro-controller Software
- Interface electronics
- Sensor Development and
- Mathematical Modelling

Products of in-house development efforts - Hardware

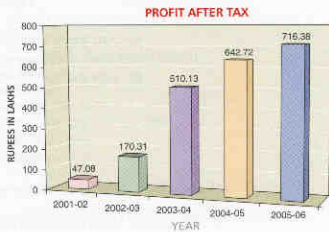
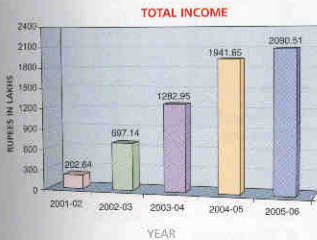
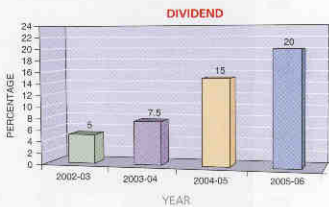
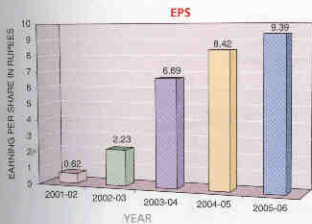
- Motion Platform
- Recoil Module
- Sensing Module
- Optical Sights

Modules of in-house development efforts - Software

- Projectile Trajectory Module
- Guided Missile Module
- Terrain and Target Module

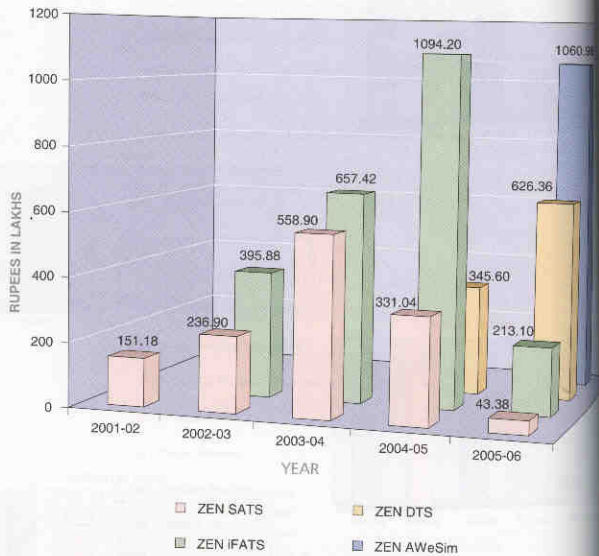


PERFORMANCE OF THE COMPANY AT A GLANCE



PRODUCT WISE SALES

YEAR WISE SALES OF THE PRODUCTS



ZEN SATS, ZEN IFATS, ZEN DTS and ZEN AWeSim have been commercialised in the year 1998, 2002, 2004 and 2006 respectively.
 ZEN AWeSim has superseded ZEN IFATS and is being offered with advanced options for training.



Registered Office	C-63, Industrial Estate Sanathnagar, Hyderabad-500018, A.P., INDIA Phone : 91- 40 - 23814894, 23813294 Fax : 91- 40 - 23813694 Email id : info@zentechnologies.com Website : www.zentechnologies.com
Board of Directors	Mr Ashok Atluri - Chairman and Managing Director Mr M Ravi Kumar - Whole-Time Director Mr Satish Atluri - Director Dr P Kotaiah - Director Cmde S Rao - Director Mr D Satish Babu - Director
Company Secretary	Mr T T Mahadev
Auditors	Gokhale & Co., Chartered Accountants Basheerbagh, Hyderabad-500 029
Bankers	Corporation Bank Indian Bank Oriental Bank of Commerce
R & D Division	B-42, Industrial Estate, Sanathnagar Hyderabad - 500 018, A.P., INDIA Phone : 91 - 40 - 23814894, 23813294 Fax : 91 - 40 - 23813694
Registrars	Sathguru Management Consultants Private Limited Plot No.15, Hindi Nagar Behind Saibaba Temple Punjabgutta, Hyderabad 500 034 Phone : 91- 40 - 2335 6507 / 6975 / 0586 Fax : 91- 40 - 2335 4042 Email id : sta@sathguru.com
Listing	The Hyderabad Stock Exchange Limited, Hyderabad
Permitted Trading	The Bombay Stock Exchange Limited, Mumbai





BOARD COMMITTEES

Audit Committee

Dr P Kotaiah	-	Chairman
Cmdr S Rao	-	Member
Mr D Satish Babu	-	Member

Compensation / Selection Committee

Mr D Satish Babu	-	Chairman
Dr P Kotaiah	-	Member
Mr M Ravi Kumar	-	Member
Mr Feroz Bhatte	-	External Expert

Share Transfer & Investor

Mr D Satish Babu	-	Chairman
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Grievance Committee

Mr Ashok Atluri	-	Member
Mr M Ravi Kumar	-	Member

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ECS Mandate Form**Proxy and Attendance Form**



NOTICE

Notice is hereby given that the Thirteenth Annual General Meeting of the members of *Zen Technologies Limited* will be held on Saturday, the 30 September 2006, at 10.30 a.m. at B-42, Industrial Area, Sanathra, Hyderabad - 500 018, to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at 31 March 2006, the Profit and Loss Account for the year ended on that date together with the Reports of Directors' and Auditors thereon.
2. To declare dividend for the financial year ended 31 March 2006.
3. To appoint a Director in place of Mr Satish Davuluri, who retires by rotation and being eligible, offer himself for re-appointment.
4. To appoint M/s Gokhale & Co., Chartered Accountants, who shall hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and authorize the Board to fix their remuneration.

For and on behalf of the Board

Hyderabad
14 July 2006

T T Mahadhi
Company Secretary

ANNEXURE TO THE NOTICE**NOTES**

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and to vote on a poll instead of him or her. A proxy need not be a member of the Company.
2. An instrument appointing proxy to be effective must be lodged at the Registered Office of the Company at least 48 hours before the commencement of the meeting. Completion and return of the form of proxy will not prevent a member attending the meeting and voting in person, if he or she so wishes. A form of proxy is given at the end of the Annual Report.
3. Voting is by show of hands unless a poll is demanded by a member or members present in person, or by proxy, holding at least one-tenth of the total shares entitled to vote on the resolution, or by those holding paid-up capital of at least Rs 50,000. A proxy shall not vote except on a poll.
4. Pursuant to Section 154 of the Companies Act, 1956, the Share Transfer Books and the Register of Members of the Company will be closed from Thursday, 28 September 2006 to Saturday, 30 September 2006 (both days inclusive).
5. Shareholders / Proxies should bring duly filled attendance slips sent herewith along with the copies of Annual Reports to attend the Annual General Meeting.
6. In case of joint holders attending the meeting, only first joint holder will be entitled to vote.
7. Members who hold shares in dematerialised form are requested to write their Client ID and DP ID numbers and those who hold shares in Physical Form are requested to write their Folio No. in the attendance slip for attending the meeting.
8. Members holding shares in physical form are requested to notify / send any change in their address and updation of bank account details to the Company's Share Transfer Agents or to the Company at its Registered Office. Members having shares in electronic form may inform the same to their depository participants immediately so as to enable the Company to dispatch dividend warrants at their correct address.
9. Subject to the provisions of Section 206A of the Companies Act, 1956, dividend as recommended by the Board of Directors, if declared at the meeting, will be payable on or after 05 October 2006 to those members whose names appear on the Register of Members as on 28 September 2006. In respect of shares held in electronic form, the dividend will be paid on the basis of particulars of beneficial ownership furnished by the Depositories for this purpose.
10. The Company has paid dividend for the financial years 2002-03, 2003-04 and 2004-05. Members who wish to claim dividend, which remain unclaimed, are requested to either correspond with the Company's Registrar and Share Transfer Agent (Sathguru Management Consultants Pvt. Ltd) or the Company at its Registered Office. Members are requested to note that dividends not encashed or claimed within seven years from the date of transfer to the Company's Unpaid Dividend Account, will, as per Section 205A of the Companies Act, 1956, be transferred to the Investor Education and Protection Fund.

For and on behalf of the Board

T T Mahadev
Company Secretary

Hyderabad
14 July 2006



DIRECTORS' REPORT

To

The Members

Your Directors are pleased to present their 13th Report on the business and operations of your Company together with the audited Balance Sheet, Profit & Loss Account and Cash Flow Statement for the financial year ended 31 March 2006.

FINANCIAL PERFORMANCE

Particulars	2005-06	2004-05
Total Income	2090.51	1941.65
Total Expenditure	1019.29	862.41
Operating Profit (PBITD)	1071.22	1079.24
Interest	28.13	19.38
Depreciation	17.80	10.71
Profit before tax	1025.29	1049.15
Provision for Tax	279.42	384.75
Fringe Benefit Tax	3.67	—
Deferred Tax Liability	25.82	21.68
Profit after Tax	716.38	642.72
Appropriations		
Transferred to General Reserve	300.00	500.00
Proposed Dividend	152.60	114.45
Dividend Tax	21.40	16.05
Retained profit	242.38	12.22
Earning Per Share (Rs)	9.39	8.42

RESULTS OF OPERATIONS

Your Company achieved good performance this year as well, with total revenue of Rs 2090.51 lakhs compared to the previous year revenue of Rs 1941.65 lakhs. Net Profit after tax is Rs 716.38 lakhs against Rs 642.72 lakhs for the previous year. In line with the profit, the Earnings Per Share (EPS) has increased to Rs 9.39 compared to previous years EPS of Rs 8.42.

DIVIDEND

Your Directors recommend a dividend of 20% per Equity Share of Rs.10/- each of the Company for the financial year ended 31 March 2006. The amount of dividend outflow is Rs 152.60 lakhs excluding dividend tax of Rs 21.40 lakhs.

APPROPRIATIONS

Your Company has transferred Rs 300.00 lakhs to the General Reserve. An amount of Rs 242.38 lakhs is retained in the Profit and Loss Account.



DEPOSITS

Your Company has not accepted any deposits and, as such, no amount of principal or interest was outstanding on the date of the Balance Sheet. Therefore the provisions of Section 58A of the Companies Act, 1956 and the rules made there under are not applicable to the Company.

DIRECTORS

In accordance with the provisions of the Companies Act, 1956, Mr Satish Davuluri, Director, retires by rotation at the Thirteenth Annual General Meeting and being eligible offers himself for re-appointment.

CORPORATE GOVERNANCE

Your Company has been practicing the principles of sound corporate governance since its inception. In addition to the basic governance issues, the Board lays strong emphasis on transparency, accountability and integrity.

A report on Corporate Governance and Management Discussion and Analysis along with a certificate from the Auditor and certificate from Managing Director and Vice President (Finance) with regard to the compliance of Corporate Governance as per Clause 49 of the Listing Agreement with the Hyderabad Stock Exchange Limited is annexed to this report.

AUDITORS

M/s Gokhale & Co., Chartered Accountants, the Statutory Auditors of the Company will retire at the conclusion of the ensuing Annual General Meeting. The Company is in receipt of confirmation from the Statutory Auditors that in the event of their reappointment as Statutory Auditors of the Company, such reappointment will be in accordance with the limits specified in sub-section (1B) of Section 224 of the Companies Act, 1956

EMPLOYEE STOCK OPTION SCHEME (ESOP)

During the Financial Year under review, none of the options granted were vested in the Employees.

EMPLOYEE PARTICULARS

There are no employees in receipt of remuneration exceeding the limits prescribed under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, and hence no information is furnished.

DISCLOSURES

- A) Disclosures in terms of Companies (Disclosure of Particulars in report of the Board of Directors) Rules, 1988 in respect of Conservation of Energy, Technology Absorption, and Foreign Exchange Earnings & Outgo are attached (Annexure I) and forms part of this Report
- B) Directors Responsibility Statement as required under Section 217(2AA) of the Companies Act, 1956

The Directors hereby confirm that:

- In the preparation of Annual Accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures.
- 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 the financial year and of the profit of the Company for that period.



- The Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- The Directors had prepared the annual accounts on a going concern basis.

ACKNOWLEDGMENTS

Your Directors thank the company's customers, Partners, Suppliers, Dealers, Banks, Financial Institutions, Department of Scientific and Industrial Research, Government Authorities and Consultants for their continued support. Your Directors express their sincere gratitude to the shareholders and place on record their appreciation of the contribution made by all the employees of the Company.

For and on behalf of the Board

Hyderabad
14 July 2006

Ashok Atturi
Chairman & Managing Director

ANNEXURE - I TO THE DIRECTORS' REPORT

Particulars pursuant to Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988

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

A. Conservation of Energy

The Company does not use energy-intensive equipment for its operations. However, due to significant awareness campaigns within the Company the employees are very averse to the wastage of power and consequently the consumption is one of the lowest per employee. The computers, air-conditioners and other equipment being used by the Company are energy efficient and environment-friendly.

B. Research and Development (R & D)

One of the key strengths of your Company is the innate ability to innovate and realize state of the art products.

a. Specific areas in which R & D carried out by the Company

Significant efforts were involved in developing 6DoF Motion Platform for integration into Cabin Crew Simulators and Driving Training Simulators. When the system is commercially ready, the sub system can be used even in advanced simulators like flight simulators.

b. Future plan of action

Your Company plans to invest significant amount in the years to come to keep the technological edge that it enjoys now. The basis of arriving at the R&D expenditure is not as a percentage of the sales or any such pre-determined formula, but the strategies that we design for long-term and newer opportunities that are available in the short-term. We expect that there may be wild swings in our R&D expenditure. Such opportunity-based investment is, we believe, the only way to retain the technological edge.

c. Expenditure on R & D

The Company has incurred Rs 305.05 lakhs as R & D expenditure for the financial year 2005-06 for the development of various products.

C. Efforts made towards Technology absorption, adoption and innovation

S.No.	Particulars	Efforts
1	Efforts, in brief, made towards technology absorption, adoption and innovation.	Company has indigenously developed significant technologies that are useful in various products. The technologies harnessed within the Company have been incorporated into various products. There has been no transfer of technology to the Company, consequently there is no absorption of technologies.
2	Benefits derived as a result of the above efforts e.g., product improvement, cost reduction.	We expect that such technologies will give us an unbeatable edge in evolving our products into more technologically rich, reliable, sustainable and robust.
3	Information about Technology imported	The Company has not imported any technology.

D. Foreign Exchange Earnings and Outgo

in Rupees Lakhs

Particulars	2005-06	2004-05
Earned during the year	Nil	85.05
Used during the year	94.52	126.13

For and on behalf of the Board

Hyderabad
14 July 2006

Ashok Atluri
Chairman & Managing Director



MANAGEMENT DISCUSSION AND ANALYSIS

Industry Structure and Development

Webster's New World Dictionary defines Simulator as "a training device that duplicates artificially the conditions likely to be encountered in some operation."

Simulators are used in various fields and their use is not restricted just to training security forces. A few areas where simulators are being used extensively include weapons training, aviation, maintenance, medicine, power plant, bridges and ships, and entertainment. This list is not exhaustive and as technology becomes more affordable inventive minds are finding more and better applications.

Given the importance of simulators in training and the potential demand for them, there are a number of players in the simulation field but, for now, your company has very limited competition from domestic players. There are a number of players from overseas market who are keen to enter the Indian market. Zen is also scouting for strong marketing partners to penetrate the overseas market.

Opportunities and threats

Zen has been participating in the overseas defence exhibitions and strong interest is being shown in the simulators. We see huge opportunity in the overseas market. We also see a similar opportunity in the domestic civilian market.

We were expecting some export orders this year, but were not successful. However we are strengthening our follow up strategy, and partnering with strong local organisations in the overseas market and do expect coming years to be positive for exports.

ZENDTS has performed well and we expect this product to make significant inroads in to the non-security markets in the current year.

The company has been working on improving the simulators to the evolving needs of the end-users. However, we see that foreign competition for the simulators will be a significant factor in years to come.

Strengths

Your company's competitive advantages include

Cross-disciplinary skills

To develop simulators we have had to acquire a range of skills including software, electronics, mechanical, and optics. For most of the products that we have developed, we had needed these skills in different ratios but nevertheless they were indispensable to the realization of the products.

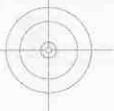
Customer Acceptance

With a track record of having the widest penetration across Indian security forces for simulators and having received positive reviews from our customers we are today one of the most preferred brand names in the field of training simulators.

Formidable Quality

Zen's products are ranked as one of the best products in their range. When we factor in the price at which your company has priced them, they become an unbeatable and compelling choice for the customers.





Performance

ZEN SATS contributed Rs 43.38 lakhs (Previous year Rs 331.04 lakhs), ZEN #FATS Rs 213.10 lakhs (Previous year Rs 1094.20 lakhs) ZEN AWeSim Rs 1060.98 lakhs (Previous year Rs Nil) and DTS contributed Rs 626.36 Lakhs (Previous Year Rs 345.60 Lakhs). The remaining contribution was from activities incidental to the sale of simulator including after sales service, annual maintenance contracts and customisation of the system, apart from interest.

The Company's performance has been lacklustre this year due to the severance of our relationship with Bharat Dynamics Limited. However, by the end of the fourth quarter, we were able to successfully communicate to most of the end-users about this development and were able to get the orders in favour of Zen. The bright side of this development is that Zen is now promoting its own brand name and that will give us a sustainable competitive advantage in future.

Products and the Market

Your company has four products that are already in the market, viz., Small Arms Training Simulator (ZEN SATS), Hand Grenade Simulator (ZEN HE365), Advanced Weapons Simulator (ZEN AWeSim), and Driving Training Simulator (ZEN DTS). The first three products have security forces as the target market. Out of the three both ZEN SATS & ZEN AWeSim have a limited market in the civilian sector (with private security agencies that have a demand to train their guards in arms handling). However, it is with ZEN DTS that we will be targeting the civilian market in a big way.

The two products that we are demonstrating to the end-users include TacSim (Tactical Engagement Simulator) and ATGM (Anti-Tank Guided Missile Simulator). TacSim has potential for all security forces in contrast to ATGM, which has potential demand only from the Armed Forces.

We have recently tied up with SAAB Training Systems (STS), Sweden for their highly evolved version of TacSim that is being used by many security forces across Europe. We have tied up to indigenise SAAB's technology and incorporate it into TacSim, in a phased manner, to suit the requirements of Indian Security Forces.

We have also developed a cabin crew simulator with great potential for in-flight cabin crew training. The product is expected to be launched in Financial Year 2006-07.

Opportunities in Security Training & Driving Training Schools

Gradually, the security agencies and forces in the world are moving to a model where they expect the simulation companies to provide complete training solutions. This would entail that the solution provider in addition to supplying the equipment should also design and manage the training program for the end-users. This can substantially expand the market for our products apart from generating new revenue streams.

We also expect that there is a huge gap for trained drivers in India and expect that a driving school which can impart good driving habits with the help of the latest in simulation technology will be well placed to take advantage of this huge opportunity.

There is a tremendous need for a driving training school that is not affiliated to any manufacturer and is keen to promote safe driving. Zen is exploring various options to exploit such opportunity.



Research and Development Efforts

Your company has been involved in R&D efforts to ensure that the existing products evolve to next level in the coming years and new products that are introduced are tuned into real customer needs. Thus software libraries or hardware competencies once acquired can be put to use for development of new products and solutions effectively.

Profit Margins and Cost Control Exercise

Even though our costs in relation to our sales are one of the lowest in the segment, efforts are on to optimise expenses further so that the profit margins are maintained. Such cost control efforts will become more significant as we try to penetrate the overseas market. Without doubt our ability to keep costs low is one of our competitive advantages and we will sustain it.

Personnel Relationships

Like the past few years, your company experienced outstanding personnel relationships in the last year. We have tied up performance to pay in a more transparent manner. The team members have imbibed the basic premise, under which they are operating, i.e. "Don't just do what you are asked to, do what needs to be done". This understanding has resulted in some team members going beyond the call of duty and making some breakthrough contributions.

Outlook

The global market for simulators presents an enormous opportunity for your Company in the years to come. This multi-billion dollar market is growing exponentially and the use of simulators is spawning to include weapons training, aviation, maintenance, medicine, power plant, bridges and ships, and entertainment. The list is not exhaustive and as technology becomes more affordable, inventive minds are finding more and better applications.

The company in the Year 2006-07 will be launching a Cabin Crew Simulator for in-flight cabin crew training. We expect the volatility seen in this year earnings to continue into the foreseeable future. Also, given the fact that we depend on business from Government, we expect quarterly results to be quite lumpy and corresponding quarter on quarter results to be uneven.

We have been allotted land near the Hyderabad new international airport. Primary purpose of the land is construction of world-class integrated facilities keeping in the future needs of the Company. Funds required will be raised through debt/internal accruals.

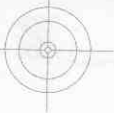
All technology products are work-in-progress. Newer discoveries and inventions challenge us to take existing products to the next level of evolution that should benefit the customer and your company.

Since our business is primarily Government dependant (with the exception of Driving Training Simulator-which can be used by non-Government agencies also) the revenues will depend on the policies of the Government.

Risks and Concerns

We are seeing more and more players entering into the field of simulation-though most of them do not compete directly with us, we do foresee a time-where the competition will be more and margins will drop for products that have had huge market demands.





Your company is committed to developing cutting edge simulators for the Security Forces. These simulators are typically developed with feedback from the end users but with no-commitment from them to buy the resulting system. Such a commitment to develop critical simulation technologies for security forces will cause definite expenditure with no promise of matching income. The Government's policy of buying the system from the lowest bidder may harm us if any foreign supplier, with their development costs already amortized, is competing with us. The Government does not have any explicit policy or procedure to encourage indigenous technology in such situations. Our problem is compounded if such foreign supplier ties up with an organization (like a PSU) who are given a price advantage over us by procuring agencies.

Internal Control Systems and their Adequacy

The Company has a proper and adequate system of internal controls to ensure that all assets are safeguarded, and protected against loss from unauthorized use or disposition.

The internal control system is supplemented by an extensive program of internal audits and review by management.

Human Resource Development

- ZEN's team strength today stands at about 102 members and is poised to grow significantly. The management and employees in the company regularly meet to assess the areas of discussion and address the areas of concern. Most of the time the decision is taken by the in-charge supervisor to address these issues. Issues not resolved get escalated to proper levels-but all employees have access to the Managing Director at all times and can bring issues to his notice.

Industrial Relations

During the year under review, the relations with customers, partners, suppliers, workers, employees, and other industries were cordial.

Disclaimer

Statements in the Annual Report describing the company's objectives and expectations may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the company's operations include economic conditions affecting demand/supply and price conditions in the domestic and overseas markets in which the company operates, changes in the government regulations, changes in relationships with suppliers, partners and customers, tax laws and other statutes and other incidental factors.



CORPORATE GOVERNANCE REPORT

i) Corporate Governance at ZEN

Zen is committed to good corporate governance. Your Company aims to achieve the objective of enhancing the shareholders value by ensuring effective relationship with stakeholders and protecting their interests. The Company believes that the Company's business strategy and plans should be consistent with the welfare of all its stakeholders which will bring sustained corporate growth and long term benefit to all.

The Company has been practicing the principles of good corporate governance with a great zeal of commitment and sincerity. The Company's principle of corporate governance comes from the belief that the high standards of ethics, timely disclosures, accountability and transparency go a long way in preserving shareholders' trust and creating wealth.

ii) Board of Directors

A. Composition

The Board of Directors of the Company consists of a majority of non-executive Directors. The Board has composition of two executive Directors and four non-executive Directors. Three out of Six are Independent Directors.

Composition and category of Directors on the Board for the year 2005-06 are given below:

Name of the Director	Category	Date of Appointment	Number of Directorships in other Companies	Number of Committee memberships held in other Companies.
Ashok Atluri	Promoter - Chairman & Managing Director	01-11-1994	Nil	Nil
M Ravi Kumar	Promoter - Whole-Time Director	29-06-1993	Nil	Nil
Satish Atluri	Promoter - Director	20-11-1999	Nil	Nil
D Satish Babu	Independent Director	27-01-2004	Nil	Nil
Dr P Kotaiah	Independent Director	17-01-2005	07	03
Cmde S Rao	Independent Director	30-03-2005	Nil	Nil

B. Pecuniary relationship or transactions of the Non-Executive Directors vis-à-vis the Company.

None of the Non-Executive Directors have any pecuniary relationship or transactions with the Company except to the extent of sitting fees.



C. Meetings and Attendance

During the Financial Year 2005-06 the Board of Directors met 5 times on the following dates:

- 30 May 2005
- 27 July 2005
- 30 September 2005
- 28 October 2005
- 20 January 2006

Attendance of Directors at Board Meetings and at the last Annual General Meeting (AGM) held on 30 September 2005.

Name of the Director	Number of Board meetings held	No. of Board meetings attended	Attendance at the last AGM
Ashok Atluri	5	5	Present
M Ravi Kumar	5	5	Present
Satish Atluri	5	2	Present
D Satish Babu	5	4	Present
Dr P Kotaiah	5	4	Present
Crnde S Rao	5	5	Present

D. Board's Procedure

Agenda papers along with explanatory statements were circulated to the Directors in advance for each of these meetings. All relevant information as per Clause 49 of the Listing Agreement was placed before the Board from time to time.

iii) Audit Committee

A. Composition

The Company has constituted an Audit Committee comprising of the following three Non-Executive Independent Directors. Further, Dr. P. Kotaiah has been appointed as the Chairman of the Committee and its constitution is as follows:

1. Dr P Kotaiah - Chairman
2. Crnde S Rao - Member
3. Mr D Satish Babu - Member

All the members including the Chairman have adequate financial and accounting knowledge.



B. Terms of reference

The Audit Committee reviews, acts and reports to the Board of Directors with respect to:

- Company's financial reporting process.
- Quarterly and annual financial results of the Company.
- Accounting and financial policies and practices.
- Internal control and internal audit systems.
- Risk management policies and practices.
- Independence of auditors.

C. Meetings and Attendance

The Audit Committee met 5 times during the year under review on the following dates:

21 April 2005

30 May 2005

27 July 2005

28 October 2005

20 January 2006

Attendance during the year 2005-06

Name	Number of meetings held	Number of meetings attended
Dr P Kotalah	5	4
Cmdr S Rao	5	5
Mr D Satish Babu	5	5

The Chairman of the Audit Committee is always present at the Annual General Meeting to give clarifications, if any, required by the members thereof.



iv) Remuneration of Directors

The remuneration of Managing Director and Whole-Time Director for the Financial Year ended 31 March 2006 is as follows:

in Rupees

Name of the Director	Ashok Atluri	M Ravi Kumar
Designation	Managing Director	Whole-Time Director
Salary	7,20,000	5,70,000
Perquisites	3,30,000	2,28,000
Commission on profits	28,80,159	-
Leave Travel Allowance	82,730	-
Total	40,12,889	7,98,000

v) Share Transfer and Investor Grievance Committee

A. Composition

Your Company has constituted a Share Transfer and Investor Grievance Committee consisting of

- Mr D Satish Babu - Chairman
- Mr Ashok Atluri - Member
- Mr M Ravi Kumar - Member

B. Powers

The Committee has been delegated with the following powers:

- To review and redress shareholder / investor's complaints etc. relating to transfer of shares, non-receipt of balance sheet, non-receipt of dividends etc.
- To approve transfer and transmission and issue of duplicate/fresh share certificates.
- To approve consolidation and sub-division of share certificates etc.
- To redress, approve and dispose off any other complaint, transaction and request etc. received from any shareholder of the Company and investor in general.

Sathguru Management Consultants Private Limited, the Registrar and Share Transfer Agent have been delegated the power to process the transfer and transmission of shares. The share transfers are processed within the time prescribed under the statute from the date of lodgement in case of shares held in physical form.



vi) General Body Meetings

The following are the details of the last three Annual General Meetings:

Financial Year	Date	Time	Venue	Nature of special resolutions, if any passed.
2002-03	30-09-2003	10.30 a.m.	Gayatri Gardens, 26 Part, Sikh Road, Sikh Village, Near Diamond Point Hotel, Secunderabad - 500 009.	<ul style="list-style-type: none"> ■ Revision of Remuneration to Mr Kishore A. D., a relative of Mr Ashok Atluri, Managing Director and Mr Satish Atluri, Director to hold an office or place of profit ■ Authorisation to issue shares under Employees Stock Option Scheme.
2003-04	30-09-2004	10.00 a.m.	Gayatri Gardens, 26 Part, Sikh Road, Sikh Village, Near Diamond Point Hotel, Secunderabad - 500 009	<ul style="list-style-type: none"> ■ No Special Resolution was passed
2004-05	30-09-2005	10.30 a.m.	Gayatri Gardens, 26 Part, Sikh Road, Sikh Village, Near Diamond Point Hotel, Secunderabad - 500 009	<ul style="list-style-type: none"> ■ Revision of Remuneration to Mr. Kishore A D, a relative of Mr. Ashok Atluri, Managing Director and Mr. Satish Atluri, Director to hold an office or Place of profit

No Special Resolution was put through postal ballot last year. All the resolutions were passed unanimously by show of hands.

The Company shall comply with the provisions of postal ballot under the Companies Act, 1956 as and when required.

vii) Disclosures

- The Company has not entered into any transaction of material nature with related parties' i.e., Directors or Management or their relatives, conflicting with the Company's interest.
- There were no instances of non-compliance of any matter relating to the capital markets during the year under review. Hence, there have been no penalties, strictures imposed by SEBI / Stock Exchange or any other statutory authorities on matters related to capital market.

viii) Means of Communication

1. The Board of Directors of the Company approves and takes on record the quarterly un-audited financial results in the proforma prescribed by the Hyderabad Stock Exchange Limited and Bombay Stock Exchange Limited, where the shares of the Company are traded, within one month of the close of the quarter and announces forthwith the results to the Hyderabad Stock Exchange Limited and Bombay Stock Exchange Limited and usually publish the results in Business Standard (Nation Wide) and Andhra Bhoomi (Regional Newspaper).

2. The annual audited Accounts of the Company are likewise communicated in the prescribed proforma to the Hyderabad Stock Exchange Limited and Bombay Stock Exchange Limited as also to the newspapers as mentioned above.
3. Management Discussion and Analysis forms part of the annual report, which is posted to the shareholders of the Company.

ix) General Shareholder Information

The following information would be useful to the shareholders:

A. 13th Annual General Meeting

- Date : 30 September 2006
 Time : 10.30 a.m.
 Venue : B-42, Industrial Estate, Sanathnagar, Hyderabad - 500 018.

B. Financial Calendar 2006-07 (Tentative Schedule)

Annual General Meeting (Next year) : August / September 2007

Adoption of Quarterly results for the Quarter ending	3rd/4th Week of
30 June 2006	July 2006
30 September 2006	October 2006
31 December 2006	January 2007
31 March 2007	June 2007 (audited)

C. Date of Book Closure

Thursday, 28 September 2006 to Saturday, 30 September 2006 (both days inclusive)

D. Dividend Payment Date

First Week of October 2006

E. Listing on Stock Exchanges

The Equity Shares of the Company are listed on The Hyderabad Stock Exchange Limited. The Company confirms that it has paid annual listing fees to the Stock Exchange for the year 2006-07.

The Company's shares are traded under permitted category on the Bombay Stock Exchange Limited, Mumbai.

F. Stock Code

(a) Trading Symbol	ZENTEC
(b) Demat ISIN number in NSDL & CDSL	INE251B01019
(c) Scrip ID on HOSR in HSE	6443
(d) Scrip ID on BOLT in BSE	590032
(e) Scrip code on finance.yahoo.com	590032.BO

Electronic Connectivity

National Securities Depository Limited Trade World, Kamala Mills Compound, Senapati Bapat Marg, Lower Parel, Mumbai - 400 013	Central Depository Services (India) Limited Phiroze Jeejeebhoy Towers, 28th Floor, Dalal Street, Mumbai - 400 023
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G. Market Price Data

Hyderabad Stock Exchange Limited, Hyderabad

Month & Year	High (Rs)	Low (Rs)	Monthly Average (Rs)
There is no trading during Financial Year under consideration in HSE			

The Bombay Stock Exchange Limited, Mumbai

Month & Year	High (Rs)	Low (Rs)	Monthly Average (Rs)
April 2005	193.70	142.00	164.68
May 2005	210.00	165.00	189.00
June 2005	204.40	172.20	186.30
July 2005	307.00	177.00	246.07
August 2005	325.30	260.05	292.35
September 2005	301.45	235.00	271.20
October 2005	294.70	147.45	212.20
November 2005	207.00	133.10	180.50
December 2005	182.70	153.10	166.53
January 2006	189.20	142.55	167.38
February 2006	169.95	136.85	154.26
March 2006	183.90	138.00	167.00

H. Demat Registrars and Share Transfer Agents

Communication regarding transfers in Physical / Electronic form and other related correspondence

Sathguru Management Consultants Private Limited

Plot No. 15, Hindi Nagar

Behind Saibaba Temple

Punjagutta, Hyderabad - 500 034

Phone : 91-40-2335 6507/6975/0586

Fax : 91-40-2335 4042

Email id : sta@sathguru.com

I. Share Transfer system

The Company has appointed Sathguru Management Consultants Private Limited, Hyderabad as Registrar and Share Transfer Agents for the purpose of carrying on the work relating to share transfers both physical and demat form. The requests received for transfer of shares from the shareholders are normally completed in the prescribed time.

J. Distribution of Shareholding

Distribution of Shareholding as on 31 March 2006 is as follows:

Category (No. of Shares)		Number of Shareholders	Percentage	No. of Shares	Percentage
From	To				
Up to 500		2806	84.00	426123	5.57
501	1000	250	7.49	207173	2.72
1001	2000	116	3.47	179702	2.36
2001	3000	47	1.41	124066	1.63
3001	4000	31	0.93	109555	1.44
4001	5000	23	0.69	109356	1.43
5001	10000	26	0.78	195827	2.57
10001 and Above		41	1.23	6278198	82.28
TOTAL		3340	100.00	7630000	100.00

K. Dematerialisation of shares

4159985 Equity Shares are dematerialised as on 31 March 2006 and constitute 54.52% of the paid-up capital.

L. Address for Investor correspondence

Mr T T Mahadev, Company Secretary & Compliance Officer
ZEN TECHNOLOGIES LIMITED
C-63, Industrial Estate
Sanathnagar, Hyderabad-500018
Phone : 91-40 - 23814894, 23813294
Fax : 91-40 23813694
Email id : mahadev_tt@zentechnologies.com

x) Nomination Facility

Shareholders holding shares in physical form and desirous to making a nomination in respect of their shareholding in the Company as permitted under Section 109A of the Companies Act, 1956 are requested to submit to the Company the prescribed Form 28 for this purpose.

xi) Company's Policy on prevention of Insider Trading

Pursuant to the requirements of SEBI (Prohibition of Insider Trading) Regulations, 1992, the Company has framed a Code of Conduct for prevention of Insider Trading.

For and on behalf of the Board

Hyderabad
14 July 2006

Ashok Atluri
Chairman & Managing Director



MANAGING DIRECTOR AND VICE PRESIDENT (FINANCE) CERTIFICATION

We, Ashok Atluri, Managing Director and M Kamaraju, Vice-President (Finance) of *Zen Technologies Limited*, to the best of our knowledge and belief, certify that:

1. We have reviewed financial statements and the cash flow statements and that to the best of our knowledge:
 - The statements do not contain any materially untrue or misleading statement or omit any material fact.
 - The statements present a true and fair view of Company's affairs and are in compliance of applicable laws, regulations and accounting standards.
2. To the best of our knowledge, no transactions entered into by the Company during the year, are fraudulent, illegal or in violation of Company's Code of Conduct.
3. We are responsible for establishing and maintaining internal controls and we have:
 - a. Evaluated effectiveness of internal control system
 - b. Disclosed deficiencies in the design or operation of internal controls we are aware of
 - c. Taken steps to rectify the internal control deficiencies
4. We have indicated to the auditors and Audit Committee
 - a. Significant changes in internal control during the year
 - b. Significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements and
 - c. Instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system.
5. We further declare that all board members and senior managerial personnel have affirmed compliance with the code of conduct for the current year.

Hyderabad
02 May 2006

Ashok Atluri
Managing Director

M Kamaraju
Vice President (Finance)





SECRETARIAL AUDIT REPORT

To

The Members of
Zen Technologies Limited

We have examined the registers, records and documents of Zen Technologies Limited ("the Company") for the financial year ended on 31 March 2006 according to the provisions of:

- The Companies Act, 1956 and the Rules made under that Act.
 - The Depositories Act, 1996 and the Bye Laws framed under the Act
 - The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997
 - The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 and
 - The Listing Agreement with the Hyderabad Stock Exchange Limited
1. Based on our examination and verification of the records produced to us and according to the information and explanation given to us by the Company, we report that the Company has in our opinion, complied with the provisions of the Companies Act, 1956 ("the Act") and the Rules made under the Act and Memorandum and Articles of Association of the Company, with regard to:
- a) Maintenance of various statutory registers and documents and making necessary entries therein
 - b) Closure of Register of Members
 - c) Forms, returns, documents and resolutions required to be filed with the registrar of Companies
 - d) Service of documents by the Company on its Members and Registrar of Companies
 - e) Notice of Board Meetings and Committee Meetings of Directors
 - f) The meetings of Directors and Committees of Directors including passing of resolutions by circulation
 - g) The Annual General Meeting for the financial year ended on 31 March 2005 was held on 30 September 2005
 - h) Minutes of proceedings of General Meetings and of Board and other meetings
 - i) Approvals of shareholders, the Board of Directors, the Committees of Directors and government authorities, wherever required
 - j) Constitution of the Board of Directors and appointment, retirement and re-appointment of directors
 - k) Remuneration paid to the Directors other than Managing and Whole time Directors
 - l) Appointment and remuneration of the Managing Director and Whole-Time Directors
 - m) Transfers and transmissions of the Company's shares and debentures and issue and delivery of original and duplicate certificates of shares
 - n) Declaration and payment of dividends.

- o) Transfer of certain amounts as required under the Act to the Investor Education and Protection Fund
 - p) Borrowing and registration, modification and satisfaction of Charges
 - q) Contracts, common seal, registered office and publication of name of the Company and
 - r) Generally all other applicable provisions of the Act and the Rules made under that Act
2. We further report that:
- a) The Company's Directors have complied with the requirements as to disclosure of interests and concerns in contracts and arrangements, shareholdings and directorships in other companies and interests in other entities
 - b) Company has applied to Company Law Board under Section 314 (1B) of the Companies Act, 1956 for its approval for the appointment of Mr Atluri Kishore Dutt to the office of Place of Profit.
 - c) There was no prosecution initiated against or show cause notice received by the Company and no fines or penalties were imposed on the Company under the Act against the Company, its Directors and Officers
3. We further report that the Company has complied with the provisions of the Depositories Act, 1996 and the Bye Laws framed there under by the Depositories with regard to dematerialisation / rematerialisation of securities and reconciliation of records of dematerialized securities with all securities issued by the Company.
4. We further report that:
- a) The Company has complied with the requirements under the listing Agreements entered into with the Hyderabad Stock Exchange Limited
 - b) The Company has complied with the provisions of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 with regard to the disclosures and maintenance of records required under the Regulations
 - c) The Company has complied with the provisions of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 with regard to disclosures and maintenance of records required under the Regulations.

For R & A Associates
Company Secretaries

(G. Raghu Babu)
Partner
C.P. No.2820

Hyderabad
14 July 2006



AUDITORS CERTIFICATE ON CORPORATE GOVERNANCE

To

The Members

Zen Technologies Limited

We have examined the compliance of the requirements of Corporate Governance by Zen Technologies Limited for the year ended on 31 March 2006, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

The compliance of the requirements is the responsibility of the Management. Our examination has been limited to the procedures and implementation thereof, adopted by the Company, for ensuring such compliance. This examination is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the requirements of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

The above compliance however is not an assurance of the efficiency or effectiveness with which the Management has conducted the affairs of the Company.

For Gokhale & Co
Chartered Accountants

Chandrashekhhar Gokhale
Partner
Membership No 23839

Hyderabad
14 July 2006

**AUDITOR'S REPORT**

To
The Members
Zen Technologies Limited

We have audited the attached Balance Sheet of Zen Technologies Limited, Hyderabad as at 31 March 2006 and the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1. As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of Subsection (4A) of Section 227 of the Companies Act, 1956, we enclose in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said order.
2. Further to our comments in the annexure referred to in paragraph 1 we report that:
 - a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.
 - b) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books.
 - c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with books of account.
 - d) In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in Subsection (3C) of Section 211 of the Companies Act, 1956.
 - e) On the basis of written representation received from the Directors, as on 31 March 2006 and taken on record by the Board of Directors, we report that, none of the directors is disqualified as on 31 March 2006 from being appointed as director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
 - f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required, and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i) In the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2006
 - ii) In the case of the Profit & Loss Account, of the Profit of the company for the year ended on 31 March 2006; and
 - iii) In the case of the Cash Flow Statement of the Cash Flows for the year ended on 31 March 2006.

For Gokhale & Co
Chartered Accountants

Chandrashekhar Gokhale
Partner
Membership No 23839

Hyderabad
02 May 2006



ANNEXURE

As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of Subsection (4A) of Section 227 of the Companies Act, 1956 (1 of 1956) and on the basis of such checks, as we considered appropriate, we further report that:

- (i) The company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets. The fixed assets have been physically verified by the management according to the phased programme designed to cover all assets on rotation basis. In respect of assets verified according to this programme, which is reasonable, no material discrepancies were noticed. The company has not disposed off substantial part of its fixed assets during the year.
- (ii) Inventories have been physically verified during the year by the management and in our opinion the frequency of verification is reasonable. According to the information and explanations given to us, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business. On the basis of our examination of the records the company is maintaining proper records of inventories and the discrepancies noticed on verification between the physical stocks and the book records were not material.
- (iii) The company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Act. Accordingly, the provisions of Clauses 4 (iii)(b), 4 (iii)(c) and 4 (iii)(d) of the Order are not applicable for the year under audit.
- (iv) In our opinion, and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business, for the purchase of inventory, fixed assets and for the sale of its products.
- (v) In our opinion and according to the information and explanations given to us the company had no transactions that need to be entered into a register in pursuance of section 301 of the Act.
- (vi) The company has not accepted deposits from the public covered by the provisions of section 58 A of the Companies Act.
- (vii) The company has an internal audit system commensurate with its size and nature of its business.
- (viii) The company is not required to maintain any cost records under clause (d) of sub-section (1) of section 209 of the Act.
- (ix) The company is regular in depositing its undisputed statutory dues. According to the explanations and information given to us there were no undisputed statutory dues including Investor Education and Protection Fund, Income Tax, Sales Tax, Wealth Tax, Custom Duty, Excise Duty etc outstanding for a period of more than six months from the date they became payable.
- (x) The company had no accumulated losses and has not incurred cash losses during the financial year covered by our audit or in the immediately preceding financial year.

- (xi) The company has not defaulted in repayment of dues to its Bank in respect of Loans taken by it. There were no dues payable to any financial institution(s).
- (xii) The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) The company has not given any guarantee for loans taken by others from bank or financial institutions.
- (xiv) The company has not taken any term loans during the year.
- (xv) According to the information and explanations given to us and on an overall examination of the financial statements, we report that no part of the funds raised on short-term basis have been used for long-term investments and vice-versa.
- (xvi) The company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act.
- (xvii) During the period covered by our audit report, the company has not issued any debentures.
- (xviii) the company has not raised any money by way of public issue during the year.
- (xix) On the basis of information and explanations given to us no fraud on or by the company has been noticed or reported during the year.

The other clauses of the order are not applicable to the company for the year under audit.

For Gokhale & Co
Chartered Accountants

Chandrashekhar Gokhale
Partner
Membership No 23839

Hyderabad
02 May 2006

BALANCE SHEET AS AT 31 MARCH 2006

in Rupees

Particulars	Schedule	As at 31 March	
		2006	2005
SOURCES OF FUNDS			
Share holders Funds			
Share Capital	1	76,300,000	76,300,000
Reserves & Surplus	2	180,464,677	256,764,677
			126,226,732
			202,526,732
Loan Funds			
Secured Loans	3		35,074,067
Deferred Tax Liability	4		18,866,621
			14,796,041
			16,284,762
TOTAL		310,705,365	233,607,535
APPLICATION OF FUNDS			
Fixed Assets	5	74,385,989	56,686,895
Less : Depreciation		19,994,667	15,575,698
Net Block		54,391,322	41,111,197
Add: Capital Work in progress		5,935,334	60,326,656
			5,287,775
			46,398,972
Current Assets, Loans & Advances			
a. Inventories	6	13,123,750	7,596,682
b. Sundry Debtors		93,702,581	125,375,897
c. Cash and Bank Balances		188,621,199	78,384,778
d. Loans and Advances		10,207,543	9,812,965
		305,655,073	221,170,322
Less : Current Liabilities & Provisions			
Current Liabilities	7	47,401,862	36,810,572
Provisions		23,975,832	16,822,814
		71,377,694	53,633,386
Net Current Assets		234,277,379	167,536,936
Miscellaneous Expenditure (To the extent not written Off or adjusted)	8	16,101,330	19,671,627
TOTAL		310,705,365	233,607,535
Notes forming part of the accounts	17		

As per our report of even date

For and on behalf of the Board

For Gokhale & Co.,
Chartered Accountants

C Gokhale
Partner

Hyderabad
02 May 2006

Ashok Atluri
Chairman & Managing Director

P Kotaiah
Director

M Ravi Kumar
Whole-Time Director

T T Mahadev
Company Secretary



PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

in Rupees

Particulars	Schedule	For the Year ended 31 March	
		2006	2005
INCOME			
Sales		202,299,841	190,133,239
Other Income	9	6,751,021	4,031,972
		209,050,862	194,165,211
EXPENDITURE			
Materials Consumed	10	26,475,636	17,030,341
Manufacturing Expenses	11	1,872,482	2,176,442
Taxes & Duties	12	9,534,972	6,487,330
Payments and Benefits to employees	13	7,556,320	4,312,279
R&D expenses		17,113,802	8,974,021
Administrative & General Expenses	14	41,066,342	40,431,927
Interest & Financial Charges	15	2,813,286	1,937,764
(Increase)/Decrease in Stocks	16	(5,261,768)	(1,371,293)
Depreciation	5	1,780,361	1,070,751
Miscellaneous Expenses written off:			
Amortisation of R&D Exp. on Product development		3,386,720	7,422,943
Preliminary and Pre-operative Expenses		183,576	777,216
		3,570,296	8,200,519
		106,521,729	89,249,721
		102,529,133	104,915,490
Profit for the year before tax			
Less : Provision for Income Tax			
Current year Tax Liability	27,801,235		33,653,289
Tax for earlier period	141,080		4,822,164
Fringe Benefit Tax	366,799		
Deferred Tax Liability/ (Asset)	2,581,859	30,890,973	2,168,391
Profit after tax		71,638,160	64,271,646
Add : Opening Balance		76,226,732	75,005,247
		147,864,892	139,276,893
Transferred to General Reserve	30,000,000		50,000,000
Proposed Dividend	15,260,000		11,445,000
Dividend Tax	2,140,215	47,400,215	1,605,161
		100,464,677	76,226,732
Earning Per Share of Rs. 10/- each		9.39	8.42
Notes forming part of the accounts	17		

As per our report of even date

For and on behalf of the Board

For Gokhale & Co.,
Chartered Accountants

Ashok Atluri
Chairman & Managing Director

M Ravi Kumar
Whole-Time Director

C Gokhale
Partner

P Kotaiah
Director

T T Mahadev
Company Secretary

Hyderabad
02 May 2006

SCHEDULES FORMING PART OF THE ACCOUNTS

in Rupees

Particulars	As at 31 March	
	2006	2005
SCHEDULE-1		
Share Capital		
Authorised		
10,000,000 Equity Shares of Rs.10/- each	100,000,000	100,000,000
Issued, Subscribed & Paid up		
7,630,000 Equity Shares of Rs.10/- each Fully Paid Up	76,300,000	76,300,000
SCHEDULE-2		
Reserves & Surplus		
General Reserve	80,000,000	50,000,000
Profit & Loss A/c	100,464,677	76,226,732
	<u>180,464,677</u>	<u>126,226,732</u>
SCHEDULE-3		
Secured Loans		
Indian Bank -OD	32,108,435	14,028,631
Corporation Bank	2,670,893	-
(Secured by way of pledge of fixed deposits)		
Vehicle Loans from ICICI Bank	294,739	767,410
(Secured by Hypothecation of Vehicle)		
	<u>35,074,067</u>	<u>14,796,041</u>
SCHEDULE-4		
Deferred Tax Liability		
Opening Balance	16,284,762	14,116,371
Add: Provision for the year	2,581,859	2,168,391
	<u>18,866,621</u>	<u>16,284,762</u>

SCHEDULE - 5
Fixed Assets

In Rupees

ZEN TECHNOLOGIES LIMITED  bangalore

Description	Rate%	GROSS BLOCK			DEPRECIATION			NET BLOCK		
		Opening Balance	Additions For this Year	Deletions	Total	For the Year	Deletions	Total	As at 31 st March 2005	2005
A ASSETS										
1 Land	-	1,528,011	-	-	1,528,011	-	-	-	1,528,011	1,528,011
2 Building	1.63	487,791	-	-	487,791	7,951	-	37,337	450,454	450,454
3 Vehicles	9.50	7,957,445	2,985,175	837,562	10,105,078	770,483	29,771	1,903,068	8,202,010	6,795,089
4 Furniture & fittings	6.33	1,474,402	384,143	-	1,858,545	112,948	-	533,255	1,325,290	1,054,094
5 Office Equipment	16.21	2,352,024	1,472,779	-	3,824,803	480,800	-	1,365,031	2,459,772	1,467,293
6 Computers	16.21	1,206,075	1,146,536	-	2,352,611	273,679	-	785,094	1,567,517	694,660
7 Software	100.00	93,722	317,200	-	416,922	35,590	-	170,090	246,832	64,132
Sub Total		15,105,470	6,305,833	837,542	20,573,761	1,780,361	29,771	4,794,376	15,779,385	12,061,684
B ASSETS - R & D DIVISION										
1 Land	-	5,150,020	-	-	5,150,020	-	-	-	5,150,020	5,150,020
2 Building	1.63	16,032,387	2,188,599	-	18,220,986	43,358	-	304,784	17,916,203	15,989,029
3 Plant & Machinery	4.75	7,630,310	-	-	7,630,310	360,796	-	2,920,841	4,709,469	5,070,265
4 Testing Equipment	4.75	1,060,216	-	-	1,060,216	416,597	50,007	466,604	593,612	643,619
5 Computers	16.21	3,254,801	135,682	-	3,390,583	2,600,539	173,264	2,781,803	608,780	646,362
6 Software	100.00	7,271,132	783,375	-	8,054,507	6,807,238	1,206,400	8,013,638	40,869	463,894
7 Furniture & fittings	6.33	487,903	4,135,682	-	4,623,585	8,715	159,911	168,626	4,454,959	479,188
8 Vehicles	9.50	660,290	-	-	660,290	73,899	43,135	543,995	586,391	586,391
9 Office Equipment	16.21	34,266	5,647,755	-	5,682,021	13,522	530,473	543,995	5,138,026	20,744
Sub Total		41,581,425	12,891,093	660,290	53,812,228	2,785,413	117,034	15,200,291	38,611,937	29,049,512
Total (A+B)		56,686,895	19,196,926	1,497,832	74,385,889	15,575,698	146,805	19,994,667	54,391,223	41,111,196
Previous year		37,653,007	20,367,458	1,333,570	56,686,895	11,044,735	4,562,412	31,450	41,111,197	26,608,273

SCHEDULES FORMING PART OF THE ACCOUNTS

in Rupees

Particulars	As at 31 March	
	2006	2005
SCHEDULE-6		
Current Assets, Loans & Advances		
A. Inventories	13,123,750	7,596,681
(As Valued and Certified by the Management)		
SUB TOTAL (A)	13,123,750	7,596,681
B. Sundry Debtors		
(Unsecured and considered good)		
Outstanding for a period exceeding 6 months	32,949,411	26,764,298
Others	60,753,170	98,611,599
SUB TOTAL (B)	93,702,581	125,375,897
C. Cash & Bank Balances		
Cash on hand	486,900	528,206
Balance with Scheduled Banks in		
Current Accounts	43,007,229	1,091,014
Deposit Accounts	145,127,070	76,765,558
SUB TOTAL (C)	188,621,199	78,384,778
D. Loans & Advances		
(Unsecured and considered good)		
Advance for purchases	3,831,266	6,982,338
Advances recoverable in cash		
or in kind or for value to be received	2,472,910	268,682
Loans and Advances	719,499	-
Input Vat	440,843	-
Deposits	2,540,727	2,391,606
Prepaid Expenses	202,298	170,339
SUB TOTAL (D)	10,207,543	9,812,965
TOTAL (A+B+C+D)	305,655,073	221,170,321



in Rupees

Particulars	As at 31 March	
	2006	2005
SCHEDULE-7		
Current Liabilities & Provisions		
A. Current Liabilities		
Sundry Creditors for goods		556,172
Dues to Small Scale Industrial undertakings	1,506,841	
Others	3,782,196	712,139
for other liabilities	41,891,356	34,255,846
Advances from Customers	-	1,116,000
Unclaimed Dividend	221,469	170,415
SUB TOTAL (A)	<u>47,401,862</u>	<u>36,810,572</u>
B. Provisions		
Proposed Dividend	15,260,000	11,445,000
Dividend Tax	2,140,215	1,605,161
Provision for Income Tax	4,546,137	1,426,454
Provision for F B T	86,799	-
Provision for staff benefits	1,942,681	2,346,199
SUB TOTAL (B)	<u>23,975,832</u>	<u>16,822,814</u>
TOTAL (A+B)	<u>71,377,694</u>	<u>53,633,386</u>
SCHEDULE-8		
Miscellaneous Expenditure		
(To the extent not written off or adjusted)		
Marketing Development Expenses	331,415	497,075
Preliminary Expenses	35,835	53,751
R & D Expenses	15,734,080	19,120,801
	<u>16,101,330</u>	<u>19,671,627</u>

SCHEDULES FORMING PART OF THE ACCOUNTS

in Rupees

Particulars	For the Year ended 31 March	
	2006	2005
SCHEDULE- 9		
<i>Other Income</i>		
Interest Received	6,528,454	3,765,854
Foreign Exchange rate fluctuation	222,567	81,892
Miscellaneous Income	-	184,226
	<u>6,751,021</u>	<u>4,031,972</u>
SCHEDULE-10		
<i>Materials Consumed</i>		
Opening Stock	1,752,285	5,251,278
Add: Purchases	26,740,937	13,531,348
	28,493,222	18,782,626
Less: Closing Stock	2,017,586	1,752,285
	<u>26,475,636</u>	<u>17,030,341</u>
SCHEDULE-11		
<i>Manufacturing Expenses</i>		
Electricity Charges	193,513	345,830
Systems installation & maintenance	1,678,969	1,830,612
	<u>1,872,482</u>	<u>2,176,442</u>
SCHEDULE- 12		
<i>Taxes & Duties</i>		
Excise Duty	1,840,080	-
Service Tax	48,475	-
Sales Tax	7,646,417	6,487,330
	<u>9,534,972</u>	<u>6,487,330</u>
SCHEDULE- 13		
<i>Payments & Benefits To Employees</i>		
Salaries, wages and other		
Employee Benefits	7,173,952	3,983,041
Contribution to P F and E S I	382,368	329,238
	<u>7,556,320</u>	<u>4,312,279</u>



in Rupees

Particulars	For the Year ended 31 March	
	2006	2005
SCHEDULE-14		
Administrative Selling and General Expenses		
Rent	843,963	825,492
Rates & Taxes	246,437	197,615
Printing & Stationery	417,204	208,538
Postage & Telephone	1,969,992	1,134,241
Travelling Expenses	4,946,418	5,235,107
Conveyance	232,322	86,795
Insurance	377,427	288,186
Audit Fees - Internal Audit	22,040	22,040
Audit Fees - Statutory Audit	55,100	44,080
Office Maintenance	3,494,480	3,494,214
Vehicle Maintenance	892,032	594,024
Directors Remuneration	4,980,119	4,521,034
Selling Expenses	20,608,193	20,950,961
Professional charges	996,697	354,360
Membership & Subscription	52,591	632,313
Advertisement	545,300	195,548
Loss On Sale of Assets	227,027	51,340
Listing Fee	14,000	7,000
Sitting fee	145,000	44,000
Bad debts	-	1,545,039
	<u>41,066,342</u>	<u>40,431,927</u>
SCHEDULE-15		
Interest & Financial Charges		
Interest on Bank OD	2,571,713	1,726,092
Bank Charges, Commission	241,573	211,672
	<u>2,813,286</u>	<u>1,937,764</u>
SCHEDULE-16		
(Increase)/Decrease in Stocks		
Opening Stock		
Finished Goods	1,360,904	1,352,103
Work in Progress	4,483,492	3,121,000
	<u>5,844,396</u>	<u>4,473,103</u>
Less : Closing Stock		
Finished Goods	2,850,124	1,360,904
Work in Progress	8,256,040	4,483,492
	<u>11,106,164</u>	<u>5,844,396</u>
	<u>(5,261,768)</u>	<u>(1,371,293)</u>



SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

SCHEDULE - 17

1. Basis of Financial Statements

- Financial statements have been prepared under the historical cost convention method in accordance with the generally accepted accounting principles and provisions of the Companies Act, 1956.
- The Company generally follows Mercantile System of Accounting and recognizes significant items of Income and Expenditure on accrual basis.

2. Fixed Assets and Depreciation

- Fixed Assets are stated at cost less accumulated depreciation. All costs directly attributable to bringing the assets to their working conditions for the intended use are capitalized.
- Depreciation on the Fixed Assets of the Company is provided on straight line method in accordance with Schedule XIV of the Companies Act, 1956.
- Amounts spent for capital work-in-progress including advance given for capital goods are grouped as capital work-in-progress.

3. Inventories

- Stores, spare parts and Raw material are valued at cost, Work-in-Progress and Finished Goods are valued at cost of production or realizable value whichever is lower.

4. Foreign Currency Transactions

Expenses and Income are recorded at the exchange rate prevailing on the date of transaction. Assets and liabilities on the date of the balance sheet are restated at the exchange rate prevailing on the balance sheet date. Exchange differences arising on settlement of the transaction and on account of restatement of assets and liabilities are dealt with in the Profit and Loss Account.

5. Employee Retirement Benefits

The Company has taken a Group Gratuity Scheme with the Life Insurance Corporation of India. The premium payable under the scheme is provided in the books.

Liability towards Leave encashment benefits is provided in the books as per Company's rules on accrual basis.

6. Sales

Sales include Sales Tax, Excise duty.

7. Miscellaneous Expenses

- Expenditure incurred for marketing development is amortized over a period of 10 years.
- Preliminary expenses incurred for the formation of the Company are being amortized over a period of 10 years.

8. Research and Development Expenses

Revenue R & D Expenditure is being charged to the Profit and Loss Account of the year in which it is incurred. The amount so charged in 2005-06 is Rs. 1,71,13,802/- (Previous year Rs.89,74,021/-) and this includes depreciation of Rs.27,85,413 /- (Previous year Rs.34,91,662/-) on R & D Fixed Assets.

9. Revenue Recognition

Revenue from sales is recognized when the goods have been dispatched.

10. Excise Duty

Excise Duty has been accounted as and when goods are dispatched and no provision has been made for goods lying at the year end. This accounting treatment has no impact on the profitability of the Company.

11. Deferred Tax

Current tax is determined as the amount of tax payable in respect of taxable income for the year.

Deferred tax is recognized, subject to the consideration of prudence on timing difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more periods.

Deferred tax asset and Liability are measured at the rates that have been enacted or substantively enacted at the Balance Sheet date.

12. Dividends

Provision is made in the accounts for the dividends payable by the company as recommended by the Board of Directors, pending approval of the shareholders at the Annual General Meeting. Income Tax on dividends payable is provided for in the year to which such dividends relate.

13. Over Draft facilities from banks are secured by way of pledge of Fixed Deposits.**14. The Company operates in one segment i.e., simulation.****15. During the year the company has incurred expenditure Rs.305.05 lakhs on Research and Development. (Previous year Rs. 263.33 lakhs) Out of this R&D Revenue Expenditure is Rs. 171.14 lakhs (Previous year Rs. 89.74 lakhs) and R&D Capital Expenditure is Rs.133.91 lakhs (Previous year Rs. 173.59 lakhs).****16. Estimated amount of contracts remaining to be executed on capital account (net of advances) not provided for Rs. 311.42 lakhs (previous year Rs. 216.53 lakhs).****Additional Information under Part II of Schedule VI****17. Payment to auditors**

Particulars	2005-06 (Rs.)	2004-05 (Rs.)
Statutory Audit	55,100	25,000
Tax Audit fee	20,000	10,000
Other Services	11,000	5,000
Total	86,100	40,000

18. Particulars of capacity, Production, Sales and Stocks

Particulars	2005-06		2004-05	
	Particulars of capacity			
Licensed Capacity		NA		NA
Installed Capacity		NA		NA
Actual Production				
Basic Systems		45		19
Software sets		42		56
Sales and Stock	Qty.	Value Rs in lacs	Qty.	Value Rs in lacs
Sales				
Basic Systems	41	177.05	19	84.76
Software Sets	42	1637.89	56	1686.08
Opening stock				
Basic Systems	4	13.61	4	13.52
Closing Stock				
Basic Systems	8	28.50	4	13.61

19. Value of imported and indigenous raw materials and components consumed

Particulars	2005-06		2004-05	
	Value (Rs.)	%	Value (Rs.)	%
Indigenous raw material and stores	2,64,75,636	100%	1,68,10,975	98.71
Imported stores	-	-	2,19,366	1.29
TOTAL	2,64,75,636	100.00	1,70,30,341	100.00

20. Contingent Liabilities

Particulars	2005-06	2004-05
a. Contingent Liabilities in respect of Bank Guarantees	Rs. 2,33,67,915	Rs. 1,68,87,309
b. The Central Excise department has issued two show cause notices proposing to demand a total duty of Rs.95,82,682/-. The matter is pending for adjudication with the assessing authority. Based on legal opinion obtained on the issues involved and in view of the Supreme Court Judgement on a similar issue, the management is of the opinion that no provision is required as demands will not be sustained.		



21. Fixed Deposits under Cash and Bank balances includes

in Rupees

Particulars	2005-06	2004-05
Lodged as security with authorities	500/-	500/-
Towards margin money deposits for Overdrafts	9,92,18,514/-	4,64,83,163/-
Towards margin money deposits for B Gs	2,33,67,915/-	1,68,87,309/-

22. Managerial Remuneration

i) Directors Remuneration

S.No.	Particulars	2005-06 Rs.	2004-05 Rs.
1	Managing Director		
	Salary	7,20,000	6,00,000
	House Rent Allowance	3,30,000	2,40,000
	Leave Travel Allowance	82,730	-
	Commission	28,80,159	30,39,234
	Total	40,12,889	38,79,234
2	Other Director		
	Salary	5,70,000	4,20,000
	Allowances	2,28,000	1,68,000
	Leave Travel Allowance	-	53,800
	Total	7,98,000	6,41,800

ii) Calculation of Managerial Remuneration to the Director

Particulars	2005-06		2004-05	
	Rs.	Rs.	Rs.	Rs.
Net profit as per Profit and Loss A/c		10,25,29,133		10,49,15,491
Add: Depreciation	17,80,361		10,71,751	
Sitting Fee	1,45,000		44,000	
LTA	82,730		1,44,700	
Loss on Sale of assets	2,27,027	22,35,118	51,340	13,10,791
		10,47,64,251		10,62,26,282
Less: Depreciation	17,80,361		10,70,751	
Interest/ Others Received	67,51,021		37,65,854	
Foreign Exchange fluctuations	2,27,567	87,58,949	81,892	49,18,497
		9,60,05,302		10,13,07,785
Commission @ 3%		28,80,159		30,39,234

iii) Foreign Currency Expenses		
Particulars	2005-06 Rs.	2004-05 Rs.
CIF Value of Imports:		
Capital Goods	5,93,998	Nil
Raw materials and Components	Nil	Nil
Stores and Spares	11,14,893	9,17,042
Foreign Travel (Exclusive of tickets		
Purchased)	7,49,092	23,91,620
London office expenses	8,48,595	21,36,340
Retainer fee	61,15,108	71,68,513
Internet Charges	29,880	-
iv) Remittance in Foreign Currency on account of Dividends	Nil	Nil
v) Foreign Currency Earnings	Nil	85,05,059/-
vi) Previous year's figures are regrouped and Rearranged wherever necessary.		
vii) Figures have been rounded off to the nearest rupee.		

23. List of SSI Units to whom amount is due for more than 30 days as on 31 March 2006 is Rs.29,480/- (Previous year Rs.NIL)

24. Related party transactions

As per Accounting Standard - 18 on Related Party disclosures issued by the Institute of Chartered Accountants of India the disclosure of transactions with the Related Party as defined in the Accounting Standard are given below:

i. List of Related Parties and Nature of Relationship:

S. No.	Name of the Party	Nature of Relationship
1	Mr Ashok Atluri	Key Management Personnel
2	Mr Ravi Kumar	Key Management Personnel
3	Mr Atluri Kishore Dutt	Relative of Key Management Personnel



ii. Details of Transactions with the Related Parties:

S.No.	Nature of Relation / Nature of Transactions	2005-06		2004-05	
		Rs.	Rs.	Rs.	Rs.
		Amount of Transaction	Amount outstanding	Amount of Transaction	Amount outstanding
1	Key Management Personnel Remuneration	Refer Note 22(i)	Nil	Refer Note 22(i)	Nil
2	Relatives of Key Management Personnel Remuneration	8,97,818/-	Nil	8,18,439/-	Nil
3	Company in which the Relative of the Key Management personnel has Substantial Interest	Nil	Nil	Nil	Nil

25. The balances of Sundry Debtors, Creditors and advances in various personal accounts are subject to confirmation by and reconciliation with the concerned parties.

26. In the opinion of Board of Directors, the current assets, loans and advances are expected to realize approximately the value stated in the ordinary course of business.

As per our report of even date

For and on behalf of the Board

For Gokhale & Co.,
Chartered Accountants

Ashok Atluri
Chairman & Managing Director

M Ravi Kumar
Whole-Time Director

C Gokhale
Partner

P Kotalah
Director

T T Mahadev
Company Secretary

Hyderabad
02 May 2006

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

in Rupees Lakhs

Particulars	As at 31 March	
	2006	2005
A. Cash flow from the operations		
Net profit before income tax	1025.29	1049.15
Adjustments:		
Depreciation	45.66	45.62
Interest Paid	28.13	19.38
Miscellaneous Expense written off	35.70	82.00
Loss on sale of assets	2.27	0.51
Interest received	(65.28)	(37.66)
Operational profit before Working Capital	46.48	109.86
Adjustments:	1071.77	1159.01
(Increase)/Decrease in Trade receivable	316.73	(517.89)
(Increase)/Decrease in Inventories	(55.27)	21.28
(Increase)/Decrease in other Current assets	(3.95)	(13.38)
Increase/(Decrease) in Current Liabilities	105.91	99.69
Increase/(Decrease) in Other Liabilities	(255.06)	(401.13)
Interest paid	108.37	(811.44)
	1180.14	347.57
Net Cash flow from Operations	28.13	(19.38)
	1152.01	328.2
B. Cash Flow from Investing Activities		
(Increase)/Decrease in Fixed Assets	(191.97)	(203.67)
(Increase)/Decrease in Capital Work in Progress	(6.48)	24.11
(Increase)/Decrease in Miscellaneous Exp.	-	-
(Increase)/Decrease in Investments	-	-
Interest received on deposits	65.28	37.66
Sale of Assets	11.24	5.78
Subsidy received from Govt. of Andhra Pradesh	-	6.73
Net Cash Flow from Investing Activities	(121.92)	(129.4)



in Rupees Lakhs

Particulars	As at 31 March	
	2006	2005
C Cash Flow From Financing Activities		
Increase/(Decrease) in Borrowings	202.78	(52.07)
Increase/(Decrease) in Share Capitals	(114.45)	(57.23)
Dividend	(16.05)	(7.33)
Dividend Tax paid		(116.63)
Net Cash Flow From Financing Activities	72.28	82.17
Net increase in Cash & Cash equivalents	1102.36	701.68
Cash & Cash equivalents- Opening Balance	783.85	783.85
Cash & Cash equivalents- Closing Balance	1886.21	

For and on behalf of the Board

As per our report of even date

For Gokhale & Co.,
Chartered AccountantsC Gokhale
PartnerHyderabad
02 May 2006Ashok Aturi
Chairman & Managing DirectorP Kotaiah
DirectorM Ravi Kumar
Whole-Time DirectorT T Mahadev
Company Secretary

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I Registration Details	
Registration No.	01-15939
State Code	1
Balance Sheet Date	31 March 2006
II Capital Raised during the year Rs.in (000)	
Public Issue	NIL
Rights Issue	NIL
Bonus Issue	NIL
Private Placement	NIL
Financial Institutions	NIL
III Position of Modification and deployment of Funds Rs.in (000)	
Total Liabilities	310,705
Total Assets	310,705
Sources of Funds	
Paid up Capital	76,300
Share Application Money	-
Secured Loans	35,074
Unsecured Loans	-
Reserves & Surplus	199,331
Application of Funds	
Net Fixed Assets	54,391
Capital W.I.P.	5,935
Net Current Assets	234,278
Miscellaneous Expenditure	16,101
Accumulated Losses	-
IV Performance of the Company Rs. In (000)	
Turnover	202,300
Profit/Loss Before Tax	102,529
Profit/Loss After Tax	71,638
Earning Per share in Rs. (Annualised)	9.39
Dividend	20.00%
V Generic name of Three Principal Products/services of the Company (As per Monetary Terms)	
Item Code No. (ITC Code)	3689
Product Description	Training Simulator

As per our report of even date

For and on behalf of the Board

For Gokhale & Co.,
Chartered Accountants

Ashok Atluri
Chairman & Managing Director

M Ravi Kumar
Whole-Time Director

C Gokhale
Partner

P Kotaiah
Director

T T Mahadev
Company Secretary

Hyderabad
02 May 2006

ELECTRONIC CLEARING SERVICES (ECS) MANDATE FORM

To
ZEN TECHNOLOGIES LIMITED
 C-63, Industrial Estate,
 Sanathnagar,
 Hyderabad - 500 018.

For Shares held in physical mode
 Please complete this form and send it to
 Sathguru Management Consultants Pvt. Ltd
 Plot No.15, Hindi Nagar,
 Behind Saibaba Temple, Punjagutta,
 Hyderabad - 500 034
 Phone : 91- 40 - 2335 6507 / 6975 / 0586
 Fax : 91- 40 - 2335 4042
 Email id: sta@sathguru.com

For Shares held in Demat mode
 Please inform your DPs directly:

For Shares held in physical mode form

Master Folio No.

FOR OFFICE USE ONLY	
ECS Ref. No. <input style="width: 90%;" type="text"/>	

Name of First holder	<input style="width: 80%;" type="text"/>
Bank Name	<input style="width: 80%;" type="text"/>
Branch Name & Address	<input style="width: 80%;" type="text"/>
Branch Code	<input style="width: 80%;" type="text"/>
<p style="font-size: small;">(9 Digits Code Number appearing on the MICR Band of the cheque supplied by the Bank) (In lieu of the bank certificate to be obtained as under, please attach a blank cancelled cheque or photocopy of a cheque or front page of your savings bank passbook issued by your bank for verification of the above particulars)</p>	

Account type <small>(Please tick)</small>	Savings <input type="checkbox"/> 10 <input type="checkbox"/>	Current <input type="checkbox"/> 11 <input type="checkbox"/>	Cash Credit <input type="checkbox"/> 13 <input type="checkbox"/>
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A/c.No. (as appearing on the cheque book)

Active date of this Mandate

I, hereby, declare that the particulars given above are correct and complete. If any transaction is delayed or not effected at all for reasons of incompleteness or incorrectness of information supplied as above, Zen Technologies Limited and Sathguru Management Consultants Private Limited, will not be held responsible. I have read the optional invitation letter and agree to discharge the responsibility expected of me as a participant under the scheme.

I further undertake to inform the Company any change in my Bank/ Branch and Account number.

Dated:

(Signature of First holder)

Note: On Dematerialisation of existing physical shares, for which you have availed ECS facility, the above form needs to be re-submitted.

Certified that the particulars furnished above are correct as per our records

Bank's Stamp

Date:

(Signature of the Official of the Bank)

Payment of Dividend through Electronic Clearing Service (ECS)

The Securities Exchange Board of India (SEBI) has advised the Companies to mandatorily use ECS facility wherever available for distributing dividends or other cash benefits, etc., to the investors. This facility provides instant credit of dividend amount to your Bank Account electronically at no extra cost. ECS also eliminates the delay in postal transit and fraudulent encashment of warrants. Only individual transactions upto Rs 5,00,000/- would be covered under the Scheme.

Under this facility the amount of dividend payable to you would be directly credited to your bank account. Your bank's branch will credit your account and indicate the credit entry as 'ECS' in your pass book/statement account. We would be issuing an advice to you directly after the transaction is effected.

In case you wish to have your dividends paid through ECS and are holding the Company's shares in electronic form you may kindly fill in the enclosed ECS mandate Form and submit it to your Depository Participant. However, in case you are holding the company shares in physical form and wish to have your future dividends paid through ECS you may kindly return the said ECS mandate form duly completed and signed by you at our Registered Office address mentioned elsewhere in this report.

If you do not wish to opt for ECS facility, we strongly recommend that you provide the details of your Bank's Name, Bank's Branch, type of Account and Account Number to your depository participant, in cases where shares are held in electronic form and to us in cases where shares are held in physical form for printing the same on the dividend warrants which will be dispatched to you. In the event of any change or correction in the details that might have been provided by you earlier, kindly send revised particulars to your depository participants or to us as the case may be at an early date.

We request you to kindly submit the ECS / Bank details latest by Monday, the 25 September 2006 to enable us to include the same for the payment of the current year's dividend.

**ZEN TECHNOLOGIES LIMITED**Registered Office: C-63, Industrial Estate, Sanathnagar,
Hyderabad - 500 018.**PROXY FORM**

Folio No _____ DP ID _____ Client ID _____

I/We _____ being

of _____

Member/ Members of Zen Technologies Limited, hereby appoint Mr./ Ms. _____

of _____ or failing him / her, Mr./ Ms. _____ of

_____ as my/our proxy to attend and vote for me/us on my/our

behalf at the Thirteenth Annual General Meeting of the Company to be held on Saturday, the 30 September

2006 at 10.30 a.m. and at any adjournment thereof.

Signed by the said _____

Address _____

Signature _____

Affix
Rs 0.15
Revenue
Stamp**Note :** The Proxy form duly completed must be deposited at the registered office of the Company not less than 48 hours before the time for holding the meeting. A proxy need not be a member.

Kindly note that as in the past, this year also no gifts will be given

**ZEN TECHNOLOGIES LIMITED**Registered Office: C-63, Industrial Estate, Sanathnagar,
Hyderabad - 500 018.**13th ANNUAL GENERAL MEETING****ATTENDANCE SLIP**

Folio No _____ DP ID _____ Client ID _____

I hereby record my presence at the Thirteenth Annual General Meeting of the Company:

Date	Venue	Time
30 September 2006	B-42, Industrial Estate, Sanathnagar, Hyderabad-500018, A.P., INDIA. Phone : 91- 40 - 23814894, 23813294 Fax : 91- 40 - 23813694	10.30 a.m.

Kindly note that as in the past, this year also no gifts will be given

www.zentechnologies.com



ZEN TECHNOLOGIES LIMITED

Registered Office: C-63, Industrial Estate, Santhnagar
Hyderabad - 500 018, A.P., INDIA