

NOTICE

Notice is hereby given that the Sixth Annual General Meeting of Four Soft Limited will be held on Saturday, the 27th August 2005 at Chip Auditorium, Cyber Towers, Hitec City, Madhapur, Hyderabad, A.P at 9.30 a.m to transact the following items of business:

Ordinary Business:

1. To receive, consider and adopt the profit and loss account for the financial year ended on March 31st, 2005 and the Balance sheet as at that date together with the report of the Board of Directors and auditors thereon.
2. To appoint a director in place of Smt. P. Mangamma, who retires by rotation, and being eligible, offers herself for reappointment.
3. To appoint a director in place of Mr. Douglas Terence Ash, who retires by rotation, and being eligible, offers himself for reappointment.
4. To consider and, if thought fit, to pass with or without modification, the following resolution as Ordinary resolution.

"RESOLVED that M/s. S.R.Batliboi & Associates, Chartered Accountants who retire at the conclusion of this Annual General Meeting, be and are hereby appointed as Auditors of the Company till the conclusion of the next Annual General Meeting at a remuneration to be fixed by the Board of Directors."

Special Business:

5. To consider and if thought fit to pass with or without modification, the following resolution as an Ordinary Resolution.

"RESOLVED THAT pursuant to Section 293(1)(d) and other applicable provisions if any of the Companies Act' 1956, to borrow such sum or sums of money's in any manner from time to time as may be required for the purpose of the business of the Company, with or without security and upon such terms and conditions as they may deem fit, notwithstanding that the monies already borrowed by the company (apart from temporary loans obtained from the company's bankers in the ordinary course of business) exceed the aggregate of the paid-up capital of the company and its free reserves not set apart for any specific purpose, provided that the total amount so borrowed by the Company and outstanding at any time shall not exceed the sum of Rs. 60 Crores (Rupees Sixty Crores Only).

6. 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 to the Board of Directors of the Company in terms of Section 293(1) (a) and other applicable provisions, if any, of the Companies Act' 1956,

for mortgaging and/or charging and/or hypothecating, by way of first charge on all the immovable and movable properties of the Company, wherever situate, both present and future, or the whole or substantially the whole of undertaking or undertakings of the Company, to or in favour of the Financial Institutions / Banks to secure the required term loan / Foreign Currency loan which includes subsequent enhancements of limits, if any, interest, additional interest, liquidated damages, compound interest, commitment charges, costs, charges, expenses and other money's payable under its letters of sanction as amended from time to time within the overall limit."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorized to finalise all such documents / agreements / undertakings etc., as may be necessary for creating mortgage and / or charges and / or hypothecation as aforesaid and to take all such steps and actions as may be considered necessary or expedient by the Board for giving effect to the above resolutions."

7. To consider and if thought fit to pass with or without modification, the following resolution as a Special Resolution.

"RESOLVED that pursuant to the provisions of Section 372A of the Companies Act' 1956, the Board of Directors of the Company be and is hereby authorized, to give any loans, to any other person or any body corporate or make investments in any body corporate upto a limit of Rs. 100 Crores outstanding at any time on such terms and conditions as the Board may think fit, provided that such giving of loans or making such investments is in the opinion of the Board made only for furthering the business interest of the Company."

8. To consider and if thought fit to pass with or without modification, the following resolution as a Special Resolution.

"RESOLVED THAT pursuant to the provisions of section 94 and all other applicable provisions, if any, contained under the Companies Act, 1956, the Authorised Share Capital of the Company of Rs. 25,00,00,000/- (Rupees Twenty Five Crores Only) divided into:

- i. 3,60,77,600 (Three Crores Sixty Lacs Seventy Seven Thousand Six Hundred Only) Equity shares of Rs. 5/- (Rupees Five only) each aggregating to Rs. 18,03,88,000/- (Rupees Eighteen Crores Three Lacs Eighty Eight Thousand Only).
- ii. 6,96,120 (Six Lakhs Ninety Six Thousand One Hundred and Twenty Only) 14% Redeemable Optionally Convertible Cumulative Preference Shares of Rs. 100/- (Rupees One Hundred Only) each aggregating to Rs. 6,96,12,000/- (Rupees Six Crores Ninety Six Lakhs and Twelve Thousand Only).

be and is hereby increased to Rs. 35,00,00,000/- (Rupees Thirty Five Crores Only) consisting of the following:

- iii. 5,60,77,600 (Five Crores Sixty Lacs Seventy Seven Thousand Six Hundred Only) Equity shares of Rs. 5/- (Rupees Five only) each aggregating to Rs. 28,03,88,000/- (Rupees Twenty Eight Crores Three Lacs Eighty Eight Thousand Only).
- iv. 6,96,120 (Six Lakhs Ninety Six Thousand One Hundred and Twenty Only) 14% Redeemable Optionally Convertible Cumulative Preference Shares of Rs. 100/- (Rupees One Hundred Only) each aggregating to Rs. 6,96,12,000/- (Rupees Six Crores Ninety Six Lakhs and Twelve Thousand Only).

9. To consider and if thought fit, to pass with or without modification(s), the following resolutions as Special Resolution.

"RESOLVED THAT on the above resolution no.8 being duly passed and becoming effective Clause V of the Memorandum of Association of the Company be substituted by the following clause as new Clause V accordingly which shall read as follows:

V. The Authorised Share Capital of the Company is Rs.35,00,00,000/- (Rupees Thirty Five Crores Only) divided into (a) 5,60,77,600/- (Five Crore Sixty Lacs Seventy Seven Thousand Six Hundred Only) equity shares of Rs. 5/- (Rupees Five Only) and (b) 6,96,120 (Six Lakhs Ninety Six Thousand One Hundred and Twenty Only) Redeemable Optionally Convertible Cumulative Preference Shares of Rs. 100/- (Rupees One Hundred Only) each with rights, privileges and conditions attaching thereto as may be provided by the regulations of the Company and to divided shares in the capital for the time into several classes and to attach thereto respectively such preferential, deferred, guaranteed, qualified or special rights, privileges and conditions as may be determined by or in accordance with the regulations of the Company and to vary, modify, amalgamate or being in several classes and to attach thereto respectively such preferential, deferred, guaranteed, qualified or special rights, privileges or conditions as may be determined or in accordance with the Regulations of the Company and to vary, modify, amalgamate or abrogate any such rights, privileges, or conditions in such manner as may for the time being be provided by the regulations of the Company, but subject always to the provisions of the Companies Act, 1956 including amendments thereto from time to time.

10. To consider and if thought fit, to pass with or without modification(s), the following resolutions as Special Resolution.

"RESOLVED THAT on the above resolution No.8, being duly passed and becoming effective existing Article -5 of the Articles of Association of the Company, be substituted by the following Article as new Article - 5:

"FURTHER RESOLVED THAT Article 5 of the Articles of Association of the Company be amended accordingly which shall read as follows:

5. "The Share Capital of the Company is Rs.35,00,00,000/- (Rupees Thirty Five Only) divided into (a) 5,60,77,600 (Five Crore Sixty Lacs Seventy Seven Thousand Six Hundred only) Equity shares of Rs. 5/- (Rupees Five Only) each and (b) 6,96,120 (Six Lakhs Ninety Six Thousand One Hundred and Twenty Only) Redeemable Optionally Convertible Cumulative Preference Shares of Rs. 100/- (Rupees One Hundred Only) each."

11. To consider and if thought fit to pass with or without modification, the following resolution as a Special Resolution.

"RESOLVED THAT pursuant to Section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 (including any amendment thereto or reenactment thereof) and subject to the provisions in the Memorandum and Articles of Association of the Company and the Listing Agreement entered into by the Company with the Stock Exchanges where the securities of the Company are listed and subject to the approval, consent, permission and/or sanction, as may be necessary of the Reserve Bank of India(RBI), Securities and Exchange Board of India(SEBI), Financial Institutions, and any other appropriate authority, Institution or Body and subject to such terms, conditions, alterations, corrections, changes, variations and/or modifications, if any, as may be prescribed by any one or more or all of them in granting such approval, consent, permission and/or sanction, consent of the Company be and is hereby accorded to the Board of Directors of the Company (herein after referred to as the "Board" which term shall be deemed to include any Committee duly constituted by the Board of Directors or any Committee which the Board of Directors may hereafter constitute, to exercise one or more of its powers including the powers conferred by this resolution) to issue, offer and allot upto 3,949,447 Equity Shares on preferential basis, of Rs.5/- each at a price of Rs.63.30/- per Share (Rs.5/- face value + Rs.58.30/- Premium) being the price which is in accordance with the SEBI guidelines for preferential issues, to the following investor :

Name of the Allottee	No. of Equity Shares
India Growth Fund	3,949,447

(A unit Scheme of Kotak SEAF India Fund)

RESOLVED FURTHER THAT the 'Relevant date' for the preferential issue, as per SEBI (Disclosure and Investor Protection) Guidelines, 2000 for the determination of applicable price for Equity Shares, is 28th July, 2005.

RESOLVED FURTHER THAT the Board be and is hereby authorized to accept any modifications in the proposal as may be required by the corporate bodies involved in such issues but subject to such conditions as the Reserve

Bank of India (RBI)/ Securities and Exchange Board of India (SEBI)/ Financial Institutions/ Investment Institutions/ and/or such other appropriate authority may impose at the time of their approval and as agreed by the Board.

RESOLVED FURTHER THAT the Board be and is hereby authorized to issue and allot Equity shares which shall rank pari passu with the existing equity shares of the Company in all respects."

12. To consider and if thought fit to pass with or without modification, the following resolution as a Special Resolution.

"RESOLVED THAT pursuant to Section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 (including any amendment thereto or reenactment thereof) and subject to the provisions in the Memorandum and Articles of Association of the Company and the Listing Agreement entered into by the Company with the Stock Exchanges where the securities of the Company are listed and subject to the approval, consent, permission and/or sanction, as may be necessary of the Reserve Bank of India(RBI), Securities and Exchange Board of India(SEBI), Financial Institutions, and any other appropriate authority, Institution or Body and subject to such terms, conditions, alterations, corrections, changes, variations and/or modifications, if any, as may be prescribed by any one or more or all of them in granting such approval, consent, permission and/or sanction, consent of the Company be and is hereby accorded to the Board of Directors of the Company (herein after referred to as the "Board" which term shall be deemed to include any Committee duly constituted by the Board of Directors or any Committee which the Board of Directors may hereafter constitute, to exercise one or more of its powers including the powers conferred by this resolution) to issue, offer and allot upto 146,524 Equity Shares on preferential basis, of Rs.5/- each at a price of Rs.63.30 per Share, for consideration other than cash (Rs.5/- face value + Rs.58.30 Premium) being the price which is in accordance with the SEBI guidelines for preferential issues, to the following investor:

Name of the Allottee	No. of Equity Shares
GMKH Automation B.V	146,524

RESOLVED FURTHER THAT the 'Relevant date' for the preferential issue, as per SEBI (Disclosure and Investor Protection) Guidelines, 2000 for the determination of applicable price for Equity Shares, is 28th July, 2005.

RESOLVED FURTHER THAT the Board be and is hereby authorized to accept any modifications in the proposal as may be required by the corporate bodies involved in such issues but subject to such conditions as the Reserve Bank of India (RBI)/ Securities and Exchange Board of India (SEBI)/ Financial Institutions/ Investment Institutions/ and/or such other appropriate authority may impose at the time of their approval and as agreed by the Board.

RESOLVED FURTHER THAT the Board be and is hereby authorized to issue and allot Equity shares which shall rank pari passu with the existing equity shares of the Company in all respects."

13. To consider and if thought fit to pass with or without modification, the following resolution as a Special Resolution.

"RESOLVED THAT pursuant to Section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 (including any amendment thereto or reenactment thereof) and subject to the provisions in the Memorandum and Articles of Association of the Company and the Listing Agreement entered into by the Company with the Stock Exchanges where the securities of the Company are listed and subject to the approval, consent, permission and/or sanction, as may be necessary of the Reserve Bank of India(RBI), Securities and Exchange Board of India(SEBI), Financial Institutions, and any other appropriate authority, Institution or Body and subject to such terms, conditions, alterations, corrections, changes, variations and/or modifications, if any, as may be prescribed by any one or more or all of them in granting such approval, consent, permission and/or sanction, consent of the Company be and is hereby accorded to the Board of Directors of the Company (herein after referred to as the "Board" which term shall be deemed to include any Committee duly constituted by the Board of Directors or any Committee which the Board of Directors may hereafter constitute, to exercise one or more of its powers including the powers conferred by this resolution) to issue, offer and allot upto 216,884 Equity Shares on preferential basis, of Rs.5/- each at a price of Rs.63.30 per Share, for consideration other than cash (Rs.5/- face value + Rs.58.30 Premium) being the price which is in accordance with the SEBI guidelines for preferential issues, to the following investor:

Name of the Allottee	No. of Equity Shares
SKYVEST International Ltd.	216,884

RESOLVED FURTHER THAT the 'Relevant date' for the preferential issue, as per SEBI (Disclosure and Investor Protection) Guidelines, 2000 for the determination of applicable price for Equity Shares, is 28th July, 2005.

RESOLVED FURTHER THAT the Board be and is hereby authorized to accept any modifications in the proposal as may be required by the corporate bodies involved in such issues but subject to such conditions as the Reserve Bank of India (RBI)/ Securities and Exchange Board of India (SEBI)/ Financial Institutions/ Investment Institutions/ and/or such other appropriate authority may impose at the time of their approval and as agreed by the Board.

RESOLVED FURTHER THAT the Board be and is hereby authorized to issue and allot Equity shares which shall rank pari passu with the existing equity shares of the Company in all respects."

14. To consider and if thought fit to pass with or without modification, the following resolution as a Special Resolution.

"RESOLVED THAT in accordance with the applicable provisions of the Companies Act' 1956 (including any statutory modifications or re-enactment thereof, for the time being in force), the SEBI (Employee Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999, including any amendments thereof, for the time being in force (hereinafter referred to as "the ESOS Guidelines") and in resolutions passed at the Extra Ordinary General Meetings held on July' 2003, the additional disclosures made pursuant to the requirements laid down thereof, in the Explanatory statements annexed to the notice of this meeting, be and the same are hereby ratified and approved as an integral part of resolutions passed on 18th July' 2003, such that the same be annexed thereto as an addendum to the aforesaid resolutions and read together for the purpose of compliance with sufficient disclosures under the ESOS Guidelines.

"RESOLVED FURTHER THAT the Four Soft Ltd., Employees Welfare Trust / Committee of Directors is hereby authorized to do all things necessary and to take such action as may be appropriate or expedient to amend or redefine from time to time the existing Employee Stock Option (ESOP) Scheme(s) approved earlier by the shareholders, so as to confirm to the ESOS Guidelines including any amendments thereof and take such other steps as may be necessary to ensure that such ESOS scheme (s) remain effective and in accordance with such ESOS Guidelines."

15. To consider and if though fit to pass with or without modification, the following resolution as a Special Resolution.

"RESOLVED THAT in accordance with the applicable provisions of the Companies Act' 1956 (including any statutory modifications or re-enactment thereof, for the time being in force), the SEBI (Employee Stock Option and Employees Stock Purchase Scheme) Guidelines, 1999, including any amendments thereof, for the time being in force (hereinafter referred to as "the ESOS Guidelines") and in resolutions passed at the Extra Ordinary General Meeting held on 18th July' 2003, the consent of the company be and is hereby accorded to the Board of Directors the Company (hereinafter referred to as "The Board") which term shall include the Four Soft Ltd. Employees Welfare Trust or the committee of directors for such purpose) to grant such equity shares of nominal value of Rs.5/- each to the employees of Four Soft LLC, USA (a subsidiary of the Company) (hereinafter referred to as "Associates" and shall include

Directors other than promoter directors), subject to SEBI (ESOS and ESOS) Guidelines, 1999, and approval from RBI or any other authority as may be required from time to time."

16. To consider and if though fit to pass with or without modification, the following resolution as a Special Resolution.

"RESOLVED THAT in accordance with the applicable provisions of the Companies Act' 1956 (including any statutory modifications or re-enactment thereof, for the time being in force), the SEBI (Employee Stock Option and Employees Stock Purchase Scheme) Guidelines, 1999, including any amendments thereof, for the time being in force (hereinafter referred to as "the ESOS Guidelines") and in resolutions passed at the Extra Ordinary General Meetings held on 18th July' 2003, the consent of the company be and is hereby accorded to the Board of Directors the Company (hereinafter referred to as "The Board") which term shall include the Four Soft Ltd. Employees Welfare Trust or the committee of directors for such purpose) to grant such equity shares of nominal value of Rs.5/- each to the employees of Four Soft B.V Netherlands (a subsidiary of the Company) (hereinafter referred to as "Associates" and shall include Directors other than promoter directors), subject to SEBI (ESOS and ESOS) Guidelines, 1999, and approval from RBI or any other authority as may be required from time to time."

17. To consider and if though fit to pass with or without modification, the following resolution as a Special Resolution.

"RESOLVED THAT in accordance with the applicable provisions of the Companies Act' 1956 (including any statutory modifications or re-enactment thereof, for the time being in force), the SEBI (Employee Stock Option and Employees Stock Purchase Scheme) Guidelines, 1999, including any amendments thereof, for the time being in force (hereinafter referred to as "the ESOS Guidelines") and in resolutions passed at the Extra Ordinary General Meetings held on 18th July' 2003, the consent of the company be and is hereby accorded to the Board of Directors the Company (hereinafter referred to as "The Board") which term shall include the Four Soft Ltd. Employees Welfare Trust or the committee of directors for such purpose) to grant such equity shares of nominal value of Rs.5/- each to the employees of Four Soft Singapore Pte Ltd., Singapore (a subsidiary of the Company) (hereinafter referred to as "Associates" and shall include Directors other than promoter directors), subject to SEBI (ESOS and ESOS) Guidelines, 1999, and approval from RBI or any other authority as may be required from time to time."

Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956.

Item No. 2

Smt. P. Mangamma is a well known personality and has contributed to various charitable causes for the society. She is a Director on some closely held companies. She has been a director on the Board since incorporation of the company.

She is a Post Graduate in Arts and has an outstanding academic record with first class all through her career. The list of companies in which Smt. P. Mangamma is interested as a Director is available at the Registered office of the Company.

Your directors recommend the resolution for the approval.

Except Smt. P. Mangamma and Mr. Palem Srikanth Reddy, none of the Directors of the Company is in any way concerned or interested in the resolution.

Item No.3

Mr. Douglas Terence Ash is a renowned personality in Transportation Industry Mr. Douglas Terence Ash is the Chairman of Global Freight Exchange (GF-X). GF-X is engaged in development of a neutral trading platform for airfreight carriers and freight forwarders. From 1974 to 1982, he was at Norcros (an industrial holding company), where he worked as Chief Executive of its International Division and subsequently its Consumer Division. From 1982 to 1985 he was Vice President for Northern Europe at Singer. In 1985 Mr. Douglas became Chief Executive of European Home Products (EHP), the management buy-in vehicle for Singer's European operations. The company was floated in 1986 and subsequently renamed Scholl Plc. Mr. Douglas left EHP and joined Ocean Group (now Exel Group) in 1990 as Chief Executive of MSAS, the global freight forwarder. A year before co-founding GF-X, he served as Chief Executive of English (First Division) Rugby Football.

Mr. Douglas is also Deputy Chairman of Direct Wines Ltd., the world's largest home delivery wine business with revenues of over £150 million. He has an MBA from Harvard Business School and a BA in Industrial Economics from Nottingham University. The list of companies in which Mr. Douglas Terence Ash is interested as a Director is available at the Registered office of the Company.

Your directors recommend the resolution for the approval.

Except Mr. Douglas Terence Ash, none of the Directors of the Company is in any way concerned or interested in the resolution.

Item No. 5, 6 & 7

The Company has raised funds through internal accruals, Initial public offering and through private placements. The company is pursuing growth through acquisitions and has identified a target company for potential acquisition in Europe.

To part finance its acquisition plans the company requires funding through a combination of debt, equity and internal accruals. The company through its subsidiary in Netherlands

has discussions with a Bank in UK for debt financing, the bank has agreed to provide term loan to Four Soft B.V. with a Corporate Guarantee from its parent Company. The loan sanction is subject to detailed legal and financial due diligence by the bank.

The terms of debt funding would require creation of mortgage of current and fixed assets of the subsidiary company in favour of the Bank.

Your Company is further required to make investments through its 100% wholly owned subsidiary Four Soft B.V. Netherlands, in potential target Company in Europe upto an aggregate value not exceeding Rs. 100 crores. The investment in potential target company through Four Soft B.V. is subject to a detailed legal and financial due diligence and mutually acceptable terms and conditions through share purchase agreement.

Your directors recommend the resolutions for the approval. None of the Directors are interested in the resolutions.

Item No. 8, 9 & 10

As the company is on a growing path and plans to bring in more capital for acquisitions, expansion of facilities and marketing networks across the world, through organic means. The Board thought it fit, to increase the Authorised Capital of the Company to Rs. 35.00 Crores from the present Rs. 25.00 Crores. This was necessitated due to the reason to infuse additional capital to part finance the Company's project plan and proposed acquisitions.

Your directors recommend the resolutions 8, 9 & 10 for your approval as special resolution.

None of the Directors of the Company are interested in the resolution, except to the extent of their shareholding.

Item No. 11

The company is pursuing growth through acquisitions and has identified a target company for potential acquisition in Europe. The target has revenues of approximately GBP 12.00 Million for Year ended December 2004. To part finance its acquisition plans the company requires funding through a combination of debt, equity and internal accruals. The Company has received an in-principle expression of interest from India Growth Fund, a unit scheme of Kotak SEAF India Fund (KSIF) to subscribe upto 39,49,447 Equity Shares of Rs.5/- each on a preferential allotment basis at a price of Rs.63.30 per Share (Rs.5/- face value + Rs.58.30 Premium) being the price which is in accordance with the SEBI guidelines for preferential issues. The aggregate amount of the proposed investment would not exceed Rs. 2500 lakhs. KSIF is a SEBI registered Venture Capital Fund. The Trustee to the Fund is Kotak Mahindra Private Equity Trustee Limited and the Investment Manager is Kotak Mahindra Bank Limited.

This expression of interest is subject to a detailed, legal and financial due diligence process that is satisfactory to India Growth Fund ("IGF") in its sole discretion, internal investment committee approvals and the execution of definitive agreements between IGF (either through its Trustee or its Investment Manager) and the Company.

Subsequent to the signing of the definitive agreements, your Company is proposing to offer and issue upto 3,949,447 Equity Shares. of Rs.5/- each fully paid at a price of Rs.63.30 (Rs.5/- face value + Rs.58.30 premium).

As per regulation 13.1A of the SEBI (Disclosure and Investor Protection) Guidelines, 2000 the required details are furnished as under:

1. Object of the issue:
For the purpose of part financing its acquisition deal, the Company proposes to offer, issue and allot 3,949,447 Equity shares.
2. Pricing :
The issue of Equity shares on preferential basis shall be at a price of Rs.63.30 (Rs.5/- face value + Rs.58.30 Premium). The price is in compliance with the SEBI Pricing Norms.

3. Intention of Promoters/Directors/Key Management Persons to subscribe to the offer:

None of the promoters /Directors/Key Management has any interest in the said transaction and they do not intend to subscribe the offer.

4. Relevant Date:

"Relevant Date" for this purpose is the date 30 days prior to the date of this meeting of the Members of the Company i.e., 28th July, 2005.

5. Shareholding pattern of the Company before and after the issue :

The Shareholding pattern before and after the offer is given below:

CATEGORY	PRE-ISSUE		POST - ISSUE	
	No. of Shares	% of holding	No. of Shares	%of holding
A PROMOTER`S HOLDING				
1. PROMOTER`S*				
INDIAN PROMOTERS	8,301,380	26.05	8,301,380	23.18
FOREIGN PROMOTERS	-	-	-	-
2. PERSONS ACTING IN CONCERT**	5,975,210	18.75	5,975,210	16.68
SUBTOTAL (of 1+2)	14,276,590	44.80	14,276,590	39.86
B NON-PROMOTERS HOLDING				
3. INSTITUTIONAL INVESTORS				
a. MUTUAL FUNDS, UTI AND VCF's (IGF)	3,465,040	10.87	3,465,040	9.67
b. BANKS FINANCIAL INSTITUTIONS, INSURANCE COMPANIES (CENTRAL/ STATE GOVT. INSTITUTIONS/NON-GOVT. INSTITUTIONS)	4,000	0.01	4,000	0.01
c. FOREIGN INSTITUTIONAL INVESTORS	35,000	0.11	35,000	0.10
SUB TOTAL (of a+b+c)	3,504,040	11.00	7,453,487	20.81
4. OTHERS				
1. PRIVATE CORPORATE BODIES	3,772,835	11.84	3,772,835	10.62
2. INDIAN PUBLIC	8,262,161	25.93	8,262,161	23.26
3. NRIs/OCBs	130,180	0.41	130,180	0.36
4. ANY OTHER :				
a) Directors and Their Relatives	202,748	0.64	202,748	0.57
b) Employees & Employees Trust	1,516,334	4.76	1,516,334	4.23
c) Clearing Members	199,906	0.63	199,906	0.56
d) Trust	-	-	-	-
SUB TOTAL (of a+b+c+d)	14,084,164	44.20	14,084,164	39.33
TOTAL ISSUED CAPITAL (1+2+3+4)	31,864,794	100.00	35,814,241	100.00

6. Proposed time within which the allotment shall be complete:

The Board proposes to allot the Equity shares within a period of 15 days from the date of passing of this resolution by the shareholders or within 15 days from the date of approval of any regulatory authority which ever is later.

7. The identity of the proposed allottee and the percentage of the preferential issue that may be held by them:

Name of the Proposed Allottees	Number of Equity Shares	% of Post Preferential Issue Capital
India Growth Fund (A unit scheme of Kotak SEAF India Fund)	3,949,447	11.03%

8. **Auditor's Certificate:**

M/s. S.R.Batlboi & Associates, Chartered Accountants, Hyderabad, the Statutory Auditors of the Company have certified that the preferential issue is being made in accordance with the requirements contained in SEBI (Disclosure and Investor Protection) Guidelines, 2000. A copy of the certificate dated 3rd August, 2005 will be laid before the meeting of the shareholders.

9. **Lock-In:**

The Equity Shares to be allotted on preferential basis to India Growth Fund (A unit scheme of Kotak SEAF India Fund) shall be locked-in for a period of one year from the date of allotment, as per SEBI Guidelines.

10. **Change in Management:**

The issue of Equity shares will not result in any change in the management or control of the Company.

In terms of provisions of the Companies Act, 1956, consent of the members is required for issue of Equity shares to persons other than the existing members. Hence consent is sought under Section 81(1A) of the Companies Act, 1956, for the offer, issue and allotment of the said securities, as detailed in the resolution. The Board may be authorized to issue the Equity shares, in accordance with the terms of offer, as detailed in the

resolution and to take all necessary actions without any limitation for implementing the resolution.

None of the Directors are concerned or interested in the said resolution.

The Board of Directors recommends the resolution for the approval of the shareholders.

Item No. 12

Your Company is proposing to offer and issue upto 146,524 Equity Shares of Rs.5/- each fully paid at a price of Rs.63.30 (Rs.5/- face value + Rs.58.30 premium), these shares will be allotted for consideration other than cash.

As per regulation 13.1A of the SEBI (Disclosure and Investor Protection) Guidelines, 2000 the required details are furnished as under:

1. **Object of the issue:**

As the company has already done acquisitions of CargoMate International B.V, a Netherlands based company and paid the consideration of Euro 1.40 Million (Rs. 7.84 Crs) over performance linked deferred payout basis, through 87.5% Cash and 12.5% through stocks of Four Soft Ltd. As part of the acquisition cost, the company is offering, issuing and allotting 146,524 Equity shares for consideration other than cash.

2. **Pricing :**

The issue of Equity shares on preferential basis shall be at a price of Rs.63.30 (Rs.5/- face value + Rs.58.30 Premium). The price is in compliance with the SEBI Pricing Norms.

3. **Intention of Promoters/Directors/Key Management Persons to subscribe to the offer:**

None of the promoters /Directors/Key Management has any interest in the said transaction and they do not intend to subscribe the offer.

4. **Relevant Date:**

"Relevant Date" for this purpose is the date 30 days prior to the date of this meeting of the Members of the Company i.e., 28th July, 2005.

5. **Shareholding pattern of the Company before and after the issue :**

The Shareholding pattern before and after the offer is given below:

CATEGORY	PRE-ISSUE		POST - ISSUE	
	No. of Shares	% of holding	No. of Shares	%of holding
A PROMOTER`S HOLDING				
1. PROMOTER`S*				
INDIAN PROMOTERS	8,301,380	23.18	8,301,380	23.08
FOREIGN PROMOTERS	-	-	-	-
2. PERSONS ACTING IN CONCERT**	5,975,210	16.68	5,975,210	16.62
SUBTOTAL (of 1+2)	14,276,590	39.86	14,276,590	39.70

B NON-PROMOTERS HOLDING**3. INSTITUTIONAL INVESTORS**

a. MUTUAL FUNDS AND UTI AND VCF's (IGF)	3,465,040	9.68	3,465,040	9.64
	3,949,447	11.03	3,949,447	10.98
b. BANKS FINANCIAL INSTITUTIONS, INSURANCE COMPANIES (CENTRAL/ STATE GOVT. INSTITUTIONS/NON-GOVT. INSTITUTIONS)	4,000	0.01	4,000	0.01
c. FOREIGN INSTITUTIONAL INVESTORS	35,000	0.10	35,000	0.10
SUB TOTAL (of a+b+c)	7,453,487	20.81	7,453,487	20.73

4 OTHERS

1. PRIVATE CORPORATE BODIES	3,772,835	10.53	3,919,359	10.90
2. INDIAN PUBLIC	8,262,161	23.07	8,262,161	22.98
3. NRIs/OCBs	130,180	0.36	130,180	0.36
4. ANY OTHER :				
a) Directors and Their Relatives	202,748	0.57	202,748	0.56
b) Employees & Employees Trust	1,516,334	4.23	1,516,334	4.22
c) Clearing Members	199,906	0.56	199,906	0.56
d) Trust	-	0.00	-	0.00
SUB TOTAL (of a+b+c+d)	14,084,164	39.33	14,230,688	39.57
TOTAL ISSUED CAPITAL (1+2+3+4)	35,814,241	100.00	35,960,765	100.00

6. Proposed time within which the allotment shall be complete :

The Board proposes to allot the Equity shares within a period of 15 days from the date of passing of this resolution by the shareholders or within 15 days from the date of approval of any regulatory authority which ever is later.

7. The identity of the proposed allottees and the percentage of the preferential issue that may be held by them:

Name of the Proposed Allottees	Number of Equity Shares	% of Post Preferential Issue Capital
GMKH Automation B.V.	146,524	0.41%

8. Auditor's Certificate :

M/s. S.R.Batliloi & Associates, Chartered Accountants, Hyderabad, the Statutory Auditors of the Company have certified that the preferential issue is being made in accordance with the requirements contained in SEBI (Disclosure and Investor Protection) Guidelines, 2000. A copy of the certificate dated 3rd August, 2005 will be laid before the meeting of the shareholders.

9. Independent Valuer Certificate

M/s. Y. Ramana Reddy & Co., Chartered Accountant has certified the valuation of net assets of CargoMate International B.V Netherlands, as on 30-09-2004 vide their certificate dated 1st August' 2005. A copy of the certificate dated 1st August' 2005 will be laid before the meeting of the shareholders.

10. Lock-In:

The Equity shares to be allotted on preferential basis to GMKH Automation B.V shall be locked-in for a period of one year from the date of allotment, as per SEBI Guidelines.

11. Change in Management:

The issue of Equity shares will not result in any change in the management or control of the Company.

In terms of provisions of the Companies Act, 1956, consent of the members is required for issue of Equity shares to persons other than the existing members. Hence consent is sought under Section 81(1A) of the Companies Act, 1956, for the offer, issue and allotment of the said securities, as detailed in the resolution. The Board may be authorized to issue the Equity shares, for consideration other than cash in accordance with the terms of offer, as detailed in the resolution and to take all necessary actions without any limitation for implementing the resolution.

None of the Directors are concerned or interested in the said resolution.

The Board of Directors recommends the resolution for the approval of the shareholders.

Item No. 13

Your Company is proposing to offer and issue upto 216,884 Equity Shares of Rs.5/- each fully paid at a price of Rs.63.30 (Rs.5/- face value + Rs.58.30 premium), these shares will be allotted for consideration other than cash.

As per regulation 13.1A of the SEBI (Disclosure and Investor Protection) Guidelines, 2000 the required details are furnished as under:

1. Object of the issue:

As the company has already done acquisition of Comex Frontier Pte Ltd., a Singapore based company and agreed to pay consideration of SGD 2.10 Million (Rs. 5.94 Crs) over performance linked deferred payout basis through 55% Cash and 45% through stocks of Four Soft Ltd. As initial 25% of the acquisition cost, the company is

offering, issuing and allotting 216,884 Equity shares, for consideration other than cash.

2. Pricing :

The issue of Equity shares on preferential basis shall be at a price of Rs.63.30/-(Rs.5/- face value+Rs.58.30/- Premium). The price is in compliance with the SEBI Pricing Norms.

3.Intention of Promoters/Directors/Key Management Persons to subscribe to the offer:

None of the promoters /Directors/Key Management has any interest in the said transaction and they do not intend to subscribe the offer.

5. Relevant Date:

"Relevant Date" for this purpose is the date 30 days prior to the date of this meeting of the Members of the Company i.e., 28th July, 2005.

6. Shareholding pattern of the Company before and after the issue :

The Shareholding pattern before and after the offer is given below:

CATEGORY	PRE-ISSUE		POST - ISSUE	
	No. of Shares	% of holding	No. of Shares	%of holding
A PROMOTER`S HOLDING				
1. PROMOTER`S*				
INDIAN PROMOTERS	8,301,380	23.08	8,301,380	22.95
FOREIGN PROMOTERS	-	-	-	-
2. PERSONS ACTING IN CONCERT**	5,975,210	16.62	5,975,210	16.51
SUBTOTAL (of 1+2)	14,276,590	39.70	14,276,590	39.46
B NON-PROMOTERS HOLDING				
3. INSTITUTIONAL INVESTORS				
a. MUTUAL FUNDS AND UTI AND VCF's (IGF)	3,465,040	9.64	3,465,040	9.58
b. BANKS FINANCIAL INSTITUTIONS, INSURANCE COMPANIES (CENTRAL/ STATE GOVT. INSTITUTIONS/NON-GOVT. INSTITUTIONS)	4,000	0.01	4,000	0.01
c. FOREIGN INSTITUTIONAL INVESTORS	35,000	0.10	35,000	0.10
SUB TOTAL (of a+b+c)	7,453,487	20.73	7,453,487	20.61
4 OTHERS				
1. PRIVATE CORPORATE BODIES	3,919,359	10.90	4,136,243	11.43
2. INDIAN PUBLIC	8,262,161	22.98	8,262,161	22.84
3. NRIs/OCBs	130,180	0.36	130,180	0.36
4. ANY OTHER :				
a) Directors and Their Relatives	202,748	0.56	202,748	0.56
b) Employees & Employees Trust	1,516,334	4.22	1,516,334	4.19
c) Clearing Members	199,906	0.56	199,906	0.55
d) Trust	-	0.00	-	-
SUB TOTAL (of a+b+c+d)	14,230,688	39.57	14,447,572	39.93
TOTAL ISSUED CAPITAL (1+2+3+4)	35,960,765	100.00	36,177,649	100.00

Item No. 14,15,16 & 17

The company In order to attract and retain qualified, talented and competent personnel in the Company, your company has instituted an Employee Stock Option Plan (ESOP) (hereinafter called "the Scheme") in accordance with the Securities and Exchange Board of India (Employee Stock Option and Employees Stock Purchase Scheme) Guidelines, 1999 (including any modifications, therein from time to time) (hereinafter known as "Guidelines") and reserved an appropriate number of shares there under to allot equity shares against the stock options / shares to be granted to the employees of the Company and its Subsidiaries.

The Company has constituted a Employees Welfare Trust (here after "The Trust") / Committee of Directors to administer the stock option scheme of the Company. The company is putting this resolution for the members approval and ratification of the earlier scheme.

Specific Disclosures as required by Clause 6 of the said Guidelines are as follows:

- a) Each option to be granted shall entitle the employee to apply for and be allotted one equity shares of the nominal value of Rs. 5/- each. The total number of options to be granted are as follows:

Employees of Four Soft Ltd., India	1,112,200
Employees of Four Soft LLC, USA	10,000
Employees of Four Soft Pte Ltd., Singapore	8,000
Employees of Four Soft B.V, Netherlands	40,000

- b) All employees as defined under the said guidelines shall be entitled to participate in the scheme, subject to completion of minimum one year service in the company except senior management employees with less than one year of service, as the Trust may deem appropriate based on their years of experience and the position they join in the company.

- c) Vesting of Options

Period	% options vested
12 months from date of Grant	16.67
24 months from date of Grant	33.33
36 months from date of Grant	50.00

- d) There shall be minimum period of of one year between the grant of options and vesting of options.
- e) Exercise price shall be the market price as defined in the SEBI Guidelines from time to time or the market price on the date of grant of options, whichever is higher.

- f) Option can be exercised by making an application for issue of shares against the option vested within a period of thirty (30) days from the date specified in the table above.
- g) The options to be granted to eligible employees shall be determined by the Trust / Committee of Directors based on an appraisal process consisting, interalia of the employee's grade, years of service, present performance and basic salary and such other factors as may be specified.
- h) Maximum number of options to be issued per employee per year shall not exceed 1% of the issued capital of the Company.
- i) The company shall conform to the Accounting Policies specified in Clause 13.1 of the Guidelines.
- j) The Company adopts the intrinsic value method for visualizing the stock options and the difference between the employee compensation.
- k) The Company here declares that it shall disclose in the Directors Report the impact on the Profit and on EPS, the difference between the employee compensation cost computed using the intrinsic value of stock options and the employee compensation cost
- l) The company hereby declares that it shall disclose in the Directors report the impact on the Profit and on EPS, the difference between the employee compensation cost computed using the intrinsic value of stock options and the employee compensation cost that shall have been recognized, if the company has used fair value of Stock Options.

The Guidelines provide for a separate Special resolution in the general meeting in case of grant of options to the employees of the Company's Subsidiary(ies). Accordingly, the Board seeks your approval by way of special resolution.

For and on behalf of the board of Directors

K.V. Vishnu Raju
Director

Hyderabad
3rd August, 2005

P. Mangamma
Director

DIRECTORS' REPORT

Dear Members,

Your directors are pleased to place before the shareholders the Sixth Annual Report for the financial year ended 31st March' 2005.

FINANCIAL RESULTS

	In Rs. Lacs, except per share	
	Year ended 31.03.2005	Year ended 31.03.2004
Total Income	1711.72	1423.51
Total Expenditure	1318.20	840.06
Operating Profit (PBIDTA)	393.50	583.45
Depreciation	76.50	38.50
Profit before tax	317.00	544.95
Provision for tax	19.55	10.42
Deferred Tax	14.84	---
Profit after tax	282.60	534.53
Dividends	---	79.66
Tax on dividends	---	10.21
Basic earnings per share	0.89	2.59
Paid up Equity share capital	1592.99	1586.64
Reserves	2616.59	2303.76

OPERATIONS

During the year your company has achieved strong business growth and continues to grow both organically and inorganically and continue to grow more through inorganic growth. The organic growth has come through acquisition of new customers and inorganic through acquisition of Cargomate International B.V a Dutch company with large customer base in Europe.

BUSINESS PERFORMANCE

Total income in financial year 2004-05 was Rs. 1711.72 Lacs compared to Rs. 1423.51 Lacs in the preceding year. Operating revenues increased by 14% year on year to Rs. 1593.42 Lacs, of which export revenues were Rs. 1572.09 Lacs (99%) and domestic revenues Rs. 21.33 Lacs (1%). Other income was Rs. 118.30 Lacs.

Operating Profit at Rs. 393.50 Lacs compared to Rs. 583.45 Lacs the decrease in operating profits were due to increase in salaries, expansion of overseas offices and consolidation of acquired businesses.

Profit after tax stood at Rs. 282.60 Lacs compared to Rs. 534.53 Lacs, the decrease is due to increased depreciation on assets acquired during the year and increase in provision for taxes and deferred taxes.

SHARE CAPITAL

During the year, the paid-up share capital has increased by Rs.6.36 lacs due to conversion of partly paid shares to fully-paid shares.

STRATEGIC EVENTS

We continue to focus on delivering products and quality services to our global customers.

Cargomate International B.V Acquisition

Your company acquired CargoMate International B.V, a dutch company. The acquired company is engaged in delivering products and services to large European Freight Forwarding Customers. The acquisition has been in a combination of cash 87.5% (Rs. 640 Lacs) and stocks 12.5% (Rs. 98.00 Lacs). The Company has revenues of Rs. 784.00 Lacs per annum with a profit after tax of Rs. 336.00 Lacs. The company has strength of 14 employees. The stocks of Four Soft limited will be issued and allotted for consideration other than cash, subject to members approval and necessary statutory approvals.

QUALITY

Your company continues to maintain high quality standards with an effort to enhance quality of products and services in the coming years. Your company has already been certified ISO 9001.

AWARDS AND RECOGNITIONS

The company has received various awards and certification during the year :

- Received the Best IT SME award from HYSEA for 2004.
- Finalist for the ICICI Emerging India Awards 2005 for SME Companies.
- Received the "Award of Excellence" from Global Institute of Logistics, USA as the world's first web centric enterprise application for Transportation and Logistics Companies.

Company products 4S eTrans and 4S eLog are Sun® Microsystems Inc, Application Verification Kit Certified for Enterprises.

SUBSIDIARIES

Four Soft LLC, USA

The US subsidiary showed increase in revenues. This increase in revenues were due to increased billing for onsite resources for US customers.

The FY 2004-05 revenues stood at US\$ 0.70 million (Rs. 320.50 Lacs) compared to US\$ 0.33 million (Rs. 145.13 Lacs) in 2003-04. The operations results in a net profit of US\$ 0.08

million (Rs. 35.92 Lacs) compared to US\$ 0.07 million (Rs. 22.50 Lacs) in the previous financial year.

Four Soft B.V Netherlands

On acquisition of CargoMate International B.V, the company was converted as 100% subsidiary and has created a market presence in Europe with large customer base. This will position Four soft in cross selling its top line products to the existing customers of its subsidiary with improvised technological advantage and delivery capabilities.

For the period 30-09-2004 upto 31-03-2005 revenues stood at € 0.78 million (Rs.415.58 lakhs) and net profit of € 0.16 million (Rs.85.36 lakhs).

GROWTH

Four-Soft is a technology company that develops innovative software products, and provides IT consultancy services to the logistics and supply chain management marketplace using advanced web technologies that were earlier not possible with conventional technology of legacy and client-server systems. Your company is presently employing more than 300 employees with an increase of more than 100 % over the previous year. Professionals with excellent track record form the core management team. Besides several years of experience, they have academic degrees from reputed institutions in India such as IIT's, IIMs, RECs, Chartered Accountants etc.

Products

Your company has invested and will be investing continuously in product development. We released 2 upgrades of each product eSupply SP and eSupply EP. Current version of eTrans SP is version 1.8 and eLog SP is 1.6. eSupply EP is Version 1.4 (As on Mar 05).

Sales & Marketing

You would be pleased to know that we are slowly maturing into a complete Product and Solutions company with more than 100 Customers globally and implementation in over 25 countries. Your company now operates with its own office in India, USA, The Netherlands, Singapore, China & Malaysia. We are exploring several vertical diversification opportunities to position as an End-to-End ERP solution provider for this industry. This year has added 8 to 10 new organic customers and about 90 customers through acquisitions.

Expansion

Your company is geared for further growth of both organic and inorganic nature. New space is being added within Cyber Towers - where your company is head quartered - to take the total area occupied to 16,000 Sq Ft. Company owns nearly 8000 Sq Ft of the above area. Your company has invested in several tools that help in creating more robust products.

Internally, company has invested in Project Management, Payroll, Sales Force and HR solutions to better the efficiency of employees and for more metrics driven management. ISO 9001:2000 has been diligently implemented and is being religiously followed with continuous improvements for better efficiency.

HUMAN RESOURCES

During the year the company has grown from 145 staff for preceding year to 270 staff working across the globe. The company has been committed to train and nurture talent and provide the much needed career growth and incentives through Employee Stock Option Plan, which has been successful retention option.

SOCIAL RESPONSIBILITY:

Your company has always been associated with society at large, through society development programs and contributed to social causes. Company and its employees have adopted government schools and made significant contributions towards education, personal development, hygiene and participated in various programs organized in those schools. Your company continues to help destitute girl children in the society for their well being and make them educated social citizens.

FIXED DEPOSITS

Your company has not accepted any fixed deposits and, as such, no amount of principal or interest was outstanding as of the balance sheet date.

DIRECTORS

Mr. Sarath Naru was appointed as nominee director in place of Mr. K.E.C Rajakumar, during the year.

As per Article 88 of the Articles of Association, Mr. Douglas Terence Ash, and Smt. P. Mangamma retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for reappointment. Brief profiles of the above directors are provided in the notice to the Annual General Meeting.

AUDITORS

The auditors, M/s. S. R. Batliboi & Associates, Chartered Accountants retire at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

EMPLOYEES WELFARE TRUST

During the year, the company has not allotted any shares to the Employees Welfare Trust, however the trust has granted options to the employees as per the ESOP Scheme. The details of the scheme is mentioned elsewhere in the Director's Report.

CONSERVATION OF ENERGY, RESEARCH AND DEVELOPMENT, TECHNOLOGY ABSORPTION, FOREIGN EARNINGS AND OUTGO.

The particulars as prescribed under Subsection (1)(e) of Section 217 of the Companies Act' 1956 read with the Companies (Disclosure of particulars in the report of the Board of Directors) Rules, 1988, are set out in the annexure included in this report.

SUBSIDIARY

Your company has two wholly owned subsidiaries Four Soft LLC, USA and Four Soft B.V. Netherlands. As per Section 212 of the Companies Act' 1956, your company is required to attach the directors report, balance sheet and profit and loss account of subsidiary.

PARTICULARS OF EMPLOYEES

As required under the provisions of section 217(2A) of the Companies Act' 1956, read with the Companies (Particulars of employees) Rules, 1975. The Department of Company Affairs, has recently amended the Companies (Particulars of employees) Rules, 1975 to the effect that particulars of employees of companies engaged information technology sector posted and working outside India not being directors or their relatives, drawing more than rupees twenty four lakh per financial year or rupees two lakh per month, as the case may be, need not be included in the statement, but, such particulars shall be furnished to the Registrar of Companies. However there are no employees covered under the above provisions.

DIRECTOR'S RESPONSIBILITY STATEMENT:

Pursuant to Section 217(2AA) of the Companies Act' 1956 the Directors confirm that:

The financial statements are prepared in conformity with the accounting standards issued by the Institute of Chartered Accountants of India and the requirements of the Companies Act' 1956, to the extent applicable to the company; as a going concern and on the accrual basis. There are not material departures from prescribed accounting standards in the adoption of the accounting standards. The accounting policies used in the preparation of the financial statements have been consistently applied except where otherwise stated in the notes on accounts.

The board of directors and the management of your company accepts responsibility for the integrity and objectivity of these financial statements. The estimates and judgments relating to the financial statements have been made on a prudent and reasonable basis. In order that the financial statements reflect in a true and fair manner, the form and substance of transactions, and reasonably present the company's state of affairs and profit for the year. To ensure this the company has taken proper and sufficient care in installing a system of internal control and accounting on an ongoing basis.

The financial statements have been audited by S.R.Batlboi & Associates, Chartered Accountants, the statutory auditors.

The audit committee of the company meets periodically with the statutory auditors to review the manner in which the auditors are discharging their responsibilities, and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the statutory auditors have full an free access to the members of the audit committee to discuss any matter of substance.

ACKNOWLEDGEMENTS

Your directors thank the company's clients, vendors, investors and bankers for their continued support during the year. Your directors place on record their appreciation of the contribution made by employees at all levels. Your company's consistent growth was made possible by continued commitment to work, co-operation and support.

Your directors thank the Government of India, particularly department of Information Technology, Customs and Excise, Income Tax, Software Technology Park of Hyderabad, Reserve Bank of India and other government agencies for their overall support and look forward for their continued support in the future.

For and on behalf of the board of Directors

K.V.Vishnu Raju
Director

Hyderabad
30th July' 2005

P.Srikanth Reddy
Managing Director

PARTICULARS PURSUANT TO COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES, 1988

1. Conservation of energy

The business operations of your company are not energy intensive. However, significant measures are taken to reduce energy consumption by using energy efficient computers and equipments. Your company continuously evaluates new technologies and invests for making infrastructure more energy efficient. Since the facility is located in L&T Infocity premise, Air-conditioners, hydro-pneumatic pumps used are highly energy efficient. As energy costs comprise a nominal part of company's total expenses, the financial impact of these measures is material.

2. Research and Development

- a) Since your company is a product company, most of the resources are used for R&D activities for product enhancement, integrating latest technologies, with processes and methodologies to enhance the quality, productivity and customer satisfaction through continuous innovation.

- b) Specific R&D activities at your company
Your company spent Rs. 155.06 Lacs in the financial year 2005. Which includes amount spent on product enhancement through new functionalities in eSupply EP and SP. supply SP is world's first web centric product in the world and is awarded "Award of Excellence" by Global Institute of Logistics. Other expenses incurred on methodologies and new technologies, which help your company in improving its quality and service capability.
- c) Benefits derived as a result of R&D activity
Your company's product performance testing has been certified by NSTL (National Software Testing Lab) and has been Sun® Microsystems Inc, Certified Application Verification Kit for Enterprises. Our R&D is instrumental in building expertise in domain specific software for Logistics and Transportation Supply Chain Process Management.
- d) Future plan of action
Your company's focus is now moving the existing products from execution level to Decision Making Model level. Future benefits are expected to flow in from initiatives undertaken in coming years.

3. Technology absorption, adaptation and innovation

Your company has identified thought leadership areas in Knowledge Management and Collaborative Commerce along with RFID Roadmap and product integration on various platforms.

4. Foreign exchange earnings and outgo

- a. activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services, and export plans

Your company has derived 99% of its revenues from exports, your company has channel partner and alliance partners across the world, including North America, Europe and Asia-Pacific regions. The company has subsidiary in US as direct marketing arm in North American region. Your company expects to set up other offices in Asia-Pacific, including China, Japan and Australia with sales and marketing staff providing services to large international clients.

- b) Foreign exchange earned and used for the year ended March 31' 2005

	in Rs. Lacs	
	2005	2004
Earnings	1572.09	1369.84
Outflow (including capital goods And imported software)	386.25	209.60

For and on behalf of the board of Directors

K.V.Vishnu Raju
Director

Hyderabad
30th July' 2005

P.Srikanth Reddy
Managing Director

Practising Company Secretary's Certificate on Corporate Governance to the Members of M/s. Four Soft Ltd.

To the Members of
Four Soft Ltd.
Hyderabad

We have examined the compliance of conditions of Corporate Governance by Four Soft Ltd., ("The Company) for the period 1st April' 2004 to 31st March' 2005, as stipulated in Clause 49 of the Listing Agreement of the said Company with the Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In or opinion and to the best of our information and according to the explanation give to us:

We certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that in respect of Investor Grievances during the period ended 31st March' 2005, no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Company.

We further state that such compliance is neither an assurance as to the future viability of the Company not the efficiency or effectiveness with which the management has conducted the affairs of the Company.

Sd/-

A. G. Ravindranath Reddy
FCS No. 1997 CP No. 1932

Hyderabad
Date: July 30' 2005

Details of ESOP Options

Pursuant to SEBI Guidelines on Stock Options

Four Soft ESOP Scheme as on 31st March' 2005

Sl. No.	Description	2003 Plan										
1.	No. of shares available under ESOP Scheme											
	A. Originally allocated	953,000										
	B. Consequent to Bonus Issue & split of Shares	217,200										
	C. Total	11,70,200										
2.	No. of Options Granted	645,240										
3.	Pricing Formula	Price of Rs. 5/- per share										
4.	Options vested during FY 04-05	Nil										
5.	Options exercised during FY 04-05	Nil										
6.	Options lapsed during FY 04-05	184,412										
7.	Grant Price	Rs. 5/-										
8.	Total No. of options in force as on 31st March'05	460,828										
9.	Variation of terms of option	Nil										
10.	Money realized by exercise of options	Nil										
11.	Total number of options in force	460,828										
9.	Grant details to members of senior management team											
	Biju S. Nair	33,600										
10.	No. of associates holding 5% or more of the total number of options granted during the year	Nil										
11.	No. of associates with 1% or more of paid up capital	Nil										
12.	Basic EPS as per Accounting Standard 20	Rs.0.89										
	Diluted EPS	Rs.0.88										
16. i)	Method of calculation of employee compensation cost	: The company has calculated the employee Compensation cost using the intrinsic value of the stock options.										
ii)	Difference between the employee compensation cost so computed at (i) above and the employee compensation cost that shall have been recognized if it had used the fair value of the options	: Rs.53,237/-										
(iii)	The impact of this difference on profits and on EPS of : The company	<table> <tr> <td>PAT</td> <td>Rs.28,260,502/-</td> </tr> <tr> <td>Less: Additional employees Compensation cost based on Fair value</td> <td>Rs.53,237/-</td> </tr> <tr> <td>Adjusted PAT</td> <td>Rs.28,207,265/-</td> </tr> <tr> <td>Adjusted EPS</td> <td>Rs.0.89(Basic)</td> </tr> <tr> <td></td> <td>Rs.0.88(Diluted)</td> </tr> </table>	PAT	Rs.28,260,502/-	Less: Additional employees Compensation cost based on Fair value	Rs.53,237/-	Adjusted PAT	Rs.28,207,265/-	Adjusted EPS	Rs.0.89(Basic)		Rs.0.88(Diluted)
PAT	Rs.28,260,502/-											
Less: Additional employees Compensation cost based on Fair value	Rs.53,237/-											
Adjusted PAT	Rs.28,207,265/-											
Adjusted EPS	Rs.0.89(Basic)											
	Rs.0.88(Diluted)											

(iv) Weighted average exercise price and fair value of Stock Options granted:

Stock options granted on	Weighted average exercise price (Rs.)	Weighted average fair value (Rs.)	Closing market price at NSE on the date of grant (Rs.)
21/07/2004	5/-	15.07	19.65

- (v) Description of the method and significant assumptions : The Black Scholes option pricing model was developed for estimating fair value of traded options that have not vesting restrictions are fully transferable. Since options pricing models require use of substantive assumptions, changes therein.
- Used during the year to estimate the fair value of the Including the following weighted average information
- (vi) Description of the method and significant assumptions : The Black Scholes option pricing model was developed for estimating the fair value of traded options that have not vesting restrictions and are fully transferable. Since Option pricing models require use of Substantive assumptions, changes therein can materially affect fair value of options. The option pricing model do not necessarily Provide a reliable measure of fair value of Options.
- Used during the year to estimate the fair value of the Options, including the following weighted average Information
- (vii) The main assumptions used in the Black Scholes option pricing model during the year were as follows:
- Risk free interest rate : 7%
- Expected life of options from the date(s) of grant : 1st year (16.67%), 2nd year (33.33%), 3rd year (50%)
- Expected volatility : 66.70%
- Dividend Yield : 1.27%

For and on behalf of the Board of Directors

Hyderabad
30th July 2005

Sd/-
P.Srikanth Reddy
Managing Director

Sd/-
K.V.Vishnu Raju
Director

REPORT ON CORPORATE GOVERNANCE

Corporate Governance Philosophy

Four Soft Limited (4S) believes that ethical business practices are achieved through good corporate governance. Since its inception 4S has been striving towards compliance mechanism and reporting system and been able to build a strong stakeholder friendly process.

4S has grown leaps and bounds in terms of organic growth within the company as well as inorganic growth in terms of market size, customer base and expanding into new horizons. It has negligible competition in its market arena from any global customers and has achieved highest quality levels in ISO 9001: 2000 and in the process towards CMM compliance, as per global standards. The Board of Directors at 4S believes that the Company will always focus on Return on Value and Wealth creation, both for all stakeholders in large.

The CII took the lead in designing the corporate governance in April' 1998. This was followed by recommendations of the Kumar Mangalam Birla Committee on corporate governance. This committee was appointed by the Securities and Exchange Board of India (SEBI). The recommendations were accepted by SEBI in December 1999, and are now enshrined in Clause 49 of the Listing agreement of stock exchanges in India. Your company fully complies with all the same.

A. Board Composition

1. Size and composition of the board

The current board has appropriate mix of executive and independent directors to maintain independence. The board presently has 9 directors on Board both professional and executive directors.

Name of Directors	Position	Directorships as on March 31, 2005		Committee membership in all companies
		held Indian companies	around the world	
Mr. Suresh C. Rajpal	Independent Director	5	-	-
Mr. Palem Srikanth Reddy	Managing Director Executive and founder director	5	2	-
Mr. Koh Boon Hwee	Independent Director	1	17	1
Mr. Douglas Terence Ash	Independent Director	4	3	1
Mr. K. Vishnu Raju	Independent Director	9	-	2
Mr. M.M Pallam Raju	Independent Director	4	-	2
Mr. Walter Joseph Sousa Jr	Independent Director	1	2	2
Mr. K.E.C Rajakumar* (resigned)	Independent Director	5	-	2
Mr. Sarath Naru * (Appointed)	Independent Director	10	-	2
Smt. P.Mangamma	Non-Executive Director	2	-	1

* W.e.f 03.08.2004

2. Definition of Independent Director

An independent director means a person other than an officer or employee of the company or its subsidiaries or any other individual having a material pecuniary relationship or transactions with the company which, in the opinion of the company's board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

3. Membership Criteria

The board constantly evaluates the contribution of its members, and recommends to shareholders

their re-appointment periodically as per law. The companies act' 1956 requires that retirement of one-third of the board members (who are liable to retire by rotation) every year, and those retiring members being eligible are re-appointed. Executive directors are appointed by the shareholders for a maximum period of five years at a time, but are eligible for re-appointment upon completion of their term. Non-executive directors do not have a specific term, but retire by rotation as per law. The Remuneration committee recommends such appointments and /or re-appointments.

4. Board compensation review

The Remuneration/Compensation Committee, recommends to the board the compensation payable to the Executive Directors, sitting fees and stock compensation to Non-Executive Directors. The shareholders approve all board-level compensation and are separately disclosed in the financial statements.

B. Board Meetings

The Board meetings are held at the registered office of the Company and independent directors are required

to attend minimum three meetings in a year. The board meets once a quarter to review the quarterly results and other items on the agenda, and also on the occasion of the annual shareholders' meeting. However, the board being represented by independent directors from various parts of the globe, it may not be possible for each one of them to be physically present at all the meetings. The company effectively uses teleconference facilities to facilitate their participation. Committees of the board usually meet the same day before the formal board meeting, or when required for transacting business.

There were 6 board meeting held during the year ended March 31, 2005. These were

1. No. of Board meetings and attendance during FY2005

	No of Board meetings	No. of Board Meeting Attended	Attended last AGM
Palem Srikanth Reddy	6	5	Yes
Koh Boon Hwee	6	–	–
Douglas Terence Ash	6	–	–
K. Vishnu Raju	6	5	Yes
M.M Pallam Raju	6	5	Yes
Walter Joseph Sousa Jr	6	–	–
K.E.C Rajakumar*(Resigned)	3	2	–
Sarath Naru*(Appointed)	3	3	–
P. Mangamma	6	3	Yes

* Changes w.e.f. 03.08.2004.

2. Board Procedure

The Board of Directors of the Company should meet atleast 5 times a year, with a maximum time gap of four months between any two meetings.

Following information should be placed before the Board meetings:

- a. Annual Operating Plans and budgets
- b. Capital budgets and updates
- c. Recruitment and remuneration of senior officers in Grade 4b & 4c should be approved by remuneration committee. Any appointment and removal of key managerial personnel, including CFO & Company Secretary should be placed before Board.
- d. Quarterly financial reporting
- e. Details of Joint Ventures and Collaboration agreements
- f. Investments in JVs', Subsidiaries, Capital assets not in normal course of business.
- g. Show cause, demand, prosecution notice and penalty notices being materially important.
- h. Any material default in financial obligations to and by the Company or substantial non-payment for goods sold by the Company.
- i. Transactions that involve substantial payment towards good will, brand equity, or Intellectual property.
- j. Any issue which involves possible public or product liability claims of substantial nature, including any judgment order which may have passed strictures on the conduct of the company or taken an advise view regarding another enterprises that can have negative implications on the Company.
- k. Non compliance of any statutory, regulatory, delay in listing and shareholder services.
- l. Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement, if material.
- m. Other Committee minutes and reports.

3. Materially Significant related party transactions

There have been no materially significant related party transactions, pecuniary transactions or relationships between Four Soft and its directors, management, subsidiary or relatives.

4. Independent directors' meeting

As a company policy, the independent directors of the board to regularly update them on all business-related issues and new initiatives. The executive directors and other senior management personnel shall make such presentations on relevant issues.

C. Board Committees

The Company presently has three committees - the Audit Committee, Compensation/Remuneration Committee, Shareholders/Investor Grievance Committee. The Audit committee consists of all three independent directors, Remuneration committee and Investor Grievance Committee consist of independent directors. The Chairman of the Board in consultation with the Company Secretary decides the frequency of the committee meetings. All the committees meet at least four times in a year and the recommendations of the committee are submitted to the Board. The Quorum of these committee meetings is either 1/3rd of 2 whichever is higher. Recommendations of the committee are submitted to the full board for approval.

1. Audit Committee

The present audit committee consists of three independent directors. One of the members shall be elected as the chairman, either by the full BoD or by members by majority vote.

K.Vishnu Raju	:	Chairperson
M.M Palam Raju	:	Member
K.E.C Rajakumar*(Resigned)	:	Member
Sarath Naru*(Appointed)	:	Member

* Changes with effect from 03.08.2004

The primary objective of the Audit committee is to monitor and provide effective supervision of Management financial reporting with the view that proper, timely and proper disclosures are made and transparency is maintained. The Committee functions in consultation with the Internal and Statutory Auditor The Audit committee shall meet four times a year, one meeting before the finalisation of annual accounts and one every six months. Minimum quorum of two directors or 1/3rd whichever is higher.

The Company confers following powers on the Audit committee:

- Significant findings during the year, including the status of previous audit recommendations;
- Any difficulties encountered in the course of audit work including any restrictions on the scope of activities or access to required information;
- Any changes required in the planned scope of the internal audit plan.

The audit committee shall have the following roles & responsibilities

- Open avenue of communication between the auditors and the Board of Directors.
- Meet at least four times in a year or frequently as circumstances require.
- Appoint, compensate and oversee the work of auditors for the purpose of preparing or issuing an audit report.
- Correct disclosure of financial transactions with enough support
- Review and approve all related party transactions in the company.
- Review with Management the annual financial statements before submitting to the Board
 - Matters required to be included in the Director's responsibility statement terms of clause (2AA) of Section 217, of Companies Act' 1956.
 - Accounting policies changes and reasons thereof
 - Qualifications in draft audit report
 - Significant adjustments out of audit
 - Compliance with accounting standards
 - Related party transactions
 - Compliance with listing and other legal requirements relating to financial statements.
- Review with management of Internal Control Systems
- Review of Internal Audit functions, together with management responses
- Reviewing the Company's financial risk management policies
- Bookkeeping or other services related to the accounting records of financial statements of the Company;
- Financial information system design and implementation;

- l. Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- m. Actuarial services;
- n. Management functions or human resources;
- o. To look into the reasons for substantial defaults in the payment to deposit holders & shareholders.
- p. Review before release, the un-audited quarterly operating results in the Company's quarterly earnings release.
- q. Oversee compliance with the requirements of the SEBI and Stock Exchanges as the case may be, for disclosure of auditor's services and audit committee members, member qualifications and activities.
- r. Review and discuss with management and the independent auditors, the annual audited financial statements and quarterly audited / un-audited financial statements, including company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations"
- s. Review, approve and monitor the code of ethics that the Company plans for its senior financial officers.
- t. Review management's monitoring of compliance with the Company's standards of business conduct and with the Foreign Corrupt Practices Act.
- u. Review, in conjunction with counsel, any legal matters that could have a significant impact on the Company's financial statements.
- v. Provide oversight and review at least annually of the Company's risk management policies, including its investment policies.
- w. Review the Company's compliance with employee benefit plans.
- x. Oversee and review the Company's policies regarding information technology and management information systems.
- y. If necessary, institute special investigations with full access to all books, records, facilities and personnel of the Company.
- z. As appropriate, obtain advice and assistance from outside legal, accounting or other advisors.

The committee will meet separately with CEO at such times as appropriate to review the financial affairs of the company

Audit committee attendance during FY 2005

Name of Member	No. of meetings held	No. of meetings attended
K. V. Vishnu Raju	5	5
M.M.P Raju	5	4
K.E.C Rajakumar*(Resigned)	3	2
Sarath Naru*(Appointed)	2	2

* Changes with effect from 03.08.2004

2. Remuneration Committee

The Committee shall discharge the Board's responsibilities relating to compensation of the Company's executive directors and senior management. The compensation committee shall annually review and approve for the executive directors and senior management of the company (a) the annual base salary, (b) equity compensation, (c) employment agreements, (d) any other compensation plans, policies and programs of the Company.

The Remuneration committee shall have non-executive directors:

Name of Director

Mr. Koh Boon Hwee	:	Chairperson
Mr. Suresh C. Rajpal	:	Member
Smt. P. Mangamma	:	Member

There were no remuneration committee meetings held during the year.

Following disclosures be made with regard to remuneration to all directors, including salary, benefits, bonus, stock options, pension etc.

Fixed component, performance linked incentives along with criteria: Service contracts, notice period, severance fees, Stock option details, whether issued at discount, period over which accrued and exercisable.

The committee believes that the proposed compensation and benefits, along with stock options, are adequate to motivate and retain the senior officers of the company.

3. Investor / Shareholder Grievance Committee

The Investor grievance committee consists of following Independent directors.

Mr. M.M Pallam Raju	:	Chairperson
Mr. K.V. Vishnu Raju	:	Member
Mr. K.E.C Rajakumar*(Resigned)	:	Member
Mr. Sarath Naru*(Appointed)	:	Member

* Changes with effect from 03.08.2004

The Company has mandate to review and redress shareholder grievances.

Name of Member	No. of meetings held	No. of meetings attended
M.M.P Raju	4	4
K. V. Vishnu Raju	4	4
K.E.C Rajakumar*(Resigned)	2	1
Sarath Naru*(Appointed)	2	2

* Changes with effect from 03.08.2004

The company expresses satisfaction with the company's performance in dealing with investor grievances and its share transfer system. It is also noted that the shareholding in dematerialisation mode is 75% as against 38.65% previous year.

D. Management Review and Responsibility

1. Formal evaluation of Board

The remuneration committee of the board approves the remuneration to the executive board members. Another committee headed by the Managing Director reviews, evaluates and decides the annual compensation payable for officers below the level of Vice-President and stock option plans.

2. Interaction with clients, employees, investors government and press

The Managing Director along with Head of Finance interact with all the clients, employees, investors, media, government bodies.

3. Management's discussion and analysis

This is detailed under a separate section in this annual report.

E. Shareholders

1. Disclosures regarding appointment or re-appointment of directors

According to the Articles of Association, one-third of the directors retire by rotation and, if eligible, offer themselves for re-election at the Annual General Meeting of shareholders. A brief resume

of the director, nature of expertise in specific functional areas and name of companies in which the person holds directorship and Membership of committees of the Board & Shareholding.

2. Communication to shareholders

The quarterly un-audited / audited financial results of the company are published in Business Standard (National Daily) and in Andhra Bhoomi (Vernacular). The complete quarterly un-audited / audited financial statements, press releases etc., are posted on Company's website, at www.four-soft.com

3. Investors' grievances and share transfer

As mentioned earlier, the company has a board-level investors grievance committee to examine and redress shareholders' and investors' complaints. The status on complaints and share transfers is reported to the full board. The details of shares transferred and nature of complaints are also provided.

For matters regarding shares transferred in physical form, share certificates, dividends, change of address, etc. shareholders should communicate with Karvy Computer Share Pvt. Ltd., Limited, the company's registrar and share transfer agent.

4. Disclosures

No penalties have been imposed on the Company by the stock exchanges where the Company's shares are listed or SEBI or any other statutory authority, on any matter.

5. Compliance

The company shall obtain a certificate on Corporate Governance in annual reports of the Company with a detailed compliance report on Corporate Governance, non-compliance to the extent to which non-mandatory requirements are highlighted. The Practicing Company Secretary's report is annexed to the Directors' report sent annually to the shareholders. The same certificate is also sent to the stock exchanges wherever listed. The disclosure of adoption / non-adoption of non-mandatory requirements shall be made in corporate governance report of annual report.

The Company has adopted the code of internal procedures and conduct for listed companies notified by Securities and Exchange Board of India prohibiting Insider trading. The Company has adopted a Code of Conduct to be adopted by Senior Management and Board Members.

6. The Management Discussion and Analysis Report forms part of the Annual Report.

7. General body meetings

Details of the last three Annual General Meetings, with date, time and venue,

Financial Year	Date	Time	Venue
2002	30-09-02	2.00 PM	5Q1 A3, Cyber Towers, HITEC City, Madhapur, Hyderabad - 81
2003	22-05-03	2.00 PM	-do --
2004	03-09-04	9.30 A.M	FAPCCI, Red Hills, Hyderabad

8. General Shareholder Information

1. Date, time and venue of 6th AGM August 27, 2005 at 9.30 A.M The Chip Auditorium, Cyber Towers, HITEC City, Madhapur, Hyderabad - 500 081, AP, INDIA
2. Financial Calendar 1st April to 31st March
3. Dates of book closure August 24 to August 27, 2005 (both days inclusive)
4. Listing on stock exchanges National Stock Exchange of India Ltd. (NSE) and the The Stock Exchange, Mumbai (BSE)
5. Listing fees for 2005-06 Paid for both the stock exchanges.
6. Electronic Connectivity National Securities Depository Ltd. & Central Depository Services (India) Ltd.
7. Registered Office
Global Technology & Offshore
Development Centre
5Q1 A3, 5th floor, Cyber Towers, Hitec City, Madhapur, Hyderabad - 500 003, A.P India Tel: +91-40-2310 0600, Fax: +91-40-2310 0602 Website: www.four-soft.com
8. Registrar and Share transfer agent
Share transfers in physical form and other communication regarding share Transfer, certificates, dividends, change of address, etc., may be addressed to :

Karvy Computershare Private Ltd.
UNIT: Four Soft Limited
46, Avenue 4, Road No. 10
Banjara Hills, Hyderabad - 500 034. India
Tel: +91-40-2331 2454, Fax: +91-40-2331 2968
email: mohsin@karvy.com

9. Stock market data

Monthly closing high and low quotations of shares traded on National and Mumbai Stock Exchanges for the year 2004-05.

Year 2004 - 05 Month	NSE		BSE	
	HighRs.	Low Rs.	HighRs.	Low Rs.
April, 2004	29.50	23.85	29.50	23.50
May, 2004	27.05	18.25	26.95	18.15
June, 2004	21.60	18.85	21.55	18.70
July, 2004	25.30	18.10	25.35	18.00
Aug, 2004	24.65	22.10	24.55	22.00
Sept, 2004	30.40	23.45	32.05	23.40
Oct, 2004	39.15	31.75	39.30	31.85
Nov, 2004	38.55	33.35	38.55	33.35
Dec, 2004	46.20	35.90	46.35	35.80
Jan, 2005	45.15	36.00	45.15	36.30
Feb, 2005	48.20	39.05	48.30	39.15
Mar, 2005	43.10	32.45	43.10	32.35
Yearly	48.20	18.10	48.30	18.15

Market Capitalisation - As on 31st March' 2005 is Rs. 11,073 Lacs as per the closing stock price of NSE.

10. Share transfers in physical form Shares sent for physical transfer are affected after approval by the share transfer committee of the company.
11. The share transfer system

Shares lodged for physical transfer would be registered within a period of 8 days, on proactive measure and duly transferred would be dispatched to the concerned shareholders within a week from date of approval of transfers by the Share Transfer Committee. For this purpose, the Share Transfer Committee meets as often as required. Adequate care is taken to ensure that no transfers are pending for more than a fortnight. Shares in dematerialized form are transferred within 21 days.

12. Due dates for transfer of un-claimed dividends to Investor Education and Protection Fund (IEPF)

Financial Year	Date of Declaration of Dividend (Date of Annual General Meeting)	Due date for transfer to IEPF
2000-01	24th September' 2001	30th October' 2008
2001-02	30th September' 2002	11th November' 2009
2002-03	22nd May' 2003	28th June' 2010
2003-04	3rd September' 2004	9th October' 2011

13. Distribution of shareholding as on March 31, 2005.

No. of Equity shares held	No. of Shareholders	% of Shareholders	No. of Equity Shares	Shares % of Total Shareholding
Upto - 5,000	11102	83.30	2,114,993	6.64
5,001 - 10,000	1026	7.70	894,173	2.81
10,001 - 20,000	499	3.74	809,931	2.54
20,001 - 30,000	200	1.50	535,361	1.68
30,001 - 40,000	88	0.66	322,531	1.01
40,001 - 50,000	112	0.84	536,368	1.68
50,001 - 100,000	151	1.13	1,122,987	3.52
100,001 > Above	149	1.12	25,528,450	80.11

14. Investor's correspondence

For investor matters:
 Naresh Kumar Patro
 Company Secretary and Compliance Officer
 Secretarial Department
 Four Soft Limited
 5Q1 A3, 5th Floor, Cyber Towers
 Hitec City, Madhapur, Hyderabad - 500 033
 Tel: +91-40-2310 0600, Fax: +91-40-2310 0602
 email: investorinfo@four-soft.com

For queries on Financial statements
 Biju S. Nair
 Asst. Vice-President-Finance
 Four Soft Limited
 5Q1 A3, 5th Floor, Cyber Towers
 Hitec City, Madhapur, Hyderabad - 500 033
 Tel: +91-40-2310 0600, Fax: +91-40-2310 0602
 email: nair.biju@four-soft.com

15. Stock Exchange Codes

FOURSOFT (NSE) 532521 (BSE)

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS YEAR ENDED MARCH 31, 2005

Overview

The financial statements have been prepared in compliance with the requirements of the Companies Act' 1956, and Generally Accepted Accounting Principles (GAAP) in India. The Management of Four Soft accepts responsibility for the integrity and objectivity of these financial statements, as well as for the integrity and objectivity of these financials statements, as well as for various estimates and judgements used therein. The estimates and judgements relating to the financial statements have been made on a prudent and reasonable basis, in order that the financial statements reflect in a true and fair manner the form and substance of transactions, and reasonably present the company's state of affairs and profits for the year.

The Industry overview Transport Management System and Warehouse Management System is growing at 60% CAGR.

Potential opportunities

The Company has developed products being world's first Web-centric Enterprise application for Transportation, Logistics and Supply Chain Process Management. With growing presence of your Company in Asia-Pacific and European Markets with strong foothold customer base and increasing market size, the Company promises to be a leader in this vertical.

Threats

You Company is the only player which provide the Web-centric Enterprise applications in this domain. There is market consolidation among other global majors and acquisition of regional players, there by creating easy to market access. Your Company to mitigate these risk continuously grows through in-organic means by way of acquisitions to enter new market and broad customer base.

A. Financial Condition

1. Share Capital

At present, the company has only two classes of shares - Equity and Preference Shares. However the preference shares have been issued and redeemed to equity shares. Equity shares are of par value of Rs. 5/- each. The authorized share capital is Rs. 25 Crore divided into 3,60,77,600 Equity shares of Rs. 5/- and 6,96,120 Preference shares of Rs. 100/- each.

During the year the Company has received Rs. 6.36 lakhs towards arrears in call money from 254,400 share @Rs.2.50/- share.

2. Reserves and Surplus

The addition to the share premium account of Rs. 6.36 Lacs during the year due to the premium received on partly paid-up equity shares. Out of the profits for the year ended March 31, 2005 Rs. Nil has been transferred to General Reserve and the balance of Rs. 704.76 Lacs has been retained in profit and loss account.

3. Fixed Assets

As of March 31st, 2005 the company added Rs. 376.90 Lacs to its gross block of assets. The Costs of Building, computer equipments, office equipments, furniture and fixtures increased by Rs. 202.49 Lakhs Rs. 74.67 lakh, Rs. 21.84 lakh and Rs. 17.62 lakhs, respectively. To funds its capital expenditure requirements for expansion is the company has already raised funds for the same.

4. Investments

The company has made strategic investments aggregating Rs. 63.21 Lakhs in its subsidiaries and joint venture.

5. Sundry Debtors

Sundry debtors amount to Rs.394.66 Lakhs as of March 31, 2005, as compared with Rs. 299.64 lakhs as of March 31, 2004. These debtors are considered good and realizable. Bad Debts of Rs. 41.07 lakhs, which the management perceive as outstanding for more than 180 days and considered doubtful depending on management's perception of the risk. Debtors are 23.65% of revenues for the year ended March 31, 2005, as compared to 21% for the previous year, representing an outstanding of 48 days and 52 days of revenues for the respective years.

The agewise analysis of debtors is given below:

Period in days	as of March31	
	2005	2004
0- 30	31.90%	38.23%
31-60	20.50%	33.80%
61-90	37.17%	12.35%
more than 90 days	10.43%	15.62%
	100.00%	100.00%

6. Cash and Cash Equivalent

The bank balances in India included both rupees accounts and foreign currency accounts. The bank balances in overseas current accounts are maintained to meet the expenditure of the overseas branches.

	Rs. In Lakhs	
	as of March31 2005	as of March31 2004
Cash Balance	0.06	0.07
Bank Balances in India		
current accounts	57.75	10.91
deposit accounts	100.55	2676.91
EEFCaccounts in foreign	1238.62	697.34
Bank balances - overseas		
current accounts	4.25	3.29
Total Cash and Bank balances	1401.23	3385.88
Cash and cash equivalents		
as a % of total assets	33.17	87.08
Cash and cash equivalents		
as a % of revenues	81.86	237.35

The company's treasury policy calls for investing surplus with banks. or with liquid mutual funds with limit on investments.

7. Loans and Advances

	Rs. In Lakhs	
	as of March31 2005	as of March31 2004
Advances		
Loan to ESOP trust	47.90	47.90
Prepaid expense	4.31	1.85
Traveling	0.00	2.47
Advance Income tax	20.57	24.50
Staff advance	0.52	1.28
Other deposits	20.73	34.82
1% Deposit with NSE	20.22	0.00
Other advances	8.74	0.05
	122.99	117.84

Advances are primarily towards amounts paid in advance for value and services to be received in future. Advance income tax represents payments made towards tax liability and also refunds due from previous years. Staff advances represents advances to employees in India, which is recoverable within a year.

8. Current Liabilities

	Rs. In Lakhs	
	as of March31 2005	as of March31 2004
Sundry Creditors		
for goods	107.09	30.72
for accrued salaries and benefits	-	38.69
for other liabilities	521.05	16.02
Managerial remuneration		
payable	-	7.19
Others	88.68	32.26
Advance received from clients	27.87	4.76
Unclaimed dividend	3.24	0.02

Sundry creditors for goods represent the amount payable to vendors for the supply of goods. Sundry creditors for accrued salaries and benefits include the company's liability for leave encashment valued on an actuarial basis.

Unclaimed dividend represent dividends paid, but not encashed by shareholders, and are represented by a bank balance or equivalent amount.

9. Provisions

	Rs. In Lakhs	
	as of March31 2005	as of March31 2004
Proposed Dividend	-	79.66
Provision for tax on dividend	-	10.21
Income taxes	34.44	9.12
Employee retirement benefit	10.03	2.64

Provision for taxation represent estimated income tax liabilities, both in India, US, Netherlands and Singapore. The details are as follows.

	Rs. In Lakhs	
	as of March31 2005	as of March31 2004
Domestic Tax	19.00	9.12
Overseas Tax	75.77	1.30

B. Results of Operations

1. Income

Income from software services and products.

	Rs. In Lakhs				
	As of March 31 2005	%	As of March 31 2004	% Growth%	
Exports	1569.98	98.47	1369.85	97.97	14.60
Domestic	24.35	1.53	28.34	2.03	(13.30)
	1594.33	100.00	1398.19	100.00	

The company's revenues are generated principally on License sales of products, Customization and fixed price Annual Maintenance contracts. Revenue from sale of user licenses for software applications are recognized as per proportionate completion method.

The company's revenues are also from onsite and offshore revenues. Onsite revenues are those services which are performed at client sites as part of software product implementation, consultancy and support services of products, while offshore services are those services which are performed at the company's software development center at Hyderabad. The growth in software services and product revenues is due to an all-round growth in various segments of the business mix and growth in business volumes.

	Rs. In Lakhs	
	Year ended March 31,	
	2005	2004
Software Licenses	257.32	811.31
Offshore Devlp Services	924.98	443.31
Onsite Devlp. services	366.89	135.64
Annual Maintenance Services	44.23	7.93
	1593.42	1398.19

Software Products and Services

During the year, the software product licenses decrease by 68.28%. During the year, the Software Services volumes grew by 128%.

The geographic concentration of revenues is dependent mostly on economic condition and market presence.

	Rs. In Lakhs	
	Year ended March 31,	
	2005	2004
India	1593.42	1398.19
USA	320.50	145.14
The Netherlands	439.49	-
	2353.41	1543.33

2. Expenditure

	Rs. In Lakhs					
	Year ended March 31, 2005	%	Year ended March 31, 2004	%	Growth%	
Total Income	1593.42	100	1398.19	100	13.96	
Soft Devl. Exp	536.30	33.66	272.55	19.49	60.94	
Gross Porift	1057.12	66.34	1125.64	80.51	-6.08	
Sell. and Mrktg.Exp	196.13	12.31	213.87	15.30	-8.29	
Gen. & Admin. Exp	584.54	36.69	377.44	26.99	54.87	
Total Opr. Exp	804.34	49.00	591.31	42.29	36.03	
Operating Profit (PBIDTA)	276.45	17.34	534.33	38.22	-48.26	
Interest	Nil	Nil	Nil	Nil	Nil	
Depreciation	77.75	4.88	38.51	2.75	101.9	
PBIDT	198.70	12.46	495.82	35.46	(59.92)	
Other Income	118.30	7.42	25.32	1.82	367.22	
Profit before tax	317.00	19.88	521.14	37.27	(39.17)	
Provision for tax	34.40	2.16	9.12	0.65	277.19	
Net Profit after tax	282.60	17.72	512.02	36.62	(44.80)	

2.1 Software Development Expenses

	Rs. In Lakhs				
	Year ended March 31, 2005	%	Year ended March 31, 2004	%	Growth%
Salaries, Bonus & PF	461.36	28.95	260.92	18.66	76.82
Communication Exp	16.57	1.04	11.63	0.83	103.61
Total Software Devl Revenues	1593.42	100	1398.19	100	

Employee costs consist of salaries paid to employees in India include overseas staff expenses. The total software professionals increased to 230 during March 31, 2005. Major part of the revenues are from Product License fees and offshore services. The communication expenses represent 1.03% and 0.83% for the years ended March 31, 2005 and 2004, respectively. Other expenses include staff welfare, computer maintenance, staff welfare, consumables and post-sales customer support which were 36.69% and 26.99% of revenues for the years ended March 31, 2005 and 2004, respectively.

2.2 Selling and marketing expenses

The company incurred selling and marketing expenses at 12.31% of its revenue during fiscal 2005 as compared to 15.30% during the previous year.

Overseas travel expenses increased due to travel cost for onsite support, consultancy, participation in seminars and sales promotion expenses. The company added 5 new customers during the year compared to 3 during the previous year. Professional charges relate to payments made to PR, Consultants, legal charges etc., Commission charges Other expenses increased due to increased activities during the year.

Rs. In Lakhs

	Year ended March 31, 2005	%	Year ended March 31, 2004	%	Growth%
Salaries and PF	331.87	73.29	171.46	80.17	93.55
Overseas traveling	100.82	22.26	36.50	17.06	176.22
Other Mktg. Exp.	20.14	4.45	5.91	2.77	240.78
	452.83	100	213.87	100	

2.3 General and administration expenses

Salaries, Bonus & PF	20.50	5.36	11.31	3.48	81.26
Professional Charges	30.29	7.91	4.71	1.61	543.10
Electricity and Water	17.38	4.54	13.65	4.20	27.32
Telephone charges	2.37	0.62	5.04	1.55	-52.98
Repairs and Maint.	26.72	6.98	11.16	3.44	139.43
Traveling and Conv.	76.45	19.98	61.30	0.87	24.71
Other expenses	209.01	54.61	270.27	84.84	-22.67
Total	382.72	100	377.44	100	

The company incurred general and administration expenses amounting to 24.01% of its total revenue during fiscal 2005 as compared to 26.99% in 2004.

Employee costs increased as administrative personnel increased. These charges include fees paid for availing services such as tax consultancy, recruitment and training, legal charges. Electricity and water, telephone charges, repairs and maintenance and traveling and conveyance increased due to increased business activity. Other expenses are primarily due to insurance, Bad debts written off for Rs. 27.13 Lakhs.

3. Operating profits

During the current year, the company earned an operating profit (PBIDTA) of Rs.276.45 Lakhs representing 17.35% of total revenues as compared to Rs. 534.33 Lakhs, representing 38.21% of total revenues during the previous year.

4. Depreciation

The company provided a sum of Rs.76.50 Lakhs and Rs.38.51 Lakhs towards depreciation for the years ended March 31, 2005 and 2004, representing 4.47% and 2.71% of total revenues and include an amount of Rs. 7.36 Lakhs towards 100% depreciation on assets costing less than Rs. 5,000 each.

5. Other Income

	Rs. In Lakhs	
	Year ended March 31, 2005	2004
Interest received on deposits	32.96	10.23
Dividend received on investment in mutual funds	65.80	9.93
Miscellaneous income Exchange differences	19.55	5.15

The average Rupee-US Dollar rate during the year was Rs. 43.40 as compared to Rs. 45.78 during the previous year resulting in rupee depreciation of Rs. 5.2%. The company derives 98% of its export revenues in US \$ and the balance from other currencies. During the year, the US\$ had depreciated against the other currencies, substantially. The closing rate of rupee against the US Dollar as of March 31, 2005 was Rs. 43.40 as compared to Rs. 43.39 as of March 31, 2004 resulting in rupee appreciation of 0.2%.

6. Provision for Tax

The company has provided for its tax liability both in India and Overseas. The present Indian Corporate tax is 36.59% (comprising a base rate of 35%, a surcharge of 2.5% on the base rate, and 2% education cess on total tax). Export profits are entitled to benefit from scheme of Govt. of India. The profits attributable to the operations of the company under the 100% export oriented unit scheme - are entitled to a tax holiday for a consecutive period of 10 years from the financial year in which the unit started producing computer software, or March 31, 2000, whichever is earlier. Your company pays taxes in India, US, Netherlands and Singapore, in which it operates, on income that is sourced to those countries. The details of provision for taxes are as follows:

	Rs. In Lakhs	
	Year ended March 31, 2005	2004
Domestic Tax	19.00	9.12
Overseas Tax	60.37	1.30

Domestic taxes decreased during the year due to restoration of tax benefits on 100% of income from STP units as against 90% in the previous year.

7. Net Profit

The net profit of the company from ordinary activities amounted to Rs282.61-Lakhs and Rs512.02 Lakhs for the years ended March 31, 2005 and 2004. This represents 17.74 % and 36.62% of total revenue.

8. Liquidity

The growth of the company has been financed largely from cash generated from operations and, to a lesser extent, from the proceeds of equity issues. As of March 31, 2005, the company had cash and cash equivalents of Rs. 1401.23 during the year. The bank balances in overseas accounts are maintained to meet the expenditure of the overseas branches, and to meet overseas project related expenditure.

9. Stock Option Plan

Your company has allotted equity shares to Four Soft Limited Employees Welfare Trust (the Trust), for the benefit of the employees, by creating a stock option plan. The Trust will be administering the stock option plan for benefit of the employees. None of the employees have exercised the stock option plan.

10. Reconciliation of Indian and US GAAP financial statements

There are differences between the US GAAP and Indian GAAP financial statements.

11. Related party transactions

These have been discussed in details in the notes to the Indian GAAP financial statements.

C. Outlook: Issues and risks

Your company in meeting its stated business objectives, identified some key risk factors. These risks have been managed through process described below:

External Risk factors

- Macro economic factors
- Foreign exchange rate fluctuations
- Competitive environment
- Tax obligations, incentives of Govt. of India
- Geographic Concentration of revenues
- Inflation and cost structure
- Technology obsolescence

Internal Risk Factors

- Financial reporting risks
- Liquidity
- Contractual compliance
- Intellectual property
- Human resource management
- Culture values and leadership

1. Macro economic factors

Your company derives substantial portion of its revenues from US and Asia pacific. The cost and value advantage extended by your company provided the incentive to our clients and prospects to grow their business with us.

Client channeled their investments into areas delivering business benefits. This translated into increased demand for domain skills and expertise. With intent to enter into new geographic regions, your company will invest in language training and hiring local talent. Your company continues to develop country-specific-marketing strategies for de-risking global economic variations.

2. Foreign exchange rate fluctuations

As major revenues were in US\$ currencies and majority of company's expenses were in Indian rupees. The exchange rate between dollar and rupee has been fluctuating, your company faces the risk associated with exchange rate fluctuations and translation effect, wherein the appreciation of rupee against foreign currency adversely affects profitability and operating results. In future, your company would seek foreign exchange forward contracts to cover portion of outstanding accounts receivable.

3. Competitive Environment

The IT product market, which your company caters to, is less competitive as there are not many large players, however there are small players in the local region who can be competitors. The competitors have also indulged in aggressive poaching of talent, experienced IT professionals and your company has taken various measures to protect its talent.

In order to restrict fierce competition the industry has been witnessing various mergers and acquisitions recently. However, your company's focus is to acquire small and medium players in the similar business either in US, Europe or Asia-pacific to strengthen its local presence and larger customer base.

5. Geographic concentration of revenues

Concentration of revenue from any country exposes your company to the risks inherent to economic slowdown, local laws, work culture and ethics. While US continues to be the major market, your company monitors geographic concentration periodically to maintain a balance.

Since your company caters to one industry segment, Transportation and logistics segment, any major laws or changes in this industry would affect your company's

business. However, being in the enterprise software solutions arena, your company always monitors the growth of the industry segment, which is witnessing growth in South-east and Far east Asia.

Your companies relies on repeat business based on strength of client relationships and major portion are from existing clients. As number of clients increases, it limits your company's pricing flexibility, strengthens client's negotiation capability and any change in client's IT strategy will adversely affect your company's revenues. As a proactive measure your company analyses the risks due to change in client's business and focus on areas where it can proactively add value to improve competitiveness of clients.

6. Inflation and cost structure

The cost structure basically consists of salary and other compensation expenses, depreciation, overseas travel and other general administration costs. As major cost in the IT industry is staff cost, which is expected to increase in response to rising demand for talent and macroeconomic trends. Your company has internal training and creates a pool of domain experts talent in technical knowledge.

Your company has robust process for cost optimization, cost reduction and assesses risk of changes in cost of operational activity. Appropriate internal control measures and operational budget on a quarterly basis are reviewed by the management and constant strive to minimize costs.

7. Technology obsolescence

Your company monitors technology obsolescence and associated risks on a continual basis. Your company is deploying advanced software tools and hardware for its development activity, thus reducing technology obsolescence. Your company is also monitoring advanced changes in technology relating to building collaborative commerce and other capabilities that help its clients in aligning their IT strategy for their business competitiveness.

Internal Risks

1. Financing reporting risks

Your company prepares financial statements as per Indian GAAP and involves estimates and assumptions that affect amounts of assets and liabilities, revenues and expenses for the reporting period. These estimates and assumptions are based on judgments about carrying values of assets and liabilities, which carry inherent reporting risks.

2. Liquidity

Your company's business environment is characterized by changes in technology, rapid obsolescence and client investment patterns that could cause revenue volatility. Your company's objective of making sustained investments in marketing and R&D efforts, with a means to de-risking strategy to have enough liquid assets and earnings on equity and capital productivity.

3. Contractual compliance

Litigations regarding deliverables and Intellectual property rights, patents and copyrights are a challenge in knowledge based IT product companies. The legal risks involved in all contracts, ascertaining the legal responsibilities of your company under law of contract. Restricting liabilities under the contract. As a matter of policy, your company does not enter into contracts that have open-ended legal obligations.

4. Intellectual Property

Your company being knowledge based Product Company Intellectual property (IP) is a vital component. With a view to gain competitive advance unauthorized parties may infringe upon or misappropriate our products, services or proprietary information. Our intellectual property rights are important to our business. We rely on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our intellectual property. Your company has processes that protect and manage its IP, its clients, and third parties. Since your companies has business alliances, IP protection related to such alliances is a major object. As a policy, your company develops its IP at its own cost, with its own resources and does not

use the same from any client engagement. Your company uses only legally licenses software and conducts internal IP management classes.

5. Human Resource Management

Your company's ability to develop world-class products and solutions which deliver value to clients. Generally human relations poses inherent risks associated with a the ability to hire and retain skilled and experienced IT professionals. The total head count has reached 215 this fiscal compared to 145 last fiscal. The average age of your company staff is 30 years, which is low compared to industry standards in product companies.

Internal training programs are conducted to keep employees abreast of latest technologies required to deliver value through multiple dimensions, technology, domain, leadership and management. Your company focuses on bringing the best in people, practices and products.

6. Culture, values and leadership

Your company is emerging as a global player in Supply Chain for Logistics and Transportation Process Management. Your company has a written code of conduct and ethics to make employees aware of ethical requirements and providing avenues for reporting violations, if any.

Your company has internal structured succession planning to take care of loss of any member of senior management or other key management personnel. Since, inception your company is committed to developing next generation leaders and conduct personality development and development work of skills acquired by them over the years.

AUDITORS' REPORT

To
The Members,
Four Soft Limited

1. We have audited the attached Balance Sheet of Four Soft Limited as at March 31, 2005 and also 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.
2. 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.
3. As required by the Companies (Auditor's Report) Order, 2003 (as amended) issued by the Central Government of India in terms of sub-section (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.
4. Further to our comments in the Annexure referred to above, we report that:
 - i. The financial statements for the previous year ended March 31, 2004 was audited by another firm of Chartered Accountants;
 - ii. 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;

ANNEXURE TO AUDITOR'S REPORT

(Annexure referred to in paragraph 3 of our report of even date)

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) Fixed assets have been physically verified by the management during the year and no material discrepancies were identified on such verification.
- (c) There was no substantial disposal of fixed assets during the year.

- iii. 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;
- iv. The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
- v. In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.
- vi. On the basis of the written representations received from the directors, as on March 31, 2005, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2005 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
- vii. Without qualifying our opinion, we draw attention to note 10 to Schedule 16 to the financial statements regarding requisite approvals from appropriate authorities which are pending in respect of the Company's overseas Joint Venture.
- viii. 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;
 - (a) in the case of Balance Sheet, of the state of affairs of the Company as at March 31, 2005;
 - (b) in the case of Profit and Loss Account, of the profit for the year ended on that date; and
 - (c) in the case of Cash Flow Statements, of the cash flows for the year ended on that date.

S. R. BATLIBOI & ASSOCIATES

Chartered Accountants

Hyderabad
June 27, 2005

Per
Utkarsh Palnitkar
Partner
Membership No.:40030

- (ii) Due to the nature of its business, the Company has no inventory. Accordingly, the provisions of clause (ii) of paragraph 4(A) of the Companies (Auditor's Report) Order, 2003 as amended ('the Order') in respect of inventories are not applicable to the Company.
- (iii) (a) As informed to us, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
- (b) As informed to us, 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 Companies Act, 1956.

- (iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of fixed assets and for the sale of services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas.
- (v) According to the information and explanations provided by the management, we are of the opinion that there are no transactions that need to be entered in the register maintained under section 301 of the Companies Act, 1956.
- (vi) The Company has not accepted any deposits from the public.
- (vii) In our opinion the Company has an Internal Audit system commensurate with the size and nature of its business.
- (viii) To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the products of the Company.
- (ix) (a) Undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, custom duty, excise duty, cess have not generally been regularly deposited with the appropriate authorities though the delays in deposit have not been serious.
- (b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, cess and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.
- (c) According to the records of the Company, the dues outstanding of income-tax, sales-tax, wealth-tax, service tax, income-tax, custom duty, wealth-tax, excise duty and cess on account of any dispute, are as follows:

Name of the Statute	Nature of dues	Amount (Rs)	Period to which the amount relates	Forum where the dispute is pending
Income Tax Act, 1961	Tax on Income	Nil	Financial year 2000-2001	Income Tax Appellate Tribunal
Income Tax Act, 1961	Tax on Income	120,984	Financial year 2001-2002	Income Tax Appeals

- (x) The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and immediately preceding financial year.
- (xi) The Company did not have any outstanding dues to any financial institution, bank or debenture holder during the year.
- (xii) According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Order are not applicable to the Company.
- (xiv) In respect of dealing/trading in shares, securities, debentures and other investments, in our opinion and according to the information and explanations given to us, proper records have been maintained of the transactions and contracts and timely entries have been made therein. The shares, securities, debentures and other securities investments have been held by the Company, in its own name.
- (xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.
- (xvi) The Company did not have any term loans outstanding during the year.
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet and cash flow statement of the Company, we report that no funds raised on short-term basis have been used for long-term investment.
- (xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.
- (xix) The Company did not have any outstanding debentures during the year.
- (xx) The Company has not raised any money through a public issue during the year.
- (xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

S. R. BATLIBOI & ASSOCIATES
Chartered Accountants

Per
Utkarsh Palnitkar

Place : Hyderabad
Date : June 27, 2005

Partner
Membership No.:40030

BALANCE SHEET AS AT 31st MARCH, 2005

Amount in Rupees

	Schedule	As at 31-03-2005	As at 31-03-2004
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	159,299,970	158,663,970
Reserves & Surplus	2	261,659,499	230,376,626
Deferred Tax Liability	16(6)	1,484,620	--
Total		422,444,089	389,040,596
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	3	68,928,742	31,250,195
Less : Depreciation		17,522,719	9,878,432
Net Block		51,406,023	21,371,763
Capital Work-in-progress		318,732	--
		51,724,755	21,371,763
Investments	4	90,590,164	8,426,875
Current Assets, Loans and Advances			
Sundry Debtors	5	37,682,783	29,963,579
Cash and Bank Balances	6	305,468,216	338,917,776
Other Current Assets	7	359,535	290,107
Loans and Advances	8	12,299,623	11,783,694
		355,810,157	380,955,156
Less: Current Liabilities and Provisions			
Current Liabilities	9	74,792,477	12,701,597
Provisions	10	1,003,360	9,251,809
		75,795,837	21,953,406
Net Current Assets		280,014,320	359,001,750
Miscellaneous Expenditure (to the extent not written off or adjusted)	11	114,850	240,208
Total		422,444,089	389,040,596
Notes to Accounts	16		

The schedules referred to above and the notes to accounts form an integral part of the Balance Sheet.

As per our report of even date

S.R. Batliboi & Associates

Chartered Accountants

Per

Utkarsh Palnitkar

Partner

Membership No. 40030

Place : Hyderabad

Date : June 27, 2005

K.V. Vishnu Raju

Director

Biju S. Nair

Asst. Vice President - Finance

Place : Hyderabad

Date : June 27, 2005

For and on behalf of the Board of Directors

P. Mangamma

Director

Naresh Patro

Company Secretary

P. Srikanth Reddy

Managing Director

(Signed on 30th July, 2005)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2005

Amount in Rupees

	Schedule	For the Year ended 31-03-2005	For the Year ended 31-03-2004
INCOME			
Sales	12	159,341,832	139,819,147
Other Income	13	11,830,040	2,531,929
Total		<u>171,171,872</u>	<u>142,351,076</u>
EXPENDITURE			
Payments to and Provisions for Employees	14	51,261,929	31,420,888
Selling General and Administrative Expenses	15	80,434,510	54,840,186
Depreciation and Amortisation	3	7,649,818	3,850,527
Miscellaneous Expenditure Written Off		125,358	124,999
Total		<u>139,471,615</u>	<u>90,236,600</u>
Profit before tax		31,700,257	52,114,476
Provision for current tax		1,900,000	911,763
Tax for earlier year		55,135	--
Deferred tax		1,484,620	--
		<u>3,439,755</u>	<u>911,763</u>
Profit after tax		28,260,502	51,202,713
Balance brought forward from last year		42,215,845	27,249,626
Profit available for Appropriation		<u>70,476,347</u>	<u>78,452,339</u>
Appropriations			
Proposed Dividend		--	7,966,199
Tax on Dividend		--	1,020,669
General Reserve		--	27,249,626
Surplus carried to Balance Sheet		<u>70,476,347</u>	<u>42,215,845</u>
		<u>70,476,347</u>	<u>78,452,339</u>
Basic earnings per share		0.89	2.59
Diluted earnings per share		0.88	2.59
Nominal Value per share		5	5
Notes to Accounts	16		

The schedules referred to above and the notes to accounts form an integral part of the Balance Sheet.

As per our report of even date

S.R. Batliboi & Associates

Chartered Accountants

Per

Utkarsh Palnitkar

Partner

Membership No. 40030

Place : Hyderabad

Date : June 27, 2005

K.V. Vishnu Raju

Director

Biju S. Nair

Asst. Vice President - Finance

Place : Hyderabad

Date : June 27, 2005

P. Mangamma

Director

Naresh Patro

Company Secretary

For and on behalf of the Board of Directors

P. Srikanth Reddy

Managing Director

(Signed on 30th July, 2005)

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31st MARCH, 2005

Amount in Rupees

	As at 31-03-2005	As at 31-03-2004
SCHEDULE 1		
SHARE CAPITAL		
Authorised		
36,077,600 (Previous Year : 36,077,600) equity shares of Rs.5 each (Previous Year : Rs. 5 each)	180,388,000	180,388,000
696,120 (Previous Year : 696,120) 14% Redeemable optionally convertible cumulative Preference Shares of Rs.100 each (Previous Year : Rs. 100 each)	<u>69,612,000</u>	<u>69,612,000</u>
	<u>250,000,000</u>	<u>250,000,000</u>
Issued, Subscribed and Paid-up		
31,864,794 (Previous year : 31,864,794) Equity Shares of Rs. 5 each (Previous Year : Rs. 5 each), fully paid-up	159,323,970	159,323,970
Less: Calls in arrears		
By others	<u>24,000</u>	<u>660,000</u>
	<u>159,299,970</u>	<u>158,663,970</u>
	<u>159,299,970</u>	<u>158,663,970</u>

Notes:

Of the above Equity Shares

- a. 4,563,970 equity shares issued as Bonus Shares by captilisation of General Reserve
- b. The shareholders at the Extra Ordinary Meeting held on 29th September, 2003 approved the sub division of Equity shares of face value of Rs.10 each into two Equity Shares of face value of Rs.5 each.
- c. 83,18,524 equity shares were issued as sweat equity shares for consideration other than cash.

SCHEDULE 2 RESERVES AND SURPLUS

Share Premium

As per last Balance Sheet	183,731,002	5,886,790
Received during the year	<u>636,000</u>	<u>220,855,000</u>
	184,367,002	226,741,790
Less: Utilised towards share issue expenses	152,932	20,496,133
Utilised towards deferred sweat equity	<u>--</u>	<u>22,514,655</u>
	184,214,070	183,731,002

General Reserve

As per last Balance Sheet	4,429,779	--
Add: Transferred from Profit and Loss Account	<u>--</u>	<u>27,249,626</u>
	4,429,779	27,249,626
Less: Utilised towards bonus issue	<u>--</u>	<u>22,819,847</u>
	4,429,779	4,429,779

Profit and Loss Account

	70,476,347	42,215,845
--	------------	------------

Stock Option Adjustments

Stock option outstanding	--	--
Add: Additions during the year	<u>9,452,769</u>	<u>--</u>
	9,452,769	--
Less: Deletions during the year	<u>2,701,629</u>	<u>--</u>
	6,751,140	--
Less: Deferred Stock Employee Compensation	<u>4,211,837</u>	<u>--</u>
	2,539,303	--

TOTAL	<u>261,659,499</u>	<u>230,376,626</u>
--------------	--------------------	--------------------

Notes:

a) Deferred Stock Employee Compensation		
Stock compensation expense outstanding	--	--
Add: Stock options granted during the year	9,452,769	--
Less: Stock options cancelled/forfeited during the year	(2,701,629)	--
Less: Stock compensation amortised during the year	(2,539,303)	--
Closing balance of deferred employee stock compensation	4,211,837	--

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31st MARCH, 2005

SCHEDULE - 3

Amount in Rupees

S. No.	Particulars	Gross Block				Depreciation				Written Down Value	
		As at 01-04-2004	Additions during the year	Deductions during the year	As at 31-03-2005	Upto 01-04-2004	For the Year	Deletions Adjustments for the year	Up to 31-03-2005	As at 31-03-2005	As at 31-03-2004
1.	Computers	10,516,112	7,467,142	-	17,983,254	5,862,642	2,910,462	-	8,773,104	9,210,150	4,653,470
2.	Office Equipment	3,551,514	2,183,628	11,500	5,723,642	878,468	572,859	5,531	1,445,796	4,277,846	2,673,046
3.	Furniture & Fittings	4,844,284	1,761,822	-	6,606,106	2,102,282	1,220,154	-	3,322,436	3,283,670	2,742,002
4.	Building	10,345,914	20,248,730	-	30,594,644	-	1,225,609	-	1,225,609	29,369,035	10,345,914
5.	Lease Hold Improvements	-	1,157,889	-	1,157,889	-	96,212	-	96,212	1,061,677	-
	Total (A)	29,257,824	32,819,211	11,500	62,065,535	8,843,392	6,025,296	5,531	14,863,157	47,202,378	20,414,432
	Intangibles Software (B)	1,992,371	4,870,836	-	6,863,207	1,035,040	1,624,522	-	2,659,562	4,203,645	957,331
	Total (A+B)	31,250,195	37,690,047	11,500	68,928,742	9,878,432	7,649,818	5,531	17,522,719	51,406,023	21,371,763
	For previous year	15,861,814	15,417,381	29,000	31,250,195	6,038,800	3,850,527	10,895	9,878,432	21,371,763	9,823,014

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31st MARCH, 2005

	Amount in Rupees	
	As at 31-03-2005	As at 31-03-2004
SCHEDULE 4		
INVESTMENTS		
Long Term (Unquoted and at cost)		
Trade Investments		
A. In subsidiaries		
Equity Shares (Fully Paid-up)		
15,000 (Previous Year : 15,000) equity shares of \$ 1 each (Previous Year : \$1) of Four Soft LLC, USA	727,500	727,500
18,152 (Previous Year : Nil) equity shares of €1 each of Four Soft BV ,The Netherlands	<u>79,791,864</u>	--
	80,519,364	727,500
B. In Joint Venture		
25,000 (Previous Year : 25,000) equity shares of \$ 1 (Previous Year : \$1) of Four Soft International Inc., USA	<u>7,699,375</u>	<u>7,699,375</u>
Sub Total (A + B)	88,218,739	8,426,875
Less: Provision for Permanent diminution in value of long term investment	<u>7,699,375</u>	--
(I)	80,519,364	8,426,875
Current Investment		
(At lower of cost or market value)		
Balance of unutilised monies of IPO		
Non Trade Investments (Quoted)		
In Mutual Funds (II)	<u>10,070,800</u>	--
[Market value as at March 31, 2005 Rs. 10,142,806 Previous Year Rs. Nil]		
Total (I) + (II)	<u>90,590,164</u>	<u>8,426,875</u>
SCHEDULE 5		
SUNDRY DEBTORS (UNSECURED)		
Debts outstanding for a period exceeding six months		
Considered good	889,528	4,679,898
Considered doubtful	<u>1,782,872</u>	--
	2,672,400	4,679,898
Other Debts		
Considered good	<u>36,793,255</u>	<u>25,283,681</u>
	39,465,655	29,963,579
Less : Provision for doubtful debts	<u>1,782,872</u>	--
Total	<u>37,682,783</u>	<u>29,963,579</u>
SCHEDULE 6		
CASH AND BANK BALANCES		
Cash on hand	6,491	7,152
Balance with Scheduled Banks on		
Current Accounts	130,062,714	63,103,630
Deposit Accounts	10,055,329	--
Margin Money	22,100,000	--
Unpaid Dividend Accounts	323,635	1,792
Unpaid Public Issue Refund Accounts	<u>255,569</u>	--
	162,797,247	63,105,422
Balance of unutilised monies raised by issue	<u>142,664,478</u>	<u>275,805,202</u>
Total	<u>305,468,216</u>	<u>338,917,776</u>

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31st MARCH, 2005

	Amount in Rupees	
	As at 31-03-2005	As at 31-03-2004
SCHEDULE 7		
OTHER CURRENT ASSETS		
Interest Accrued on Fixed Deposits	359,535	290,107
	<u>359,535</u>	<u>290,107</u>
SCHEDULE 8		
LOANS AND ADVANCES (Unsecured considered good except stated otherwise)		
Loan to Four Soft Limited Employee Welfare Trust	4,790,000	4,790,000
Advances recoverable in cash or in kind or for value to be received	1,357,908	2,067,630
Other Deposits	4,094,721	3,148,001
Advance Income Tax (Net of Provision)	2,056,994	1,778,063
	<u>12,299,623</u>	<u>11,783,694</u>
SCHEDULE 9		
CURRENT LIABILITIES		
Sundry Creditors for goods, services and expenses		
Dues to small scale industrial undertakings	--	--
Due to others	10,709,384	7,794,030
Dues to Subsidiary	8,868,268	2,959,960
Advance from Customers	2,786,627	476,167
Unclaimed Dividends	323,635	1,792
Other Liabilities	52,104,563	1,469,648
	<u>74,792,477</u>	<u>12,701,597</u>
SCHEDULE 10		
PROVISIONS		
For Retirement Benefits	1,003,360	264,942
For Proposed Dividends	--	7,966,198
For Tax on Proposed Dividend	--	1,020,669
	<u>1,003,360</u>	<u>9,251,809</u>
SCHEDULE 11		
MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)		
Preliminary Expenses	62,716	125,433
Less: Written off during the year	62,716	62,717
	--	62,716
Deferred Patents & Trade Marks	177,492	159,467
Add: Incurred during the year	--	80,307
	<u>177,492</u>	<u>239,774</u>
Less: Written off during the year	62,642	62,282
	<u>114,850</u>	<u>177,492</u>
Deferred employee expenses	--	940,234
Less: Written off during the year	--	940,234
	<u>114,850</u>	<u>240,208</u>

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2005

Amount in Rupees

	For the Year ended 31-03-2005	For the Year ended 31-03-2004
SCHEDULE 12		
SALES		
Off Shore Development	92,497,995	44,331,050
On site Development	36,688,582	13,563,665
Annual Maintenance Services	4,423,200	793,333
Sale of licenses	25,732,055	81,131,099
Total	<u>159,341,832</u>	<u>139,819,147</u>
SCHEDULE 13		
OTHER INCOME		
Interest on Fixed Deposits (Gross) [T.D.S Rs. 673,439 (Previous Year Rs.258,597)]	3,296,313	1,023,048
Profit (Loss) on Sale of Investments	704,688	(494,907)
Dividends from Non Trade Investments	5,874,606	1,488,336
Miscellaneous Income	1,260,943	485,343
Liability no longer required written back	406,726	30,109
Prior Period Income(net)	286,764	--
Total	<u>11,830,040</u>	<u>2,531,929</u>
SCHEDULE 14		
PAYMENT TO AND PROVISIONS FOR EMPLOYEES		
Salaries, allowances and bonus	43,764,656	28,476,203
Retirement benefits	773,624	363,342
Contribution to Provident Fund and Others	3,061,607	1,956,194
Employee Stock Compensation Expenses	2,539,303	--
Staff Welfare	1,122,739	625,149
Total	<u>51,261,929</u>	<u>31,420,888</u>

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2005

Amount in Rupees

	For the Year ended 31-03-2005	For the Year ended 31-03-2004
Schedule 15		
ADMINISTRATIVE & SELLING EXPENSES		
Rent	2,773,876	487,696
Fee, rates & taxes	617,023	639,285
Office maintenance	2,672,317	1,325,322
Remuneration to auditors	659,216	194,400
Implementation expenses	31,648,952	14,513,608
Advertisement & recruitment	1,288,874	311,664
Business promotion	959,342	591,370
Communication costs	2,368,316	1,667,366
Postage & courier	324,268	103,811
Insurance	519,775	341,380
Electricity & water charges	1,737,548	1,364,755
Travelling expenses	18,074,075	9,728,910
Legal and professional charges	3,029,688	613,476
Exchange rate fluctuation loss	2,061,182	8,217,693
Commission to other selling agents	581,196	481,570
A G M expenses	278,807	--
Bad and doubtful debts written off	930,092	13,975,737
Provision for doubtful debts	1,782,872	--
Donations	20,635	--
Provision for diminution in value of investments	7,699,375	--
Loss on sale of asset	2,469	10,105
Bank charges	364,972	134,558
Miscellaneous expenses	39,640	137,480
TOTAL	80,434,510	54,840,186

SCHEDULE - 16**Summary of Significant Accounting Policies and Notes to Accounts for the year ended and as at March 31, 2005.****1. Statement of Significant Accounting Policies****(a) Basis of Preparation**

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards ("AS") issued by the Institute of Chartered Accountants of India ("the ICAI") and the relevant provisions of the Companies Act, 1956 ("the Act"). The financial statements have been prepared under the historical cost convention on an accrual basis. The accounting policies have been consistently applied by the Company and except for the changes in accounting policy discussed more fully in schedule 16(2) below, are consistent with those used in the previous year.

(b) Fixed Assets

Fixed assets are stated at actual cost less accumulated depreciation and impairment losses. The actual cost capitalized includes material cost, freight, installation cost, duties and taxes and other incidental expenses incurred during the construction/installation stage.

The carrying amounts are reviewed at each balance sheet date when required to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

(c) Capital Work in Progress

Assets under installation or under construction as at the Balance Sheet date are shown as Capital Work in progress. Advances paid towards purchase of capital assets are also included under capital work in progress.

(d) Depreciation

Fixed assets are depreciated using the written down value method and at the rates prescribed under Schedule XIV to the Act, except in respect of individual items costing less than Rs. 5,000 which is depreciated fully in the year of purchase. Lease hold improvements are depreciated on written down value basis over the lease period or the estimated useful lives whichever is lower.

(e) Intangible Assets

Intangible assets in the nature of software licenses are stated at cost and are amortized over the estimated useful life of six years, using written down value method.

(f) Research & Development Costs

Revenue expenditure incurred on research and development activities are expensed as incurred. Capital expenditure incurred on research and development is being capitalized and is depreciated or amortised in accordance with the Company's policy for depreciation on fixed assets.

(g) Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognised as an expense in the Profit and Loss account on a straight-line basis over the lease term.

(h) Investments

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

(i) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Revenue from time and material contracts is recognised as the related services are rendered. Revenue from annual maintenance services is recognised proportionately over the period in which services are rendered. Revenue from the sale of user licenses for software applications is recognised on delivery and subsequent milestone schedule as per the terms and contract with the customers.

Others

Income from interest on short term fixed deposits is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable. Dividend is recognised as and when the right to receive its payment is established.

(j) Foreign currency translation

Foreign Currency Transactions

(i) Initial Recognition:

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

(ii) Conversion:

Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

(iii) Exchange Differences:

Exchange differences arising on the settlement of monetary items or on reporting Company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year in which they arise except those arising from investments in non-integral operations.

(iv) Foreign Branches

The financial statements of an integral foreign operation are translated as if the transactions of the foreign operation have been those of the Company itself.

(k) Retirement and other employee benefits

Retirement benefit in the form of contribution to provident fund is charged to the Profit & Loss Account of the year when the contributions to the respective funds are due.

Gratuity liability under the Payment of Gratuity Act 1972 and provision for leave encashment is accrued and provided for on the basis of an actuarial valuation made at the end of each financial year.

The gratuity fund of the Company is administered by a trust formed for this purpose through the Group Schemes of the Life Insurance Corporation of India (LIC). The adequacy of accumulated funds available with LIC has been confirmed on the basis of an actuarial valuation made at the year end and provision has been made for the shortfall if any.

(l) Employee Stock Option Scheme

In accordance with the accounting treatment prescribed under the "Employee Stock Option Scheme and Employee Stock Purchase Scheme Guidelines 1999" (as amended) issued by the Securities and Exchange Board of India, the excess of market value of the stock on the date of grant over the exercise price of the option is recognised as deferred employee stock compensation and is charged to profit and loss account on straight-line method over the vesting period of the options. The un-amortized portion of cost is shown under Reserves and Surplus.

(m) Taxes on income

Tax expense comprises both current and deferred taxes. Current income-tax is measured at the amount expected to be paid to the tax authorities in accordance with the provisions of the Income Tax Act 1961.

Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized.

(n) Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. Partly paid equity shares are treated as a fraction of an equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting period.

For the purpose of calculating diluted earnings per share, the net profit for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

(o) Provisions

A provision is recognised when the Company has a present obligation as a result of past event and when it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

(p) Cash flow statement

Cash flows are reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. Cash flows in foreign currencies are accounted at average monthly exchange rates that approximate the actual rates of exchange prevailing at the dates of the transactions.

(q) Miscellaneous expenditure

Miscellaneous expenditure in respect of registration of patent and trade marks, incurred prior to adoption of AS 26 "Intangible Assets" are being amortised on a straight line method over a period of five years.

2. Change in Accounting Policy

Provision for Gratuity and leave encashment which were hitherto accounted for on actual payment basis and accrual basis respectively, has now been provided for on actuarial valuation, resulting in an increase in provision as at March 31, 2005 and decrease in net profit for the year ended March 31, 2005 by Rs. 534,138, net.

3. Amendment to service level agreement

In March 2005 the Company has undertaken a detailed analysis of its international transactions with its wholly owned subsidiary "Four Soft LLC., USA". Based on the recommendations of the said study, the service level agreement between the Company and the said WOS was amended retroactively from April 1, 2004. Accordingly, implementation expenses amounting to Rs. 26,097,899 pertaining to nine months ended December 31, 2004 was reversed in the quarter ended March 31, 2005.

4. Related party transactions

List of related Parties

Name of the related party	Country	Nature of relationship
Four Soft LLC	USA	Wholly Owned Subsidiary
Four Soft B.V.	The Netherlands	Wholly Owned Subsidiary
Four Soft Logistics Software (Shanghai) Limited	China	Proposed Joint Venture
Four Soft International Inc.	USA	Joint Venture
Four Soft Employee Welfare Trust	India	Controlling interest
Palem Srikanth Reddy	India	Managing Director
Biju Nair	India	Key Management Personnel

The details of the related party transactions entered into by the Company during the year ended March 31, 2005 and 2004:

	Amount in Rupees	
	Year ended 31-03-2005	Year ended 31-03-2004
i) Subsidiaries		
Four Soft LLC, USA		
Implementation Expenses	31,648,952	14,513,608
Four Soft BV , The Netherlands		
Investment in equity shares	79,791,864	Nil
Reimbursable expenses	57,871	Nil
ii) Joint Venture		
Four Soft Logistics Software (Shanghai) Limited		
Advances for investment	728,896	---
Four Soft International Inc, USA		
Sales	Nil	6,095,620
Receivables written off	Nil	4,704,117
Provision for diminution in value of investments	7,699,375	Nil
iii) Managing Director and Key Management Personnel		
Remuneration to Managing Director & Key Management Personnel	2,012,106	1,235,938
iv) Others		
Four Soft Employee Welfare Trust Loan	Nil	4,790,000
Debit/(Credit) Balance Outstanding		
Four Soft LLC, USA	(8,868,268)	(2,959,960)
Four Soft BV , The Netherlands	57,871	Nil
Four Soft Logistics Software (Shanghai) Limited	728,896	Nil
Four Soft Employee Welfare Trust	4,790,000	4,790,000
Managing Director and Key Management Personnel	(633,975)	(721,834)

In addition to the above, during the year ended March 31, 2005 the Company has granted Nil (Previous year 7,526,900) equity shares of the Company to the Directors, under the Sweat Equity Scheme. In 2004-05, the Company has also granted 46,400 (Previous year Nil) stock options to the key management personnel of the Company under the ESOP Scheme of the Company.

5. Leases

The Company has entered into operating lease agreements for its development centers at offshore and onsite ranging for a period of 1 year to 5 years. The maximum obligations on non-cancelable operating leases payable as per the rentals stated in the respective agreements are as follows:

	Amount in Rupees	
	As at 31 March, 2005	As at 31 March, 2004
Minimum Lease Payments:		
Not later than one year	1,927,310	1,160,040
Later than one year but not later than five years	Nil	193,340
Later than five years	Nil	Nil

6. Deferred tax liability

Deferred tax liability amounting to Rs. 1,484,620 represents differences in depreciation and other differences in block of fixed assets as per tax books and financial books reversing after the tax holiday period.

7. Research and development

During the year ended March 31, 2005 the Company has incurred expenses amounting to Rs. 18,973,445 (Previous Year Rs. 15,528,060) towards research and development included under various heads of expenses.

8. Employee Stock Compensation

In fiscal 2004, the Company had established "Employee Stock Option Scheme ("ESOP" or "ESOP Scheme"). The Company subsequently established Four Soft Limited Employee Welfare Trust ("the Trust") to administer the ESOP Scheme and had issued 953,000 equity shares of Rs. 5 each of the Company. In turn, the Trust periodically grants to stock options to eligible employees. The equity shares offered to the employees are subject to progressive vesting over a period of three years from the date of grant. The equity shares allotted pursuant to the said ESOP scheme are not subject of any repurchase obligation by the Company. The exercise price of the stock option has been fixed at Rs. 5 per share.

In July 2003, the shareholders of the Company approved issue of Bonus shares, as a result the trust had received 217,200 equity shares of the Company. As of March 31, 2005 and 2004 the total shares held by the Trust is 1,170,200.

In July 2004, the Trust has granted 645,240 (Previous year Nil) option to the eligible employees of the Company at an exercise price of Rs. 5 per equity share, subject to progressive vesting over a period three years from the date of grant. 460,828 stock options are outstanding as of March 31, 2005 (Previous Year Nil), net of 184,412 grants forfeited during the year due to resignation of the eligible employees.

During the year ended March 31, 2005 the Company has amortized stock compensation expenses amounting to Rs. 2,539,303 (Previous Year Rs. Nil).

9. Prior period items

Prior period income, net is consists of the following:

	Amount in Rupees	
	Year ended 31 March, 2005	Year ended 31 March, 2004
Annual Maintenance charges	176,906	Nil
Exchange fluctuation	757,057	Nil
Provision for Gratuity	(607,553)	Nil
Others	(39,646)	Nil
	286,764	Nil

10. Setting up of a Joint Venture in China

In the year ended March 31, 2005, the Company has advanced Rs. 728,896 for investment in its proposed Joint Venture in Shanghai, China. Pursuant to the provisions of the Foreign Exchange Management (Transfer or issue of any foreign security) Regulations, 2000 ("Regulations") for overseas equity investments, the Company is required to furnish the Form ODA with its Authorised Dealer for onward remittance with the Reserve Bank of India. The Company is in the process of complying with the provisions of the said regulations.

11. Interest in Joint Venture

In the financial year ended March 31, 2003 the Company had set-up a 25% joint venture with Four Soft International Inc., USA to undertake business development and marketing activities in North America. The aggregate value of assets, liabilities, income and expenses related to the Company's share in Four Soft International Inc., USA has been considered to be Rs. Nil (Previous Year Rs. Nil) as the management believes that the Company no longer controls the said joint venture due to an ongoing dispute between parties to the Joint Venture.

12. Acquisition

In October 2004, the Company has acquired 100% equity shares of CargoMate B.V. (renamed later as Four Soft B.V.). Pursuant to the Share Purchase Agreement with GMKH Automation, the final purchase consideration, subject to maximum € 1,400,000 (equivalent Rs. 79,791,864) will be computed based on pre-determined multiples of revenue for the financial year beginning April 1, 2004 and ending March 31, 2005 or for the financial year beginning April 1, 2005 and ending March 31, 2006.

Further, to the extent of 12.5% of the purchase consideration will be paid to the seller by way of issue of fully paid-up equity shares of the Company valued at Rs. 25 per share, subject to relevant regulatory compliances. The balance purchase consideration will be paid in cash over the period as agreed by the Company and the seller.

13. Capital Commitments

	Amount in Rupees	
	As at 31 March, 2005	As at 31 March, 2004
Estimated amount of contracts remaining to be executed on capital account and not provided for	89,891	Nil

14. Contingent Liabilities not provided for

	Amount in Rupees	
	As at 31 March, 2005	As at 31 March, 2004
Claims against the Company not acknowledged as debts	1,756,400	Nil
Guarantees given by the Company	20,065,500	Nil
Income tax in respect of Assessment Year 2002-2003 in respect of which the Company has gone on appeal.	120,984	Nil

15. Managing Director's Remuneration

	Amount in Rupees	
	Year ended 31 March, 2005	Year ended 31 March, 2004
Salaries & Perquisites	393,922	169,333
Commission on net profit	849,124	1,046,285
Contribution to provident fund and other funds	28,200	20,320
	1,271,246	1,235,938

Computation of Net Profit in accordance with section 349 of the Act for calculation of commission payable to director:

	Amount in Rupees	
	As at 31 March, 2005	As at 31 March, 2004
Profit before tax as per Profit and Loss Account	31,700,257	52,114,476
Add:		
Managing Director's remuneration	1,271,246	1,235,938
Loss on sale of fixed assets	2,469	10,105
Depreciation as per books of account	7,649,818	3,850,527
Provision for diminution in value of investments	7,699,375	Nil
Provision for doubtful debts	1,782,872	Nil
	50,106,037	57,211,046
Less: Depreciation under Section 350 of the Act	7,649,818	3,850,527
Profit on which commission is payable	42,456,219	53,360,519
Maximum allowed as per the Act (5%)	2,122,811	2,668,026
Maximum approved by shareholders	1,271,246	1,046,285

16. Remuneration to auditors (including service tax)

	Amount in Rupees	
	Year ended 31 March, 2005	Year ended 31 March, 2004
As Auditors	645,764	86,400
As tax auditors	Nil	21,600
For taxation matters	Nil	32,400
Certification charges	Nil	54,000
Reimbursement of out-of-pocket expenses	13,452	Nil
	659,216	194,400

17. Quantitative details

The Company is primarily engaged in the development and maintenance of computer software. The production and sale of such software cannot be expressed in any generic unit. Hence it is not possible to give quantitative details of sales and certain other information as required under paragraph 3, 4C and 4D of Part II of Schedule VI to the Companies Act, 1956.

18. Earnings in foreign currency

	Amount in Rupees	
	Year ended 31 March, 2005	Year ended 31 March, 2004
License fees	25,732,055	78,631,099
Annual maintenance services	3,660,700	685,000
Revenue from off-shore and on site development services	127,606,077	57,655,515
Others	210,302	--
	157,209,134	136,971,614

19. Expenditure in foreign currency (on payment basis)

	Amount in Rupees	
	Year ended 31 March, 2005	Year ended 31 March, 2004
Travelling	5,226,107	5,213,571
Implementation expenses	25,672,550	11,534,990
Salaries	4,971,862	607,500
Others	2,754,672	3,604,374
	38,625,191	20,960,435

20. Value of imports calculated on CIF basis

During the year ended March 31, 2005 the Company has imported capital goods amounting to Rs. 6,241,378 (Previous year 2,717,000)

21. Net dividend remitted in foreign exchange

	Amount in Rupees	
	Year ended 31 March, 2005	Year ended 31 March, 2004
Period to which it relates	1.4.2003 to 31.3.2004	1.4.2002 to 31.3.2003
Number of non-resident share-holders	17	14
Number of equity shares held on which dividend was due	7,425,566	2,617,251
Amount remitted	1,856,393	1,308,628

22. Investments purchased and sold/ redeemed during the year

Description	March 31, 2005 Units in No's	March 31, 2004 Units in No's
Birla Sun Life	--	968,381
DSP Floating Rate Fund	--	2,000,403
HDFC High Interest Fund	--	3,421,590
Standard Chartered M/Fund	--	2,982,421
DSP Merrill Lynch FRF-Div	6,148,761	--
Reliance Floating Rate Fund -	1,502,240	--
Reliance Fixed Term Scheme-	4,529,677	--
Canbank Mutual Fund	500,000	--
SBI Mutual Fund- Debt fund series	1,007,080	--
SBI Mutual Fund- STP Dividend	2,008,154	--
JM Floater Fund- STP - Dividend	3,003,652	1,996,263
JM Financial Mutual Fund- FMP	1,000,000	--
Birla Floating Rate Fund-STP	776,303	--
HSBC Floating Rate fund-ST	2,020,835	--
Kotak Floater- Short Term	9,129,006	4,007,949
Franklin Templeton FRIF	6,845,664	9,268
Franklin Templeton Floting	--	4,007,452
Grindlays Floating Rate fund-STP	4,985,694	1,988,984
HDFC FRF-STP	3,004,773	--
HDFC Cash Management Fund	501,591	--
Tata Floating Rate ST	4,206,969	2,000,479
Pru.ICICI FRF- Dividend	8,322,503	1,994,869
UTI Floating Rate Fund	1,647,541	--
Sundram Money Fund- Div- Rein.	495,213	--

23. Utilisation of issue funds upto March 31, 2005.

	Rs.
Proceeds from preferential issue	79,612,000
Proceeds from IPO	<u>202,209,500</u>
Total	281,869,500
Less: Issue expenses	<u>(20,649,065)</u>
Net proceeds	261,172,435
Less: Utilisation of funds	
Expansion of Facilities/Equipment	(38,005,280)
Product Development and R&D	(15,506,263)
International Marketing Set-up and Acquisition	<u>(54,925,614)</u>
Unutilised IPO Funds	
Mutual Funds	10,070,800
Fixed deposits	<u>142,664,478</u>

24. Earning per share

	Year ended 31 March, 2005	Year ended 31 March, 2004
Weighted average number of equity shares in calculating basic EPS	31,864,794	19,409,939
Effect of equity share to be issued pursuant to acquisition of 100% subsidiary	<u>200,047</u>	<u>Nil</u>
Weighted average number of equity shares in calculating diluted EPS	32,064,841	19,409,939

25. Subsequent event after Balance Sheet date

Subsequent to the Balance Sheet date, in May 2005 the Company has acquired 100% voting shares in Comex Frontier Pte. Limited, Singapore and MyComex SDN.BHD, Malaysia, for an aggregate consideration of Singapore Dollars 2,100,100 (equivalent Rs. 56,156,674).

26. Previous Year Comparatives

Previous year's figures have been regrouped where necessary to conform to this year's classification.

As per our report of even date

For and on behalf of Board of Directors

S..R. Batliboi & Associates

Chartered Accountants

Per

Utkarsh Palnitkar
Partner
Membership No. 40030

Place : Hyderabad
Date : June 27, 2005

K.V. Vishnu Raju
Director

Biju S. Nair
Asst. Vice President - Finance
Place : Hyderabad
Date : June 27, 2005

P. Mangamma
Director

Naresh Patro
Company Secretary

P. Srikanth Reddy
Managing Director
(Signed on 30th July, 2005)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH, 2005

	Amount in Rupees	
	Year ended 31st March, 2005	Year ended 31st March, 2004
A. Cash flow from operating activities		
Net profit before taxes	31,700,257	52,114,476
Adjustments for:		
Depreciation	7,649,818	3,850,527
Miscellaneous expenditure written off	125,358	1,065,229
Interest income	(3,296,313)	(1,023,048)
(Profit)/loss on sale of non trade current investments	(704,688)	494,907
Dividends from non trade current investments	(5,874,606)	(1,488,336)
Employee stock compensation expenses	2,539,303	--
Provision for retirement benefits	738,418	264,942
Exchange rate fluctuation loss	(588,522)	4,056,945
Provision for doubtful debts and bad debts written off	2,712,964	13,975,737
Provision for diminution in value of investments	7,699,375	--
Loss on sale of fixed assets	2,469	10,105
Operating profit before working capital changes	<u>42,703,833</u>	<u>73,321,484</u>
Movements in working capital :		
Increase in sundry debtors	(10,725,172)	(16,349,609)
Decrease/(Increase) in loans and advances	491,898	(180,077)
Increase in current liabilities	10,970,210	8,242,708
Cash generated from operations	<u>43,440,769</u>	<u>65,034,506</u>
Direct taxes paid	<u>(2,234,066)</u>	<u>(2,600,255)</u>
Net cash flows from operating activities	<u>41,206,703</u>	<u>62,434,251</u>
B. Cash flows from investing activities		
Purchase of fixed assets	(38,005,279)	(15,497,688)
Proceeds from sale of fixed assets	--	8,000
Purchase of long term investments	(27,612,904)	--
Advance for investment in Joint Venture	(728,896)	--
Purchase of current investments	(550,331,107)	(266,488,335)
Sale/redemption of current investments	540,964,994	265,993,428
Interest received	3,226,885	778,502
Dividends received	5,874,606	1,488,336
Net cash used for investing activities	<u>(66,611,701)</u>	<u>(13,717,757)</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH, 2005 (CONT.)

	Amount in Rupees	
	Year ended 31st March, 2005	Year ended 31st March, 2004
C. Cash flows from financing activities		
Proceeds from issuance of share capital, net of expenses	1,119,068	266,751,665
Dividends paid	(7,642,563)	(2,346,834)
Tax on dividend paid	(1,020,668)	(300,685)
Net cash used in financing activities	<u>(7,544,163)</u>	<u>264,104,146</u>
Net (Decrease)/increase in cash and cash equivalents (A+B+C)	(32,949,161)	312,820,640
Cash and cash equivalents at the beginning of the year	338,917,776	29,123,356
Cash and cash equivalents at the end of the year	<u>305,968,615</u>	<u>341,943,996</u>

Notes:

1. Cash and cash equivalents include:

Cash and bank balances	162,224,534	63,110,782
Unpaid dividend accounts	323,635	1,792
Unpaid public issue refund accounts	255,569	—
Balance of unutilised monies raised by issue	<u>142,664,478</u>	<u>275,805,202</u>
Cash and cash equivalents as per Balance Sheet	305,468,216	338,917,776
Effect of unrealised exchange loss as on the Balance Sheet date	<u>500,399</u>	<u>3,026,220</u>
Cash and cash equivalents considered for Cash Flows	<u>305,968,615</u>	<u>341,943,996</u>

2. Previous year's figures have been regrouped where necessary to conform to this year's classification.

As per our report of even date

For and on behalf of the Board of Directors

S.R. Batliboi & Associates
Chartered Accountants

Per

Utkarsh Palnitkar
Partner
Membership No. 40030

Place : Hyderabad
Date : June 27, 2005

K.V. Vishnu Raju
Director

Biju S. Nair
Asst. Vice President - Finance
Place : Hyderabad
Date : June 27, 2005

P. Mangamma
Director

Naresh Patro
Company Secretary

P. Srikanth Reddy
Managing Director
(Signed on 30th July, 2005)

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

(Pursuant to the provisions of Part IV of Schedule VI to the Companies Act, 1956)

I REGISTRATION DETIALS

Registration No.	33131	State Code	01
Balance Sheet Date	31.03.2005		

II. CAPITAL RAISED/ ISSUE DURING THE YEAR (Amount Rs. In Lakhs)

Public Issue	N I L	Rights Issue	N I L
Bonus Issue	N I L	Private Placement	N I L

III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (Amount Rs. In lakhs)

Total Liabilities	4224.44	Total Assets	4224.44
Sources of Funds			
Paid Up Capital	1593.00	Reserves & Surplus	2616.59
Secured Loans	NIL	Unsecured Loans	NIL
Deferred Tax Liability	14.85		
Application of funds			
Net Fixed Assets	517.25	Investments	905.90
Net Current Assets	2800.14	Misc. Expenditure	1.15

IV. PERFORMANCE OF THE COMPANY (Amount Rs. In Lakhs)

Turnover	1711.72	Total Expenditure	1394.72
Profit Before Tax	317.00	Profit after Tax	282.61
Earning per share	0.89	Dividend Rate	Nil

V GENERIC NAME OF THE PRODUCT:

Item Code No.	85 24 90 09
Product Description	Computer Software

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956, RELATING TO SUBSIDIARY COMPANIES

Name of the Subsidiary Company	Four Soft LLC	Four Soft B.V.
1. Financial year ending of the Subsidiary	31st March, 2005	31st March, 2005
2. Shares of Subsidiary Company held on the above date and extent of holding		
i) Number of shares held	15,000	18,152
ii) Extent of holding	100%	100%
3. Net aggregate amount of profits/losses of the subsidiary for the above financial year so far as they concern members of Four Soft Limited		
i) dealt with in the accounts of Four Soft Limited	Nil	Nil
ii) not dealt with in the accounts of Four Soft Limited	\$ 80,647 Rs.35,91,990	€ 161,061 Rs.93,16,867
4. Net aggregate amount of profits/losses for previous financial years of the subsidiary so far as they concern members of Four Soft Limited		
i) dealt with in the accounts of Four Soft Limited	Nil	Nil
ii) not dealt with in the accounts of Four Soft Limited	\$ 68,460 Rs.30,49,208	Nil Nil

For and on behalf of the board of Directors

K.V.Vishnu Raju
Director

P.Srikanth Reddy
Managing Director

Hyderabad
30th July' 2005

AUDITORS' REPORT

The Board of Directors
Four Soft Limited

1. We have audited the attached Consolidated Balance Sheet of Four Soft Limited ("Group"), as at March 31, 2005 and also the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year ended on that date annexed thereto.
2. These financial statements are the responsibility of the Four Soft Limited's management. Our responsibility is to express an opinion on these financial statements based on our audit.
3. We conducted our audit in accordance with the 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.
4. We did not audit the financial statements of any of the subsidiaries, whose financial statements reflect total assets of Rs. 53,939,752 as at March 31, 2005, the total revenue of Rs. 77,471,346 and cash flows amounting to Rs. 11,521,043 for the year then ended. These financial statements, except to the extent mentioned below in paragraph 5 below, have been audited by another auditor whose report has been furnished to us, and our opinion is based solely on the report of such other auditor.
5. These Consolidated Financial Statements for the year ended March 31, 2005 include the unaudited financial statement of the Four Soft LLC., USA whose financial statements reflect total assets of Rs. 10,224,267 as at 31st March, 2005, total revenues of Rs. 32,049,784 and total net cash outflows of Rs. 300,755 for the year then ended.
6. We report that the Consolidated Financial Statements have been prepared by the Four Soft Limited's management in accordance with the requirements of Accounting Standards (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.
7. The consolidated financial statements, except consolidated cash flow statements, for the previous year ended March 31, 2004 was audited by another firm of Chartered Accountants.
8. *In the absence of audited financial statements in respect of the entity referred to in Paragraph 5 above, we are unable to express an opinion as to the balances, results from operation and cash flows pertaining to such entity included in the Consolidated Balance Sheet, Profit and Loss Account and Cash Flow respectively as at and for the year ended 31st March, 2005.*
9. Without qualifying our opinion, we draw attention to note 11 to Schedule 16 to the consolidated financial statements regarding requisite approvals from appropriate authorities which are pending in respect of the Company's overseas Joint Venture.
10. On the basis of the information and explanations given to us and on consideration of the separate audit report on individual audited financial statements of Four Soft Limited and its subsidiary and subject to the scope limitation mentioned in paragraph 8 above, we are of the opinion that in conformity with the accounting principles generally accepted in India:
 - a) the Consolidated Balance Sheet, gives a true and fair view of the Consolidated State of Affairs of Four Soft Limited and its consolidated entities as at March 31, 2005;
 - b) the Consolidated Profit and Loss Account, gives a true and fair view of the Consolidated results of operations of Four Soft Limited and its consolidated entities for the year then ended; and
 - c) the Consolidated Cash Flow Statement, gives a true and fair view of the Consolidated cash flows of Four Soft Limited and its consolidated entities for the year then ended.

S. R. BATLIBOI & ASSOCIATES

Chartered Accountants

Utkarsh Palnitkar

Partner

Membership No.:40030

Place : Hyderabad

Date : June 27, 2005

CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2005

Amount in Rupees

	Schedule	As at	31-03-2005	As at	31-03-2004
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	1		159,299,970		158,663,970
Reserves & Surplus	2		276,965,043		233,293,821
Deferred Tax Liability	16(8)		1,484,620		
Total			437,749,633		391,957,791
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	3		147,711,466	31,250,195	
Less : Depreciation			18,192,946	9,878,432	
Net Block			129,518,520	21,371,763	
Capital Work-in-progress			318,732	—	
			129,837,252		21,371,763
Investments	4		10,070,800		7,699,375
Current Assets, Loans and Advances					
Inventory	16(1)(k)		1,081,020		—
Sundry Debtors	5		52,625,837	29,963,579	
Cash and Bank Balances	6		324,676,480	340,023,950	
Other Current Assets	7		359,535	290,107	
Loans and Advances	8		17,656,058	11,783,694	
			396,398,930	382,061,330	
Less: Current Liabilities and Provisions					
Current Liabilities	9		87,532,364	10,685,451	
Provisions	10		11,647,810	9,381,979	
			99,180,174	20,067,430	
Net Current Assets			297,218,756		361,993,900
Miscellaneous Expenditure (to the extent not written off or adjusted)	11		622,825		892,753
Total			437,749,633		391,957,791
Notes to Consolidated Accounts	16				

The schedules referred to above and the notes to accounts form an integral part of the Balance Sheet.
As per our report of even date

S.R. Batliboi & Associates
Chartered Accountants

For and on behalf of the Board of Directors

Per

Utkarsh Palnitkar
Partner
Membership No. 40030

K.V. Vishnu Raju
Director

P. Mangamma
Director

P. Srikanth Reddy
Managing Director
(Signed on 30th July, 2005)

Place : Hyderabad
Date : June 27, 2005

Biju S. Nair
Asst. Vice President - Finance
Place : Hyderabad
Date : June 27, 2005

Naresh Patro
Company Secretary

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2005

Amount in Rupees

	Schedule	For the Year ended 31-03-2005	For the Year ended 31-03-2004
INCOME			
Sales	12	203,291,076	139,819,147
Other Income	13	13,302,358	2,531,929
Total		216,593,434	142,351,076
EXPENDITURE			
Payments to and Provisions for Employees	14	91,562,379	41,810,709
Selling General and Administrative Expenses	15	65,504,511	42,070,567
Depreciation and Amortisation	3	8,335,303	3,850,527
Miscellaneous Expenditure Written Off		255,408	124,999
Total		165,657,601	87,856,803
Profit before tax		50,935,833	54,494,273
Provision for current tax		7,937,485	1,041,933
Tax for earlier year		55,135	--
Deferred tax		1,484,620	--
		9,477,240	1,041,933
Profit after tax		41,458,593	53,452,340
Balance brought forward from last year		44,465,472	27,249,626
Profit available for Appropriation		85,924,065	80,701,966
Appropriations			
Proposed Dividend		--	7,966,199
Tax on Dividend		--	1,020,669
General Reserve		--	27,249,626
Surplus carried to Balance Sheet		85,924,065	44,465,472
		85,924,065	80,701,966
Basic earnings per share		1.30	2.70
Diluted earnings per share		1.29	2.70
Nominal Value per share		5	5

Notes to Consolidated Accounts

16

The schedules referred to above and the notes to accounts form an integral part of the Profit & Loss Account.

As per our report of even date

S.R. Batliboi & Associates

Chartered Accountants

Per

Utkarsh Palnitkar

Partner

Membership No. 40030

Place : Hyderabad

Date : June 27, 2005

K.V. Vishnu Raju

Director

Biju S. Nair

Asst. Vice President - Finance

Place : Hyderabad

Date : June 27, 2005

P. Mangamma

Director

Naresh Patro

Company Secretary

For and on behalf of the Board of Directors

P. Srikanth Reddy

Managing Director

(Signed on 30th July, 2005)

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2005

Amount in Rupees

	As at 31-03-2005	As at 31-03-2004
SCHEDULE 1		
SHARE CAPITAL		
Authorised		
36,077,600 (Previous Year : 36,077,600) equity shares of Rs.5 each (Previous Year : Rs. 5 each)	180,388,000	180,388,000
696,120 (Previous Year : 696,120) 14% Redeemable optionally convertible cumulative Preference Shares of Rs.100 each (Previous Year : Rs. 100 each)	<u>69,612,000</u>	<u>69,612,000</u>
	<u>250,000,000</u>	<u>250,000,000</u>
Issued, Subscribed and Paid-up		
31,864,794 (Previous year : 31,864,794) Equity Shares of Rs. 5 each (Previous Year : Rs. 5 each), fully paid-up	159,323,970	159,323,970
Less: Calls in arrears		
By others	<u>24,000</u>	<u>660,000</u>
	<u>159,299,970</u>	<u>158,663,970</u>
	<u>159,299,970</u>	<u>158,663,970</u>

Notes:

Of the above Equity Shares

- 4,563,970 equity shares issued as Bonus Shares by captilisation of General Reserve
- The shareholders at the Extra Ordinary Meeting held on 29th September, 2003 approved the sub division of Equity shares of face value of Rs.10 each into two Equity Shares of face value of Rs.5 each.
- 83,18,524 equity shares were issued as sweat equity shares for consideration other than cash.

SCHEDULE 2
RESERVES AND SURPLUS**Share Premium**

As per last Balance Sheet	183,731,002	5,886,790	
Received during the year	<u>636,000</u>	<u>220,855,000</u>	
	184,367,002	226,741,790	
Less: Utilised towards share issue expenses	<u>152,932</u>	<u>20,496,133</u>	
Utilised towards deferred sweat equity	--	<u>22,514,655</u>	
	<u>184,214,070</u>		183,731,002

General Reserve

As per last Balance Sheet	4,429,779	--	
Add: Transferred from Profit and Loss Account	--	<u>27,249,626</u>	
	<u>4,429,779</u>	<u>27,249,626</u>	
Less: Utilised towards bonus issue	--	<u>22,819,847</u>	
	<u>4,429,779</u>		4,429,779

Profit and Loss Account

85,924,065

44,465,472

Exchange Fluctuation Reserve Account

As per last Balance Sheet	667,568	--	
Add: Current year translation adjustment	<u>(809,742)</u>	<u>667,568</u>	
	<u>(142,174)</u>		667,568

Stock Option Adjustments

Stock option outstanding	--	--	
Add: Additions during the year	<u>9,452,769</u>	--	
	<u>9,452,769</u>	--	
Less: Deletions during the year	<u>2,701,629</u>	--	
	<u>6,751,140</u>	--	
Less: Deferred Stock Employee Compensation	<u>4,211,837</u>	--	
	<u>2,539,303</u>		--

Total

276,965,043233,293,821**Notes:**

a) Deferred Stock Employee Compensation			
Stock compensation expense outstanding	--	--	
Add: Stock options granted during the year	<u>9,452,769</u>	--	
Less: Stock options cancelled/forfeited during the year	<u>(2,701,629)</u>	--	
Less: Stock compensation amortised during the year	<u>(2,539,303)</u>	--	
Closing balance of deferred employee stock compensation	<u>4,211,837</u>	--	

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31st MARCH, 2005

SCHEDULE - 3

(Amount in Rupees)

S. No.	Particulars	Gross Block				Depreciation					Written Down Value		
		As at 01-04-2004	Additions /Acquisition	Deductions during the year	Exchange Difference	As at 31-03-2005	Upto 01-04-2004	For the Year	Deletions Adjustments	Exchange Difference	Up to 31-03-2005	As at 31-03-2005	As at 31-03-2004
1.	Computers	10,516,112	7,467,142	-	-	17,983,254	5,862,642	2,910,462	-	-	8,773,104	9,210,150	4,653,470
2.	Office Equipment	3,551,514	2,806,565	11,500	(2,199)	6,344,380	878,468	824,493	5,531	(5,601)	1,691,829	4,652,551	2,673,046
3.	Furniture & Fittings	4,844,284	1,761,822	-	-	6,606,106	2,102,282	1,220,154	-	-	3,322,436	3,283,670	2,742,002
4.	Building	10,345,914	20,248,730	-	-	30,594,644	-	1,225,609	-	-	1,225,609	29,369,035	10,345,914
5.	Lease Hold Improvements	-	1,157,889	-	-	1,157,889	-	96,212	-	-	96,212	1,061,677	-
6.	Vehicles	-	1,876,245	-	(6,624)	1,869,621	-	433,851	-	(9,657)	424,194	1,445,427	-
	Total (A)	29,257,824	35,318,393	11,500	(8,823)	64,555,893	8,843,392	6,710,781	5,531	(15,258)	15,533,384	49,022,509	20,414,432
	Intangibles												
1	Goodwill	-	76,891,109	-	(598,743)	76,292,366	-	-	-	-	-	76,292,366	-
2	Software	1,992,371	4,870,836	-	-	6,863,207	1,035,040	1,624,522	-	-	2,659,562	4,203,645	957,330
	Total (B)	1,992,371	81,761,945	-	(598,743)	83,155,573	1,035,040	1,624,522	-	-	2,659,562	80,496,011	957,330
	Total (A+B)	31,250,195	117,080,338	11,500	(607,566)	147,711,466	9,878,432	8,335,303	5,531	(15,258)	18,192,946	129,518,520	21,371,763
	For previous year	15,861,814	15,417,381	29,000	-	31,250,195	6,038,800	3,850,527	10,895	-	9,878,432	21,371,763	9,823,014

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31st MARCH, 2005

	Amount in Rupees	
	As at 31-03-2005	As at 31-03-2004
SCHEDULE 4		
INVESTMENTS		
Long Term (Unquoted and at cost)		
Trade Investments		
In Joint Venture		
25,000 (Previous Year : 25,000) equity shares of \$ 1 (Previous Year : \$1) of Four Soft International Inc., USA	7,699,375	7,699,375
Sub Total (A+B)	7,699,375	7,699,375
Less: Provision for Permanent diminution in value of	7,699,375	--
Long term investment (I)	--	7,699,375
Current Investment		
(At lower of cost or market value)		
Balance of unutilised monies of IPO		
Non Trade Investments (Quoted)		
In Mutual Funds (II)	10,070,800	--
[Market value as at March 31, 2005 Rs. 10,142,806 (Previous Year Rs. Nil)]		
Total (I) + (II)	10,070,800	7,699,375
SCHEDULE 5		
SUNDRY DEBTORS (UNSECURED)		
Debts outstanding for a period exceeding six months		
Considered good	889,528	4,679,898
Considered doubtful	1,917,483	--
	2,807,011	4,679,898
Other Debts		
Considered good	51,736,309	25,283,681
Considered doubtful	440,992	--
	52,177,301	25,283,681
	54,984,312	29,963,579
Less : Provision for doubtful debts	2,358,475	--
Total	52,625,837	29,963,579

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31st MARCH, 2005

	Amount in Rupees	
	As at 31-03-2005	As at 31-03-2004
SCHEDULE 6		
CASH AND BANK BALANCES		
Cash on hand	38,560	7,152
Balance with Scheduled Banks on		
Current Accounts	130,062,714	63,103,630
Deposit Accounts	10,055,329	--
Margin Money	22,100,000	--
Balance with Non Scheduled Banks on		
Current Accounts	6,165,780	1,106,174
Deposit Accounts	13,010,415	--
Unpaid Dividend Accounts	323,635	1,792
Unpaid Public Issue Refund Accounts	255,569	--
	<u>181,973,442</u>	<u>64,211,596</u>
Balance of unutilised monies raised by issue	142,664,478	275,805,202
Total	<u>324,676,480</u>	<u>340,023,950</u>
SCHEDULE 7		
OTHER CURRENT ASSETS		
Interest Accrued on Fixed Deposits	359,535	290,107
	<u>359,535</u>	<u>290,107</u>
SCHEDULE 8		
LOANS AND ADVANCES		
(Unsecured considered good except stated otherwise)		
Loan to Four Soft Limited Employee Welfare Trust	4,790,000	4,790,000
Advances recoverable in cash or in kind or for value to be received	6,536,181	2,067,630
Other Deposits	4,272,883	3,148,001
Advance Income Tax (Net of Provision)	2,056,994	1,778,063
	<u>17,656,058</u>	<u>11,783,694</u>
SCHEDULE 9		
CURRENT LIABILITIES		
Sundry Creditors for goods, services and expenses	--	--
Dues to small scale industrial undertakings	--	--
Due to others	14,059,542	8,737,844
	<u>14,059,542</u>	<u>8,737,844</u>
Advance from Customers	19,143,832	476,167
Unclaimed Dividends	323,635	1,792
Other Liabilities	54,005,355	1,469,648
	<u>87,532,364</u>	<u>10,685,451</u>

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31st MARCH, 2005

	Amount in Rupees	
	As at 31-03-2005	As at 31-03-2004
SCHEDULE 10		
PROVISIONS		
For Retirement Benefits	3,596,778	264,942
For Proposed Dividends	--	7,966,198
For Corporate Tax	8,051,032	130,170
For Tax on Proposed Dividend	--	1,020,669
	<u>11,647,810</u>	<u>9,381,979</u>
 SCHEDULE 11		
MISCELLANEOUS EXPENDITURE		
(to the extent not written off or adjusted)		
Preliminary Expenses	715,261	125,433
Add: Exchange differences	(17,590)	--
Add: Incurred during the year	--	652,545
	<u>697,671</u>	<u>777,978</u>
Less: Written off during the year	192,766	--
Less: Exchange differences	(3,070)	62,717
	<u>507,975</u>	715,261
Deferred Patents & Trade Marks	177,492	159,467
Add: Incurred during the year	--	80,307
	<u>177,492</u>	<u>239,774</u>
Less: Written off during the year	62,642	62,282
	<u>114,850</u>	177,492
Deferred employee expenses	--	940,234
Less: Written off during the year	--	940,234
	<u>622,825</u>	<u>892,753</u>

SCHEDULES FORMING PART OF THE CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2005

Amount in Rupees

	For the Year ended 31-03-2005	For the Year ended 31-03-2004
SCHEDULE 12		
SALES		
Off Shore Development	96,249,825	44,331,050
On site Development	40,411,835	13,563,665
Annual Maintenance Services	20,516,246	793,333
Sale of licenses	33,115,624	81,131,099
Projects	7,162,999	--
Sale of third party software and hardware	5,834,547	--
Total	<u>203,291,076</u>	<u>139,819,147</u>
 SCHEDULE 13		
OTHER INCOME		
Interest on Fixed Deposits (Gross)	3,359,540	1,023,048
[T.D.S Rs. 673,439 (Previous Year Rs.258,597)]	--	--
Profit (Loss) on Sale of Investments	704,688	(494,907)
Dividends from Non Trade Investments	5,874,606	1,488,336
Miscellaneous Income	2,670,034	485,343
Liability no longer required written back	406,726	30,109
Prior Period Income(net)	286,764	--
Total	<u>13,302,358</u>	<u>2,531,929</u>
 SCHEDULE 14		
PAYMENT TO AND PROVISIONS FOR EMPLOYEES		
Salaries, allowances and bonus	80,895,847	38,570,080
Retirement benefits	2,434,580	--
Contribution to Provident Fund and Others	4,427,106	2,615,480
Employee Stock Compensation Expenses	2,539,303	--
Staff Welfare	1,265,543	625,149
Total	<u>91,562,379</u>	<u>41,810,709</u>

SCHEDULES FORMING PART OF THE CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2005

Amount in Rupees

	For the Year ended 31-03-2005	For the Year ended 31-03-2004
Schedule 15		
ADMINISTRATIVE & SELLING EXPENSES		
Cost of sales	4,071,202	--
Rent	4,278,639	487,696
Fee,rates & taxes	718,739	908,035
Office maintenance	2,889,474	1,325,322
Remuneration to auditors	659,216	194,400
Advertisement & recruitment	1,288,874	311,664
Business promotion	1,024,067	591,370
Communication costs	2,900,453	1,667,366
Postage & courier	324,268	103,811
Insurance	1,238,463	450,564
Electricity & water charges	1,737,548	1,364,755
Travelling expenses	22,182,504	11,020,456
Legal and professional charges	7,416,948	665,555
Exchange rate fluctuation loss	2,254,668	8,217,693
Commission to other selling agents	581,196	481,570
A G M expenses	278,807	--
Bad and doubtful debts written off	930,092	13,975,737
Provision for doubtful debts	2,371,579	--
Donations	20,635	--
Provision for diminution in value of investments	7,699,375	--
Loss on sale of asset	2,469	10,105
Bank charges	432,585	156,989
Miscellaneous expenses	202,710	137,479
TOTAL	65,504,511	42,070,567

SCHEDULE - 16**Summary of Significant Accounting Policies and Notes to Consolidated Accounts for the year ended and as at March 31, 2005.****1. Statement of Significant Accounting Policies****(a) Basis of Consolidation**

The Consolidated Financial Statements of Four Soft Limited together with its subsidiaries (collectively termed as "the Company" or "the Consolidated Entities") are prepared under historical cost convention on accrual basis to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India ("the ICAI"). The accounting policies have been consistently applied by the Company and except for the changes in accounting policy discussed more fully in schedule 16(3) below, are consistent with those used in the previous year.

Investments in subsidiaries, except where the investments are acquired exclusively with a view to its subsequent disposal in the immediate near future, are accounted in accordance with accounting principles as defined in the Accounting Standard - 21 "Consolidated Financial Statements" issued by the ICAI.

All material inter-company balances and inter-company transactions and resulting unrealized profits or losses are eliminated in full on consolidation.

The Consolidated Financial Statements for the year ended 31st March, 2005 have been prepared on the basis of the financial statements of the following wholly owned subsidiaries:

Name of the Consolidated Entities	Country of Incorporation
Four Soft LLC	United States of America
Four Soft B.V.	The Netherlands

(b) Exclusion of Joint Venture

In the year ended March 31, 2003 the Company had set-up a 25% joint venture "Four Soft International Inc., USA" to undertake business development and marketing activities in the North American market.

In accordance with the accounting principles laid down under AS 27 "Financial Reporting of Interest in Joint Ventures" issued by the ICAI, the Company is required to consolidate its proportionate interest in the said Joint Venture. However, in absence of the Company's ability to access the financial information of the said Joint Venture and in view of the Company's inability to exercise control over the said joint venture, considering primacy of substance over form, the consolidated financial statements for the year ended March 31, 2005 have been prepared without consolidating the proportionate interest in the assets, liabilities and profit and loss of the above Joint Venture, instead interest in such joint venture has been accounted for as per AS 13, "Accounting for Investments", issued by the ICAI.

(c) Fixed Assets

Fixed assets are stated at actual cost less accumulated depreciation and impairment losses. The actual cost capitalized includes material cost, freight, installation cost, duties and taxes and other incidental expenses incurred during the construction/installation stage.

The carrying amounts are reviewed at each Balance Sheet date when required to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

(d) Capital Work in Progress

Assets under installation or under construction as at the Balance Sheet date are shown as Capital Work in progress.

(e) Depreciation

Fixed assets are depreciated using the written down value method and at the rates prescribed under Schedule XIV to the Act, except as stated hereunder:

- ii. Fixed assets of Four Soft B.V. are depreciated over the estimated useful lives using the "straight line method"
- iii. Individual items costing less than Rs. 5,000 which is depreciated fully in the year of purchase.
- iv. Lease hold improvements are depreciated on written down value basis over the lease period or the estimated useful lives whichever is lower.

(f) Intangible Assets

Intangible assets in the nature of software licenses are stated at cost and are amortized over the estimated useful life of six years, using written down value method.

Goodwill arising on acquisition is not being amortized, however tested for impairment on a periodic basis and written off if found impaired.

(g) Research & Development Costs

Revenue expenditure incurred on research and development activities are expensed as incurred. Capital expenditure incurred on research and development is being capitalized and is depreciated or amortised in accordance with the Company's policy for depreciation on fixed assets.

(h) Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognised as an expense in the Profit and Loss account on a straight-line basis over the lease term.

(i) Investments

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

(j) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Revenue from time and material contracts is recognised as the related services are rendered. Revenue from annual maintenance services is recognised proportionately over the period in which services are rendered. Revenue from the sale of user licenses for software applications is recognised on delivery and subsequent milestone schedule as per the terms and contract with the customers. Revenue from software development projects is recognised as per the percentage of completion method and losses, if any accrued immediately.

Income from interest on short term fixed deposits is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable. Dividend is recognised as and when the right to receive its payment is established.

(k) Inventories

Inventories represent services completed pending billing to the customers on the Balance Sheet date.

(l) Foreign currency Transactions**(i) Initial Recognition:**

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

(ii) Conversion:

Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

(iii) Exchange Differences:

Exchange differences arising on the settlement of monetary items or on reporting Company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year in which they arise except those arising from investments in non-integral operations.

(m) Foreign currency Translation

Effective from April 1, 2004, the Company has adopted accounting principles as prescribed under Accounting Standard 11 (Revised) "The Effects of Changes in Foreign Currency Rates" issued by the ICAI. In accordance with the accounting principles laid down under AS 11 (Revised) the Company has designated all its foreign operations, except in respect of Four Soft B.V. Netherlands, as its "integral foreign operations".

The exchange gain or loss arising on translation of financial statements is charged to profit and loss account in respect of integral foreign operations and are shown as "Exchange Fluctuation Reserve Account" in the Balance Sheet in respect of non-integral foreign operations.

(n) Retirement and other employee benefits

Retirement benefit in the form of contribution to provident fund is charged to the Profit & Loss Account of the year when the contributions to the respective funds are due.

Gratuity liability under the Payment of Gratuity Act 1972 and provision for leave encashment is accrued and provided for on the basis of an actuarial valuation made at the end of each financial year.

The gratuity fund of Four Soft Limited is administered by a trust formed for this purpose through the Group Schemes of the Life Insurance Corporation of India ("LIC"). The adequacy of accumulated funds available with LIC has been confirmed on the basis of an actuarial valuation made at the year-end and provision has been made for the shortfall if any.

In respect of Four Soft B.V., retirement benefits such as holiday allowances have been accrued on actual basis. The Company also contributes to a private pension plan on the basis of a defined contribution plan.

(o) Employee Stock Option Scheme

In accordance with the accounting treatment prescribed under the "Employee Stock Option Scheme and Employee Stock Purchase Scheme Guidelines 1999" (as amended) issued by the Securities and Exchange Board of India, the excess of market value of the stock on the date of grant over the exercise price of the option is recognised as deferred employee stock compensation and is charged to profit and loss account on straight-line method over the vesting period of the options. The un-amortized portion of cost is shown under Reserves and Surplus.

(p) Taxes on income

Tax expense comprises both current and deferred taxes. Current income-tax is measured at the amount expected to be paid to the tax authorities in accordance with the provisions of the domestic tax laws of the countries in which the consolidated entities operate.

Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities across various countries of operation are not set off against each other as the Company does not have a legal right to do so. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized.

(q) Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. Partly paid equity shares are treated as a fraction of an equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting period.

For the purpose of calculating diluted earnings per share, the net profit for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

(r) Provisions

A provision is recognised when the Company has a present obligation as a result of past event and when it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

(s) Cash flow statement

Cash flows are reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. Cash flows in foreign currencies are accounted at average monthly exchange rates that approximate the actual rates of exchange prevailing at the dates of the transactions.

(t) Miscellaneous expenditure

Miscellaneous expenditure in respect of registration of patent and trade marks, incurred prior to adoption of AS 26 "Intangible Assets" are being amortised on a straight line method over a period of five years.

2. Difference in Accounting Policies adopted by consolidated subsidiaries of the Company

The Consolidated Profit and Loss Account for the year ended March 31, 2005 includes Rs. 685,485 (Previous Year Nil) and Rs. 1,660,956 (Previous Year Nil) towards depreciation and retirement benefits respectively, measured using accounting principles different from the related accounting policies adopted by the parent.

3. Change in Accounting Policy

Provision for Gratuity and leave encashment which were hitherto accounted for on actual payment basis and accrual basis respectively, has now been provided for on actuarial valuation, resulting in an increase in provision as at March 31, 2005 and decrease in consolidated net profit for the year ended March 31, 2005 by Rs. 534,138, net.

4. Acquisition of a wholly owned subsidiary

In October 2004 the Company has acquired 100% outstanding voting rights in Four Soft B.V. The Netherlands (formerly know as CargoMate B.V. The Netherlands).

Acquisition of interest in the acquired entity has been accounted under the "Pooling of interest method" for the purpose of consolidation. Accordingly, excess of purchase price over the net assets acquired, has been recorded as Goodwill in the Consolidated Financial Statements. Transactions relating to Profit and Loss Account of the acquired entity have been included in the Consolidated Profit and Loss Account from the effective date of acquisition.

The interest of Four Soft Limited, in the net assets of the acquired entity and resulting capital reserve as on the date of acquisition is given hereunder:

	Amount in Rupees	
Purchase Consideration	a	79,791,864
Net Assets of the Acquired Entity as on the Date of Acquisition	b	2,900,756
Goodwill	C=a-b	76,891,108

The Consolidated profit and loss for the year ended March 31, 2005 include post acquisition income and expenses amounting to Rs. 45,421,562 and Rs. 35,815,461 respectively.

5. Employee Stock Compensation

In fiscal 2004, the Company had established "Employee Stock Option Scheme ("ESOP" or "ESOP Scheme"). The Company subsequently established Four Soft Limited Employee Welfare Trust ("the Trust") to administer the ESOP Scheme and had issued 953,000 equity shares of Rs. 5 each of the Company. In turn, the Trust periodically grants to stock options to eligible employees. The equity shares offered to the employees are subject to progressive vesting over a period of three years from the date of grant. The equity shares allotted pursuant to the said ESOP scheme are not subject of any repurchase obligation by the Company. The exercise price of the stock option has been fixed at Rs. 5 per share.

In July 2003, the shareholders of the Company approved issue of Bonus shares, as a result the trust had received 217,200 equity shares of the Company. As of March 31, 2005 and 2004 the total shares held by the Trust is 1,170,200.

In July 2004, the Trust has granted 645,240 (Previous year Nil) options to the eligible employees of the Company at an exercise price of Rs. 5 per equity share, subject to progressive vesting over a period three years from the date of grant. 460,828 stock options are outstanding as of March 31, 2005 (Previous Year Nil), net of 184,412 grants forfeited during the year due to resignation of the eligible employees.

During the year ended March 31, 2005 the Company has amortized stock compensation expenses amounting to Rs. 2,539,303 (Previous Year Rs. Nil).

6. Related party transactions

List of related Parties

Name of the related party	Country	Nature of relationship
Four Soft Logistics Software (Shanghai) Limited	China	Proposed Joint Venture
Four Soft International Inc.	USA	Joint Venture
Four Soft Employee Welfare Trust	India	Control
Palem Srikanth Reddy	India	Managing Director
Biju Nair	India	Key Management Personnel
Ge' Pijnappel	The Netherlands	Key Management Personnel

The details of the related party transactions entered into by the Company during the year ended March 31, 2005 and 2004:

	Amount in Rupees	
	Year ended 31-03-2005	Year ended 31-03-2004
Joint Ventures		
Four Soft Logistics Software (Shanghai) Limited		
Advance for investment	728,896	--
Four Soft International Inc, USA		
Sales	Nil	6,095,620
Receivables written off	Nil	4,704,117
Provision for diminution in value of investments	7,699,375	Nil
Managing Director and Key Management Personnel		
Remuneration to Managing Director & Key Management Personnel	3,928,785	1,235,938
Others		
Four Soft Employee Welfare Trust		
Loan	Nil	4,790,000
Debit Balance Outstanding		
Four Soft Logistics Software (Shanghai) Limited	728,896	Nil
Four Soft Employee Welfare Trust	4,790,000	4,790,000
Managing Director and Key Management Personnel	(633,975)	(721,834)

In addition to the above, during the year ended March 31, 2005 the Company has granted Nil (Previous year 7,526,900) equity shares of the Company to the Directors, under the Sweat Equity Scheme. In 2004-05, the Company has also granted 46,400 (Previous year Nil) stock options to the key management personnel of the Company under the E SOP Scheme of the Company.

7. Leases

The Company has entered into operating lease agreements for its development centers at offshore and onsite ranging for a period of 1 year to 5 years. The maximum obligations on non-cancelable operating leases payable as per the rentals stated in the respective agreements are as follows:

Amount in Rupees

	As at 31 March, 2005	As at 31 March, 2004
Minimum Lease Payments:		
Not later than one year	4,549,310	1,160,040
Later than one year but not later than five years	1,966,500	193,340
Later than five years	Nil	Nil

8. Deferred tax liability

Deferred tax liability amounting to Rs. 1,484,620 represents differences in depreciation and other differences in block of fixed assets as per tax books and financial books reversing after the tax holiday period.

9. Research and development

During the year ended March 31, 2005 the Company has incurred expenses amounting to Rs. 18,906,369 (Previous Year Rs. 15,528,060) towards research and development included under various heads of expenses.

10. Prior period items

Prior period income, net is consists of the following:

Amount in Rupees

	Year ended 31 March, 2005	Year ended 31 March, 2004
Annual Maintenance charges	176,906	Nil
Exchange fluctuation	757,057	Nil
Provision for Gratuity	(607,553)	Nil
Others	(39,646)	Nil
	286,764	Nil

11. Setting up of a Joint Venture in China

In the year ended March 31, 2005, the Company has advanced Rs. 728,896 for investment in the proposed Joint Venture in Shanghai, China. Pursuant to the provisions of the Foreign Exchange Management (Transfer or issue of any foreign security) Regulations, 2000 ("Regulations") for overseas equity investments, the Company is required to furnish the Form ODA with its Authorised Dealer for onward remittance with the Reserve Bank of India. The Company is in the process of complying with the provisions of the said regulations.

12. Capital Commitments

Amount in Rupees

	As at 31 March, 2005	As at 31 March, 2004
Estimated amount of contracts remaining to be executed on capital account and not provided for	89,891	Nil

13. Contingent Liabilities not provided for

Amount in Rupees

	As at 31 March, 2005	As at 31 March, 2004
Claims against the Company not acknowledged as debts	1,756,400	Nil
Guarantees given by the Company	2,00,65,500	Nil
Income tax in respect of Assessment Year 2002-2003 in respect of which the Company has gone on appeal.	120,984	Nil

14. Managing Director's Remuneration

	Amount in Rupees	
	Year ended 31 March, 2005	Year ended 31 March, 2004
Salaries & Perquisites	393,922	169,333
Commission on net profit	849,124	1,046,285
Contribution to provident fund and other funds	28,200	20,320
	1,271,246	1,235,938

15. Remuneration to auditors (including service tax)

	Amount in Rupees	
	Year ended 31 March, 2005	Year ended 31 March, 2004
As Auditors	645,764	86,400
As tax auditors	Nil	21,600
For taxation matters	Nil	32,400
Certification charges	Nil	54,000
Reimbursement of out-of-pocket expenses	13,452	Nil
	659,216	194,400

16. Investments purchased and sold/ redeemed during the year

Description	March 31, 2005 Units in No's	March 31, 2004 Units in No's
Birla Sun Life	--	968,381
DSP Floting Rate Fund	--	2,000,403
HDFC High Interest Fund	--	3,421,590
Standard Chartered M/Fund	--	2,982,421
DSP Merrill Lynch FRF-Div	6,148,761	--
Reliance Floating Rate Fund -	1,502,240	--
Reliance Fixed Term Scheme-	4,529,677	--
Canbank Mutual Fund	500,000	--
SBI Mutual Fund- Debt fund series	1,007,080	--
SBI Mutual Fund- STP Dividend	2,008,154	--
JM Floater Fund- STP - Dividend	3,003,652	1,996,263
JM Financial Mutual Fund- FMP	1,000,000	--
Birla Floating Rate Fund-STP	776,303	--
HSBC Floating Rate fund-ST	2,020,835	--
Kotak Floater- Short Term	9,129,006	4,007,949
Franklin Templeton FRIF	6,845,664	9,268
Franklin Templeton Floting	--	4,007,452
Grindlays Floating Rate fund-STP	4,985,694	1,988,984
HDFC FRF-STP	3,004,773	--
HDFC Cash Management Fund	501,591	--
Tata Floating Rate ST	4,206,969	2,000,479
Pru.ICICI FRF- Dividend	8,322,503	1,994,869
UTI Floating Rate Fund	1,647,541	--
Sundram Money Fund- Div- Rein.	495,213	--

17. Earning per share

	Year ended 31 March, 2005	Year ended 31 March, 2004
Weighted average number of equity shares in calculating basic EPS	31,864,794	19,409,939
Effect of equity share to be issued pursuant to acquisition of 100% subsidiary	200,047	Nil
Weighted average number of equity shares in calculating diluted EPS	32,064,841	19,409,939

18. Segment reporting

The Company has adopted Accounting Standard 17, Segment Reporting issued by the ICAI, which requires disclosure of financial and descriptive information about the Company's segments. The operations of the Company are managed from independent locations, which are located in different geographical locations. Accordingly, the following have been identified as operating and reportable segments: (a) "India", (b) "Europe", and (c) "USA".

Method of Pricing Inter Segment Transfers:

Inter segment sales are generally accounted at fair values and the same have been eliminated in consolidation. The accounting policies of the segments are substantially the same as those described in the "Statement of Significant Accounting Policies" as under paragraph 1 above.

Financial information as required in respect of operating and reportable Segments is given below:

For the Year Ended March 31, 2005

Amounts in Rupees

Particulars	India	Europe	USA	Total	Eliminations	Consolidated
REVENUE:						
External sales	159,341,832	43,949,244	--	203,291,076	--	203,291,076
Inter-segment sales	--	--	32,049,784	32,049,784	32,049,784	--
Total revenue	159,341,832	43,949,244	32,049,784	235,340,860	32,049,784	203,291,076
RESULT:						
Segment result	19,870,217	13,054,871	4,708,387	37,633,475	--	37,633,475
Other Income	--	--	--	--	--	13,302,358
Income taxes	--	--	--	--	--	7,992,620
Deferred taxes	--	--	--	--	--	1,484,620
Net profit	--	--	--	--	--	41,458,593
OTHER INFORMATION						
Segment assets	415,663,568	117,886,881	10,224,267	543,774,716	8,901,903	534,872,813
Segment liabilities	75,795,837	22,248,999	1,999,292	100,044,128	8,914,986	91,129,142
Capital expenditure (including CWIP)	38,008,779	--	--	38,008,779	--	38,008,779
Depreciation	7,649,818	685,485	--	8,335,303	--	8,335,303
Other non-cash expenses	15,795,017	--	--	15,795,017	--	15,795,017

For the Year Ended March 31, 2004

Amounts in Rupees

Particulars	India	Europe	USA	Total	Eliminations	Consolidated
REVENUE:						
External sales	139,819,147	--	--	139,819,147	--	139,819,147
Inter-segment sales	--	--	14,513,608	14,513,608	14,513,608	--
Total revenue	139,819,147	--	14,513,608	154,332,755	14,513,608	139,819,147
RESULT:						
Segment result	49,582,548	--	2,379,797	51,962,345	--	51,962,345
Other Income	--	--	--	--	--	2,531,929
Income taxes	--	--	--	--	--	1,041,933
Net profit	--	--	--	--	--	53,452,341
OTHER INFORMATION						
Segment assets	408,488,439	--	4,718,679	413,207,118	2,959,960	410,247,158
Segment liabilities	21,953,406	--	943,814	22,897,220	2,959,960	19,937,260
Capital expenditure (including CWIP)	15,417,381	--	--	15,417,381	--	15,417,381
Depreciation	3,850,527	--	--	3,850,527	--	3,850,527
Other non-cash expenses	22,193,430	--	--	22,193,430	--	22,193,430

19. Subsequent event after Balance Sheet date

Subsequent to the Balance Sheet date, in May 2005 the Company has acquired 100% voting shares in Comex Frontier Pte. Limited, Singapore and MyComex SDN.BHD, Malaysia, for an aggregate consideration of Singapore Dollars 2,100,100 (equivalent Rs. 56,156,674).

20. Previous Year Comparatives

Previous year's figures have been regrouped where necessary to conform to this year's classification.

As per our report of even date

For and on behalf of Board of Directors

S.R. Batliboi & Associates

Chartered Accountants

Per

Utkarsh Palnitkar

Partner

Membership No. 40030

Place : Hyderabad

Date : June 27, 2005

K.V. Vishnu Raju

Director

Biju S. Nair

Asst. Vice President - Finance

Place : Hyderabad

Date : June 27, 2005

P. Mangamma

Director

Naresh Patro

Company Secretary

P. Srikanth Reddy

Managing Director

(Signed on 30th July, 2005)

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH, 2005

	Amount in Rupees	
	Year ended 31st March, 2005	Year ended 31st March, 2004
A. Cash flow from operating activities		
Net profit before taxes	50,935,833	54,494,273
Adjustments for:		
Depreciation	8,335,303	3,850,527
Miscellaneous expenditure written off	255,408	1,065,229
Interest income	(3,359,540)	(1,023,048)
(Profit)/loss on sale of non trade current investments	(704,688)	494,907
Dividends from non trade current investments	(5,874,606)	(1,488,336)
Employee stock compensation expenses	2,539,303	--
Provision for retirement benefits	2,358,977	264,942
Exchange rate fluctuation loss	(1,274,064)	3,631,879
Provision for doubtful debts and bad debts written off	3,301,671	13,975,737
Provision for diminution in value of investments	7,699,375	--
Loss on sale of fixed assets	2,469	10,105
Operating profit before working capital changes	64,215,441	75,276,215
Movements in working capital :		
Decrease in inventory	61,948	--
Increase in sundry debtors	(15,755,330)	(16,349,609)
Increase in loans and advances	(2,640,015)	(180,077)
Increase in current liabilities	9,595,224	6,651,627
Cash generated from operations	55,477,268	65,398,156
Direct taxes paid	(2,609,834)	(2,600,255)
Miscellaneous expenditure	--	(652,545)
Net cash flows from operating activities	52,867,434	62,145,356
B. Cash flows from investing activities		
Purchase of fixed assets	(38,011,714)	(15,497,688)
Proceeds from sale of fixed assets	--	8,000
Payments for net assets acquired of subsidiary, net of cash	(20,433,116)	--
Advance for investment in Joint Venture	(728,896)	--
Purchase of current investments	(550,331,106)	(266,488,335)
Sale/redemption of current investments	540,964,994	265,993,428
Interest received	3,290,112	778,502
Dividends received	5,874,606	1,488,336
Net cash used for investing activities	(59,375,120)	(13,717,757)

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH, 2005 (CONT.)

	Amount in Rupees	
	Year ended 31st March, 2005	Year ended 31st March, 2004
C. Cash flows from financing activities		
Proceeds from issuance of share capital, net of expenses	1,119,068	266,751,665
Dividends paid	(7,642,563)	(2,346,834)
Tax on dividend paid	(1,020,668)	(300,685)
Net cash used in financing activities	<u>(7,544,163)</u>	<u>264,104,146</u>
D. Effect of exchange rate changes on cash and cash equivalents	<u>(795,222)</u>	<u>667,568</u>
Net (Decrease)/increase in cash and cash equivalents (A+B+C+D)	<u>(14,847,071)</u>	<u>313,199,313</u>
Cash and cash equivalents at the beginning of the year	<u>340,023,950</u>	<u>29,850,856</u>
Cash and cash equivalents at the end of the year	<u>325,176,879</u>	<u>343,050,169</u>

Notes:

1. Cash and cash equivalents include:

Cash and bank balances	181,432,798	64,216,956
Unpaid dividend accounts	323,635	1,792
Unpaid public issue refund accounts	255,569	—
Balance of unutilised monies raised by issue	142,664,478	275,805,202
Cash and cash equivalents as per Balance Sheet	<u>324,676,480</u>	<u>340,023,950</u>
Effect of unrealised exchange loss as on the Balance Sheet date	500,399	3,026,220
Cash and cash equivalents considered for Cash Flows	<u>325,176,879</u>	<u>343,050,170</u>

2. Previous year's figures have been regrouped where necessary to conform to this year's classification.

As per our report of even date

For and on behalf of the Board of Directors

S.R. Batliboi & Associates

Chartered Accountants

Per

Utkarsh Palnitkar
Partner
Membership No. 40030

Place : Hyderabad
Date : June 27, 2005

K.V. Vishnu Raju
Director

Biju S. Nair
Asst. Vice President - Finance
Place : Hyderabad
Date : June 27, 2005

P. Mangamma
Director

Naresh Patro
Company Secretary

P. Srikanth Reddy
Managing Director
(Signed on 30th July, 2005)

FOUR SOFT LLC, USA
(a wholly owned subsidiary of Four Soft Ltd.)

DIRECTOR'S REPORT

The Board of Directors of your Company are pleased to present the Annual Report for the period ended 31st March, 2005.

Financial Year

April'2004 - March'2005

Board of Directors

Palem Srikanth Reddy

Office:

Four Soft LLC
New York,
USA

Bankers

Bank of America
Citi Group

Business Overview

The Board of Directors of your Company are pleased to inform you that the company during the last fiscal year 1st April'04 to 31st March'05 has achieved a total revenue of \$ 0.70 million compared to \$ 0.33 millions in 2003 - 04 and recorded a net profit of \$ 0.08 million compared to \$ 0.07 million. This is commendable improvement over the previous year, this increase in the revenues were due to increased billing for onsite implementation and support services for customers of Four Soft Limited in USA.

The Company will continue to provide onsite implementation and support services for present and future customers of Four Soft Limited in USA. The Company will receive full support from parent Company Four Soft Limited in terms of Technology and delivery capabilities. The Company believes that with growing US customer base it will have increased revenues over the coming years.

Your directors thank the company's clients, vendors and bankers for their continued support during the year. Your directors place on record their appreciation of the contribution made by employees at all levels.

Your directors thank the US Government, Department of Federal Taxes and State Taxes, US Immigration services and other Government Departments for their full support and look forward for their continued support in the future.

For and on behalf of Board of Directors

Dated: June 26, 2005
Place: Houston, USA

Sd/-
Palem Srikanth Reddy
Director

BALANCE SHEET AS AT MARCH 31, 2005

	Schedule	As at 31-03-2005		As at 31-03-2004	
		\$	Rs.	\$	Rs
I SOURCES OF FUNDS					
SHAREHOLDERS' FUNDS					
Share Capital	1	15,000	727,500	15,000	727,500
Reserves & Surplus	2	150,195	6,509,185	68,460	2,917,195
TOTAL		165,195	7,236,685	83,461	3,644,695
II APPLICATION OF FUNDS					
CURRENT ASSETS,					
LOANS AND ADVANCES					
Sundry Debtors	3	201,965	8,844,032	68,218	2,959,979
Cash and Bank Balances	4	18,393	805,419	25,494	1,106,174
Loans and Advances	5	1,526	66,841	-	-
		221,884	9,716,292	93,712	4,066,153
LESS: CURRENT LIABILITIES AND PROVISIONS					
Current Liabilities	6	45,698	1,999,292	21,752	943,814
Provisions	7	22,591	988,290	3,000	130,189
		68,289	2,987,582	24,752	1,074,003
NET CURRENT ASSETS		153,595	6,728,710	68,961	2,992,150
MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)	8	11,600	507,975	14,500	652,545
Notes to accounts	12				
TOTAL		165,195	7,236,685	83,461	3,644,695

The Schedules referred to above and the notes to accounts form an integral part of the Balance Sheet.

For and on behalf of Board of Directors

Dated: June 26, 2005
Place: Houston, USA

Sd/-
Palem Srikanth Reddy
Director

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2005

	Schedule	Year ended		Year ended	
		31st March, 2005		31st March, 2004	
		\$	Rs.	\$	Rs.
INCOME					
Revenues from Software Services	9	701,397	32,049,784	334,492	14,513,608
TOTAL		701,397	32,049,784	334,492	14,513,608
EXPENDITURE					
Payments to and Provisions for Employees	10	450,762	20,199,429	224,588	10,389,821
Selling General and Administrative Expenses	11	143,345	7,011,918	38,444	1,743,990
Depreciation		-	-	-	-
Miscellaneous Expenditure Written Off	8	2,900	130,050	-	-
TOTAL		597,007	27,341,397	263,032	12,133,811
PROFIT BEFORE TAXATION		104,390	4,708,387	71,460	2,379,797
Provision for Tax		23,743	1,116,397	3,000	130,170
PROFIT AFTER TAXATION		80,647	3,591,990	68,460	2,249,627
Balance brought forward from last year		69,548	2,249,627	-	-
PROFIT AVAILABLE FOR APPROPRIATION		150,195	5,841,617	68,460	2,249,627
APPROPRIATIONS		-	-	-	-
Surplus carried to Balance Sheet		150,195	5,841,617	68,460	2,249,627
		150,195	5,841,617	68,460	2,249,627
Notes to accounts	12				

The Schedules referred to above and the notes to accounts form an integral part of the Profit & Loss Account.

For and on behalf of Board of Directors

Dated: June 26, 2005
Place: Houston, USA

Sd/-
Palem Srikanth Reddy
Director

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT MARCH 31, 2005

	As at 31-03-2005		As at 31-03-2004	
	\$	Rs.	\$	Rs
SCHEDULE 1				
SHARE CAPITAL AUTHORISED				
15000 Equity Shares of \$ 1 each	15,000	727,500	15,000	727,500
	15,000	727,500	15,000	727,500
ISSUED, SUBSCRIBED AND PAID-UP				
15000 Equity Shares of \$ 1 each fully paid-up	15,000	727,500	15,000	727,500
TOTAL	15,000	727,500	15,000	727,500
SCHEDULE 2				
RESERVES & SURPLUS				
PROFIT & LOSS ACCOUNT	150,195	5,841,617	68,460	2,249,627
FOREIGN EXCHANGE TRANSLATON RESERVE	-	667,568	-	667,568
TOTAL	150,195	6,509,185	68,460	2,917,195
SCHEDULE 3				
SUNDRY DEBTORS				
UNSECURED Debts Considered good	201,965	8,844,032	68,218	2,959,979
TOTAL	201,965	8,844,032	68,218	2,959,979
SCHEDULE 4				
CASH & BANK BALANCES				
Balance with Non Scheduled Banks Current Accounts	18,393	805,419	25,494	1,106,174
TOTAL	18,393	805,419	25,494	1,106,174
SCHEDULE 5				
LOANS AND ADVANCES				
(Unsecured considered good except stated otherwise)				
Advances recoverable in cash or in kind or for to be received - Considered good	1,526	66,841	-	-
TOTAL	1,526	66,841	-	-

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT MARCH 31, 2005

	As at 31-03-2005		As at 31-03-2004	
	\$	Rs.	\$	Rs
SCHEDULE 6				
CURRENT LIABILITIES				
Sundry Creditors for goods, services and expenses				
Due to others	45,698	1,999,292	21,752	943,814
TOTAL	45,698	1,999,292	21,752	943,814
SCHEDULE 7				
PROVISIONS				
For corporate Tax(Net of advance Tax)	22,591	988,290	3,000	130,189
TOTAL	22,591	988,290	3,000	130,189
SCHEDULE 8				
MISCELLANEOUS EXPENDITURE				
(to the extent not written off or adjusted)				
PRELIMINARY EXPENSES	14,500	634,955	14,500	652,545
Less: Written off during the period	2,900	130,050	-	-
TOTAL	11,600	507,975	14,500	652,545

**SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31st MARCH, 2005**

	For the Year ended 31-03-2005		For the Year ended 31-03-2004	
	\$	Rs.	\$	Rs.
SCHEDULE 9				
SALES				
Revenue from Software Services	701,397	32,049,784	334,492	14,513,608
TOTAL	701,397	32,049,784	334,492	14,513,608
SCHEDULE 10				
PAYMENTS TO AND PROVISIONS FOR EMPLOYEES				
Salaries, allowances and bonus	417,753	18,822,091	210,291	9,730,535
Contribution to Provident Fund and Others	32,740	1,365,499	14,297	659,286
Staff Welfare	269	11,839	-	-
TOTAL	450,762	20,199,429	224,588	10,389,821
SCHEDULE 11				
ADMINISTRATIVE & SELLING EXPENSES				
Rent - Office	2,841	126,852	-	-
Fee,Rates & Taxes	2,316	101,716	5,987	268,750
Business Promotion	589	27,182	-	-
Telephone expenses	213	9,375	-	-
Foreign Exchange Fluctuation Loss	-	587,029	-	-
Insurance 15,985	718,688	2,385	109,184	-
Travelling expenses	46,022	2,048,850	28,475	1,291,546 .
Professional charges	74,896	3,370,486	1,108	52,079
Bank charges	483	21,740	489	22,431
TOTAL	143,345	7,011,918	38,444	1,743,990

FOUR SOFT B.V. Netherlands
(a wholly owned subsidiary of Four Soft Ltd.)

Financial Year

April'2004 - March'2005

Board of Directors

Palem Srikanth Reddy

Regd. Office:

Four Soft B.V.
Meerawal 21, 3432 ZV
Nieuwegein, Netherlands

Auditors

Blomer
Accountants en Adviseurs

Bankers

ABN Amro Bank
Citi Group

DIRECTOR'S REPORT

The Board of Directors of your Company are pleased to place the Annual Report for the period ended 31st March, 2005.

Business Overview

The Board of Directors of your Company are pleased to inform you that the company during the last fiscal year 16th Jan'04 to 31st March'05 has achieved a total revenue of € 784,111 and recorded an operating profit of € 245,958 and PAT of €161,061. This is commendable improvement over the previous year. The company was acquired by Four Soft Ltd in October'04 and have provided an added Global Competitive edge in terms of delivery and implementation capabilities. The Management team of the erstwhile CargoMate International B.V. is still continuing with the Company.

The Management of the Company will continue to receive full support from parent Company Four Soft Limited in terms of Technology, delivery capabilities and implementation support services. The Company has strong customer presence in Europe and will continue receiving Annual maintenance revenues and additional Licence Sales over the coming years.

For and on behalf of Board of Directors

Sd/-

Dated: June 18, 2005
Place: Nieuwegein, Netherlands

Palem Srikanth Reddy
Director

AUDITOR'S REPORT**Introduction**

We have audited the accounts of Four Soft B.V. at Nieuwegein for the period 1st October 2004 till 31 March 2005. These accounts are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

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

accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, these accountants give a true and fair view of the financial position of the company as of 31 March 2005 and of the result for the period then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code.

Nieuwegein, 9 June, 2005

Blomer,
Accountants en adviseurs

E.J.C. Boersen RA

BALANCE SHEET AS AT 31st MARCH, 2005

	As at 31-03-2005
	€
ASSETS	
FIXED ASSETS	
Intangible fixed assets	
Goodwill	<u>37,500</u>
Tangible fixed assets	
Tangible fixed assets	<u>32,181</u>
CURRENT ASSETS	
Receivable	
Trade debtors	264,202
Sales to be invoiced	19,113
Projects in progress	--
Other receivables and prepaid expenses	<u>94,546</u>
	<u>377,372</u>
Liquid assets	<u>325,372</u>
TOTAL ASSETS	<u>772,914</u>

MARCH 31ST, 2005 BEFORE APPROPRIATION OF RESULTS AT NIEUWEGEIN

	31-03-2005
	€
LIABILITIES	
SHAREHOLDERS EQUITY	
Called up and paid in capital	18,152
Other reserves	-7,834
Unappropriated results	<u>244,349</u>
Total	<u>254,667</u>
CURRENT LIABILITIES	
Trade creditors	2,816
Taxes and social security premiums	158,480
Group company	826
Prepaid maintenance	277,880
Prepaid licences	11,324
Other payables and deferred income	<u>66,921</u>
	<u>518,247</u>
TOTAL LIABILITIES	<u>772,914</u>

PROFIT AND LOSS ACCOUNT OF FOUR SOFT B.V. AT NIEUWEGEIN

	31-03-2005
	€
Sales / Turnover	784,111
Cost of sales	70,379
Gross margin / profit	<u>713,732</u>
Personnel expenses	321,987
Housing expenses	24,872
Office expenses	2,702
Car expenses	39,233
Depreciation	16,850
Other expenses	62,130
Total operating expenses	<u>467,774</u>
Operating result	245,958
Interest and bank charges	174
Profit before taxation	246,132
Corporate tax	85,071
Net result	<u>161,061</u>

ANNUAL ACCOUNTS

GENERAL NOTES TO THE ANNUAL ACCOUNTS

The financial statements have been prepared on the basis of historical cost and in accordance with part 9, Book 2 of the Dutch Civil Code.

Unless otherwise indicated, assets and liabilities are carried at their face value; assets less a provision if considered necessary.

Comparative accounts

The financial year runs from January 1st 2004 up to March 31st 2005. As per 1st October 2004 the shares of the company were acquired by Four Soft Ltd., a listed company in India. For consolidation purposes the company requests figures over the period of 1st October till 31st March 2005. Therefore these figures are included as annex to the annual accounts for this reason. For this reason also the comparative figures in the profit and loss account are not included.

Foreign currencies

During the year invoices in foreign currencies are processed against an actual currency rate. At the year end outstanding balances in foreign currencies are valued at closing rate or, if applicable, against the forwarded currency rate. Resulting exchange differences are recognized in the profit and loss account.

PRINCIPLES OF VALUATION

Intangible fixed assets

Goodwill represents the excess of the consideration paid for business acquired over the fair market value of identifiable

net assets including other intangible assets at the date of acquisition. Goodwill is capitalized and amortized over the period the Company is expected to benefit from the goodwill, not exceeding 20 years. Goodwill will be depreciated in 5 years. Goodwill is tested at least annually for impairment.

Tangible fixed assets

Tangible fixed assets are started at purchase price. Assets are depreciated straight line during the estimated economical life time of assets. Cars will be depreciated in 4 years, inventory in 5 years, used inventory in 2 years.

PRINCIPLES FOR DETERMINATION OF RESULTS

Sales / Turnover

The sales/turnover in the profit and loss account represent revenue from goods and services delivered to third parties, net of VAT and discounts.

For maintenance contracts revenue is recognized during the period of maintenance contracted with the client. At balance sheet date the maintenance fees for future periods are accrued as prepaid maintenance. For projects revenue is recognized based on the progress of the project. Losses, if any, provided for.

All other income is recognized in the period it refers to.

Corporate tax

The calculation of the corporate tax is based on the commercial result considering fiscal facilities. Deferred tax receivables are only recognized when realization can be considered almost certain. Deferred tax claims are valued against current tax rate.

NOTES TO THE BALANCE SHEET OF FOUR SOFT B.V. AT NIEUWEGEIN

	31-03-2005
	€
FIXED ASSETS	
Intangible fixed assets	
Goodwill	37,500
Goodwill	€
Book value at 30-09-2004	42,500
Changes in the period:	
Purchases / Additions	--
Selling's/Subtractions	--
Depreciation	-5,000
Book value at 31-03-2005	37,500
Purchase price at 31-03-2005	50,000
Accumulated depreciation	-12,500
	37,500
Book value at 31-03-2005	37,500

NOTES TO THE BALANCE SHEET OF FOUR SOFT B.V. AT NIEUWEGEIN

	31-03-2005		
	€		
Tangible fixed assets			
Inventory			6,625
Cars			25,556
			32,181
	Inventory	Car	Total
	€	€	€
Book value at 30-09-2004	<u>10,975</u>	<u>33,056</u>	<u>44,031</u>
Change in the period:			
Purchases / Additions	--	--	--
Selling's / Subtraction	--	--	--
Depreciation	<u>-4,350</u>	<u>-7,500</u>	<u>-11,850</u>
Book value at end of book year	<u>6,625</u>	<u>25,556</u>	<u>32,181</u>
Purchase price at end of book year	<u>17,500</u>	<u>44,306</u>	<u>61,806</u>
Accumulated depreciation	<u>-10,875</u>	<u>-18,750</u>	<u>-29,625</u>
Book value at end of book year	<u>6,625</u>	<u>25,556</u>	<u>32,181</u>
Current Assets			
Receivable			
<u>Trade debtors</u>			
Trade debtors			274,379
Provision for doubtful debts			<u>-10,177</u>
			<u>264,202</u>
Other receivable and prepaid expenses			
Prepaid social security premiums			9,723
Prepaid car insurance			2,681
Prepaid pension costs			3,482
Prepaid progress			66,071
Prepaid rent			--
Payments in advance GMKH			3,500
Other payments in advance			5,294
Guarantee deposit			3,150
Other			645
			<u>94,546</u>
An amount of approximately € 22.000 has a term of 6 months or longer.			
Liquid assets			
Cash			567
ABN-AMRO 519-285,522			94,152
ABN-AMRO 549,619,614			622
CITIGROUP 26,60,40,942			<u>230,031</u>
			<u>325,372</u>

The liquid assets are for free disposal.

SHAREHOLDER EQUITY

Capital

The statutory share capital is € 90.000 (90.000 shares with a nominal value of €1). The called up en paid in capital is € 18.152, divided into 13.614 normal shares A and 4.538 normal shares B, both with a nominal value of € 1.

	As at 31-03-2005
	€
OTHER RESERVES	
Balance at 30-09-2004	-7,834
Add: from unappropriated result	—
	<u>-7,834</u>
UNAPPROPRIATED RESULT	
Balance at 30-09-2004	
Less: to other reserves	83,288
Add: result	161,061
	<u>244,349</u>
CURRENT LIABILITIES	
Taxes and social security	
Value added tax	22,497
Pay-roll tax	11,110
Corporate tax	124,873
	<u>158,480</u>
Group company	
Four Soft Limited	<u>826</u>
Other payable and deferred income	
Saving loans	1,277
Provision holiday allowances	26,000
Health insurance	2,720
Accountant - audit	4,400
Accountant - administration	7,525
Legal advisor	—
Pension assurance	19,853
Travel costs	2,090
Others	3,056
	<u>66,921</u>

CONTINGENT LIABILITIES

Rent agreement

The yearly payments concerning the rent, including service costs, amounts up to approx € 46.000.

The remaining rental period is 21 months.

NOTES TO THE PROFIT AND LOSS ACCOUNT 31-03-2005 OF FOUR SOFT B.V. AT NIEUWEGEIN

As at 31-03-2005
€

Sales/Turnover

Licences	127,640
Projects	123,827
Implementation	64,364
Maintenance	278,201
Support	64,858
Software	99,985
Hardware	877
Other (misc, revenues)	24,359
	784,111

Cost of sales

Software	62,392
Hardware	731
Other	7,256
	70,379

Operating expenses

Personal costs

Salaries	245,881
Pension premiums	10,713
Social charges	31,576
Health insurance	8,464
	296,634
Food and drink costs	2,264
Holiday allowances	18,000
Other personnel expenses	5,089
	321,987
Average number of employees (FTE)	8

Housing expenses

Cleaning costs	
Office rental	1,052
	23,820
	24,872

Office expenses

Automation internal	1,485
Other office supplies	1,217
	2,702

NOTES TO THE PROFIT AND LOSS ACCOUNT 31-03-2005 OF FOUR SOFT B.V. AT NIEUWEGEIN (Contd.)

As at 31-03-2005
€

Car expenses

Fixed car allowance	25,500
Other operational car expenses (fuel, maintenance etc)	13,733
	39,233

Depreciation

Goodwill	5,000
Inventory	4,350
Cars	7,500
	16,850

Other operating expenses

Communication	9,037
Marketing	649
Travel and logging	21,871
Legal advisor	5,027
Accountant - administration	8,150
Accountant - audit	4,400
Provision doubtful debtors	10,177
Other	2,819
	62,130

Interest / and foreign exchange differences

Bank costs	793
Exchange differences (negative)	126
	919
Interest received	1,093
	174

SUPPLEMENTARY INFORMATION

Articles of association concerning the appropriation of profit.

Result

The net result is at the disposal of the general shareholders meeting. Distribution of a dividend is only possible for at the most the distributable equity.