



ANNUAL REPORT 2005 - 06

BOARD OF DIRECTORS

Mr. Suresh C Rajpal	Chairman
Mr. Palem Srikanth Reddy	CEO & Managing Director
Mr. Koh Boon Hwee	Independent Director
Mr. Walter J Sousa	Independent Director
Mr. Douglas Terence Ash	Independent Director
Mr. K.V. Vishnu Raju	Independent Director
Mr. Sarath Naru	Independent Director
Mr. K. V. Ramakrishna	Independent & Nominee Director
Mrs. P. Mangamma	Non-Executive Director
Auditors	M/s. S.R. Batliboi & Co., Chartered Accountants
Internal Auditors	Laxminiwas & Jain Chartered Accountants
Bankers	The Hong Kong Shanghai Banking Corporation Ltd Citibank N.A.
Share Transfer Registrars	M/s. Karvy Computershare (P) Ltd. 'Karvy House', 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad - 500 034
Company Secretary & Compliance Officer	Mr. Naresh Kumar Patro

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NOTICE

Notice is hereby given that the Seventh Annual General Meeting of Four Soft Limited will be held on Friday, the 29th September' 2006 at The Chip Auditorium, Cyber Towers, HITEC City, Madhapur, Hyderabad, A.P at 2.30 P.M. to transact the following items of business:

Ordinary Business:

1. To receive, consider and adopt the Audited Profit and Loss Account for the financial year ended on March 31' 2006 and the Balance sheet as at that date together with the Report of the Board of Directors and the Auditors thereon.
2. To declare dividend on Equity Shares
3. To appoint a director in place of Mr. Walter J Sousa, who retires by rotation, and being eligible, offers himself for reappointment.
4. To appoint a director in place of Mr. K.V. Vishnu Raju, who retires by rotation, and being eligible offers himself for reappointment.
5. To consider and, if thought fit, to pass with or without modification, the following resolution as Ordinary Resolution.

"RESOLVED that M/s. S.R.Batlilboi & 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 remuneration to be fixed by the Board of Directors."

Special Business:

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

"RESOLVED that Mr. Sarath Naru who was appointed by the Board of Directors as an Additional Director of the company with effect from 30th January, 2006 and who holds office up to the date of this Annual General Meeting of the Company in terms of section 260 of the Companies Act, 1956 ("Act") and in respect of whom the Company has received a notice in writing from a member under section 257 of the Act proposing his candidature for the office of Director of the company, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

For and on behalf of the Board of Directors

Place : Hyderabad
Date : 26th August, 2006

P. Srikanth Reddy
CEO & Managing Director

Notes :

1. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of Special Business is annexed hereto.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on a poll instead of him and the proxy need not be a member. The enclosed proxy form should be deposited with the company not less than 48 hours before the meeting.
3. The Register of members and the Share Transfer books of the Company will remain closed from 26th September, 2006 to 29th September, 2006 (Both days inclusive) in connection with the Annual General Meeting.
4. If the Dividend as recommended by the Board of Directors is approved at the Annual General Meeting, payment of such dividend will be made on or after 29th September, 2006 to those members whose names appear on the Register of Members as under:
 - a) To all beneficial owners in respect of shares held in electronic form as per the data as may be made available by the National Securities Depository Limited and the Central Depository Services (India) Limited as of the close of business hours on 25th September, 2006.
 - b) To all shareholders in respect of shares held in physical form after giving effect to valid transfer requests lodged with the company on or before the closure of business hours on 25th September, 2006.
5. Shareholders holding shares in electronic form are hereby informed that bank particulars registered against their respective depository accounts will be used by the Company for payment of dividend. The Company or its registrars cannot act on any request received directly from the shareholders holding shares in electronic form for any change of bank particulars or bank mandates. Such changes are to be advised only to the Depository Participant of the shareholders.
6. Shareholders holding shares in physical form are requested to advise any change of address immediately to the Company's Registrar and Share Transfer Agents, Karvy Computershare Private Limited. Shareholders holding shares in electronic form must send the advice about change in address to their respective Depository Participants and not to the Company.
7. Members / Proxies are requested to bring their copies of Annual Report to the meeting and the attendance slip duly filled in for attending the meeting. Copies of Annual Reports will not be provided at the Meeting.
8. The Certificate from the Auditors of the Company certifying that the Company's Employee Stock Option Schemes are being implemented in accordance with the SEBI (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999, as amended

and in accordance with the resolution of the members passed at the general meeting will be available for inspection by the members at the AGM.

9. Members desirous of obtaining any information concerning the Accounts and Operations of the Company are requested to send their queries to the Company at least seven days before the date of the Meeting, so that the information required by them may be made available at the Meeting.
10. Members are requested to send all communication relating to shares to the Company's Share Transfer Agents (Physical and Electronic) at the following address:
Karvy Computershare Private Limited
(Unit: Four Soft Limited)
"Karvy House, 46, Avenue 4,
Street No.1, Banjara Hills,
Hyderabad - 500 034.

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

Item No. 3

Mr. Walter J Sousa currently serves as Executive Chairman of the Board of Mediaring Ltd, a VOIP telephony company listed on the main board in Singapore. Previously, Mr. Sousa was the Managing Director of GE Asia Pacific Capital Technology Fund, a venture fund sponsored by GE Capital, Asia Pacific Capital, and Acer Inc. Mr. Sousa was a founding partner of Asia Pacific Capital.

Prior to his venture investing activities, Mr. Sousa held position of Chairman and Chief Executive Officer of AT&T Asia Pacific. He was a member of AT&T's Global Operations Committee and led the transition in the region to the three new companies, AT&T, Lucent, and NCR. Before joining AT&T, Mr. Walter Sousa held the position of Chief Operating officer of Astec (BSR) Plc, a London stock exchange listed company with headquarters in Hong Kong. Astec is the world's leading manufacturer of switching power supplies. Mr. Sousa began his career at Hewlett Packard and over a twenty-years period held numerous management positions including President of Hewlett Packard Asia.

He holds a BSEE graduate of Santa Clara University, he also earned a Master's degree from an American university.

Your Directors commend the resolution for your approval.

Except Mr. Walter J Sousa, none of the other Directors of the Company is in any way concerned or interested in the resolution.

Item No. 4

Mr.K.V. Vishnu Raju is presently working as Managing Director of Anjani Portland Cements Ltd. He is director

on the Board of Raasi Cement Limited. He served as Managing Director of Raasi Cement Limited and director of other Raasi Group of companies. He is on the Board of Four Soft since March, 2004 as Independent Director, and is Chairman of Audit Committee and member of investor grievance committee. He holds a B.Tech from REC, Trichy and Post graduate from Michigan Technological University. He worked with E.I Dupont De Nemours, USA.

Your Directors commend the resolution for your approval.

Except Mr. K.V.Vishnu Raju, none of the Directors of the Company is in any way concerned or interested in the resolution.

Item No. 6

Mr. Sarath Naru was appointed as additional director on 30.01.2006. As per provisions of Section 260 of the Act, he holds office till the ensuing Annual General Meeting of the Company and is eligible for re-appointment. Mr. Sarath Naru is the Managing Director of APIDC - Venture Capital Limited and also heads Ventureast Funds. APIDC VC is a unique public-private partnership; Mr. Naru took over the Management of APIDC - Venture Capital Limited in 1995, in the first effective privatization of a financial institution in India. Prior to this, Mr. Naru worked for Procter & Gamble in the area of brand management in the USA and UK. He has also had manufacturing experience with VST Industries in Hyderabad. His academic qualification includes Bachelor of Technology (B.Tech.) from IIT, Madras and MBA (Finance) from University of Chicago.

Mr. Naru has been a past-secretary of the Indian Venture Capital Association, he is a member of the Investment Committees of UTI Ventures (Subsidiary of India's largest Mutual Fund Manager) and Avigo Ventures Dubai (sponsored by the Lord Bagri group of the UK), and the Agri-Business Incubator at ICRISAT, Hyderabad, is the Treasurer of ABLE (Association of Biotech Lead Enterprises), and has been a Past Committee member of the Andhra Pradesh Chapter of the Confederation of Indian Industry (CII).

Your Directors commend the resolution for your approval.

Except Mr. Sarath Naru, none of the other Directors of the Company is in any way concerned or interested in the resolution.

For and on behalf of the Board of Directors

Place : Hyderabad
Date : 26th August, 2006

P. Srikanth Reddy
CEO & Managing Director

DIRECTORS' REPORT

To the Members,

Your directors are pleased to place before the shareholders, the 7th Annual Report of the Company together with the audited statement of accounts for the year ended 31st March' 2006.

FINANCIAL RESULTS

Particulars	Rs. in Millions, except per share		
	2005-06	2004-05	Growth%
Total Income	244.04	171.17	42.57
Total Expenditure	183.65	131.82	39.32
Operating Profit (EBIDTA)	60.39	39.35	53.47
Depreciation	11.51	7.65	50.46
Profit before tax	48.88	31.70	54.20
Provision for tax	5.27	1.95	170.26
Deferred tax	0.81	1.48	(45.27)
Fringe benefit tax	0.90	—	—
Profit after tax	41.90	28.26	48.27
Dividends	27.13	—	—
Tax on dividends	3.81	—	—
Basic earnings per share	1.26	0.92	36.96
Paid up Equity share capital	176.49	154.54	—
Reserves	532.69	261.66	103.58

CHANGES TO SHARE CAPITAL

During the year under review the company has acquired companies in Singapore & Malaysia (Cash and stock deal) and a major acquisition of US\$ 22.00 million in UK (cash deal). To finance the said acquisitions and part fund its working capital requirements, the company has made a private placement to Kotak SEAF Fund (Managed by Kotak Mahindra Bank) and allotted shares towards purchase consideration to shareholders of companies acquired. During the year the paid-capital of the company was increased from Rs. 159,299,970 to Rs. 180,876,240 by conversion of 2,400 partly paid to fully paid equity shares and fresh allotment of 43,12,855 equity shares on preferential basis. This includes:

- i. Allotment of 39,49,447 equity shares of Rs. 5 each at a premium of Rs. 58.30 per shares to India Growth Scheme of Kotak SEAF India Fund on preferential basis,
- ii. Allotment 1,46,52 equity shares of Rs. 5/-each at a premium of Rs. 58.30 per share to GMKH Automation BV., Netherlands against acquiring the entire business of M/s. Cargomate International B.V. for consideration other than cash basis.
- iii. Allotment of 2,16,884 equity shares of Rs. 5/- each at a premium of Rs. 58.30 per share to Skyvest International Ltd, Singapore against acquiring entire business of M/s. Comex Frontier Pte. Ltd, Singapore for consideration other than cash basis.

During the year under review, the Authorized Share Capital of the company was also increased from Rs. 25 Millions to Rs. 35 Millions.

DIVIDEND

In view of the Company's commendable performance, your Directors are pleased to recommend for approval of the shareholders a dividend of Rs. 0.75 per equity share on 36,177,649 equity shares in respect of financial year 2005-06. The dividend will entail an outflow Rs. 30.94 Millions including tax on dividend.

TRANSFER TO RESERVES

The Company proposes to transfer Rs.2.09 million to the General Reserve out of the amounts available for appropriations. An amount of Rs. 79.34 Millions is proposed to be retained in the profit and loss account.

BUSINESS PERFORMANCE

i. Result of Operations

During the financial year 2005-2006, your Company achieved strong business growth, and was successful in delivering high value to customers. During the year under review your company acquired UK Major Transport & Logistics, division of UK listed Company and Comex Frontier Pte.Ltd, Singapore. Your company continues to grow both organically and inorganically and shall continue the same in future also.

ii. Revenues

Total income in financial year 2005-06 is Rs. 244.04 Millions (Previous year Rs. 171.17 Millions) and Rs. 942.18 Millions as per the Consolidated Accounts (previous Year Rs. 212.52 Millions).

Operating Profit at Rs. 60.45 Millions (previous year Rs. 39.35 Millions) and Rs. 127.55 Millions as per Consolidated Accounts (previous year Rs.59.96 millions) Profit after tax is Rs. 41.89 Millions or 17.17% of total income (Rs. 53.86 Millions or 5.70% of total income as per Consolidated Accounts) and for the Previous year Rs. 28.26 Millions amounting to 16.51% of total income (Rs. 41.46 millions or 19.14% of total income as per Consolidated Accounts).

With the acquisitions of UK Major Transportation and Logistics Solutions Company and Comex Frontier, your company became the market leader with large international client base including majority of the top largest Transportation & Logistics companies of the world, with increased product offerings to the clients and increased clients base across the globe. Your company continues to grow towards becoming the Industry leader in this domain, leveraging its excellence in technology, domain and processes.

Europe has increased to be the major contributor to consolidated revenues for the year ended March 31, 2006 with nearly 64% of total consolidated revenues. North America, Asia and India contributing 32%, 3.5%, 0.05% respectively.

We continue to get 80% of revenues from existing customers. We added 5 new clients during the year and 220 customers through acquisition of companies, that

included some of the Fortune 1000 companies, including some Logistics and Transportation majors.

We continue adding space with 15,000 sq.ft additional space at Cyber Towers, Madhapur, Hyderabad office. The total space available space now stands at 33,000 sq.ft. The company has incurred capital expenditure of Rs. 20.21 million for infrastructure & facilities, Rs. 265 million towards acquisition and overseas office set-up. The company has incurred Rs. 28.30 million on R&D expenses (Rs. 15.50 million previous year).

iii. Liquidity

The Company has raised Rs. 451.80 Million (approx.) as debt through its Subsidiary in Netherlands towards acquisition of UK Major T&L division. Your company continues to generate cash from operations and been able to manage working capital requirements and had cash equivalents of Rs. 382.80 Million as on March 31, 2006. These funds have been invested in fixed deposits and liquid mutual funds.

ACQUISITIONS

During the year, the Company made the following international strategic acquisitions towards attaining its goals of being global leader in logistic companies

i. Acquisition of DCS Transport & Logistics, a division of DCS Plc Group:

Your Company through its Wholly Owned Subsidiary Four Soft B V in Netherlands acquired DCS Transport and Logistics, a Division of DCS Group Plc. a UK headquartered Transport & Logistics Software solutions with operations in UK, Netherlands, France, Germany and USA, for approximately Rs 850 million in all cash deal. The size of cumulative business volumes of the operations is approximately Rs 1200-1250 million.

DCS T&L division was an established global player with strong presence in the European with almost 20% market share.

The acquisition of DCS gives Four Soft the size of a global player and for all existing and potential customers a local partner to cater to their needs with strong local teams. This acquisition establishes Four Soft as the market leader with large international client base including majority of the top twenty Transportation & Logistics companies of the world.

ii. Acquisition of Comex Frontier

Your Company acquired Comex Frontier Pte Ltd, a Singapore based Software Solutions provider and MY Comex Sdn Bhd, a Malaysian eCommerce solutions provider for Logistics.

This acquisition takes Four Soft a step closer to its long term objective of providing seamless enterprise solutions

for the highly distributed Supply Chain Execution Domain. The synergy of similarity in technology, domain expertise and strong customer relationships combined with Four Soft's technological prowess and proven delivery capability ensures that the high quality solution reaches the customers in quick time. This acquisition enables Four Soft consolidate its operations in Asia Pac through increased reach into new markets of Japan and China and also penetrate new verticals like distribution.

SUBSIDIARIES

Your Company have four subsidiaries; Four Soft LLC, USA, Four Soft B.V, Netherlands, Four Soft Singapore Pte Ltd. and Four Soft Malaysia Sdn Bhd. and four step down subsidiaries Four Soft Netherlands B.V, NL Four Soft UK Ltd., UK, Four Soft Germany GmbH, Germany, Four Soft USA Inc. USA.

i. Four Soft LLC, USA

Four Soft LLC, was incorporated as a 100% wholly owned subsidiary in 2001, to address implementation projects for US customers. The company has generated revenues of Rs. 14.31 million, with a net loss of Rs. 0.92 million.

In September' 2005, H.B.Ulrich Inc. was acquired and renamed as Four Soft USA Inc., during the year the company serviced 57 clients and generated revenues of Rs. 99..50 million, with a net loss of Rs. 8.30 million. There are 41 employees working in both the US entities.

ii. Four Soft B.V Netherlands

In September' 2004, the company acquired CargoMate international B.V and the same was renamed as Four Soft B.V. The company generated revenues of Rs. 58.00 million, with a net loss of Rs. 15.00 million, for the year 31st March, 2006. The company has serviced 40 clients and has 12 employees working from Netherlands.

During the year, the company acquired the DCS T&L division with four entities for a 100% cash consideration of US\$ 19.00 million, the acquisition was part financed through debt funding of GBP 5.72 million from leading Indian bank, based of UK.

The Company along with all its step down subsidiaries Four Soft UK Ltd., Four Soft Netherlands B.V, Four Soft Germany GmbH and Four Soft USA Inc., for the seven months period have generated revenues of US\$ 11.61 million and Net Profit of US\$ 0.76. There are a total of 175 customers serviced by the subsidiaries and 180 associates working from UK, NL, Germany and USA.

iii. Four Soft Singapore Pte. Ltd

In May' 2005 the company acquired Comex Frontier Pte Ltd. (renamed as Four Soft Singapore Pte Ltd.) The company has serviced 42 customers and has 23 employees working from Singapore. The Company generated revenues of SG\$ 1.65 million, with a net loss of SG\$ 1.62 million. The company is expected to break even in next 12 months period.

iv. Four Soft Malaysia Sdn Bhd

In May 2005, the company acquired MY Comex Sdn. Bhd. (renamed as Four Soft Malaysia Sdn Bhd.). The company generated revenues of RM 0.38 million, with a net loss of RM 0.09 million. The Company is expected to break even in next 12 months period.

INDUSTRY SOLUTIONS

At present your company offers solutions in the areas of Freight forwarding industry, Customs brokerage, Contract Logistics, Shipper Logistics and Services. Products in Freight forwarding industry includes eTrans, iLogistics, eSupply and eTrans SME. Services include Consulting, Software Development and System Integration & Implementation.

The Financial Reports of all the subsidiaries of your Company viz. Four Soft LLC, USA, Four Soft B.V Netherlands, Four Soft Singapore Pte Ltd, Four Soft Malasia Sdn Bhd have been attached to this report as required under section 212 of the Companies Act, 1956

HUMAN RESOURCES

Four Soft as a growing Indian Multinational, fosters innovation, talent and growth in every associate joining the company. The company's human resources department has processes for recruitment, performance measurement, talent retention, all-round employee development. We believe that employee talent is nurtured with passion and enjoyable workplace. During the year the company has added 313 employees increased to 583 staff, 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 a successful retention option. Your company has been successful in transitioning acquisitions, thus managing key people challenges through process maturity and domain expertise. We have successfully merged different geographic cultures and maintain the knowledge management.

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.

QUALITY

Product Development and delivery are critical to any software product and solutions company, thus improving customer satisfaction. Continuous Quality improvement and adherence to quality standards and processes are important to remain competitive in the global market. During the year, your company has focused on improving quality in every process, including

project delivery, product development, Testing and implementation. Your company is in the process of performance improvement through various measures and initiatives, including CMMi and Six Sigma processes.

CORPORATE GOVERNANCE

As good governance incentive, Four Soft continues to be improving on complying and provide additional disclosures apart from complying with recommended SEBI guidelines on Corporate Governance. The Practicing Company Secretary Certificate on compliance with the mandatory requirements of the Corporate Governance requirements is annexed to this report.

The Whistleblower policy, code of conduct for Senior Officers and Executives, has been instituted during this year. The company has internal controls and documented procedures, continuing to ensure compliance with the said recommendations.

DIRECTORS

As per Article 88 of the Articles of Association, Mr. Walter J Sousa, and Mr. K.V. Vishnu Raju retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for reappointment.

Mr. M.M. Pallam Raju resigned from the board, due to pre-occupation. We place on record our deep appreciation for the valuable services rendered by Mr. Pallam Raju during his tenure on the Board and various other committees. During the year Mr. Sarath Naru was appointed as an Additional Director of the company. His appointment requires approval of the shareholders at the ensuing general meeting.

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.

A SOCIAL FACE OF FOUR SOFT

Lots of people want to do something good, but there are a very few organizations that can make this possible. And, Four Soft is one among these few. Four Soft in association with Nandi, an organization for rehabilitation of street children, has acquired one school by making contribution. The strength of the students and attendance has improved and parents of this neglected rural locality are now proud to send their children to this school.

DIRECTOR'S RESPONSIBILITY STATEMENT AS REQUIRED UNDER SECTION 217 (2AA) OF THE COMPANIES ACT, 1956

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 to 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.Batliboi & 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 and free access to the members of the audit committee to discuss any matter of substance.

EMPLOYEE WELFARE TRUST

In 2003, the company has issued 11,70,200 shares to the Four Soft Ltd. Employee Welfare Trust (the Trust) for the benefit of the employees under the Employee Stock Option Plan 2003. During the year the trust, has granted 618,175 options to the employees as per the ESOP Scheme 2003 at an exercise price of Rs. 5/- per share. With a progressive vesting over a period of three years from date of grant. As of March 31, 2006 the trust has 1,094,837 shares which are unutilized. These shares have been irrevocably issued to the trust and are to be used for the benefit and welfare of the employees.

Outstanding at the beginning of the year	460,828
Granted during the year	618,175
Forfeited during the year	60,032
Exercised during the year	75,363
Expired during the year	Nil
Outstanding at the end of the year	943,608
Exercisable at the end of the year	Nil
Employees receiving 5% and more during the year	Nil
Diluted EPS, pursuant to issue of shares in accordance with AS 20	1.24

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.

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 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 lakhs per financial year or rupees two lakhs 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.

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.

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 Governments of India, UK, Netherlands, USA and Singapore, 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

P. Srikanth Reddy
CEO & Managing Director

P. Mangamma
Director

Place : Hyderabad
Date : 26th August, 2006

Annexure to the Directors' Report

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. As the facility is located in Cyber Towers, 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 not material.

2. Research and Development

a) Four Soft Ltd. is an Enterprise solutions provider, with technology prowess on most advanced technology tools and trained manpower for R&D activities. The company continues evaluating new technologies and methodologies for implementing the same with future benefit to customers. The current technologies the company is evaluating some of the following technologies and architecture, Spring, Hibernate, SOA (Web-services, BPEL, Master Data Management, Enterprise Service Bus), Compliant with Third Party Application Servers, Real Time Data Warehousing, Portals, Business Intelligence, EJB 3.0 etc. These technology tools will help product enhancement and integration with other applications on different technologies, thereby enhancing the quality, productivity and customer satisfaction through continuous innovation.

b) Specific R&D activities at your company

Your company spent Rs. 28.29 Million in current year (Rs. 15.51 Million previous year), which includes amount spent on product enhancement through adopting new technology methods such as Spring Hibernate frame work and other innovative technologies mentioned in para (a), for development and BIG IP load balancer and Webload 1000 users load testing tool for testing High availability, scalability and performance with continues improvement in product functionality, scalability and robustness. Other expenses incurred on methodologies and new technologies, which help our company in improving its quality and service capability.

c) Benefits derived as a result of R&D activity

The company's R&D activity continuously provides technical innovation, improves the product technical quality and streamlines the process flow. The company R&D process supports various technology and applications interfacing our products. With the introduction of new Model Driven Highly Productive application Framework, productivity has increased to 200 %. We have world class Infrastructure and resources for testing performance and scalability of

products tested for 1000 concurrent users in customer's simulated environment.

d) Future plan of action

Our 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 this year. We are Introducing Services Oriented concept at core component level to integrate application at operational level to other ERP applications. Evaluating BPEL and portal technologies to achieve process orchestration and UI level integration. Enterprise service Bus and Messaging Integration and also JEE5 technologies. Innovations in process design areas and adopting new design tools to support new standards.

3. Technology absorption, adaptation and innovation

Your company always in the forefront in using cutting edge technology tools and methodologies in its products and solutions. The Company has technology alliance with Oracle, Sun Microsystems and IBM Software for continues technology improvement. The two major initiatives on technology front are Knowledge Management and Collaborative Technology.

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 98% of its revenues from exports; your company has direct marketing offices in North America, Europe and Asia-Pacific regions. During the year the company has set up offices in North America, UK, Netherlands, Germany, France and Japan. The Company would continue to focus more such offices in other countries in UK, European, US and Asia Pacific with sales support staff providing services to large international clients.

b) Foreign exchange earned and used for the year ended March 31' 2006

	(Rs. in Millions)	
	2006	2005
Gross Earnings	218.39	157.29
Outflow (including capital goods and imported software)	35.19	38.63
Net Foreign Exchange Earnings	183.20	118.62
NFE/Gross Earnings %	83.88	75.41

For and on behalf of the board of Directors

P. Srikanth Reddy
CEO & Managing Director

P. Mangamma
Director

Place : Hyderabad

Date : 26th August, 2006

ANNEXURE TO DIRECTORS' REPORT ON CORPORATE GOVERNANCE

forming part of Director's Report of Four Soft Ltd. for the year ended March 31, 2006 pursuant to Annexure I C (Mandatory Requirements) read with Para VI of Clause 49 of the Listing Agreement with the Stock Exchanges in India.

Corporate Governance Philosophy

Companies across the world have adopted and practiced the best concept of Corporate Governance, in order to protect stakeholder's interest, including shareholders, employees, customers, supplier's vendors. Globally companies have adopted Corporate Governance to bring transparency, accountability and fairness in business practices.

Four Soft in its continuous initiative and drive towards good governance and accountability, has uphold the corporate governance through ethical business practices, integrity and transparent business operations. Four Soft has full support of the Board and employees in the Corporate Governance initiative.

Your directors place on record the Corporate Governance report for the year 2005-06.

A. Board Composition

I. Size and composition of the board

The Company has optimum combination of non-executive directors with six Independent Non-Executive Directors. The Chairman is a non-executive director and the number of Independent Directors is more than 50% at any point of time. All independent non-executive directors comply with the requirement of Independent Director definition of Clause 49 of the Listing Agreement entered into with the Stock Exchanges.

The names and categories of the Directors on the Board, their attendance at Board Meetings held during the year and the number of Directorships and Committee memberships held by them in other companies is given below.

Name	Category	Number of Board meetings		Whether attended last AGM	No. of Directorships in other Companies			No. of Committee Positions held in	
		Held	Attended		Indian		Foreign Companies	This Company	Other Companies
					Public Companies	Private Companies			
Suresh C. Rajpal	Non- Executive Chairman	9	-	Yes	2	3	Nil	-	-
Palem Srikanth Reddy	CEO & Managing Director	9	6	Yes	2	2	9	-	-
Koh Boon Hwee	Non-Executive and Independent Director	9	1	No	Nil	Nil	11	1	-
Walter J Sousa	Non-Executive and Independent Director	9	1	No	Nil	Nil	1	-	-
Douglas Terence Ash	Non-Executive and Independent Director	9	1	No	Nil	Nil	3	-	-
K.V. Vishnu Raju	Non-Executive and Independent Director	9	9	Yes	7	1	Nil	3	-
Sarath Naru *	Non-Executive and Independent Director	6 #	2	No	3	6	Nil	2	-
M.M. Pallam Raju **	Non-Executive and Independent Director	9	4	Yes	1	Nil	Nil	2	-
P. Mangamma	Non-Executive	9	9	Yes	Nil	1	Nil	1	-
K.V. Ramakrishna ***	Independent & Nominee Director	3 #	3	NA Appointed after AGM	1	Nil	Nil	2	-

* Resigned as Nominee Director on 26.09.2005 and Re-appointed as Independent Director on 30.01.2006

** Resigned as Independent Director on 31.01.2006

*** Appointed as Nominee Director on 11.10.2005

Details provided during the tenure of respective director

2. Definition of Independent Director

- i. 'independent director' shall mean a non-executive director of the company who:
 - a. apart from receiving director's remuneration, does not have any material pecuniary relationships or transactions with the company, its promoters, its directors, its senior management or its holding company, its subsidiaries and associates which may affect independence of the director;
 - b. is not related to promoters or persons occupying management positions at the board level or at one level below the board;
 - c. has not been an executive of the company in the immediately preceding three financial years;
 - d. is not a partner or an executive or was not partner or an executive during the preceding three years, of any of the following:
 - i. the statutory audit firm or the internal audit firm that is associated with the company, and
 - ii. the legal firm(s) and consulting firm(s) that have a material association with the company.
 - e. is not a material supplier, service provider or customer or a lessor or lessee of the company, which may affect independence of the director; and
 - f. is not a substantial shareholder of the company i.e. owning two percent or more of the block of voting shares.

3. Particulars of Directors appointed / reappointed during the year

The Board of Directors approved the appointment of Mr. K.V.Ramakrishna as additional Director, being Nominee Director of Kotak SEAF Fund, pursuant to the amendment of article 97A in E.G.M dated 09/09/2005. at their board meeting held on 14.10.2005 w.e.f 11.10.2005 and shall hold office for a period of two years or till the Kotak SEAF shareholding falls below 7% of total capital. Mr. Sarath Naru is appointed as additional director, w.e.f 30.01.2003 at the Board meeting held on 30.01.2006. Mr. Sarath Naru will retire at the ensuing general meeting of the Company.

As per provisions of Article 88, Mr. Walter J. Sousa and Mr. K.V.Vishnu Raju, directors retire at the ensuing general meeting and being eligible offer themselves for re-appointment for consideration of shareholders.

During the financial year 2005-06, Mr. M.M Pallam

Raju, ceased to be a director with effect from 31.01.2006.

4. Board Procedure

The Board of Directors of the Company should meet at least 4 times a year, with a maximum time gap of four months between any two meetings. The draft agenda papers are sent one week in advance, to invite any suggestions on the agenda items. The relevant agenda materials are circulated to the Board just before the Board Meeting.

5. Information supplied to the Board

The Board of directors are required to take decision on various issues relating to operations, financials whenever applicable and materially significant. The Board is presented with necessary presentations, financials, marketing updates, compliance reports and other related material covering business and general operations of the Company at scheduled quarterly board meetings. The processes for Board and Committee meetings provide the necessary review, follow-up and update on items discussed.

6. Director's Membership in board / committees of other companies

In terms of the Listing Agreement, none of the Directors of the Company were members in more than 10 committees nor acted as Chairman of more than five committees across all companies in which they were Directors.

B. Board Meetings

As per the Listing Agreement, the Board of Directors must meet at least four times a year, with a maximum gap of four months between any two meetings.

During the financial year 2005-06, there were 9 board meetings held during the year ended March 31, 2006. These were 26.05.2005, 27.06.2005, 30.07.2005, 03.08.2005, 13.08.2005, 10.09.2005, 14.10.2005, 29.10.2005 and 30.01.2006. The gap between two meetings did not exceed four months.

1. 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 except remuneration to the Managing Director and Chief Executive Officer of the Company.

2. Independent directors' meeting

As a company policy, the independent directors of the board are required to regularly update them on all business-related issues and new initiatives. The

Managing Director and other senior management personnel make such presentations on various relevant issues.

C. Board Committees

The Company presently has three committees - the Audit Committee, Remuneration Committee, Investor Grievance Committee. The Audit committee consists of all three independent directors, Remuneration committee and Investor Grievance Committee consist of majority independent directors. The Chairman of the Board in consultation with the Company Secretary decides the frequency of the committee meetings. Recommendations of the committee are submitted to the full board for approval.

I. Audit Committee

Brief Description of the terms of reference of the Audit Committee.

- i. The Audit committee reviews, acts and reports to Board of Directors.
- ii. Auditing and Accounting matters, including appointment of statutory and internal auditors.
- iii. Compliance with legal and statutory requirements.
- iv. Integrity of company financial statements, scope of annual audit, fees paid to statutory and internal auditors.
- v. Statement of related party transactions.
- vi. Performance of Internal audit functions, accounting standards.

The financial results are sent to the audit committee and the Board at the same time, the Audit committee reviews the un-audited quarterly, half-yearly and audited annual financial results, with the management before submitting to the Board for its approval. The Chairman of the Audit Committee is also present at the General Body Meeting.

The detailed charter of the Committee as per the revised Clause 49 of the Listing Agreements with the Stock Exchanges read with Section 292A of the Companies Act, 1956 is posted at our website www.four-soft.com/investors/corporategovernance.html.

The audit committee comprises of three independent and non-executive directors. All the members of the Audit Committee are financially literate and the Chairman is financial management expertise.

K.V. Vishnu Raju	: Chairman
K.V. Ramakrishna	: Member
M.M. Pallam Raju*	: Member
Sarath Naru **	: Member

* Ceased to be member with effect from 31.01.2006

** Appointed with effect from 30.01.2006

Attendance at the Audit Committee Meeting:

The audit committee met four times during the year 2005-06.

Name	Number of meetings during the year	Number of meeting attended during the year
K.V.Vishnu Raju	4	4
K.V.Ramakrishna	4	4
M.M.Pallam Raju	4	3

2. Remuneration Committee

The brief terms of reference of Remuneration Committee is

- (a) to determine salaries, benefits, and stock option grants to Directors of the Company.
- (b) to recommend ESOP trust the ESOP plan drawn from time to time.

The present Remuneration committee comprises of two Independent and a non-executive director, independent director being majority.

Name of Director

Name of Director		
Mr. Koh Boon Hwee,	-	Chairman
Mr. K.V. Vishnu Raju,*	-	Member
Mrs. P.Mangamma,	-	Member
Mr. Suresh C. Rajpal **	-	Member

* Appointed as member with effect from 27.05.2006

** ceased to be member with effect from 27.05.2006

Name	Number of meetings during the year	Number of meeting attended during the year
Koh Boon Hwee	1	1
K.V.Vishnu Raju	1	1
P. Mangamma	1	1

Executive directors are paid remuneration as per limits specified under Schedule - XIII of Companies Act, 1956. The remuneration payable is always recommended by Remuneration Committee and is approved by the Board and Shareholders of the Company.

Details of remuneration paid to Palem Srikanth Reddy, CEO & MD of the company is specified elsewhere in the annual report.

3. Share Transfer and Investor Grievance Committee

The Investor Grievance Committee administers the following:

- Transfer, Transmission of shares
 - Issue of Duplicate share certificates, as and when required
 - Shareholders / Investors Grievances from time to time.
- a. Members of the Committee:

The Investor grievance committee consists of following Independent directors.

Mr. Sarath Naru**	-	Chairman
Me. M.M. Pallam Raju*	-	Chairman
Mr. K.V. Vishnu Raju	-	Member
Mr. K.V. Ramakrishna	-	Member

* appointed with effect from 30.01.2006.

** Ceased with effect from on 31.01.2006.

- b. Name and Designation of Compliance Officer:
Mr. Naresh Kumar Patro, Company Secretary
- c. Status of Share transfers as on the date of the Report
- d. There are no pending share transfers as on the date of this report:.
- e. Details of Investor Correspondence/ grievances for the year 2005-2006

Received	Redressed	Pending
78	78	NIL

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 dematerialization mode is 84.2% as against 75% previous year.

D. General Body Meetings

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

Financial Year	Date	Time	Venue
2002-03	22-05-03	2.00 PM	5Q1 A3, Cyber Towers, HITEC City, Madhapur, Hyderabad-81
2003-04	03-09-04	9.30 A.M	FAPCCI, Red Hills, Hyderabad
2004-05	27-08-05	9.30 A.M	Chip Auditorium, Cyber Towers, Hitech City, Hyderabad-33

One Extra-Ordinary General Meeting has been held during the financial year on 9th September, 2005 at Chip Auditorium, Cyber Towers, Hitech City, Hyderabad-33.

E Disclosures

1. There are no transaction of materially significant related party transactions that may have potential conflict with the interests of the Company. Non of the independent directors have any pecuniary material relationship with the company for the year ended March 31, 2006.
2. In the opinion of the Board, during the year March 31, 2006, transactions between the Holding Company and its subsidiaries have been done at arms length and are duly recorded in the Register of Contracts maintained by the Company pursuant to Section 301 of Companies Act, 1956.
3. The Company has complied with the requirements of the Stock Exchange or SEBI on matters related to Capital Markets as applicable.
4. The company has adopted a whistle blower policy under the code of ethics, whereby employees are given free access to Audit committee to report violation of code of conduct or ethics policy, actual or suspected fraud to the Chairman of Audit Committee. During the financial year, no personnel of the Company has been denied access to the Audit Committee.
5. Your company has complied with all the mandatory requirements of the Clause 49 of the Listing Agreement. The details of these compliances have been given in the relevant section of this report.

F Communication to Shareholders

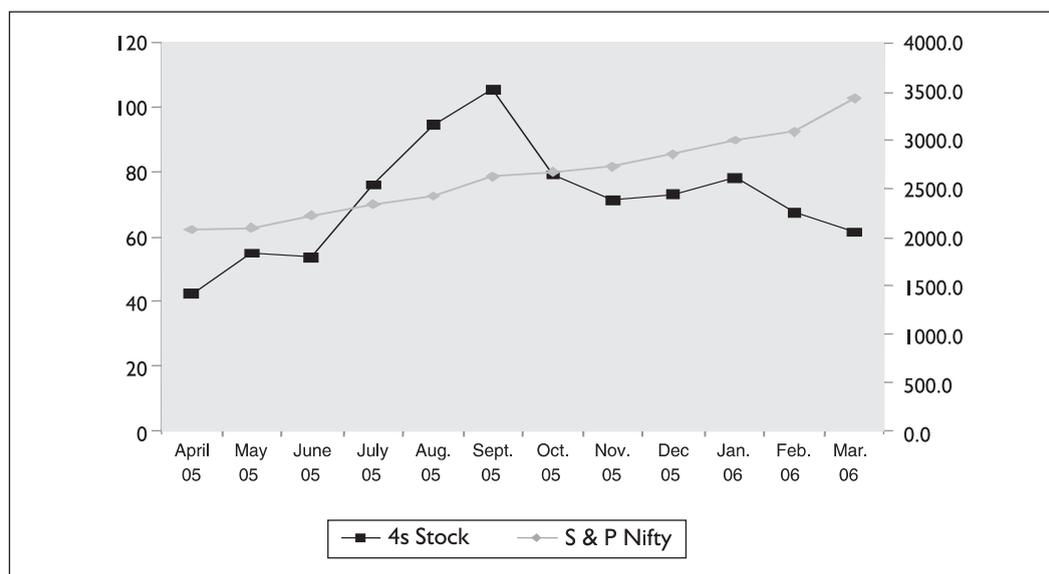
The quarterly un-audited / audited financial results of the Company are published in major newspapers including, Business Standard (national news paper) and in Andhra Bhoomi (vernacular news paper). The complete quarterly un-audited / un-audited financial statements, press releases etc., are posted on the company's website, at www.four-soft.com and shall be sent in such a form so as to enable the stock exchange to be put on its own website. Any official news releases are also displayed on the website. All presentation made to analyst and institution investors are displayed on the Company's website.

G. General Shareholder Information

1. **Date, time and venue of 7th AGM** 29th September, 2006 at 2.30 PM. 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** 26th September, 2006 to 29th September, 2006 (both days inclusive)
4. **Dividend Payment Date** The dividend on equity shares recommended by the Board, when declared at the meeting will be paid on or before 29th October, 2006; to those members whose names appear in the Register of Members, after giving affect to the transfer in physical form lodged with M/s. Karvy Computershare Pvt. Ltd. Registrar and share Transfer Agents on or before 25th September, 2006. In respect of shares held in electronic form, to those deemed members whose names appear in the statement of beneficial ownership furnished by National Securities Depository Ltd. (NSDL) and Central Depository Services (I) Ltd. as at opening hours of 26th September, 2006.
5. **Listing on Stock Exchanges** National Stock Exchange of India Ltd. (NSE) and the The Stock Exchange, Mumbai (BSE)
Listing fees have been paid for 2005-06 have been paid to both the stock exchanges.
6. **Stock Code** Bombay Stock Exchange Ltd., Mumbai : 532521
National Stock Exchange of India Ltd. : Four Soft
7. **Electronic Connectivity** National Securities Depository Ltd. & Central Depository Services (India) Ltd.
8. **Stock Market Data**

Monthly closing high and low quotations of shares traded on National and Mumbai Stock Exchanges for the year 2005-06.

Year 2005 - 06 Month	NSE			BSE		
	HighRs.	Low Rs.	No.of Shares	High Rs. Traded	Low Rs.	No. of Shares Traded
April	42.50	32.10	3505595	42.30	33.15	2423579
May	54.95	35.15	11326873	54.80	35.30	9941497
June	53.90	40.70	2052894	53.85	41.05	2458424
July	76.20	43.05	26755265	85.00	43.00	22896317
August	94.80	69.00	45146239	94.50	68.95	27661877
September	105.90	69.10	50234449	105.90	67.25	23363820
October	79.45	54.10	7614829	79.70	54.00	3925820
November	71.40	56.10	6980827	71.50	56.00	3846980
December	73.25	63.15	8009613	73.30	63.30	5127394
January	78.55	66.00	10629617	79.85	65.55	6479149
February	67.60	55.25	2768117	67.00	55.85	1621414
March	61.50	51.50	4251531	61.30	49.35	3124749



9. Registered Office

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

10. 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

11. Share Transfer System

The Board has delegated the Power of Share Transfer to Registrar and Share Transfer Agents to Karvy Computershare Pvt. Ltd., Registrars of the Company at the address given above.

The turnaround time for completion if transfer of shares in physical form is generally less than 7 days from the date of receipt, if the documents are clear in all respects.

Shares sent for physical transfer are affected after approval by the share transfer committee of the company.

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.

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
Vice President (Finance & HR)
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

12. Distribution of shareholding as on March 31, 2006.

No. of Equity shares held	No. of Shareholders	% of Shareholders	Amount of Shares	% of Total Amount
Upto - 5,000	21317	84.65	18913635.00	10.4559
5,001 - 10,000	1970	7.82	8384635.00	4.6352
10,001 - 20,000	901	3.58	7187680.00	3.9735
20,001 - 30,000	302	1.20	3938390.00	2.1772
30,001 - 40,000	158	0.63	2911520.00	1.6095
40,001 - 50,000	151	0.60	3662135.00	2.0245
50,001 - 100,000	198	0.79	7590445.00	4.1962
100,001 > Above	185	0.73	128299805.00	70.9276
Total	25182	100	180888245.00	100.000

H Other Information**1. Unclaimed Dividends**

Under the Companies Act, 1956, dividends, that are unclaimed for a period of seven years is required to be transferred to the Investor Education and Protection Fund administered by the Central Government.

We provide below a table providing for the dates of declaration of dividend and the 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)	Unclaimed AmountRs.	Due date for transfer to IEPF
2002-03	22nd May' 2003	2,671	29th June' 2010
2003-04	3rd September' 2004	319,189	10th October' 2011

After completion of seven years, as per the above table, no claims shall lie against the said Fund or the Company for the amounts of dividend so transferred nor shall any payment be made in respect of such claims.

2. Electronic Clearing Service / Mandates /bank details

The members may please note that Electronic Clearing service details contained in the Benpos downloaded from NSDL and CDSL would be reckoned of dividend. Shareholders desirous of modifying those instructions would write to their respective Depository participants.

3. Nomination in case of shares held in physical form

The companies Act, 1956 facilitates for making nomination by shareholders in respect of their holding of shares. Such nomination greatly facilitates transmission of shares from the deceased shareholder to his/her nominee without having to go through the succession certificate/Probate of Will process.

4. Secretarial Audit

A qualified practicing Company Secretary has carried out quarterly secretarial audit to reconcile the total admitted capital with National Securities Depository Limited (NSDL) and Central Depository Services (India) Ltd. (CDSL) and the total issued and listed capital. The audit confirms that the total /paid up capital is in agreement with the aggregate total number of shares in physical form and the total number of dematerialized shares held in NSDL and CDSL.

5. Compliance

The Certificate dated 26.07.2006 obtained from Mr. A.G.Ravindranath Reddy, Practising Company Secretary is given at relevant page in annual report.

6. Code of Conduct

In pursuit of outlining the company's business policies and values and setting the standards for professional and ethical behavior of all the employees in the company, the Board of Directors of the Company has laid down the Code of Business Conduct and Ethics. The same is available on Company's website at www.four-soft.com/

DECLARATION REGARDING COMPLIANCE BY BOARD MEMBERS AND SENIOR MANAGEMENT PERSONNEL WITH THE COMPANY'S CODE OF CONDUCT

As CEO and Managing Director of the Company, as required under Clause 49 (D) (ii) of the Listing Agreement with Stock Exchange in India, I hereby declare and confirm that the Board Members and senior management team of the Company have affirmed the compliance with the Business Code of Conduct and Ethics as on March 31, 2006

Place : Hyderabad
Date : 26th August, 2006

P. Srikanth Reddy
CEO & Managing Director

Note : For the purposes of this declaration, Senior Management Team means the Chief Operating Officer, the Company Secretary and employees in the executive Vice President cadre as on March 31, 2006

DETAILS OF ESOP OPTIONS

Disclosures in compliance with Clause 12 of SEBI (ESOP and ESPS) Guidelines, 1999 as amended are set below as on 31st March, 2006.

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	1,170,200														
2.	No. of Options Granted	618,175														
3.	Pricing Formula	Price of Rs. 5/- per share														
4.	Options vested as on March 31, 2006	214,055														
5.	Options exercised during the year	75,363														
6.	Options lapsed during the year	60,032														
7.	Grant Price	Rs. 5/-														
8.	Total No. of options in force as on 31st March'05	214,055														
9.	Variation of terms of option	Nil														
10.	Money realized by exercise of options	376,815														
11.	Grant details to members of senior management team - Biju S. Nair	7,735														
12.	Employees holding 5% of more of total options granted during the year	Nil														
13.	Identified employees, who were granted options during the financial year exceeding 1% of issued capital	Nil														
14.	Diluted EPS as per Accounting Standard 20	1.24														
15. 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. 1,508,513														
(iii)	The impact of this difference on profits and on EPS of The company	<table border="0"> <tr> <td>PAT</td> <td>Rs. 41,898,231</td> </tr> <tr> <td>Add: Employee Stock Compensation under intrinsic value method</td> <td>Rs. 11,213,909</td> </tr> <tr> <td>Less: Additional employees Compensation cost based on Fair value</td> <td>Rs. 12,722,422</td> </tr> <tr> <td>Adjusted Pat</td> <td>Rs. 40,389,718</td> </tr> <tr> <td>Adjusted EPS</td> <td></td> </tr> <tr> <td>Basic</td> <td>Rs. 1.26</td> </tr> <tr> <td>Diluted</td> <td>Rs. 1.24</td> </tr> </table>	PAT	Rs. 41,898,231	Add: Employee Stock Compensation under intrinsic value method	Rs. 11,213,909	Less: Additional employees Compensation cost based on Fair value	Rs. 12,722,422	Adjusted Pat	Rs. 40,389,718	Adjusted EPS		Basic	Rs. 1.26	Diluted	Rs. 1.24
PAT	Rs. 41,898,231															
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Adjusted Pat	Rs. 40,389,718															
Adjusted EPS																
Basic	Rs. 1.26															
Diluted	Rs. 1.24															
(iv)	Weighted average exercise price and fair value of Stock Options granted:															
	<table border="1"> <thead> <tr> <th>Stock options granted on</th> <th>Weighted average exercise price (Rs.)</th> <th>Weighted average fair value (Rs.)</th> <th>Closing market price at NSE on the date of grant (Rs.)</th> </tr> </thead> <tbody> <tr> <td>14/10/2005</td> <td>5/-</td> <td>65.58</td> <td>67.75</td> </tr> </tbody> </table>	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.)	14/10/2005	5/-	65.58	67.75							
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.)													
14/10/2005	5/-	65.58	67.75													
(v)	Description of the method and significant assumptions : Used during the year to estimate the fair value of the Including the following weighted average information	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.														

- (vi) Description of the method and significant assumptions : The Black Scholes option pricing model
Used during the year to estimate the fair value of the Options, including the following weighted average Information 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.
- (vii) The main assumptions used in the Black Scholes option pricing model during the year were as follows:

		2006	2005
Risk free interest rate	:	7.50%	7.00%
Expected life of options from the date(s) of grant	:	1 to 3 Years	1 to 3 Years
Expected volatility	:	0.642	0.667
Expected Dividend Yield	:	1.06%	1.27%

For and on behalf of the board of Directors

Place : Hyderabad
Date : 26th August, 2006

P. Srikanth Reddy
CEO & Managing Director

P. Mangamma
Director

COMPLIANCE CERTIFICATE

To
The Members of
Four Soft Ltd.
Hyderabad

I have examined the compliance of conditions of Corporate Governance by Four Soft Limited, for the year ended 31st March' 2006 as stipulated in Clause 49 of the Listing Agreement of the company with the Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. My 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 my opinion and to the best of my information and according to the explanation give to me, I certify that the Company has complied with the conditions of Corporate Governance as stipulated in the Listing Agreement. I state that no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Shareholder's Committee.

I further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

Place : Hyderabad
Date : 26th July, 2006

Sd/-
A.G. Ravindranath Reddy
FCS No. 1997 CP No. 1932

AUDITORS' REPORT

To

The Members of Four Soft Limited

1. We have audited the attached Balance Sheet of Four Soft Limited as at March 31, 2006 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. 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;
 - ii. 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;
 - iii. The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - iv. 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.
 - v. On the basis of the written representations received from the directors, as on March 31, 2006, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
 - vi. 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, 2006;
 - (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.

For S. R. BATLIBOI & ASSOCIATES
Chartered Accountants

Per
Pankaj Chadha
Partner
Membership No.: 91813

Place : New Delhi
Date : June 15, 2006

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) All fixed assets were physically verified by the management in the previous year in accordance with a planned programme of verifying them once in two years which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. As informed, no material discrepancies were noticed on such verification.
- (c) There was no substantial disposal of fixed assets during the year.
- (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) The Company has granted loan to two bodies corporate covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs. 218,622,574 and the year- end balance of loans granted to such parties was Rs. 218,622,574.
- (b) In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions for such loans are not prima facie prejudicial to the interest of the Company.
- (c) In respect of loans granted, repayment of principal amount and interest thereon was not due during the year.
- (d) There is no overdue amount of loans granted to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.
- (e) 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. Accordingly the clause (f) and (g) of clause (iii) of paragraph 4(A) of the Companies (Auditor's Report) Order, 2003 as amended ('the Order') are not applicable to the Company.
- (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) (a) According to the information and explanations provided by the management, we are of the opinion that the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 that need to be entered into the register maintained under section 301 have been so entered.
- (b) In our opinion and according to the information and explanations given to us, transactions made in pursuance of such contract or arrangement exceeding value of Rupees five lakhs have been entered into during the financial year at prices which are reasonable having regard to the prevailing market prices at the relevant time, except in respect of international transactions entered into pursuant to service contracts, we are unable to comment whether the transactions were made at prevailing market prices at the relevant time, because of the unique and specialized nature of the items involved and absence of any comparable prices.
- (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, or employees' state insurance, income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty, cess have generally been regularly deposited with the appropriate authorities though there has been a slight delay in a few cases.
- (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, custom duty, 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	2,829,896	Financial year 2002-2003	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 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) We have verified that the end use of money raised by public issues is as disclosed in note 21 on schedule 17 to the attached financial statements.
- (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.

For S. R. BATLIBOI & ASSOCIATES
Chartered Accountants

Per
Pankaj Chadha
Partner
Membership No.: 91813

Place : New Delhi
Date : June 15, 2006

BALANCE SHEET AS AT 31ST MARCH, 2006

Amount in Rupees

	Schedules	As at March 31, 2006	As at March 31, 2005
SOURCES OF FUNDS			
Shareholders' Funds			
Capital	1	176,488,060	154,534,970
Reserves and surplus	2	532,688,948	261,659,499
Loan funds			
Secured loan	3	2,704,250	—
Deferred tax liability	17(5)	2,291,333	1,484,620
Total		<u>714,172,591</u>	<u>417,679,089</u>
APPLICATION OF FUNDS			
Fixed Assets			
Gross block	4	93,069,066	68,928,742
Less : Accumulated depreciation		29,031,104	17,522,719
Net block		64,037,962	51,406,023
Capital work-in-progress including capital advances		—	318,732
		<u>64,037,962</u>	51,724,755
Investments			
	5	141,221,967	90,590,164
Current Assets, Loans and Advances			
Sundry debtors	6	104,819,079	37,682,783
Cash and bank balances	7	273,411,771	305,468,216
Other current assets	8	8,755,062	359,535
Loans and advances	9	233,675,663	7,534,623
		<u>620,661,575</u>	<u>351,045,157</u>
Less: Current Liabilities and Provisions			
Liabilities	10	76,333,832	74,792,477
Provisions	11	35,466,931	1,003,360
		<u>111,800,763</u>	<u>75,795,837</u>
Net Current Assets		508,860,812	275,249,320
Miscellaneous Expenditure			
(to the extent not written off or adjusted)	12	51,850	114,850
Total		<u>714,172,591</u>	<u>417,679,089</u>
Notes to Accounts	17		

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

For S.R.Batliloi & Associates

Chartered Accountants

Per

Pankaj Chadha

Partner

Membership No. 91813

Place : New Delhi

Date : June 15, 2006

For and on behalf of the Board of Directors of Four Soft Limited

Palem Srikanth Reddy

CEO & Managing Director

P. Mangamma

Director

Naresh Patro

Company Secretary

Biju S. Nair

Vice President - Finance

Place : Hyderabad

Date : June 15, 2006

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

Amount in Rupees

	Schedules	For the Year ended March 31, 2006	For the Year ended March 31, 2005
INCOME			
Revenue from software services and products	13	218,685,155	159,433,385
Other income	14	25,352,076	11,738,488
Total		244,037,231	171,171,873
EXPENDITURE			
Personnel expenses	15	105,923,122	51,261,929
Operating and other expenses	16	77,664,222	80,434,510
Depreciation and amortisation	4	11,508,385	7,649,818
Miscellaneous expenditure written off		63,000	125,358
Total		195,158,729	139,471,615
Profit before tax		48,878,502	31,700,258
Provision for current tax		5,000,000	1,900,000
Tax for earlier years		273,558	55,135
Deferred tax		806,713	1,484,620
Fringe benefit tax		900,000	—
		6,980,271	3,439,755
Net profit		41,898,231	28,260,503
Balance brought forward from previous year		70,476,348	42,215,845
Profit available for appropriation		112,374,579	70,476,348
Appropriations			
Proposed final dividend		27,133,237	—
Tax on dividend		3,805,436	—
Transfer to General Reserve		2,094,912	—
Surplus carried to Balance Sheet		79,340,994	70,476,348
Earnings per share			
Basic	17 (22)	1.26	0.92
Diluted		1.24	0.91
Nominal value of shares		5	5
Notes to Accounts	17		

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

For S.R.Batliboi & Associates
Chartered Accountants

Per
Pankaj Chadha
Partner
Membership No. 91813

Place : New Delhi
Date : June 15, 2006

For and on behalf of the Board of Directors of Four Soft Limited

Palem Srikanth Reddy
CEO & Managing Director

Naresh Patro
Company Secretary

Place : Hyderabad
Date : June 15, 2006

P. Mangamma
Director

Biju S. Nair
Vice President - Finance

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2006

Amount in Rupees

	As at March 31, 2006	As at March 31, 2005
SCHEDULE - I		
CAPITAL		
Authorised		
56,077,600 (Previous year : 36,077,600) equity shares of Rs.5 each	280,388,000	180,388,000
696,120 (Previous year : 696,120) 14% redeemable optionally convertible cumulative preference shares of Rs.100 each	69,612,000	69,612,000
	350,000,000	250,000,000
Issued, Subscribed and Paid-up		
36,177,649 (Previous year : 31,864,794) equity shares of Rs. 5 each		
fully paid-up	180,888,245	159,323,970
Less: Calls in arrears by others	12,000	24,000
	180,876,245	159,299,970
Less: Amount recoverable from ESOP trust	4,388,185	4,765,000
"[Face value of 1,094,837 equity shares " (Previous year : 1,170,200) allotted to the trust]"		
	176,488,060	154,534,970
Total	176,488,060	154,534,970

Notes:

Of the above:

- a. 4,563,970 equity shares of Rs. 5 each are allotted as fully paid up bonus shares by capitalisation 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. 8,318,524 equity shares were issued as sweat equity shares for consideration other than cash.
- d. 363,408 equity shares were allotted as fully paid up pursuant to contracts for consideration other than cash.
- e. 75,363 shares were issued to employees (through ESOP trust) pursuant to the employee stock option scheme.
The issue price of the share was Rs. 19.65 out of which Rs. 14.65 per share were received in the form of employee services over a period of one year.

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2006

Amount in Rupees

	As at March 31, 2006	As at March 31, 2005
SCHEDULE - 2		
RESERVES AND SURPLUS		
Securities Premium Account		
Balance as per last account	184,214,070	183,731,002
Add: Received during the year	251,451,447	636,000
Add: Transferred from stock options outstanding on exercise of stock options	<u>1,104,068</u>	—
	436,769,584	184,367,002
Less: Utilised towards share issue expenses	<u>2,595,466</u>	152,932
	434,174,118	184,214,070
General Reserve		
As per last Balance Sheet	4,429,779	4,429,779
Add: Transferred from Profit and Loss Account	<u>2,094,912</u>	—
	6,524,691	4,429,779
Profit and Loss Account		
	79,340,994	70,476,348
Stock Option Adjustments		
Stock option outstanding	6,751,140	—
Add: Additions during the year	<u>40,645,006</u>	9,452,769
	47,396,146	9,452,769
Less: Deletions during the year	2,029,228	2,701,629
Less: Transfer to securities premium on exercise of stock options	<u>1,104,068</u>	—
	44,262,850	6,751,140
Less: Deferred stock employee compensation	<u>31,613,705</u>	4,211,837
	12,649,145	2,539,303
Total	<u>532,688,948</u>	<u>261,659,499</u>

Notes:

a) Deferred stock employee compensation		
Stock compensation expense outstanding	4,211,837	—
Add: Stock options granted during the year	40,645,006	9,452,769
Less: Stock options cancelled/forfeited during the year	(2,029,228)	(2,701,629)
Less: Stock compensation amortised during the year	(11,213,909)	(2,539,303)
Closing balance of deferred employee stock compensation	<u>31,613,705</u>	4,211,837

Schedule - 3: Secured loan

Finance Lease Obligation (Secured by underlying leased assets)	2,704,250	—
Total	<u>2,704,250</u>	—

FOUR SOFT LIMITED SCHEDULES TO THE ACCOUNTS

Schedule 4: Fixed Assets

(Amount in Rupees)

Sno	Particulars	Gross Block				Depreciation/Amortisation				Net Block	
		As at April 1, 2005	Additions	Deductions	As at March 31, 2006	As at April 1, 2005	For the year March 31, 2006	Deletions/ Adjustments	As at March 31, 2006	As at March 31, 2006	As at March 31, 2005
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
Fixed Assets											
1	Computers	17,983,254	10,691,865	—	28,675,119	8,773,104	4,353,346	—	13,126,450	15,548,670	9,210,150
2	Office equipment	5,723,642	5,306,188	—	11,029,829	1,445,796	918,823	—	2,364,619	8,665,210	4,277,846
3	Furniture and fittings	6,606,106	3,768,031	—	10,374,137	3,322,436	1,778,899	—	5,101,335	5,272,802	3,283,670
4	Building	30,594,644	—	—	30,594,644	1,225,609	1,644,666	—	2,870,275	27,724,369	29,369,035
5	Lease hold improvements	1,157,889	950,882	—	2,108,771	96,212	619,672	—	715,884	1,392,887	1,061,677
	Total (A)	62,065,535	20,716,966	—	82,782,500	14,863,157	9,315,406	—	24,178,563	58,603,938	47,202,377
Intangibles											
1	Software (B)	6,863,207	3,423,358	—	10,286,566	2,659,562	2,192,979	—	4,852,541	5,434,024	4,203,646
	Total (A+B)	68,928,742	24,140,324	—	93,069,066	17,522,719	11,508,385	—	29,031,105	64,037,962	51,406,023
	Previous year	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

Note:

Furniture and fittings includes furniture taken on finance lease

Gross book value Rs. 2,908,974 (Previous year : Rs. Nil)

Net book value Rs. 1,736,499 (Previous year : Rs. Nil)

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2006

Amount in Rupees

	As at March 31, 2006	As at March 31, 2005
SCHEDULE - 5		
INVESTMENTS		
Long Term Investments (Unquoted and at cost)		
(Refer note 19 on schedule 17)		
Other than trade		
A. In subsidiaries		
Equity shares (fully paid-up)		
15,000 (Previous year : 15,000) shares of US\$ 1 each in Four Soft LLC, USA	727,500	727,500
18,152 (Previous year : 18,152) shares of €1 each in Four Soft BV ,The Netherlands	83,501,864	79,791,864
930,000 (Previous year: Nil) equity shares of Singapore Dollar 1 each in Four Soft Singapore Pte Limited	52,988,239	—
70,000(Previous year: Nil) Class A preference shares in Singapore Dollar 1 each of Four Soft Singapore Pte Limited	3,988,362	—
10,000,000(Previous year: Nil) equity shares of Malaysian ringgit 1 each in Four Soft Sdn Bhd	2,625	—
	<u>141,208,590</u>	<u>80,519,364</u>
B. In joint venture		
25,000 (Previous Year : 25,000) shares of \$ 1 (Previous year : \$1) in Four Soft International Inc., USA	7,699,375	7,699,375
Sub Total (A+B)	<u>148,907,965</u>	<u>88,218,739</u>
Less: Provision for permanent diminution in value of long term investment"	7,699,375	7,699,375
(I)	<u>141,208,590</u>	<u>80,519,364</u>
Current Investment		
(At lower of cost and market value)		
Balance of unutilised monies of IPO		
Non trade investments (quoted)		
1,337.721 (Previous year Nil) units of Rs. 10 each in Prudential ICICI Floating Rate Plan	13,377	—
Nil (Previous year 1,007,080) units of Rs. 10 each in SBI Mutual Fund Debt fund series	—	10,070,800
(II)	<u>13,377</u>	<u>10,070,800</u>
Total (I) + (II)	<u>141,221,967</u>	<u>90,590,164</u>
Aggregate amount of quoted investments		
Market value Rs.13, 383 (previous year Rs.10,142,806)	13,377	10,070,800
Aggregate amount of unquoted investments	<u>141,208,590</u>	<u>80,519,364</u>

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2006

Amount in Rupees

	As at March 31, 2006	As at March 31, 2005
SCHEDULE - 6		
SUNDRY DEBTORS		
(Refer note 11 on schedule 17)		
Debts outstanding for a period exceeding six months		
Unsecured, considered good	3,184,478	889,528
Considered doubtful	<u>10,764,343</u>	<u>1,782,872</u>
	13,948,821	2,672,400
Other debts		
Unsecured, considered good	<u>101,634,601</u>	<u>36,793,255</u>
	115,583,422	39,465,655
Less : Provision for doubtful debts	<u>10,764,343</u>	<u>1,782,872</u>
Total	<u>104,819,079</u>	<u>37,682,783</u>
SCHEDULE - 7		
CASH AND BANK BALANCES		
Cash on hand	3,238	6,491
Balances with scheduled banks on:		
Current accounts	95,372,555	130,062,714
Deposit accounts	90,250,283	10,055,329
Margin money	-	22,100,000
Unpaid dividend accounts	321,860	323,635
Unpaid IPO refund accounts	<u>210,459</u>	<u>255,569</u>
	186,155,157	162,797,247
Balance of unutilised monies raised by issue in deposit accounts with scheduled banks	<u>87,253,376</u>	<u>142,664,478</u>
Total	<u>273,411,771</u>	<u>305,468,216</u>
SCHEDULE - 8		
OTHER CURRENT ASSETS		
Interest accrued on fixed deposits	540,455	359,535
Interest accrued on loans	<u>8,214,607</u>	<u>—</u>
Total	<u>8,755,062</u>	<u>359,535</u>
SCHEDULE - 9		
LOANS AND ADVANCES		
(Refer note 12 on schedule 17)		
Unsecured, considered good		
Advances and loans to subsidiaries	225,658,208	—
Loan to Four Soft Limited employee welfare trust	401,815	25,000
Advances recoverable in cash or in kind or for value to be received	1,824,195	1,357,908
Deposits	5,791,445	4,094,721
Advance income tax (net of provision)	—	2,056,994
Unsecured, considered doubtful		
Advances recoverable in cash or in kind or for value to be received	<u>759,467</u>	<u>—</u>
	234,435,130	7,534,623
Less: Provision for doubtful advances	<u>759,467</u>	<u>—</u>
Total	<u>233,675,663</u>	<u>7,534,623</u>

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2006

Amount in Rupees

	As at March 31, 2006	As at March 31, 2005
SCHEDULE - 10		
LIABILITIES		
(Refer note 13 on schedule 17)		
Sundry creditors	—	—
Dues to small scale industrial undertakings	—	—
Dues to other than small scale industrial undertakings	<u>45,687,849</u>	<u>60,820,877</u>
	45,687,849	60,820,877
Subsidiary companies	25,777,453	8,868,268
Advance from customers	1,382,938	2,786,627
Unclaimed dividends	321,860	323,635
Application moneys due for refund	210,569	255,569
Other liabilities	2,953,163	1,737,501
	<u>76,333,832</u>	<u>74,792,477</u>
Total	76,333,832	74,792,477
SCHEDULE - 11		
PROVISIONS		
For retirement benefits	1,934,606	1,003,360
For income tax (net of advance payments)	2,405,859	—
For fringe benefit tax	187,793	—
For proposed dividends	27,133,237	—
For tax on proposed dividend	3,805,436	—
	<u>35,466,931</u>	<u>1,003,360</u>
Total	35,466,931	1,003,360
SCHEDULE - 12		
MISCELLANEOUS EXPENDITURE		
(to the extent not written off or adjusted)		
Preliminary expenses	—	62,716
Less: Written off during the year	—	62,716
	<u>—</u>	<u>—</u>
Deferred patents and trade marks	114,850	177,492
Less: Written off during the year	63,000	62,642
	<u>51,850</u>	<u>114,850</u>
Total	51,850	114,850

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

	Amount in Rupees	
	For the Year ended March 31, 2006	For the Year ended March 31, 2005
SCHEDULE - 13		
REVENUE FROM SOFTWARE SERVICES AND PRODUCTS		
Off-shore development	156,803,000	92,497,995
On-site development	24,740,464	36,688,582
Annual maintenance services	29,978,515	4,423,200
Sale of licenses	4,997,526	25,732,055
Income from sale of third party licenses (net)	2,165,650	91,553
Total	<u>218,685,155</u>	<u>159,433,385</u>
SCHEDULE - 14		
OTHER INCOME		
Interest on fixed deposits (gross) [TDS Rs. 712,272 (Previous year Rs. 673,439)]	3,560,636	3,296,313
Interest on loan	8,214,607	—
Profit on sale of investments	789,694	704,688
Dividend income from non trade investments - short term	6,951,872	5,874,606
Miscellaneous income	1,325,799	1,169,391
Liability no longer required written back	71,079	406,726
Prior period income (net)	—	286,764
Exchange difference (net)	4,438,389	—
Total	<u>25,352,076</u>	<u>11,738,488</u>
SCHEDULE - 15		
PERSONNEL EXPENSES		
Salaries, wages and bonus	84,698,832	43,764,656
Retirement benefits	1,844,985	773,624
Contribution to provident fund	6,012,268	3,061,607
Employee stock compensation expenses	11,213,909	2,539,303
Staff welfare expenses	2,153,128	1,122,739
Total	<u>105,923,122</u>	<u>51,261,929</u>

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

	Amount in Rupees	
	For the Year ended March 31, 2006	For the Year ended March 31, 2005
SCHEDULE - 16		
OPERATING AND OTHER EXPENSES		
Rent	4,734,026	2,773,876
Fee, rates and taxes	1,400,139	617,023
Office maintenance	4,618,250	2,672,317
Auditors' remuneration	1,380,627	659,216
Implementation expenses	14,196,530	31,648,952
Advertisement and recruitment	2,725,728	1,288,874
Business promotion	3,474,518	959,342
Communication costs	4,167,242	2,368,316
Postage and courier	484,379	324,268
Insurance	806,262	519,775
Electricity and water charges	2,794,457	1,737,548
Travelling and conveyance	22,635,636	18,074,075
Legal and professional fees	2,615,886	3,029,688
Exchange difference (net)	—	2,061,182
Commission to other than sole selling agents	—	581,196
Bank charges	625,182	364,972
Finance lease charges	113,293	—
General meeting expenses	397,621	278,807
Bad and doubtful debts written off	—	930,092
Provision for doubtful debts	9,044,475	1,782,872
Provision for doubtful advances	759,467	—
Prior period expenses (net)	641,826	—
Donations	48,678	20,635
Provision for diminution in value of investments	—	7,699,375
Loss on sale of fixed asset	—	2,469
Miscellaneous expenses	—	39,640
Total	77,664,222	80,434,510

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2006

Amount in Rupees

	For the Year ended March 31, 2006	For the Year ended March 31, 2005
A. Cash flow from operating activities		
Net profit before taxation, and extraordinary items	48,878,502	31,700,257
Adjustments for:		
Depreciation	11,508,385	7,649,818
Employee stock compensation expenses	11,213,910	2,539,303
Provision for diminution in value of investments	—	7,699,375
(Profit)/loss on sale of non trade current investments	(789,694)	(704,688)
Provision for retirement benefits	931,246	738,418
Foreign exchange gain (net)	(1,261,546)	(588,522)
Interest income on fixed deposits	(3,560,636)	(3,296,313)
Interest income on loans to subsidiaries	(8,214,607)	-
Dividends from non trade current investments	(6,951,872)	(5,874,606)
Miscellaneous expenditure written off	63,000	125,358
Provision for doubtful debts	9,044,475	2,712,964
Provision for doubtful advances	759,467	-
Finance lease charges	113,293	-
Loss on sale of fixed assets	—	2,469
Operating profit before working capital changes	61,733,923	42,703,833
Movements in working capital :		
Increase in sundry debtors	(76,381,572)	(10,725,172)
(Increase) / Decrease in loans and advances	(2,646,429)	491,898
Increase in current liabilities	11,311,895	10,970,210
Cash (used in) / generated from operations	(5,982,183)	43,440,769
Direct taxes paid (including fringe benefit tax), net of refunds	(1,522,912)	(2,234,066)
Net cash (used in) generated from operating activities	(7,505,095)	41,206,703
B. Cash flows from investing activities		
Purchase of fixed assets	(20,209,828)	(38,005,280)
"Purchase of investments in subsidiaries "[Total purchase consideration Rs.56,979,225 (Previous year Rs. 79,791,864)]"	(48,317,275)	(27,612,904)
Loans to Subsidiaries	(224,139,521)	-
Advance for investment	(276,049)	(728,896)
Payment towards finance lease obligation	(204,724)	-
Sale / maturity of investments	10,847,116	(9,366,112)
Interest received	3,379,716	3,226,885
Dividends received	6,951,872	5,874,606
Net cash used in investing activities	(271,968,693)	(66,611,701)

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2006

Amount in Rupees

	For the Year ended March 31, 2006	For the Year ended March 31, 2005
Contd...		
C. Cash flows from financing activities		
Proceeds from issuance of share capital	247,428,529	1,119,068
Finance lease charges	(113,293)	-
Dividends paid	-	(7,642,563)
Tax on dividend paid	-	(1,020,668)
Net cash generated from / (used in) financing activities	247,315,236	(7,544,163)
Net decrease in cash and cash equivalents (A + B + C)	(32,158,552)	(32,949,161)
Cash and cash equivalents at the beginning of the year	305,468,216	338,917,776
Cash and cash equivalents at the end of the year	273,309,664	305,968,615

Notes:

1. Cash and cash equivalents include:

Cash and bank balances	185,626,076	162,224,534
Unpaid dividend accounts	321,860	323,635
Unpaid public issue refund accounts	210,459	255,569
Balance of unutilised monies raised by issue	87,253,376	142,664,478
Cash and cash equivalents as per Balance Sheet	273,411,771	305,468,216
Effect of unrealised exchange (gain)/ loss as on the Balance Sheet date	(102,107)	500,399
Cash and cash equivalents considered for Cash Flows	273,309,664	305,968,615

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

As per our report of even date

For S.R.Batliboi & Associates

Chartered Accountants

Per

Pankaj Chadha

Partner

Membership No. 91813

Place : New Delhi

Date : June 15, 2006

For and on behalf of the Board of Directors of Four Soft Limited**Palem Srikanth Reddy**

CEO & Managing Director

P. Mangamma

Director

Naresh Patro

Company Secretary

Biju S. Nair

Vice President - Finance

Place : Hyderabad

Date : June 15, 2006

Notes on Accounts

I. 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 are consistent with those used in the previous year.

(b) Fixed Assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use.

(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) Impairment

The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the assets net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

(e) Depreciation

Depreciation is provided using the Written Down Value Method as per the useful lives of the assets estimated by the management, or at the rates prescribed under schedule XIV to the Act whichever is higher. Lease hold improvements and assets acquired on finance lease are depreciated on written down value basis over the lease period of three years.

(f) Intangibles

Software licenses

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

Research and Development Costs

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

(g) Leases

Finance leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalised. If there is no reasonable certainty that the Company will obtain the ownership by the end of the lease term, capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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 recognized 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.

Sale of goods and services

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 services on fixed-priced and fixed time frame contracts is recognized on completion and delivery of services to the customers. Cost incurred in excess of billing is classified as unbilled revenue while billing in excess of costs and earnings is classified as unearned revenue.

Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rates applicable.

Dividends

Revenue is recognised when the Company's right to receive payment is established by the balance sheet date. Dividend from subsidiaries is recognised even if same are recognised after the balance sheet date but pertains to period on or before the date of balance sheet as per the requirement of schedule VI to the Act.

(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. Exchange differences arising in respect of fixed assets acquired from outside India are capitalized as a part of fixed asset.

(iv) Translation of Integral foreign operation

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

(i) Retirement benefits in the form of Provident Fund Scheme are charged to the Profit and Loss Account of the year when the contribution to the respective fund is due. There are no other obligations other than the contribution payable to the respective fund.

(ii) 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.

(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) Income taxes

Tax expense comprises of current, deferred and fringe benefit tax. Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act. 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 realised.

(n) Earnings per share

Basic earnings per share are calculated by dividing the net profit for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year.

For the purpose of calculating diluted earnings per share, the net profit for the year attributable to equity shareholders and the weighted average number of shares outstanding during the year 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; 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.

(q) Cash and Cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term investments with an original maturity of three months or less.

(r) 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. Amendment to service level and loan agreements

In March 2006 the Company has undertaken a detailed analysis of the international transactions with its wholly owned subsidiaries "Four Soft Singapore Pte. Limited" and "Four Soft BV, The Netherlands" and wholly owned subsidiaries of Four Soft BV, "Four Soft USA Incorporated", "Four Soft UK Limited", "Four Soft NL BV" and "Four Soft International Inc" (collectively referred to as WOS's). Based on the recommendations of the said study, additional revenue from services rendered to these entities during October 1, 2005 to March 31, 2006 and interest on loan granted by the Company amounting to Rs. 75,283,441 and Rs. 8,214,607 respectively was recorded in March 2006.

3. Related party transactions

Names of the related party	Country	Nature of relationship
Four Soft LLC	USA	Wholly Owned Subsidiary (WOS)
Four Soft B.V.	The Netherlands	Wholly Owned Subsidiary
Four Soft Logistics Software (Shanghai) Limited	China	Proposed Joint Venture
Four Soft Singapore Pte. Ltd.	Singapore	Wholly Owned Subsidiary
Four Soft Malaysia Sdn. Bhd.	Malaysia	Wholly Owned Subsidiary
Four Soft USA Incorporated	USA	WOS of Four Soft BV
Four Soft UK Ltd.	UK	WOS of Four Soft BV
Four Soft NL BV	The Netherlands	WOS of Four Soft BV
Four Soft International Incorporated	USA	Joint Venture
Four Soft Employee Welfare Trust	India	Controlling interest
Palem Srikanth Reddy	India	Key Management Personnel
Biju Nair	India	Key Management Personnel
Sonata Information Technology Limited	India	Enterprises significantly influenced by relatives of key management personnel

The details of the related party transactions entered into by the Company during the year ended March 31, 2006 are as follows:

	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
SUBSIDIARIES		
Four Soft LLC, USA		
(a) Implementation Expenses	14,196,530	31,648,952
Four Soft BV , The Netherlands		
(a) Investment in shares	Nil	79,791,864
(b) Reimbursable expenses (Net)	(4,869,275)	57,871
(c) Loan	188,930,974	Nil
(d) Interest accrued on loan	6,766,999	Nil
(e) Guarantees	698,116,000	Nil
Four Soft NL BV , The Netherlands		
(a) Reimbursable expenses (Net)	340,785	Nil
(b) Sales	31,404,140	Nil
Four Soft UK Ltd , United Kingdom		
(a) Reimbursable expenses (Net)	3,190,322	Nil
(b) Sales	26,194,775	Nil
Four Soft USA Inc., USA		
(a) Reimbursable expenses (Net)	1,427,226	Nil
(b) Sales	14,808,204	Nil
Four Soft Singapore Pte. Ltd., Singapore		
(a) Investment in equity and preference shares	56,976,601	Nil
(b) Reimbursable expenses (Net)	72,591	Nil
(c) Sales	2,876,277	Nil
(d) Loan	29,691,600	Nil

	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
(e) Interest accrued on loan Four Soft Malaysia Sdn. Bhd.	1,447,608	Nil
(a) Investment in Equity Shares	2,625	Nil
JOINT VENTURE		
Four Soft Logistics Software (Shanghai) Ltd		
(a) Advances for investment	276,049	728,896
(b) Provision for doubtful advances	759,467	Nil
Four Soft International Inc, USA		
(a) Provision for diminution in value of investments	Nil	7,699,375
KEY MANAGEMENT PERSONNEL		
(a) Remuneration to Key Management Personnel ENTERPRISES SIGNIFICANTLY INFLUENCED BY RELATIVES OF KEY MANAGEMENT PERSONNEL:	2,695,762	2,012,106
Sonata Information Technology Limited		
(a) Purchase and implementation of enterprise resource program	1,800,000	Nil
(b) Purchase of license	819,880	Nil
OTHERS		
Four Soft Employee Welfare Trust		
(a) Loan	Nil	4,790,000
Debit/(Credit) Balance Outstanding as at March 31, 2006		
	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
Four Soft LLC, USA	(5,028,984)	(8,868,268)
Four Soft BV , The Netherlands	190,828,698	57,871
Four Soft USA Inc.	16,235,430	Nil
Four Soft UK Ltd , United Kingdom	23,004,453	Nil
Four Soft NL BV , The Netherlands	31,744,925	Nil
Four Soft Singapore Pte. Ltd., Singapore	41,149,808	Nil
Four Soft Malaysia Sdn. Bhd.	432,152	Nil
Four Soft Logistics Software (Shanghai) Limited	245,478	728,896
Sonata Information Technology Limited	(358,767)	Nil
Four Soft Employee Welfare Trust	4,790,000	4,790,000
Key Management Personnel	(1,295,605)	(633,975)

In 2005-06, the Company has also granted 5,000 (Previous year 46,400) stock options to the key management personnel under the ESOP Scheme of the Company.

4. Leases

Finance Leases

Furniture and fittings includes furniture obtained under the finance lease arrangement. The lease term is for a period of three years and renewable for further three years at the option of the Company. There is no escalation clause and no restrictions are imposed by the lease arrangements. There are no subleases.

	Year ended March 31,	
	2006	2005
	(Rs)	(Rs)
Total minimum lease payments at the year end	3,840,939	Nil
Less : amount representing finance charges	<u>1,136,689</u>	Nil
Present value of minimum lease payments (Rate of interest: 26.89% p.a.)	<u>2,704,250</u>	Nil
Minimum Lease Payments :		
Not later than one year [Present value Rs. 758,954 as on 31.3.2006 (Rs. Nil as on 31.3.2005)]	1,391,790	Nil
Later than one year but not later than five years [Present value Rs. 1,949,296 as on 31.3.2006 (Rs. Nil as on 31.3.2005)]	2,449,149	Nil
Later than five years [Present value Rs. Nil as on 31.3.2006 (Rs. Nil as on 31.3.2005)]	Nil	Nil

Operating Leases

The Company has entered into operating lease agreements for its development centers for periods of 1 year to 3 years. The maximum obligations on non-cancelable operating leases payable as per the rentals stated in the respective agreements are as follows:

	Year ended March 31,	
	2006	2005
	(Rs)	(Rs)
Lease payments for the year	4,734,026	2,773,876
Minimum Lease Payments:		
Not later than one year	5,894,640	1,927,310
Later than one year but not later than five years	10,426,541	Nil
Later than five years	Nil	Nil

5. Deferred tax liability

Deferred tax liability amounting to Rs. 2,291,333 (Previous year Rs. 1,484,620) represents differences in depreciation and other differences in block of fixed assets as per tax books and financial books originated as at year end reversing after the tax holiday period.

6. Research and development

During the year ended March 31, 2006 the Company has incurred expenses amounting to Rs. 28,297,090 (Previous Year Rs. 18,973,445) towards research and development included under various heads of expenses.

7. Employee Stock Option Scheme (ESOP)

- The Company has established Four Soft Limited Employees Welfare Trust ("the Trust") to administer the ESOP Scheme and as at March 31, 2006 had issued 1,170,200 equity shares of Rs. 5 each, including 217,200 equity shares issued pursuant to issue of bonus shares in 2003. Pursuant to the ESOP Scheme the trust has granted, 618,175 (Previous year 645,240) equity shares at an exercise price of Rs. 5 each to the eligible employees, which are subject to progressive vesting over a period of three years from the date of the grant. As of March 31, 2006 the total shares held by the Trust is 1,094,837 (previous year 1,170,200).
- During the year ended March 31, 2006 the Company has amortized stock compensation expenses amounting to Rs. 11,213,909 (Previous Year Rs. 2,539,303).

- (c) Changes in number of shares representing stock options outstanding as at the year ended on March 31, 2006 were as follows:

	Year Ended March 31, 2006		As at March 31, 2005	
	Number of shares	Weighted average exercise price (Rs)	Number of shares	Weighted average exercise price (Rs)
Outstanding at the beginning of the year	460,828	5	-	Nil
Granted during the year	618,175	5	645,240	5
Forfeited during the year	60,032	5	184,412	5
Exercised during the year	75,363	5	Nil	5
Expired during the year	Nil	5	Nil	5
Outstanding at the end of the year	943,608	5	460,828	5
Exercisable at the end of the year	Nil	5	Nil	-

- (d) In March 2005 the ICAI has issued a guidance note on "Accounting for Employees Share Based Payments" applicable to employee based share plan the grant date in respect of which falls on or after April 1, 2005. The said guidance note requires that the Proforma disclosures of the impact of the fair value method of accounting of employee stock compensation accounting in the financial statements. Applying the fair value based method defined in the said guidance note, the impact on the reported net profit and earnings per share would be as follows:

	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
Profit as reported	41,898,231	28,260,503
Add: Employee stock compensation under intrinsic value method	11,213,909	2,539,303
Less: Employee stock compensation under fair value method	12,722,422	2,592,540
Proforma profit	40,389,718	28,207,266
Earnings Per Share		
Basic		
- As reported	1.26	0.92
- Pro forma	1.21	0.92
Diluted		
- As reported	1.24	0.91
- Pro forma	1.20	0.91

- (e) The weighted average fair value of the stock options granted during the year was Rs.65.58 (Previous year: Rs. 15.07). The fair value of options was estimated at the date of grant using the Black Scholes method with the following assumptions:

	Assumptions	
	2006 (Rs)	2005 (Rs)
Risk-free interest rate	7.50%	7.00%
Expected life	1 to 3 Years	1 to 3 Years
Expected volatility	0.642	0.667
Expected dividend yield	1.06%	1.27%

The weighted average share price at the date of exercise for stock options exercised during the year was Rs. 72.35. Options outstanding at March 31, 2006 had an exercise price of Rs. 5, and a weighted average remaining contractual life of 18.60 months.

8. Prior period items

Prior period expense (net) consists of the following:

Particulars	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
Communication expenses	664,895	Nil
Annual maintenance charges	Nil	(176,906)
Exchange fluctuation	Nil	(757,057)
Provision for gratuity	Nil	607,553
Others	(23,069)	39,646
	641,826	(286,764)

9. Setting up of a Joint Venture in China

Loans and advances as at March 31, 2006 include advance amounting to Rs. 245,478 (Previous year: Rs. 728,896), net of provision for doubtful advances Rs. 759,467 (Previous year Rs. Nil) given for setting up of a Joint Venture in 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 management of the Company has deferred its plan to set up such Joint Venture and is in the process of complying with the provisions of the said regulations.

10. 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.

11. Sundry Debtors

Included in sundry debtors are dues from companies under the same management:

Particulars	As at March 31,	
	2006 (Rs)	2005 (Rs)
Four Soft USA Incorporated.	14,808,204	Nil
Four Soft UK Limited	26,194,775	Nil
Four Soft NL BV , The Netherlands	31,404,140	Nil
Four Soft Singapore Pte. Limited	2,876,321	Nil

12. Loans and advances

(a) Included in Loans and advances are dues from companies under the same management:

Particulars	As at March 31,	
	2006 (Rs)	2005 (Rs)
Four Soft BV , The Netherlands	193,627,199	Nil
Four Soft Singapore Pte. Ltd.,	29,873,970	Nil
Four Soft UK Limited	285,000	Nil
Four Soft NL BV , The Netherlands	444,815	Nil
Four Soft USA Inc.	1,427,226	Nil

(b) Details of loans given to subsidiaries

	Balance as at March 31,		Maximum amount outstanding	
	2006 (Rs)	2005 (Rs)	2006 (Rs)	2005 (Rs)
Four Soft BV, The Netherlands	188,930,974	Nil	188,930,974	Nil
Four Soft Singapore Pte. Limited, Singapore	29,691,600	Nil	29,691,600	Nil

13. Liabilities

Sundry creditors include Rs. 8,753,850 (Previous year Rs. 9,975,000) payable towards purchase consideration for shares of Four Soft Singapore Pte Limited (Previous year Four Soft BV, The Netherlands). This amount is payable after 12 months from the balance sheet date.

14. Un-hedged Foreign Currency Exposure

	(Rs)	Foreign Currency	Foreign Currency Amount	Closing exchange rate
Foreign Debtors	110,243,061	US\$	2,492,495	44.23
	130,834	Singapore \$	4,803	27.24
	2,657,702	Euro	49,584	53.60
	1,654,100	Malaysian Ringgit	139,000	11.90
Loans and Advances to Subsidiaries	174,358,294	US\$	3,942,082	44.23
	29,691,600	Singapore \$	1,090,000	27.24
Payable towards purchase consideration of investments	9,565,500	Euro	175,000	54.66
	12,875,499	SGD	463,314	27.79
Dues to subsidiaries	5,118,504	US\$	114,354	44.76
	20,259	Singapore \$	729	27.79
	9,669,531	Euro	176,903	54.66
	3,475,322	GBP	44,305	78.44

15. Capital Commitments

Estimated amounts of contracts remaining to be executed on capital account and not provided for as at March 31, 2006 by the Company are Rs. 372,800 (Previous year: Rs. 89,891).

16. Contingent Liabilities not provided for

	As at March 31,	
	2006 (Rs)	2005 (Rs)
Claims against the Company not acknowledged as debts	Nil	1,756,400
Guarantees given by the Company	Nil	20,065,500
Guarantees given on behalf of overseas subsidiary	698,116,000	Nil
Income Tax in respect of Assessment Year 2003-2004 in respect of which the company has gone on appeal. The management is of the opinion that appeal is likely to be accepted by appellate authorities.	2,829,896	120,984
Contingent liability in respect of additional purchase consideration payable due to price protection offered to Skywest International Limited, the financial effect of which is not measurable (refer note 20 (b) to schedule 17).		
In accordance with the notification issued by the Employee Provident Fund Office, the Company may be required to contribute Provident Fund on amounts paid towards encashment of leave by employees from its inception to April 30, 2005. However, no provision was recorded in the books of accounts as the Company's liability towards provident fund is presently not determinable.		

17. Remuneration to auditors (including service tax)

	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
As Auditors		
- for audit	1,081,600	610,500
- for certification	284,015	35,264
Reimbursement of out-of-pocket expenses	15,012	13,452
	1,380,627	659,216

18. Supplementary Statutory Information**18.1 Managing Director's Remuneration**

	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
Salaries	240,000	240,000
Perquisites	237,463	153,322
Commission on net profit	1,192,434	849,124
Contribution to provident fund and other funds	28,800	28,800
	1,698,697	1,271,246

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

	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
Profit before tax as per Profit and Loss Account	48,878,502	31,700,257
Add:		
Managing Director's remuneration	1,698,697	1,271,246
Loss on sale of fixed assets	—	2,469
Depreciation as per books of account	11,508,385	7,649,818
Provision for diminution in value of investments	—	7,699,375
Provision for doubtful debts	9,044,475	1,782,872
	71,130,059	50,106,037
Less: Depreciation under Section 350 of the Act	11,508,385	7,649,818
Net profit as per Section 349 of the Act	59,621,674	42,456,219
Commission to Managing director at 2% of the net profits as approved by shareholders	1,192,434	849,124

18.3 Earnings in foreign currency

	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
License fees	4,475,558	25,732,055
Annual maintenance services	29,441,015	3,660,700
Revenue from off-shore and on site development services	179,991,784	127,606,077
Sale of third party licenses (gross)	4,316,583	Nil
Others	168,515	210,302
	218,393,455	157,209,134

18.4 Expenditure in foreign currency (on payment basis)

	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
Travelling	11,390,155	5,226,107
Implementation expenses	18,252,332	25,672,550
Salaries	1,147,834	4,971,862
Cost of third party licenses	1,433,008	Nil
Others	2,974,749	2,754,672
	35,198,078	38,625,191

18.5 Value of imports calculated on CIF basis

During the year ended March 31, 2006 the Company has imported capital goods amounting to Rs. 9,223,111 (Previous year Rs. 6,241,378).

18.6 Net dividend remitted in foreign exchange

	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
Period to which it relates	—	1.4.2003 to 31.3.2004
Number of non-resident share-holders	Nil	17
Number of equity shares held on which dividend was due	Nil	7,425,566
Amount remitted	Nil	1,856,393

19. Additional information pursuant to the provisions of paragraphs 3, 4C and 4D of Part II of Schedule VI to the Companies Act, 1956

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.

20. Investments

- a. Pursuant to the terms and conditions of the amended share purchase agreement for acquisition of 100% shares of Four Soft B.V. The Netherlands (formerly known as CargoMate B.V.), the Company has paid an additional purchase consideration of Rs. 3,710,000 to GMKH Automation (the seller). The carrying value of the Company's investment in Four Soft B.V., is adjusted to the extent to such additional consideration.
- b. In May 2005, the Company had entered into a Share Purchase Agreement with Skyvest International Limited, Singapore for purchase of 100% outstanding shares of Comex Frontier Pte Ltd., Singapore (renamed as Four Soft Singapore Pte Ltd.) and MyComex Sdn. Bhd., Malaysia (renamed as Four Soft Malaysia Sdn. Bhd) in consideration not exceeding of SG \$ 2,100,000, beside, the price protection as stated below. Further, while the fixed purchase consideration of SG\$ 2,100,000 has been duly accounted for, the differential price, if any, will be determined and accounted based on the average revenues of the acquired entities over a period of 36 months ending March 31, 2007.

In respect of purchase consideration payable in the form of equity shares of the Company and where the actual issue price, determined in accordance with the relevant guidelines issued by the Securities and Exchange Board of India ("the SEBI"), is higher or lower than Rs. 42, the price protection, offered up to maximum of Rs. 8 per share shall be paid in cash. No liability has been recorded for such price protection as the actual liability, if any would be determined only at the time of issue of shares as on October 2006 and October 2007, as per the terms of share purchase agreement.

- c. The Company has acquired 100% outstanding shares of Four Soft B.V. (Formerly known as "CargoMate B.V., The Netherlands) and Four Soft Singapore respectively (Formerly known as Comex Frontier Pte. Ltd, Singapore) for an amount of Rs. 83,501,864 and Rs. 56,976,601 respectively. As at March 31, 2006 the net worth of these acquired entities are substantially

lower than the price at which these investments were acquired from the existing shareholders. However, in view of the strategic importance of these acquisitions and the future profitability projections, the management is of the opinion that there is no permanent diminution in the carrying value of the said investments and thus, no provision is considered necessary there against.

d. Investments purchased and sold/ redeemed during the year

Description	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
8,983,131 (6,148,761) DSP Merilynch MF- Floater-	90,965,564	62,504,003
1,002,105 (Nil) Prudential ICICI- Floater-Div	10,073,781	—
2,796,536 (1,647,541) UTI MF- Floater	28,143,080	16,545,108
1,861,214 (2,020,835) HSBC - F-ST- INST.DD	18,596,341	20,234,622
1,000,120 (8,322,503) Prudential ICICI- Floater-DD	10,002,408	83,589,200
1,000,000 (Nil) Pru.ICICI - Blended Fund-A	10,000,000	—
899,892 (Nil) Pru. ICICI FRF- DD	8,999,998	—
10,142,353 (3,004,773) HDFC FRIF STP DIV REIN	102,218,580	30,120,247
Nil (501,591) HDFC Cash Management fund	—	5,019,220
1,807,934 (Nil) HDFC Multi yield fund	20,001,000	—
5,004,803 (Nil) ICICI Blend plan - B	50,970,045	—
10,062,174 (Nil) ICICI Blend plan - C - Phase ii	100,639,353	—
5,120,029 (Nil) ICICI Blend plan - D	51,200,299	—
6,115,576 (4,206,969) Tata FRF ST IP-DD	61,220,160	42,260,667
4,906,171 (5,096,723) Kotak Floater STP -DIV	49,121,477	51,233,998
998,515 (1,502,240) Reliance Floating Fund-W	10,064,113	15,092,062
4,021,422 (1,013,168) Reliance FMP	40,293,574	10,169,369
1,002,126 (6,845,664) Templeton FRF	10,046,388	68,515,181
1,007,080 (1,007,080) SBI Mutual Fund -Debt fund Series	10,070,800	10,070,800
Nil (2,008,154) SBI Mutual Fund - STP Dividend	—	20,123,577
3,006,002 (Nil) LIC MF -FRF-STP- DP	30,266,220	—
2,525,521 (Nil) LIC MF -LF-STP- DDP	27,619,074	—
2,984,624 (Nil) JM Derivative Fund	30,278,957	—
Nil (3,003,652) JM Floater Fund -STP-Dividend	—	30,162,969
Nil (1,000,000) JM Floater Fund -FMP	—	10,005,500
Nil (776,303) Birla Floating Rate Fund	—	5,044,579
Nil (500,000) Canbank Mutual Fund	—	5,019,050
Nil (4,985,694) Grindlays Floating Rate Fund STP	—	50,241,411
Nil (495,213) Sundaram Money Fund- Div- Rein	—	5,013,433

21. Utilisation of issue funds upto March 31, 2006 and March 31, 2005

	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
Proceeds from IPO	Nil	202,209,500
Unutilized issue proceeds as at April 1, 2005 and 2004	152,735,278	202,209,500
Proceeds from preferential issue	250,000,000	79,612,000
Total	402,735,278	281,821,500
Less: Issue expenses	(2,595,466)	(20,649,065)
Net proceeds/ balance	400,139,812	261,172,435
Less: Utilisation of funds		
Expansion of facilities/equipment	(20,209,828)	(38,005,280)
Product development	(27,348,131)	(15,506,263)
International marketing set-up and acquisition	(265,315,100)	(54,925,614)
Unutilized issue funds		
Mutual funds	13,377	10,070,800
Fixed deposits	87,253,376	142,664,478

22. Earnings per share (EPS)

	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
Net Profit as per profit and loss account (Rs)	41,898,231	28,260,502
Weighted average number of equity shares in calculating basic EPS	33,141,978	30,694,594
Effect of dilutive equity shares	559,410	433,489
Weighted average number of equity shares in calculating diluted EPS	33,701,388	31,128,083

The Institute of Chartered Accountants of India has issued guidance note on "Accounting for Employees Share Based Payments" applicable to employee based share plan the grant date in respect of which falls on or after April 1, 2005. In accordance with such guidance note shares allotted to the ESOP Trust pursuant to an employee share based payment plan has not been included in the outstanding shares for computation of basic EPS till the employees have exercised their right after fulfilling the vesting conditions. Until such time the shares so allotted have been considered as dilutive potential equity shares for the purpose of calculating diluted EPS. For the purpose of comparability the number of shares considered for calculating basic and diluted EPS for the year ended March 31, 2005 also has been restated for such treatment.

23. 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 S.R.Batliboi & Associates
Chartered Accountants

Per
Pankaj Chadha
Partner
Membership No. 91813

Place : New Delhi
Date : June 15, 2006

For and on behalf of the Board of Directors of Four Soft Limited

Palem Srikanth Reddy
CEO & Managing Director

Naresh Patro
Company Secretary

Place : Hyderabad
Date : June 15, 2006

P. Mangamma
Director

Biju S. Nair
Vice President - Finance

Balance Sheet Abstract and Company's general business profile

Registration details

Registration No. : 33131

State Code : 01

Balance Sheet date	March 31, 2006
(Rs.in Thousand except per share data)	
Capital raised during the year	
Public Issue	—
Rights Issue	—
Bonus Issue	—
Private placement	
Sweat Equity shares to Directors	—
Shares allotted to Four Soft Ltd. Employee Welfare Trust	
Position of Mobilisation and Deployment of Funds	
Total Liabilities	714,173
Total Assets	714,173
Sources of Funds	
Paid-up Capital	176,488
Reserves and Surplus	532,689
Secured Loans	2,704
Unsecured Loans	—
Application of Funds	
Net Fixed assets	64,038
Investments	141,222
Net current assets	508,861
Miscellaneous expenditure	51
Accumulated losses	—
Performance of Company	
Income from software products and related services	218,685
Other Income	25,352
Total Income	244,037
Total Expenditure	195,159
Profit / (Loss) before tax	48,879
Profit / (Loss) after tax	41,898
Earnings per share (basic) (Rs.)	1.26
Earnings per share (diluted) (Rs.)	1.24
Dividend per par value (Rs. 5/-) (%)	Re. 0.75
Generic name of principal products / services of the company	
Item Code No. (ITC Code)	85 24 90 09
Product Description	Computer Software

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To
The Board of Directors
Four Soft Limited

1. We have examined the attached consolidated balance sheet of Four Soft Limited ('the Company'), as at March 31, 2006, and its subsidiaries (a) Four Soft UK Limited, UK, (b) Four Soft N.L B.V., The Netherlands (c) Four Soft USA Inc., USA, (d) Four Soft Germany GmbH, Germany (e) Four Soft Sdn Bhd, Malaysia (f) Four Soft Singapore Pte Limited, Singapore (g) Four Soft B.V., The Netherlands and (h) Four Soft LLC, USA ("the Subsidiaries") and also the related consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management and have been prepared by Management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Except as discussed in paragraphs 4 and 5 below 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.
3. We did not audit the financial statements of any of the Subsidiaries, whose financial statements reflect aggregate total assets of Rs 2,039,908,579 as at March 31, 2006 and aggregate total revenues of Rs 888,422,748 and net cash inflows aggregating to Rs 68,929,286 for the year then ended. These financial statements and other financial information required for the purposes of consolidation have been audited by other auditors, (except to the extent mentioned in paragraph 4 and 5 below), whose reports have been furnished to us, and our opinion is based solely on the reports of other auditors.
4. The consolidated financial statements for the year ended March 31, 2006 include the unaudited financial statements of (a) Four Soft USA Inc., USA, (b) Four Soft Germany GmbH, Germany (c) Four Soft Sdn Bhd, Malaysia (d) Four Soft LLC, USA and (e) Four Soft B.V., The Netherlands, whose unaudited financial statements reflect aggregate total assets of Rs.1,191,516,941 as at March 31, 2006 and

aggregate total revenue of Rs. 256,356,959 and net cash inflows amounting to Rs. 1,858,580 for the period then ended. The accompanying Consolidated Financial Statements do not include adjustments, if any, that may be required had the financial statements of the aforesaid subsidiaries been audited.

5. The accompanying consolidated profit and loss account for the year ended March 31, 2006 include the unaudited profit and loss account of Four Soft Singapore Pte Limited, Singapore; for the 10 months ended March 31, 2006 and (a) Four Soft NL B.V., The Netherlands; and (b) Four Soft UK Limited, UK for the seven months ended March 31, 2006. The accompanying consolidated profit and loss account reflect aggregate total revenues of Rs. 620,865,443 in respect of these entities. The accompanying consolidated financial statements do not include adjustments if any that may be required had the financial statements of the aforesaid subsidiaries been audited.
6. We report that the consolidated financial statements have been prepared by Management in accordance with the requirements of Accounting Standards (AS) 21 - 'Consolidated Financial Statements', issued by the Institute of Chartered Accountants of India.
7. Based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components, and to the best of our information and according to the explanations given to us, we are of the opinion that except for the effect of adjustments if any, that may be required, had the financial statements of subsidiaries referred in paragraph 4 and 5 above been audited, the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (a) in the case of the consolidated balance sheet, of the state of affairs of Four Soft Limited and its Subsidiaries, as at March 31, 2006;
 - (b) in the case of the consolidated profit and loss account, of the consolidated profit of Four Soft Limited and its Subsidiaries, for the year ended on that date; and
 - (c) in the case of the consolidated cash flow statement, of the consolidated cash flows of Four Soft Limited and its Subsidiaries, for the year ended on that date.

For **S. R. Batliboi & Associates**
Chartered Accountants

per
Ali Nyaz
Partner
Membership No.: 200427

Place : Hyderabad
Date : 26th August, 2006

CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2006

Amount in Rupees

	Schedules	As at March 31, 2006	As at March 31, 2005
SOURCES OF FUNDS			
Shareholders' Funds			
Capital	1	176,488,060	154,534,970
Reserves and surplus	2	562,166,055	276,965,043
Loan Funds			
Secured loan	3	429,703,553	—
Deferred Tax Liability	18 (8a)	2,291,333	1,484,620
		<u>1,170,649,001</u>	<u>432,984,633</u>
APPLICATION OF FUNDS			
Fixed Assets			
Gross block	4	1,174,309,547	147,711,466
Less : Accumulated depreciation		158,787,203	18,192,946
Net block		<u>1,015,522,344</u>	<u>129,518,520</u>
Capital work-in-progress including capital advances		—	318,732
		<u>1,015,522,344</u>	<u>129,837,252</u>
Investments	5	13,377	10,070,800
Deferred tax assets	18 (8b)	5,162,515	—
Current Assets, Loans and Advances			
Sundry debtors	6	321,108,613	53,706,857
Cash and bank balances	7	382,784,039	324,676,480
Other current assets	8	540,455	359,535
Loans and advances	9	158,395,200	12,891,058
		<u>862,828,307</u>	<u>391,633,930</u>
Less: Current Liabilities and Provisions			
Liabilities	10	642,356,577	87,532,364
Provisions	11	70,960,999	11,647,810
		<u>713,317,576</u>	<u>99,180,174</u>
Net Current Assets		<u>149,510,731</u>	<u>292,453,756</u>
Miscellaneous Expenditure (to the extent not written off or adjusted)	12	440,034	622,825
		<u>1,170,649,001</u>	<u>432,984,633</u>
Notes to Consolidated Accounts	18		

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

For S.R.Batliloi & Associates
Chartered Accountants

Per
Ali Nyaz
Partner
Membership No. 200427

Place : New Delhi
Date : 26th August, 2006

For and on behalf of the Board of Directors of Four Soft Limited

Palem Srikanth Reddy
CEO & Managing Director

Naresh Patro
Company Secretary

Place : Hyderabad
Date : 26th August, 2006

P. Mangamma
Director

Biju S. Nair
Vice President - Finance

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

Amount in Rupees

	Schedules	For the Year ended March 31, 2006	For the Year ended March 31, 2005
INCOME			
Sales	13	900,558,740	199,219,874
Other income	14	41,616,813	13,302,358
		942,175,553	212,522,232
EXPENDITURE			
Personnel expenses	15	593,942,921	91,562,379
Operating and other expenses	16	220,677,908	61,000,724
Depreciation and amortisation	4	22,086,475	8,335,303
Finance charges	17	27,544,885	432,585
Miscellaneous expenditure written off		191,855	255,408
		864,444,044	161,586,399
Profit before tax		77,731,509	50,935,833
Provision for current tax		20,065,307	7,937,485
Tax for earlier years		1,787,474	55,135
Deferred tax		(4,430,548)	1,484,620
Fringe benefit tax		900,000	—
		18,322,233	9,477,240
Net profit		59,409,276	41,458,593
Balance brought forward from last year		85,924,065	44,465,472
Profit available for Appropriation		145,333,341	85,924,065
Appropriations			
Proposed final dividend		27,133,237	—
Tax on dividend		3,805,436	—
Transfer to General Reserve		2,094,912	—
Surplus carried to Consolidated Balance Sheet		112,299,756	85,924,065
Earnings per share	18(17)		
Basic		1.79	1.35
Diluted		1.76	1.33
Nominal value per share		5	5
Notes to Consolidated Accounts	18		

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

As per our report of even date

For S.R.Batliloi & Associates
Chartered Accountants

Per
Ali Nyaz
Partner
Membership No. 200427

Place : New Delhi
Date : 26th August, 2006

For and on behalf of the Board of Directors of Four Soft Limited

Palem Srikanth Reddy
CEO & Managing Director

Naresh Patro
Company Secretary

Place : Hyderabad
Date : 26th August, 2006

P. Mangamma
Director

Biju S. Nair
Vice President - Finance

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2006

Amount in Rupees

	As at March 31, 2006	As at March 31, 2005
SCHEDULE - I		
CAPITAL		
Authorised		
56,077,600 (Previous year : 36,077,600) equity shares of Rs.5 each	280,388,000	180,388,000
696,120 (Previous year : 696,120) 14% redeemable optionally convertible cumulative preference shares of Rs.100 each	69,612,000	69,612,000
	350,000,000	250,000,000
Issued, Subscribed and Paid-up		
36,177,649 (Previous year : 31,864,794) equity shares of Rs. 5 each fully paid-up	180,888,245	159,323,970
Less: Calls in arrears by others	12,000	24,000
	180,876,245	159,299,970
Less: Amount recoverable from ESOP trust [Face value of 1,094,837 equity shares (Previous year : 1,170,200) allotted to the trust]	4,388,185	4,765,000
	176,488,060	154,534,970
Total	176,488,060	154,534,970

Note**Of the above**

- a. 75,363 shares were issued to employees (through ESOP trust) pursuant to the employee stock option scheme. The issue price of the share was Rs. 19.65 out of which Rs. 14.65 per share were received in the form of employee services over a period of one year

SCHEDULE - 2**RESERVES AND SURPLUS****Securities Premium Account**

Balance as per last account	184,214,070	183,731,002
Add: Received during the year	251,451,447	636,000
Add: Transferred from stock options outstanding on exercise of stock options	1,104,068	—
	436,769,585	184,367,002
Less: Utilised towards share issue expenses	2,595,466	152,932
	434,174,119	184,214,070

General Reserve

Balance as per last account	4,429,779	4,429,779
Add: Transferred from Profit and Loss Account	2,094,912	—
	6,524,691	4,429,779

Profit and Loss Account

	6,524,691	4,429,779
	112,299,756	85,924,065

Foreign Currency Translation Reserve

Balance as per last account	(142,174)	667,568
Add: Current year translation adjustment	(3,339,481)	(809,742)
	(3,481,655)	(142,174)

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2006

Amount in Rupees

	As at March 31, 2006	As at March 31, 2005
Stock Option Adjustments		
Stock option outstanding	6,751,140	—
Add: Additions during the year	40,645,006	9,452,769
	<u>47,396,146</u>	<u>9,452,769</u>
Less: Deletions during the year	2,029,228	2,701,629
Less: Transfer to securities premium on exercise of stock options	1,104,068	—
	<u>44,262,850</u>	<u>6,751,140</u>
Less: Deferred stock employee compensation	31,613,706	4,211,837
	<u>12,649,144</u>	<u>2,539,303</u>
Total	<u>562,166,055</u>	<u>276,965,043</u>

Notes:

a) Deferred stock employee compensation		
Stock compensation expense outstanding	4,211,837	—
Add: Stock options granted during the year	40,645,006	9,452,769
Less: Stock options cancelled/forfeited during the year	(2,029,228)	(2,701,629)
Less: Stock compensation amortised during the year	(11,213,909)	(2,539,303)
Closing balance of deferred employee stock compensation	31,613,706	4,211,837

**SCHEDULE - 3
SECURED LOAN**

Finance Lease Obligation (Secured by underlying leased assets)	2,704,250	—
Loans and advances from banks		
Term loan (Refer note 9 on schedule 18)	426,999,303	—
Total	<u>429,703,553</u>	<u>—</u>

FOUR SOFT LIMITED

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2006

SCHEDULE - 4 FIXED ASSETS

(Amount in Rupees)

Sno	Particulars	GROSS BLOCK							DEPRECIATION					Net Block	
		As at 01 Apr 05	Acquired/ on Acquisition	Additions	Deductions	Exchange Difference	Asat 31 Mar 06	Upto 01 Apr 05	Acquired on Acquisition	For the Year	Deletion/ Adjustments	Exchange Difference	Upto 31 Mar 06	Asat 31 Mar 06	As at 31 Mar 05
1	Computers	17,983,254	128,591,760	17,573,465	26,122,763	1,372,153	136,653,562	8,773,104	114,196,887	10,523,196	26,122,763	1,244,228	106,126,196	30,527,366	9,210,150
2	Office Equipment	6,344,379	-	5,499,249	-	-	11,843,628	1,691,829	-	960,025	-	(1,369)	2,653,223	9,190,405	4,652,550
3	Furniture & Fittings	6,606,106	36,906,948	5,749,845	4,173,281	686,819	44,402,799	3,322,436	28,591,661	4,221,581	4,173,281	557,584	31,404,813	12,997,986	3,283,670
4	Building	30,594,644	6,823,829	-	-	72,585	37,345,888	1,225,609	2,664,113	2,093,461	-	27,061	5,956,122	31,389,766	29,369,035
5	Lease Hold Improvements	1,157,889	-	950,882	-	-	2,108,771	96,212	-	619,672	-	-	715,884	1,392,887	1,061,677
6	Vehicles	1,869,621	631,833	-	-	25,666	2,475,788	424,194	619,201	725,815	-	13,335	1,755,875	719,913	1,445,427
	(A)	64,555,893	172,954,370	29,773,441	30,296,044	2,157,223	234,830,436	15,533,384	146,071,862	19,143,750	30,296,044	1,840,838	148,612,113	86,218,323	49,022,509
	Intangibles														
1	Goodwill	76,292,366	-	855,694,109	-	9,792,808	922,193,667	-	-	-	-	-	-	922,193,667	76,292,366
2	Software	6,863,207	2,954,740	7,481,543	-	14,046	17,285,444	2,659,562	4,982,160	2,942,726	-	409,358	10,175,090	7,110,354	4,203,645
	(B)	83,155,573	2,954,740	863,175,652	-	9,806,854	939,479,111	2,659,562	4,982,160	2,942,726	-	409,358	10,175,090	929,304,021	80,496,011
	(A+B)	147,711,466	175,909,111	892,949,092	30,296,044	11,964,077	1,174,309,547	18,192,946	151,054,023	22,086,475	30,296,044	2,250,196	158,787,203	1,015,522,344	129,518,520
	For previous year	31,250,195	2,499,182	114,581,156	11,500	607,566	147,711,466	9,878,432	-	8,335,303	5,531	(15,258)	18,192,946	129,518,520	21,371,762

Note:

Furniture and fittings includes furniture taken on finance lease

Gross book value Rs. 2,908,974 (Previous year : Rs. Nil)

Net book value Rs. 1,736,499 (Previous year : Rs. Nil)

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2006

Amount in Rupees

	As at March 31, 2006	As at March 31, 2005
SCHEDULE - 5		
INVESTMENTS		
Long Term Investments (Unquoted and at cost)		
Other than trade		
In Joint Venture		
25,000 (Previous Year : 25,000) equity shares of \$ 1		
(Previous year : \$1) in Four Soft International Inc., USA	<u>7,699,375</u>	<u>7,699,375</u>
	<u>7,699,375</u>	<u>7,699,375</u>
Less: Provision for permanent diminution in value of "long term investment"	<u>7,699,375</u>	<u>7,699,375</u>
	(I) —	—
Current Investment		
(At lower of cost and market value)		
Balance of unutilised monies of IPO		
Non trade investments (quoted)		
In mutual funds	(II) <u>13,377</u>	<u>10,070,800</u>
[Market value Rs. 13,383		
(Previous year Rs. 10,142,806)]		
Total	(I) + (II) <u>13,377</u>	<u>10,070,800</u>
SCHEDULE - 6		
SUNDRY DEBTORS		
Debts outstanding for a period exceeding six months		
Unsecured, considered good	48,569,798	889,528
Considered doubtful	<u>20,682,782</u>	<u>1,917,483</u>
	69,252,580	2,807,011
Other Debts		
Unsecured, considered good	272,538,815	52,817,329
Considered doubtful	<u>3,433,143</u>	<u>440,992</u>
	275,971,958	53,258,321
	<u>345,224,538</u>	<u>56,065,332</u>
Less : Provision for doubtful debts	<u>24,115,925</u>	<u>2,358,475</u>
Total	<u>321,108,613</u>	<u>53,706,857</u>
SCHEDULE - 7		
CASH AND BANK BALANCES		
Cash on hand	123,241	38,560
Balances with scheduled banks on:		
Current accounts	95,372,555	130,062,714
Deposit accounts	90,250,283	10,055,329
Margin money	—	22,100,000
Unpaid dividend accounts	321,860	323,635
Unpaid IPO refund accounts	210,459	255,569
Balance with other banks on:		
Current Accounts	46,289,433	6,165,780
Deposit Accounts	<u>62,962,832</u>	<u>13,010,415</u>
	295,407,422	181,973,442
Balance of unutilised monies raised by issue in deposit accounts with scheduled banks	<u>87,253,376</u>	<u>142,664,478</u>
Total	<u>382,784,039</u>	<u>324,676,480</u>

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2006

Amount in Rupees

	As at March 31, 2006	As at March 31, 2005
SCHEDULE - 8		
OTHER CURRENT ASSETS		
Interest accrued on fixed deposits	540,455	359,535
Total	<u>540,455</u>	<u>359,535</u>
SCHEDULE - 9		
LOANS AND ADVANCES		
(Unsecured considered good except stated otherwise)		
Loan to Four Soft Limited employee welfare trust	401,815	25,000
Advances recoverable in cash or in kind or for value to be received	126,459,771	6,536,181
Deposits - others	8,724,983	4,272,883
Advance income tax (net of provision)	<u>22,808,631</u>	<u>2,056,994</u>
	158,395,200	12,891,058
Unsecured, considered doubtful		
Advances recoverable in cash or in kind or for value to be received	<u>759,467</u>	—
	159,154,667	12,891,058
Less: Provision for doubtful advances	<u>759,467</u>	—
Total	<u>158,395,200</u>	<u>12,891,058</u>
SCHEDULE - 10		
LIABILITIES		
Sundry creditors		
Dues to small scale industrial undertakings	—	—
Dues to other than small scale industrial undertakings	<u>444,428,573</u>	<u>64,171,035</u>
	444,428,573	64,171,035
Advance from customers	95,873,733	19,143,832
Unclaimed dividends	321,860	323,635
Application moneys due for refund	210,569	255,569
Other liabilities	<u>101,521,842</u>	<u>3,638,293</u>
Total	<u>642,356,577</u>	<u>87,532,364</u>
SCHEDULE - 11		
PROVISIONS		
For retirement benefits	15,752,355	3,596,778
For income tax	24,082,178	8,051,032
For fringe benefit tax	187,793	—
For proposed dividends	27,133,237	—
For tax on proposed dividend	<u>3,805,436</u>	<u>—</u>
Total	<u>70,960,999</u>	<u>11,647,810</u>

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

Amount in Rupees

	For the Year ended March 31, 2006	For the Year ended March 31, 2005
SCHEDULE - 12		
MISCELLANEOUS EXPENDITURE		
(to the extent not written off or adjusted)		
Preliminary Expenses	507,975	715,261
Add: Exchange differences	9,064	(17,590)
	517,039	697,671
Less: Written off during the year	128,855	192,766
Less: Exchange differences	—	(3,070)
	388,184	507,975
Deferred patents & trade marks	114,850	177,492
Less: Written off during the year	63,000	62,642
	51,850	114,850
Deferred employee expenses	—	940,234
Less: Written off during the year	—	940,234
	—	—
Total	440,034	622,825
SCHEDULE - 13		
SALES		
Off shore development	144,514,165	103,412,824
On site development	622,329,597	40,411,835
Annual maintenance services	87,100,626	20,516,246
Sale of licenses	36,628,535	33,115,624
Income from sale of third party licenses (net)	9,985,817	1,763,345
Total	900,558,740	199,219,874
SCHEDULE - 14		
OTHER INCOME		
Interest on fixed deposits (gross)	4,226,408	3,359,540
Profit on sale of investments	789,694	704,688
Dividend income from non trade investments - short term	6,951,872	5,874,606
Miscellaneous income	22,189,391	2,670,034
Liability no longer required written back	71,079	406,726
Exchange rate fluctuation gain (net)	7,388,369	—
Prior period income (net)	—	286,764
Total	41,616,813	13,302,358
SCHEDULE - 15		
PERSONNEL EXPENSES		
Salaries, wages and bonus	501,420,165	80,895,847
Contribution to retirement benefits	17,197,502	2,434,580
Contribution to provident fund and others	50,895,846	4,427,106
Employee stock compensation expenses	11,213,909	2,539,303
Staff welfare expenses	13,215,499	1,265,543
Total	593,942,921	91,562,379

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

Amount in Rupees

	For the Year ended March 31, 2006	For the Year ended March 31, 2005
SCHEDULE - 16		
OPERATING AND OTHER EXPENSES		
Rent	30,534,873	4,278,639
Fee, rates and taxes	2,864,277	718,739
Office maintenance	12,984,275	2,889,474
Auditors' remuneration	2,686,370	659,216
Implementation expenses	1,660,646	—
Advertisement and recruitment	7,582,110	1,288,874
Business promotion	7,190,450	1,024,067
Communication costs	20,404,021	2,900,453
Postage and courier	2,457,747	324,268
Insurance	6,819,164	1,238,463
Electricity and water charges	7,150,314	1,737,548
Travelling and conveyance	73,618,567	22,182,504
Legal and professional fees	17,451,015	7,416,948
Commission to other than sole selling agents	771,813	581,196
General meeting expenses	397,621	278,807
Bad and doubtful debts written off	277,266	930,092
Provision for doubtful debts	9,420,575	2,371,579
Provision for doubtful advances	759,467	—
Donations	97,924	20,635
Provision for diminution in value of investments	—	7,699,375
Loss on sale of fixed asset	—	2,469
Exchange rate fluctuation loss	—	2,254,668
Prior period expenses (net)	641,826	—
Miscellaneous expenses	14,907,587	202,710
Total	<u>220,677,908</u>	<u>61,000,724</u>
SCHEDULE - 17		
FINANCE CHARGES		
Interest		
- on banks	19,234,721	—
- on others	238,533	—
Bank Charges	8,071,631	432,585
Total	<u>27,544,885</u>	<u>432,585</u>

Consolidated Cash Flow Statement for the year ended 31ST March, 2006

Amount in Rupees

	2005-2006	2004-2005
A. Cash flow from operating activities		
Net profit before taxation, and extraordinary items	77,731,509	50,935,833
Adjustments for:		
Depreciation	22,086,475	8,335,303
Employee stock compensation expenses	11,213,909	2,539,303
Provision for diminution in value of investments	—	7,699,375
Profit on sale of non trade current investments	(789,694)	(704,688)
Provision for retirement benefits	2,374,799	2,358,977
Foreign exchange loss/(gain)	39,103	(1,274,064)
Interest income on fixed deposits	(4,226,408)	(3,359,540)
Dividends from non trade current investments	(6,951,872)	(5,874,606)
Miscellaneous expenditure written off	191,855	255,408
Provision for doubtful debts	9,697,841	3,301,671
Provision for doubtful advances	759,467	—
Interest expense	27,544,885	—
Loss on sale of fixed assets	—	2,469
Operating profit before working capital changes	139,671,869	64,215,441
Movements in working capital :		
Increase in sundry debtors	(126,888,026)	(15,693,382)
Decrease/(increase) in loans and advances	288,776,856	(2,640,015)
(Increase)/decrease in current liabilities	(118,201,358)	9,595,224
Cash generated from operations	183,359,341	55,477,268
Direct taxes paid (including fringe benefit tax)	(37,734,179)	(2,609,834)
Net cash generated from operating activities	145,625,162	52,867,434
B. Cash flows from investing activities		
Purchase of fixed assets	(29,605,558)	(38,011,714)
Payments for net assets acquired of subsidiaries, net of cash	(722,782,790)	(20,433,116)
Advance for investment	(276,049)	(728,896)
Payment towards finance lease obligation	(204,724)	—
Sale (purchase) of short term investments	10,847,117	(9,366,112)
Interest received	4,045,488	3,290,112
Dividends received	6,951,872	5,874,606
Net cash used in investing activities	(731,024,644)	(59,375,120)

Consolidated Cash Flow Statement for the year ended 31ST March, 2006

Amount in Rupees

	2005-2006	2004-2005
Contd...		
C. Cash flows from financing activities		
Proceeds from issuance of share capital	247,428,529	1,119,068
Proceeds from long-term borrowings	426,999,303	—
Interest paid	(27,544,885)	—
Dividends paid	—	(7,642,563)
Tax on dividends paid	—	(1,020,668)
Net cash generated from / (used in) financing activities	646,882,947	(7,544,163)
D. Effect of exchange rate changes on cash and cash equivalents	(3,273,799)	(795,222)
Net increase/(decrease) in cash and cash equivalents (A + B + C + D)	58,209,666	(14,847,071)
Cash and cash equivalents at the beginning of the year	324,676,480	340,023,950
Cash and cash equivalents at the end of the year	<u>382,886,146</u>	<u>325,176,879</u>

Notes:**1. Cash and cash equivalents include:**

Cash and bank balances	294,998,344	181,432,798
Unpaid dividend accounts	321,860	323,635
Unpaid public issue refund accounts	210,459	255,569
Balance of unutilised monies raised by issue	87,253,376	142,664,478
Cash and cash equivalents as per Balance Sheet	382,784,039	324,676,480
Effect of unrealised exchange gain as on the Balance Sheet date	102,107	500,399
Cash and cash equivalents considered for Cash Flows	<u>382,886,146</u>	<u>325,176,879</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 S.R.Batliloi & Associates

Chartered Accountants

Per

Ali Nyaz

Partner

Membership No. 200427

Place : New Delhi

Date : 26th August, 2006

For and on behalf of the Board of Directors of Four Soft Limited

Palem Srikanth Reddy
CEO & Managing Director

Naresh Patro
Company Secretary

Place : Hyderabad

Date : 26th August, 2006

P. Mangamma
Director

Biju S. Nair
Vice President - Finance

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE 19

Summary of Significant Accounting Policies and Notes to Consolidated Accounts for the year ended and as at March 31, 2006

I. Statement of Significant Accounting Policies

(a) Basis of Consolidation

The Consolidated Financial Statements of Four Soft Limited ("FSL" or "the parent") together with its subsidiaries (a) Four Soft UK Limited, UK, (b) Four Soft N.L B.V., The Netherlands (c) Four Soft USA Inc., USA, (d) Four Soft Germany GmbH, Germany (e) Four Soft Sdn Bhd, Malaysia (f) Four Soft Singapore Pte Limited, Singapore (g) Four Soft B.V., The Netherlands and (h) Four Soft LLC, USA (collectively termed as "the Group" 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 applied by the Company 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 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 following wholly owned subsidiaries have been considered for the purpose preparation of consolidated financial statements:

Names of the Consolidated Entities	Country of Incorporation	Date of acquisition
Four Soft LLC	United States of America	Not applicable
Four Soft B.V., The Netherlands (Formerly known as CargoMate B.V.)	The Netherlands	October 1, 2004
Four Soft Singapore Pte Limited (Formerly known as Comex Frontier Pte Limited)	Singapore	May 28, 2005
Four Soft Malaysia Sdn Bhd (Formerly known as MyComex Sdn.)	Malaysia	May 28, 2005
Four Soft NL B.V. (Formerly known as DCS Transport and Logistics Solutions, B.V.)	The Netherlands	September 2, 2005
Four Soft UK Limited (Formerly known as DCS Transport and Logistics Solutions, Limited.)	United Kingdom	September 2, 2005
Four Soft USA Inc. (Formerly known as H.B. Ulrich & Associates, Inc.)	United States of America	September 2, 2005
Four Soft Germany GmbH (Formerly known as DCS Transport and Logistik Solutions Deutschland GmbH.)	Germany	September 2, 2005

(b) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use.

(c) Capital Work in Progress

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

(d) Impairment

The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

(e) Depreciation

Depreciation is provided using the Written Down Value Method as per the useful lives of the assets estimated by the management, or at the rates prescribed under schedule XIV to the Companies Act, 1956 ("the Act") whichever is higher, except fixed assets of the subsidiaries which are depreciated over the estimated useful lives, using the "Straight Line Method". Lease hold improvements and assets acquired on finance lease are depreciated on written down value basis over the lease period of three years.

(f) Intangible Assets**Software licenses**

Intangible assets in the nature of software licenses are stated at cost including expenditure incurred towards implementation of such software and are amortized over the estimated useful life of six years, using written down value method except in the case of intangible assets of subsidiaries which are depreciated over the estimated useful lives not exceeding three to five years using the "Straight Line Method".

Research and Development Costs

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Goodwill

Goodwill represents the excess of purchase consideration over the net book value of assets acquired at cost. Goodwill is evaluated periodically for impairment and impairment losses are recognized where applicable.

(g) Leases

Finance leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased assets, are capitalized at the lower of the fair value and present value of the minimum lease payments at the inception of the lease and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalised. If there is no reasonable certainty that the Company will obtain the ownership by the end of the lease term, capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets, are classified as operating leases. Operating lease payments are recognized 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.

Sale of software licenses and software services

Revenue from the sale of user licenses for software applications is recognised on delivery or subsequent milestone schedule as per the terms and contract with the customers. 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 services on fixed-priced and fixed time frame contracts is recognized on completion and delivery of services to the customers when the outcome of the contract cannot be assessed with reasonable certainty or on proportionate completion method when there is no significant uncertainty exists regarding the amount of consideration that will be derived from rendering the services. Cost incurred in excess of billing is classified as unbilled revenue while billing in excess of costs and earnings is classified as unearned revenue.

Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rates applicable.

Dividends

Revenue is recognised when the Company's right to receive payment is established by the balance sheet date.

(j) Foreign currency transactions**(i) Initial Recognition:**

Foreign currency transactions are recorded in the reporting currencies of the respective consolidated entities, by applying to the foreign currency amount the exchange rate between the reporting currencies of respective consolidated entities and the foreign currencies 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. Exchange differences arising in respect of fixed assets acquired by the parent Company from outside India are capitalized as a part of fixed asset.

(k) Foreign currency translation

Effective for accounting period commencing 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 LLC, USA, as "non-integral foreign operations".

Exchange gain or losses arising on translation of financial statements of overseas subsidiaries is charged to profit and loss account, except where the subsidiaries are designated as non-integral foreign operations. Exchange difference relating to non-integral foreign operations are disclosed as "Foreign Currency Translation Reserve Account" in the consolidated Balance Sheet.

(l) Retirement and other employee benefits

- (i) Retirement benefits in the form of Provident Fund Scheme are charged to the Profit and Loss Account of the year when the contribution to the respective funds are due. There are no other obligations other than the contribution payable to the respective funds.
- (ii) Gratuity liability under the Payment of Gratuity Act, 1972 and provision for leave encashment are accrued and provided for on the basis of an actuarial valuations made at the end of each financial year.
- (iii) In respect of Four Soft B.V. and Four Soft N.L. B.V., The Netherlands 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.
- (iv) In respect of Four Soft UK Limited, a defined contribution pension scheme for employees is maintained by the Company. The assets of the scheme are held separately from those of the Company. The annual contributions payable are charged to the profit and loss account and there are no other obligations other than the contribution payable to the respective funds.

(m) 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.

(n) Taxes on income

Tax expense comprises of current, deferred and fringe benefit tax where applicable. Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with respective countries Income Tax Act. 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 realised.

(o) Earnings per share

Basic earnings per share are calculated by dividing the net profit for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year.

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

(p) Provisions

A provision is recognised when the Group 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.

(q) 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.

(r) 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

The Consolidated Profit and Loss Account for the year ended March 31, 2006 includes Rs.10,578,090 (Previous Year Rs.685,485) and Rs.15,352,517 (Previous Year Rs.1,660,956) towards depreciation and retirement benefits respectively measured using accounting principles different from the related accounting policies adopted by the parent.

3. Acquisition of wholly owned subsidiaries

Effective May 28, 2005, FSL has acquired entire outstanding share capital of Four Soft Singapore Pte Limited (formerly known as Comex Frontier Pte Limited) and Four Soft Malaysia Sdn Bhd (formerly known as MyComex Sdn). Further, Effective September 2, 2005, Four Soft B.V., The Netherlands, the wholly owned subsidiary of FSL acquired entire outstanding share capital of the following companies:

- a. Four Soft NL, B.V. (formerly known as DCS Transport and Logistics Solutions, B.V.);
- b. Four Soft UK Limited (formerly known as DCS Transport and Logistics Solutions Limited)
- c. Four Soft Germany GmbH (formerly known as DCS Transport and Logistik Solutions Deutschland GmbH)
- d. Four Soft USA Inc. (formerly known as H.B. Ulrich & Associates, Inc.)

Excess of purchase price over the book value of net assets acquired has been recorded as Goodwill in the Consolidated Financial Statements. Transactions relating to Profit and Loss Account of the acquired entities have been included in the Consolidated Profit and Loss Account from the effective date of acquisitions.

The interest of the Group in the book value of net assets of the acquired entities and resulting goodwill based on the unaudited financial statements of such subsidiaries as on the date of acquisitions is as given hereunder:

l) Goodwill paid on acquisition of Four Soft Singapore Pte Limited and Four Soft Malaysia Sdn.

		(Amount in Rs)
Purchase consideration	A	56,979,225
Adjustment of book value of net assets/liabilities		
Assets		
Fixed assets, net	326,394	
Sundry debtors	9,073,279	
Cash and bank balances	4,095,310	
Loans and advances	1,273,786	
	14,768,769	
Liabilities		
Current liabilities	20,366,947	
Book value of net liabilities acquired	B	5,598,178
Goodwill	C=A+B	62,577,403

- II) Goodwill paid on acquisition of Four Soft NL, B.V., Four Soft UK Limited, Four Soft Germany GmbH and Four Soft USA Inc.

		(Amount in Rs.)
Purchase consideration	A	951,514,536
Adjustment of book value of net assets/liabilities		
Assets		
Fixed assets, net	28,326,550	
Sundry debtors	141,075,288	
Cash and bank balances	17,139,409	
Loans and advances	412,362,178	
	598,903,425	
Liabilities		
Current liabilities	415,678,138	
Provisions	20,229,480	
	435,907,618	
Book value of net assets acquired	B	162,995,807
Goodwill	C=A-B	788,518,729

Summary of post acquisition profits of the acquired entities included in the Consolidated Profit and Loss Account for the year ended March 31, 2006

	(Amount in Rs.)
Revenues	730,555,684
Expenses	693,940,121
Net Profit considered in the Consolidated Financial Statements for the year ended March 31, 2006	28,292,183

The assets and liabilities of the acquired entity included in the Consolidated Balance Sheet as at March 31, 2006 are:

	(Amount in Rs.)
Liabilities	
Secured loan	426,999,303
Assets	
Fixed assets (Net)	25,171,326
Deferred tax assets	5,162,515
Net current assets	157,450,404

4. Goodwill

- a. Pursuant to the terms and conditions of the amended share purchase agreement for acquisition of 100% shares of Four Soft B.V. The Netherlands (formerly known as CargoMate B.V.), the Company has paid an additional purchase consideration of Rs. 3,710,000 to the former owners of Four Soft B.V. The Netherlands. Accordingly, the carrying value of goodwill is adjusted to the extent to such additional consideration paid.
- b. In May 2005, the Company had entered into a Share Purchase Agreement with Skyvest International Limited, Singapore for purchase of 100% outstanding shares of Comex Frontier Pte Ltd., Singapore (renamed as Four Soft Singapore Pte Ltd.) and MyComex Sdn. Bhd., Malaysia (renamed as Four Soft Malaysia Sdn. Bhd) in consideration not exceeding of SG \$ 2,100,000, beside, the price protection as stated below. Further, while the fixed purchase consideration of SG\$ 2,100,000 has been duly accounted for, the differential price, if any, will be determined and accounted based on the average revenues of the acquired entities over a period of 36 months ending March 31, 2007.

In respect of purchase consideration payable in the form of equity shares of the Company and where the actual issue price, determined in accordance with the relevant guidelines issued by the Securities and Exchange Board of India ("the SEBI"), is higher or lower than Rs. 42, the price protection, offered up to maximum of Rs. 8 per share shall be paid in cash. No liability has been recorded for such price protection as the actual liability, if any would be determined only at the time of issue of shares as on October 2006 and October 2007, as per the terms of share purchase agreement. The carrying value of goodwill as at March 31, 2006 will be adjusted in the subsequent year to the extent of additional consideration payable if any.

5. Employee Stock Compensation

- (a) The Company has established Four Soft Limited Employees Welfare Trust ("the Trust") to administer the ESOP Scheme and as at March 31, 2006 had issued 1,170,200 equity shares of Rs. 5 each, including 217,200 equity shares issued pursuant to issue of bonus shares in 2003. Pursuant to the ESOP Scheme the trust has granted, 618,175 (Previous year 645,240) equity shares at an exercise price of Rs. 5 each to the eligible employees, which are subject to progressive vesting over a period of three years from the date of the grant. As of March 31, 2006 the total shares held by the Trust is 1,094,837 (previous year 1,170,200).
- (b) During the year ended March 31, 2006 the Company has amortized stock compensation expenses amounting to Rs. 11,213,909 (Previous Year Rs. 2,539,303).
- (c) Changes in number of shares representing stock options outstanding as at the year ended on March 31, 2006 were as follows:

	Year Ended March 31, 2006		As at March 31, 2005	
	Number of shares	Weighted average exercise price (Rs)	Number of shares	Weighted average exercise price (Rs)
Outstanding at the beginning of the year	460,828	5	-	Nil
Granted during the year	618,175	5	645,240	5
Forfeited during the year	60,032	5	184,412	5
Exercised during the year	75,363	5	Nil	5
Expired during the year	Nil	5	Nil	5
Outstanding at the end of the year	943,608	5	460,828	5
Exercisable at the end of the year	Nil	5	Nil	-

- (d) In March 2005 the ICAI has issued a guidance note on "Accounting for Employees Share Based Payments" applicable to employee based share plan the grant date in respect of which falls on or after April 1, 2005. The said guidance note requires that the Proforma disclosures of the impact of the fair value method of accounting of employee stock compensation accounting in the financial statements. Applying the fair value based method defined in the said guidance note, the impact on the reported net profit and earnings per share would be as follows:

	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
Profit as reported	59,409,276	41,458,593
Add: Employee stock compensation under intrinsic value method	11,213,909	2,539,303
Less: Employee stock compensation under fair value method	(12,722,422)	(2,592,540)
Proforma profit	57,900,763	41,405,356
Earnings Per Share		
Basic		
- As reported	1.79	1.35
- Pro forma	1.75	1.35
Diluted		
- As reported	1.76	1.33
- Pro forma	1.72	1.33

- (e) The weighted average fair value of the stock options granted during the year was Rs.65.58 (Previous year: Rs. 15.07). The fair value of options was estimated at the date of grant using the Black Scholes method with the following assumptions:

	Assumptions	
	2006	2005
	(Rs)	(Rs)
Risk-free interest rate	7.50%	7.00%
Expected life	1 to 3 Years	1 to 3 Years
Expected volatility	0.642	0.667
Expected dividend yield	1.06%	1.27%

The weighted average share price at the date of exercise for stock options exercised during the year was Rs. 72.35. Options outstanding at March 31, 2006 had an exercise price of Rs. 5, and a weighted average remaining contractual life of 18.60 months.

6. Related party transactions

List of related Parties

Names of the related parties	Country	Nature of relationship
Four Soft Logistics Software (Shanghai) Limited	China	Joint Venture
Four Soft International Incorporated	USA	Joint Venture
Four Soft Employee Welfare Trust	India	Controlling interest
Palem Srikanth Reddy	India	Key Management Personnel
Biju Nair	India	Key Management Personnel
Sonata Information Technology Limited	India	A company over which the key management personnel exercise Significant influence

Details of related party transactions entered into by the Company during the year ended March 31, 2006 and closing balance as at March 31, 2006 are as follows:

Particulars	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
Joint Ventures		
Four Soft Logistics Software (Shanghai) Limited		
(a) Advance given for investment	276,049	728,896
(b) Provision for doubtful advances	759,467	
Four Soft International Inc, USA		
(a) Provision for diminution in the value of investment	Nil	7,699,375
Managing Director and Key Management Personnel		
(a) Remuneration to Key Management Personnel	2,695,762	3,928,785
A company over which the key management personnel exercise Significant influence Sonata Information Technology Limited		
(a) Purchase and implementation of enterprise resource program	1,800,000	Nil
(b) Purchase of license	819,880	Nil
Others		
Four Soft Employee Welfare Trust		
(a) Loan	Nil	4,790,000
Debit/ (Credit) balance outstanding		
	As at March 31,	
	2006	2005
	(Rs)	(Rs)
Four Soft Logistics Software (Shanghai) Limited	245,478	728,896
Sonata Information Technology Limited	(358,767)	Nil
Four Soft Employee Welfare Trust	4,790,000	4,790,000
Managing Director and Key Management Personnel	(1,295,605)	(633,975)

In 2005-06, the Company has also granted 5,000 (Previous year 46,400) stock options to the key management personnel under the ESOP Scheme of the Company.

7. Leases**Finance Leases**

Furniture and fittings includes furniture obtained under the finance lease arrangement. The lease term is for a period of three years and renewable for further three years at the option of the Company. There is no escalation clause and no restrictions are imposed by the lease arrangements. There are no subleases.

	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
Total minimum lease payments at the year end	3,840,939	Nil
Less : amount representing finance charges	1,136,689	Nil
Present value of minimum lease payments (Rate of interest: 26.89% p.a.)	2,704,250	Nil
Minimum Lease Payments :		
Not later than one year [Present value		
Rs. 758,954 as on 31.3.2006 (Rs. Nil as on 31.3.2005)]	1,391,790	Nil
Later than one year but not later than five years [Present value		
Rs. 1,949,296 as on 31.3.2006 (Rs. Nil as on 31.3.2005)]	2,449,149	Nil
Later than five years [Present value Rs. Nil as on 31.3.2006		
(Rs. Nil as on 31.3.2005)	Nil	Nil

Operating Leases

The Company has entered into operating lease agreements for its development centers for periods 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:

	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
Lease payments for the year	30,534,873	2,773,876
Minimum Lease Payments:		
Not later than one year	31,561,547	1,927,310
Later than one year but not later than five years	95,090,746	Nil
Later than five years	265,496,392	Nil

8. Deferred tax**(a) Liability**

Deferred tax liability amounting to Rs. 2,291,333 (Previous year Rs. 1,484,620) represents differences in depreciation and other differences in block of fixed assets as per tax books and financial books of FSL originated as at year end reversing after the tax holiday period.

(b) Assets

Deferred tax assets amounting to Rs. 5,162,515 (Previous year Rs. Nil) represents excess of taxation allowances over depreciation on fixed assets in respect of Four Soft UK Limited.

9. Secured Loan

Term loan of the subsidiary company is secured by:

- First ranking mortgage on all immovable assets of Four Soft B.V., The Netherlands, Four Soft NL, B.V., Four Soft UK Limited, Four Soft Germany GmbH and Four Soft USA Inc.
- First ranking hypothecation on all movable assets (including intangibles) of the Four Soft B.V., The Netherlands, Four Soft NL, B.V., Four Soft UK Limited, Four Soft Germany GmbH and Four Soft USA Inc.

- c. Exclusive charge on all movable fixed assets of FSL, pending for creation of charge.
- d. Pledge to be created in respect of FSL's investment in the share capital of Four Soft B.V.
- e. Pledge of shares held by Four Soft B.V. The Netherlands of Four Soft NLBV, Four Soft UK Limited, Four Soft Germany GmbH and Four Soft USA Inc.

10. Research and development

During the year ended March 31, 2006 the Company has incurred expenses amounting to Rs. 28,297,090 (Previous Year Rs. 18,973,445) towards research and development included under various heads of expenses.

11. Setting up of a Joint Venture in China

Loans and advances as at March 31, 2006 include advance amounting to Rs. 245,478 (Previous year: Rs. 728,896), net of provision for doubtful advances Rs. 759,467 (Previous year Rs. Nil) given for setting up of a Joint Venture in 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. Management of the Company has deferred its plan to set up such Joint Venture and is in the process of complying with the provisions of the said regulations.

12. Liabilities

Sundry creditors include Rs. 8,753,850 (Previous year Rs. 9,975,000) payable towards purchase consideration for shares of Four Soft Singapore Pte Limited (Previous year Four Soft BV, The Netherlands). This amount is payable after 12 months from the balance sheet date.

13. Un-hedged Foreign Currency Exposure

Particular	Amount Rs.	Foreign Currency	Foreign Currency Amount	Closing exchange rate
Foreign Debtors	33,208,113	US\$	750,805	44.23
	130,834	Singapore \$	4,803	27.24
	2,657,702	Euro	49,584	53.60
	1,654,100	Malaysian Ringgit	139,000	11.90
Payable towards purchase consideration of investments	9,565,500	Euro	175,000	54.66
	12,875,499	SGD	463,314	27.79
	263,968,809	GBP	3,400,000	77.64
Secured loans	426,999,303	GBP	5,500,000	77.64

14. Capital Commitments

Estimated amounts of contracts remaining to be executed on capital account and not provided for as at March 31, 2006 by the Company are Rs. 372,800 (Previous year: Rs. 89,891).

15. Contingent Liabilities not provided for

	As at March 31,	
	2006 (Rs)	2005 (Rs)
Claims against the Group not acknowledged as debts	Nil	1,756,400
Guarantees given by the Group	698,116,000	20,065,500
Income Tax in respect of Assessment Year 2003-2004 in respect of which the company has gone on appeal. The management is of the opinion that appeal is likely to be accepted by appellate authorities.	2,829,896	120,984

Contingent liability in respect of additional purchase consideration payable due to price protection offered to Skyvest International Limited, the financial effect of which is not measurable (refer note 20 (b) to schedule 17).

In accordance with the notification issued by the Employee Provident Fund Office, the Company may be required to contribute Provident Fund on amounts paid towards encashment of leave by employees from its inception to April 30, 2005. However, no provision was recorded in the books of accounts as the Company's liability towards provident fund is presently not determinable.

16. Managing Director's Remuneration

	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
Salaries	240,000	240,000
Perquisites	237,463	153,322
Commission on net profit	1,192,434	849,124
Contribution to provident fund and other funds	28,800	28,800
	1,698,697	1,271,246

17. Earnings Per share

	Year ended March 31,	
	2006 (Rs)	2005 (Rs)
Net Consolidated profit as per consolidated profit and loss account (Amount in Rs)	59,409,276	41,458,593
Weighted average number of equity shares in calculating basic EPS (number)	33,141,978	30,694,594
Effect of dilutive equity shares (number)	559,410	433,489
Weighted average number of equity shares in calculating diluted EPS (number)	33,701,388	31,128,083

The Institute of Chartered Accountants of India has issued guidance note on "Accounting for Employees Share Based Payments" applicable to employee based share plan the grant date in respect of which falls on or after April 1, 2005. In accordance with such guidance note shares allotted to the ESOP Trust pursuant to an employee share based payment plan has not been included in the outstanding shares for computation of basic EPS till the employees have exercised their right after fulfilling the vesting conditions. Until such time the shares so allotted have been considered as dilutive potential equity shares for the purpose of calculating diluted EPS. For the purpose of comparability the number of shares considered for calculating basic and diluted EPS for the year ended March 31, 2005 also has been restated for such treatment.

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"(c) "USA" and (d) Rest of the world.

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

Particulars	For the Year Ended March 31, 2006						Consolidated
	India	Europe	USA	Rest of the world	Total	Eliminations	
REVENUE:							
External sales	141,588,377	629,821,001	90,471,708	38,677,654	900,558,740	—	900,558,740
Inter-segment sales	77,096,778	4,235,766	14,085,743	—	95,418,287	95,418,287	—
Total revenue	218,685,155	634,056,767	104,557,451	38,677,654	995,977,027	95,418,287	900,558,740
RESULT:							
Segment result	24,264,902	74,975,014	(18,659,624)	(16,920,711)	63,659,581	—	63,659,581
Interest expense					35,759,492	8,214,607	27,544,885
Other Income					136,482,953	94,866,140	41,616,813
Income taxes							22,752,781
Deferred taxes							(4,430,548)
Net profit							59,409,276
OTHER INFORMATION as at March 31, 2006							
Segment assets	684,712,913	1,823,132,984	84,104,009	26,873,492	2,618,823,398	740,459,370	1,878,364,028
Segment liabilities	108,105,924	1,637,628,160	57,432,051	48,255,932	1,851,422,067	736,476,345	1,114,945,722
Capital expenditure (including CWIP)	24,140,324	12,286,855	282,876	544,928	37,254,983	—	37,254,983
Depreciation	11,508,385	9,258,159	884,007	435,924	22,086,475	—	22,086,475
Other non-cash expenses	21,017,852	376,100	277,266	—	21,671,218	—	21,671,218

Other Segment Information as at March 31, 2005

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	37,344,241	—	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

19 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 S.R.Batliboi & Associates
Chartered Accountants

Per
Ali Nyaz
Partner
Membership No. 200427

Place : New Delhi
Date : 26th August, 2006

For and on behalf of the Board of Directors of Four Soft Limited

Palem Srikanth Reddy
CEO & Managing Director

Naresh Patro
Company Secretary

Place : Hyderabad
Date : 26th August, 2006

P. Mangamma
Director

Biju S. Nair
Vice President - Finance

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ON CONSOLIDATION BASIS

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 various estimates and judgments used therein. 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 profits for the year.

The following discussion may include forward looking statements which may involve risks and uncertainties, including but not limited to the risks inherent to Company's growth strategy, dependency on certain clients, dependency on availability of qualified technical personnel and other factors discussed in this report.

1. Industry Structure and Developments

1.1 Four Soft operates in a niche domain of Supply Chain Management solutions for Transportation, Logistics, Freight Forwarding and Distribution Business. These solutions improve efficiency, visibility and integration to third party software and systems, in the entire supply chain. The Company product development (India Technology Centre) and Global Delivery centre is located at Hyderabad with sales and support offices in UK, Netherlands, USA, Singapore and China. Four Soft continues to be a global leader in Supply Chain Execution Solutions provider, for Freight Forwarding and Transportation domain.

2. Opportunities and Threats

2.1 Growth through Organic and Inorganic Mode

Four Soft has shown remarkable increase in its revenues and profit before tax, as a result of inorganic and organic growth. In software product business working in high technology growth area, inorganic growth is best preferred. However we try to grow organic business, our license sales is linked to growth in business of customers. We offer the breadth of product suite offering to our existing customers.

Our customers continue offering value added services in multiple geographies to their customers, we endeavor to offer new service offerings built around our products to cover all the value added services. Most of our business comes from existing customer base.

Inorganic growth is a key element in our exponential growth. We have proactively approached few key companies and have resulted in identifying and acquiring divisions of companies this year. The latest acquisition of UK Major Transport and Logistics Division is key example. This

acquisition gave us the European presence, which enhances our brand, product suite, domain expertise and customer base. The fact is we have achieved global leadership with this acquisition. The next steps going forward, is to identify the key markets, product strategy and cross selling our products etc., The next step is to conduct a gap analysis and pin point the main areas for improvement of product offering and strategize our products to the needs of customers through technology innovation and product offerings. Further the acquisition address the issues, through identification of key target companies and conclude the transactions. We have done three acquisitions in the last two years and continue to look out for more opportunities at appropriate time.

2.2 Market Opportunity

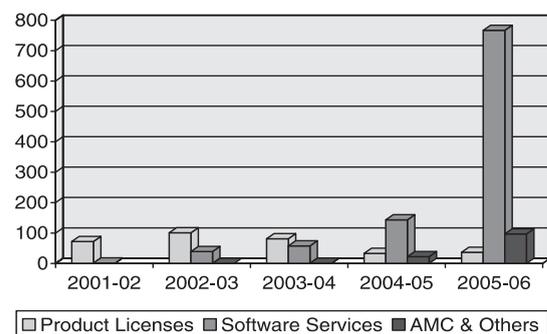
With the recent acquisitions and broad product suite offering covering solutions for Transportation, Logistics, 3PL/4PL providers, Distribution Industry, 4S solutions for Freight forwarding industry, Customs brokerage, Contract Logistics, Shipper Logistics and Services. These offerings built on latest internet technologies, using advanced J2EE technology gives us the best offering in the industry and thus provides an opportunity for product offerings in this domain.

With the growing complexity of operations in this domain, it is extremely important to get the real-time visibility in the supply chain execution and ensure that information moves seamlessly across the supply chain, including internal systems and external multiple systems. The current market demand for WMS solutions is expected to grow 8 to 10% year on year for the US\$ 2.25 billion market.

3. Business Segments and Industry Outlook

3.1 Business Segments

Four Soft offers custom developed software solutions apart from product licenses. The prime growth area in business is software solutions for the transportation and logistics domain.



The Software Products offered by Four Soft are 4S eTrans, 4S eLog, 4S eSupply, 4S iLogistics, 4S iDrive, and 4S Visilog. During the current year the company has plans to launch two new product or revenue segments 3Plex and 4S eCustoms.

Freight Forwarding Solutions

Built on the cutting edge technology of J2EE, Spring & SOA architecture; 4S eTrans is a multi-modal, web-centric application for transportation companies - designed to give operational and financial control of global & domestic freight movements, from order to cash.

4S eTrans is offered for Large, Medium and Small customers and provides real time data visibility and improved operational profitability. The SME version provides solutions for Small and Medium Enterprises.

4S iLogistics built on IBM iSeries, provide solutions for Freight and logistics business of global organizations.

Contract Logistics

4S suite of products built for logistics service providers extends well beyond the capability of traditional warehouse and inventory management systems by integrating supply, fulfillment and partner collaboration into one enterprise service platform. The WMS module contains all the functionality required by warehousing and distribution organizations. Its distributed processing approach supports a wide variety of facilities, including hub-and-spoke distribution centers. These capabilities help a 3PL meet the demands of continuous replenishment strategies while lowering inventory and shipping costs, and increasing visibility into the supply chain.

The solutions in the offering include 4S eLog a web centric application that fulfils warehousing and contract logistics for 3PL companies with capabilities to handle order management, fulfillment and partner collaboration.

The eSupply is a mid market application for logistics service providers, capable of freight movements, warehouse management, order management, order management, Local distribution and invoicing.

Shipper Logistics

Four soft Shipper Logistics is a world class business application designed as an efficient solution for managing supply chain activities in the distribution network, whether company owned or out sourced to third parties. It enables step-by-step implementation and can be adapted, as needs change. Its open architecture makes it easy to integrate with other systems and capably extend ERP into supply chain execution.

4S Visilog

VisiLog is designed for the Distribution and Trading Industries to handle business processes like Order

Management, Event Management, Transportation Management (air & sea), etc., and also links various players in the supply chain by providing a real time web centric application, built on the advanced web technology platform of J2EE.

3.2 Customer Base

With the various acquisition last year, the company presently serves 280 customers across 50 countries. Further our clientele includes worlds top 10 Transport and Logistics customers. This gives us the market leadership and enables us to grow significantly and increase our market share and grow significantly with time. Kuhne + Nagel continues to contribute to very large portion of our revenue.

3.3 4S business Model

4S continues on a license its software products on a number of user basis thus increasing growth with continuous license revenues depending on customer business growth. We have sustainable revenue stream through annual support . There is likely increase in revenue from customization services and other value added services, which will give overall increased revenues in the coming years.

(Rs. In millions)				
Year ended March 31	2006	% of Revenue	2005	% of Revenue
Off shore development	144.51	16.05	103.41	51.91
Onsite development	622.33	69.10	40.41	20.29
Support Services	87.10	9.67	20.52	10.30
Software Licenses	36.63	4.07	33.12	16.62
Third Party Licenses	9.99	1.11	1.76	0.88
Total	900.56	100.00	199.22	100.00

3.4 Geographical Mix

Our revenues from North America have been growing steadily. We have considerable increase in revenues in EMEA region, due to large customer base and revenue concentration from European region. The long term potential of our revenue stream is from various geographic regions specified below.

Year ended March 31	2006 %	2005 %
North America	32.00	60.00
EMEA	63.00	32.50
APAC	5.00	7.50
Total	100.00	100.00

3.5 Average Revenue per Employee

In the products & solutions business, our Average revenue per employee, a key measurement for increased productivity and profitability has been increased steadily. The below graph depicts the growth:

Average Rev. per Person Rupees in Million	FY 2003-04	FY 2004-05	FY2005-06
	0.92	0.63	1.54

3.6 Quality

Your company is dedicated to maintain the highest level of quality standards and processes in its development and delivery teams and overall process improvement to achieve the quality certification. Presently the company is ISO 9001:2000 certified.

4. Risks and Concern

"Only those who risk going too far can possibly find out how far they can go." — T.S.Eliot

4.1. Market and competitive Environment

The Transportation and Logistics domain continues to increased consolidation across various geographies. Expecting one of our significant customers consolidating with other entities, who could be using other home grown products or competitor products and could have a negative impact on our business.

Four Soft is focused on this domain and any variations, in this business environment may considerably impact the fortunes of the customers and thus effecting our revenues. Further the company is not focused on one product or service segment for the industry, but offers a wide range or suite or products that may reduce uncertainties on the market size and opportunities etc.,

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 player in the similar business either in US or Asia-pacific to strengthen its local presence.

4.2 Foreign exchange rate fluctuations

Four soft has substantial exposure to foreign exchange risks on account of revenue earnings from software exports. These are presently unhedged and we are taking steps to hedge these risks and mitigate to the extent possible.

4.3 Technology Obsolescence

The software products industry is highly characterized by rapid technological changes that could make our technology and service offerings obsolete, less competitive and difficult to sell. We are adapting ourselves to continuously improve the features, functionality, scalability, robustness and ability to meet the ever changing needs of customers. Our failure to adapt to the challenges would affect our ability to compete and retain customers and market share.

Four Soft has the necessary technical resources, tools and methodologies in place to address the threat of technical obsolescence. We undertake testing the latest available technical tools, architecture in our product development environment.

4.4 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 company 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.

4.5 Acquisitions

Inorganic growth through acquisitions has been the significant element our strategy and recent concluded acquisition is a right example of our growth and path to success of becoming a global leader in this domain. It is critical to manage integration seamlessly across the organization during the acquisition phase, as our ability to serve customers is at higher than expected levels and thus demands our associates contribution to make the acquisitions successful. Most of these acquisitions are at low margin companies and to turnaround them to profitable and higher margin companies is always challenging. We need to continue leveraging the strengths of combined entities. The Company believes that the company has executed the acquisition well with proper strategy and planning. The benefits of these acquisitions will take 12 months to start showing financial results.

4.6 Variability of quarterly operating results

There is likely variance of quarterly operating results of the company due to IT investment trends by customers, achievement of milestones in software projects, additional staffing, timing and integration of acquired businesses, extra-ordinary items like ESOP expenses expensing, foreign exchange fluctuation gain / (loss). The past operating results and quarterly comparisons may not indicate the current or future performance. The company constantly endeavors to safeguard against such risks mitigating through best practices, advanced processes, future proof investments and imparting latest tools and skills to employees, and reasonably well protected against any such risks in future.

4.7 Intellectual Property Infringement

As product development depends on the intellectual property created by its employees and ensure that the same do not infringe any other proprietary technology rights. We have intellectual property policies in place to take care of trade secrets, copyright and trademarks laws and confidentiality agreements for our employees, third parties offering only limited protection. The steps taken by us as well as laws of most advanced countries do not offer effective protection of intellectual proprietary rights. Third parties could claim infringement of proprietary rights against the company or also assert the same against our customers, which would require protracted defense and costly litigations on behalf of our customers.

Litigation may be necessary in the future to protect our technology proprietary rights and trade secrets, resulting in substantial costs and harming our business, despite all our efforts to prevent third parties infringing our proprietary rights.

4.8 Strategy

The company strategy has always been to strengthen our leadership position in this domain irrespective of market dynamics, this will enable us have a global leader positioning, thus increasing our scope of offerings to existing and potential clients. The existing engagement with our clients are mostly offering one or more of our suite of solutions. The company is offering the next level of value added services to its customers. We continue to have recurring business from existing customers along with maintaining a long term relationship. We have continued to expand our global operations through client services across the globe through own offices as well as partners. Currently our presence is in over 11 countries with direct offices and another 4 countries through partner offices. We use these operations to support client services and manage.

We continue to remain investment in employees, technology tools for R&D, recruitment and honing employee skills, increased domain expertise and promote brand visibility through trade shows, sponsorships and investor relations. We also continue to develop alliances with leading technology providers to take advantage of emerging technology for mutual benefit and cost competitiveness.

The current industry we operate is highly competitive in nature, most of the software being in house IT departments, and international companies setting up their offshore development centers in India. However, recently industry ERP majors are also started focusing on this domain, however we continue to lead the pack with technology advantage and proven delivery capabilities and shorter implementation life cycle.

5. Internal Control System and their adequacy

Management maintains internal control systems designed to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with

management's authorization and properly recorded, and accounting records are adequate for preparation of financial statements and other financial information. The internal audit function also carries out Operations Review Audits to improve the processes and strengthen control of the existing processes. The audit committee periodically reviews the functions of internal audit.

Pursuant to the revised Clause 49 of the Listing Agreement, the CEO and CFO have to accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting and that they have disclosed to the auditors and the audit committee, deficiencies in the design or operation of such internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.

The Company's internal audit team under the supervision of audit committee and dedicated professionals assess the adequacy of internal controls and means to enhance the same from time to time. These controls basically cover financial reporting, contingency plans for remedial measures, and validated tools to test controls and functions documented.

6. Culture, values and leadership

Your company is emerging as a global player in Supply Chain for Transportation, Logistics, Distribution and Supply Chain Management execution software. Your company has a written code of conduct and ethics to make employees aware of ethical requirements and whistle blower policy 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

7. Discussion on Consolidated Financial Performance with respect to Operational Performance

A. Financial Condition

I. Share Capital

The Company has only two classes of shares - Equity and Preference Shares. The authorized share capital is Rs. 350 million divided into 5,60,77,600 Equity shares of Rs. 5/- and 6,96,120 Redeemable Preference shares of Rs. 100/- each.

During the year the company increased the authorized Share Capital of the company from Rs. 250 Million to Rs. 350 Million. The company also increased the paid-up share capital from Rs. 154.54 Million to Rs. 176.49 Million by allotment of 43,12,855 equity shares on preferential basis. This includes:

- i. Allotment of 39,49,447 equity shares of Rs. 5 each at a premium of Rs. 58.30 per shares to India Growth Scheme of Kotak SEAF India Fund on preferential basis,
- ii. Allotment 1,46,52 equity shares of Rs. 5/- each at a premium of Rs. 58.30 per share to GMKH Automation BV., Netherlands against acquiring the entire business of M/s. Cargomate International B.V. for consideration on cash and other than cash basis. and
- iii. Allotment of 2,16,884 equity shares of Rs. 5/- each at a premium of Rs. 58.30 per share to Skyvest International Ltd, Singapore against acquiring entire business of M/s. Comex Frontier Pte. Ltd, Singapore for consideration on cash and other than cash basis.

2. Reserves and Surplus

During the year, we recorded a net profit after tax of Rs. 59.49 million (Rs. 41.46 million previous year) out of which Rs. 2.09 million (Rs. Nil previous year) was transferred to general reserve. The total reserves and surplus as at the balance sheet date is Rs. 562.17 million (Rs. 276.97 million previous year). There is an expense of Rs. 12.65 million towards stock option compensation during the year (Rs. 2.54 million previous year).

3. Secured Loan

To complete the last acquisition, the company's Netherlands subsidiary has secured a loan of Rs. 426.99 million from UK based bank (previous year Nil). During the year the company has finance lease obligations of Rs. 2.70 million. The secured loan has been securitized by charge on shares of subsidiaries as well as fixed and current assets of such subsidiary.

4. Fixed Assets

During the year, we added Rs. 1068.86 million to our gross block of assets (previous year 117.08 million) which included infrastructure related expenditure at 6th Floor Cyber Towers, Hi-tech City which accommodate over 200 people. The entire investment in fixed assets was funded out of internal accruals.

We have added additional space at Netherlands, UK, USA and Singapore due to acquisitions abroad.

5. Investments

The company has made strategic investments aggregating Rs. 141.21 Million in subsidiaries and joint venture. During the year, there were no operations of the company's joint venture Four Soft USA inc., the company has provided for permanent diminution in value of long term investments Rs. 7.70 million.

6. Sundry Debtors

Sundry debtors, considered good and realizable as of March 31, 2006 amount to Rs.321.11 million (Rs. 53.71 million previous year). All the debtors are generally considered good and realizable and necessary provisions for doubtful and bad debts have been made. The sundry debtors are 34.08% (25.27% previous year) of total revenues.

The fresh provision for doubtful debts Rs. 24.12 million (Rs. 2.36 million previous year).

7. Cash and Cash Equivalents

The bank balances in India included both rupees accounts and foreign currency accounts. Cash and Bank Balances of Rs. 382.78 million and 324.67 million for the financial year ended 31st March, 2006 and 31st March, 2005 respectively. Cash and bank balance constitute 32.70% of the total assets (74.99% of previous year).

The Company has been putting surplus funds in liquid mutual funds and fixed deposits.

8. Loans and Advances

Advances recoverable in cash, kind or value to be received are primarily towards prepayments for value to be received. Advance income tax, net of provision for taxation represents payment made towards tax liability pending assessments and refunds due.

Deposits represent electricity deposit, telephone deposits and advances to employees. The company has taken several facilities on lease and housing for its staff. Rs. 8.72 million (Rs. 4.27 million previous year).

9. Current Liabilities

Sundry creditors for capital goods represent amount payable to vendors for supply of capital assets. Liabilities also include Rs. 95.87 million (Rs. 19.14 million previous year) towards advance from customers.

10. Provisions

Provision for taxes represent income tax, dividend tax. The provision would be set off upon payment of tax. The proposed dividend represents the dividend recommended by the Board is subject to approval of shareholders, which would be paid after the ensuing AGM.

B. Results of Operations

I. Income

Income from software services and products.

(Rs. In millions)

Year ended March 31	2006	% of Revenue	2005	% of Revenue
Off shore				
development	144.51	16.05	103.41	51.91
Onsite development	622.33	69.10	40.41	20.29
Support Services	87.10	9.67	20.52	10.30
Software Licenses	36.63	4.07	33.12	16.62
Third Party Licenses	9.99	1.11	1.76	0.88
Total	900.56	100.00	199.22	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.

2. Expenditure

The Total expenditure statement is as follows:

Particulars	(Rs. In million)			
	2006	%	2005	%
Total Income	942.18	100.00	212.52	100.00
Personnel Expenses	593.94	63.04	91.56	43.08
Operating and Other Expenses	220.68	23.42	61.00	28.70
Operating Profit	127.56	13.54	59.96	28.21
Interest	27.54	2.92	0.43	0.20
Misc. Expenses W/off	0.19	0.02	0.25	0.12
Depreciation	22.09	2.34	8.33	3.92
PBT	77.73	8.25	50.94	23.97
Prov. For Tax	18.32	1.94	9.47	4.46
Net Profit After Tax	59.41	6.31	41.46	19.51

3. Personnel Expenses

The company incurred personnel expenses at 63.04% of its revenue during fiscal 2006 as compared to 43.08% during the previous year. The personnel expenses increased to Rs.593.94 million from 91.56 million previous year on account of addition of 328 employees including 182 out of acquisitions.

4. Operating and Other Expenses

The company incurred operating and other expenses at 23.42% of its revenue during fiscal 2006 as compared to 28.70% during the previous year. The Company has incurred expenses of Rs.220.68 millions (Rs. 61.0 million previous year)

5. Interest

The company incurred interest expenses at 2.92% of its revenue during fiscal 2006 as compared to 0.20% during the previous year. The increased interest is because of secured loan for acquisition.

6. Operating profits

During the year, the company earned an operating profit (PBIDTA) of Rs. 127.55 million representing 13.54% of total revenues as compared to 59.96 million, representing 28.21% of total revenues during the previous year.

7. Depreciation

The company provided a sum of Rs.22.09 million compared to Rs.8.34 million previous year towards depreciation representing 2.34% and 3.92% of total revenues.

8. Provision for Tax

The present Indian Corporate tax is 35.875% (comprising a base rate of 35% and a surcharge of 2.5% on the base rate). 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, 2010 whichever is earlier.

9. Net Profit

The net profit of the company amounted to Rs.59.41 million and Rs.41.46 million for the years ended March 31, 2006 and 2005. This represents 6.31% and 19.51% of total revenue.

10. 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, 2006, the company had cash and cash equivalents increased by Rs. 382.78 million 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.

11. Earnings per share

Earnings per share are computed on basis of number of common stock outstanding, as on the date of balance sheet which was Rs. 1.79 compared to Rs. 1.35 previous year. The Diluted earnings per share Rs. 1.76 per share compared to Rs. 1.33 per share previous year. Shares available under Four Soft Ltd. Employees Welfare Trust has been fully considered in the calculation of EPS.

12. 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.

13. Foreign Exchange

The Company has an amount of Rs. 7.39 million gain compared to Rs. Rs. 2.25 million loss previous year.

14. Related party transactions

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

FOUR SOFT B.V. NETHERLANDS

(a wholly owned subsidiary of Four Soft Ltd.)

Financial Year

1st April' 2005 - 31st March'2006

Board of Directors

Palem Srikanth Reddy

Regd. Office:

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

Auditors

Hoek en Blok
Accountants

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 year ended 31st March, 2006.

Business Overview

The Board of Directors of your Company are pleased to inform you that the company during the financial year 1st April to 31st March' 2006 has achieved a total revenue of € 2,468,462 (€ 1,661,649 previous year) with an increase of 48.55% and recorded an Net Profit of € 857,481 (€ 244,349 previous year) with an increase of 250%. This is commendable improvement over the previous year.

In September, 2005 your company acquired 100% holding of DCS Transpiration & Logistics, a Division of DCS Group Plc. a UK headquartered Transport & Logistics Software solutions with operations in UK, Netherlands, France, Germany and USA, for approximately Rs 850 million in all cash deal. DCS T&L division was an established global player with strong presence in the European with almost 20% market share. The deal was concluded through a combination of debt from the bank and internal funding from holding 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

Dated : 21st July, 2006
Place : Nieuwegein,
Netherlands

Palem Srikanth Reddy
Director

REVIEW REPORT

To
The Board of Directors
Four Soft B.V. Netherlands

Introduction

In accordance with your instructions we have audited the annual accounts of Fom Soft B.V., Netherlands, for the year 2005/2006. These annual accounts are the responsibility of the company's management. Our responsibility is to issue a report on these financial statements based on our review.

Scope

We conducted our review in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the review to obtain moderate assurance about whether the financial statements are free of material misstatement. A review is limited primarily to enquiries of company personnel and analytical procedures applied to financial data and therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Opinion

In September 2005 Four Soft B.V. has acquired DCS T&L Divisions. We emphasize that in accordance with your instructions these subsidiaries are classified as investment under fixed assets, that no goodwill has been recognized, that resulting intercompany balances are not confirmed by us, that these subsidiaries are not consolidated and that these subsidiaries are stated at purchase price.

Based on our review, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view in accordance with accounting principles generally accepted in the Netherlands and the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Slidrecht, 21 July, 2006
Hoek en Blok

J.W. Stuij
Accountant Administratieconsulent

PRINCIPLES OF FINANCIAL REPORTING

PARENT COMPANY

Four Soft Netherlands B.V. forms part of the group with Four Soft Ltd. as parent company.

GENERAL ACCOUNTING POLICIES

The annual accounts have been prepared in accordance with Title 9, Book 2 of the Dutch Civil Code.

The general principle for the valuation of assets and liabilities, as well as the determination of results, is the historical purchase price or manufacturing cost. Unless otherwise stated, as sets

and liabilities are stated at the values at which they were acquired or incurred.

Profit is determined as the difference between net sales and all expenses relating to the reporting period. Costs are determined in accordance with the accounting policies applied to the balance sheet. Profit is realised in the year in which the sales are recognised. Losses are taken upon recognition. Other income and expenses are allocated to the periods to which they relate.

TRANSLATION OF FOREIGN CURRENCY

Amounts in foreign currency have been converted at the exchange rate on balance sheet date. The resulting translation gains and losses are included in the profit and loss account.

ACCOUNTING POLICIES - ASSETS AND LIABILITIES

Intangible fixed assets

Intangible fixed assets are stated at purchase price or manufacturing cost. Depreciation is calculated on a straight-line basis over the estimated payback period. Depreciation rate is 20%.

Tangible fixed assets

Tangible fixed assets are stated at acquisition cost less depreciation calculated on a straight-line basis over the estimated useful life. Acquisitions during the year are written off from the date of acquisition.

Financial fixed assets

Subsidiaries are stated at purchase price

Accounts receivable

Amounts are stated at face value. A provision for doubtful debts is deducted from receivables.

Provisions

Deferred tax relates to differences between fiscal and commercial valuation of assets and liabilities. The provision is calculated at the prevailing tax rates and at nominal value.

ACCOUNTING POLICIES - PROFIT AND LOSS ACCOUNT

Net sales

Net sales constitute the proceeds of sales of goods and services to third parties less discounts.

Cost of sales

Costs of raw and ancillary materials, including purchasing expenses, are stated at purchase cost and include the movement in the provision for obsolescence.

Depreciation fixed assets

Depreciation on fixed assets is calculated at fixed percentages of cost, based on the estimated useful life of the assets.

Operating expenses and financial income and expenses

The operating expenses and financial income and expenses are allocated to the period to which they relate.

Taxation

The tax charge for the year is computed on the book profit before tax at the nominal rates, taking account of permanent differences.

FOUR SOFT BV BALANCE SHEET AS AT MARCH 31, 2006

	Schedules	As at March 31, 2006 €	As at March 31, 2005 €
ASSETS			
Fixed assets			
Intangible fixed assets	1	—	37,500
Tangible fixed assets	2	—	32,181
Financial fixed assets	3	18,880,549	—
Total		18,880,549	69,681
Current Assets			
Accounts receivable	4	664,100	377,861
Liquid funds	5	339,315	325,372
Total		1,003,415	703,233
Total		19,883,964	772,914
EQUITY AND LIABILITIES			
Equity	6		
Share capital		18,152	18,152
General reserve		1,093,996	236,515
Total		1,112,148	254,667
Provisions	7	333,316	—
Long-term liabilities	8	12,823,847	—
Current liabilities	9	5,614,653	518,247
Total		19,883,964	772,914

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

For and on behalf of the Board of Directors

Dated : 21st July, 2006
Place : Nieuwegein, Netherlands

Palem Srikanth Reddy
Director

FOUR SOFT BV PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2006

	Schedules	As at March 31, 2006		As at March 31, 2005	
		€	€	€	€
OPERATING INCOME					
Net sales	10	1,068,462		1,661,649	
Cost of Sales	11	144,297		131,201	
			924,165		1,530,448
Other Income	12		1,400,000		—
			2,324,165		1,530,448
OPERATING EXPENSES					
Staff expenses	13	513,433		605,184	
Depreciation	14	25,275		37,767	
Other Operating expenses	15	143,693		519,108	
Total operating expenses			682,401		1,162,059
			1,641,764		368,389
Operating Result					
Interest benefits	16	131,098		2,436	
Interest charges	17	(569,582)		-1,603	
Financial income and charges			(438,484)		833
Profit before taxes			1,203,280		369,222
Corporation tax	18		(345,799)		-124,873
Profit after taxes			857,481		244,349

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

For and on behalf of the Board of Directors

Dated : 21st July, 2006
Place : Nieuwegein, Netherlands

Palem Srikanth Reddy
Director

FOUR SOFT B.V. SCHEDULES TO THE BALANCE SHEET

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Fixed Assets

1. Intangible fixed assets

Goodwill

Book value at April, 2005	37,500
Purchase value disinvestments	(50,000)
Accumulated depreciation disinvestments	20,000
Depreciations	7,500
Book value at March 31, 2006	<u>—</u>

2. Tangible fixed assets

	Inventory €	Car €	Total €
Bookvalue at April, 2005	6,625	25,556	32,181
Depreciations	6,525	(11,250)	(17,775)
Purchase value disinvestments	(17,500)	(44,306)	(61,806)
Accumulated depreciation disinvestments	17,400	30,000	47,400
Bookvalue at March 31, 2006	<u>—</u>	<u>—</u>	<u>—</u>

3. Financial fixed assets

	31.3.2006 €	31.3.2005 €
Subsidiaries	17,471,549	—
Receivables from group companies	1,409,000	—
Total	<u>18,880,549</u>	<u>—</u>

4. Accounts receivable

Trade debtors	—	264,202
Receivable from group companies	205,676	—
Taxes and social security premiums	6,563	13,205
Other receivables and prepaid expenses	541,861	100,454
Total	<u>664,100</u>	<u>377,861</u>

5. Liquid funds

ABN AMRO Bank N.V.	28,155	94,774
Citigroup	310,990	230,031
Petty cash	170	567
Total	<u>339,315</u>	<u>325,372</u>

FOUR SOFT B.V. SCHEDULES TO THE BALANCE SHEET

	As at March 31, 2006 €	As at March 31, 2005 €
6 Equity		
Share capital		
18,152 ordinary shares A and B with a part value of € 1	18,152	18,152
The authorised share capital has a par value of of € 90,000,00		
General reserve		
Balance at April 1, 2005/January 1,2004	236,515	(7,834)
Addition2004-2005	—	244,349
Addition 2005-2006	857,481	—
Balance at March 31, 2006 / March 31, 2005	<u>1,093,996</u>	<u>236,515</u>
7. Provisions		
Provision for taxes		
Balance at April, 2005 / January1,2004	—	—
Withdrawals	333,316	—
Balance at March 31, 2006/ March 31, 2005	<u>333,316</u>	<u>—</u>
8. Long-term liabilities		
Amounts due to credit institution	7,924,785	—
Other liabilities	4,899,062	—
Total	<u>12,823,847</u>	<u>—</u>
9. Current liabilities		
Amounts due to group companies	—	2,816
Taxes and social security premiums	5,421,397	826
Other liabilities and accrued expenses	147,757	158,480
Total	<u>5,617,653</u>	<u>356,125</u>
	<u>5,617,653</u>	<u>518,247</u>

Commitments not mentioned in the balance sheet

Fiscal unity

Between Four Soft Netherlands B.V. and Four Soft B.V a fiscal unity exists. Due to this fiscal unity the company is liable for all corporation tax payable.

FOUR SOFT B.V. SCHEDULES TO THE PROFIT AND LOSS ACCOUNT

	31.3.2006 €	31.3.2005 €
10. Net sales		
Net sales	<u>1,068,462</u>	<u>1,661,649</u>
11. Cost of sales		
Cost of sales	<u>144,297</u>	<u>131,201</u>
12. Other Income		
Profit on sale of assets and liabilities	<u>1,400,000</u>	<u>—</u>
13. Staff expenses		
Wages and salaries	409,517	487,269
Social security and pension premiums	45,981	73,541
Other staff expenses	57,935	44,374
Total	<u>513,433</u>	<u>605,184</u>
Wages and salaries		
Wages and salaries	409,517	486,619
Temporary workers	—	650
Total	<u>409,517</u>	<u>487,269</u>
Social security and pension premiums		
Social security premiums	32,387	54,911
Pension premiums	13,594	18,630
Total	<u>45,981</u>	<u>73,541</u>
Other staff expenses		
Travel and accomodation	40,177	34,797
Day expenses employees	17,758	9,577
Total	<u>57,935</u>	<u>44,374</u>

Average number of employees

In 2005-2006, 8 persons were employed at the company (2004-05: 8)

FOUR SOFT B.V. SCHEDULES TO THE PROFIT AND LOSS ACCOUNT

	31.3.2006 €	31.3.2005 €
14. Depreciation		
Intangible fixed assets	7,500	12,500
Tangible fixed assets	17,775	25,267
Total	<u>25,275</u>	<u>37,767</u>
Depreciation of intangible fixed assets		
Goodwill	7,500	12,500
Depreciation of tangible fixed assets		
Inventory	6,525	25,267
Car	11,250	—
Total	<u>17,775</u>	<u>25,267</u>
15. Other operating costs		
Housing expenses	39,034	53,820
Costs of assets	55,766	55,835
Selling expenses	7,251	21,191
General expenses	41,642	388,262
Total	<u>143,693</u>	<u>519,108</u>
Housing expenses		
Rental office	39,034	53,820
Cost of assets		
Maintenance and repair of inventory	1,243	2,438
Lease cars	52,662	50,709
Other	1,861	2,688
Total	<u>55,766</u>	<u>55,835</u>
Selling expenses		
Advertisements	697	4,085
Allocation to bad debts	—	10,177
Other	6,554	6,929
Total	<u>7,251</u>	<u>21,191</u>

FOUR SOFT B.V. SCHEDULES TO THE PROFIT AND LOSS ACCOUNT

	31.3.2006 €	31.3.2005 €
General expenses		
Management costs	—	297,000
Auditors expenses	19,645	47,825
Telecommunication	10,241	23,263
Insurance	2,816	4,919
Office supplies	2,019	4,292
Postage	336	905
Automation costs	3,544	7,543
Contributions	1,458	2,339
Other	1,583	176
Total	<u>41,642</u>	<u>388,262</u>
16. Financial income and charges		
Interest benefits and similar returns	1,912	1,168
Bank interest	129,186	1,268
Total	<u>131,098</u>	<u>2,436</u>
17. Interest charges and similar expenses		
Bank loans	356,606	—
Bank interest and charges	87,964	1,603
Group companies	125,012	—
Total	<u>569,582</u>	<u>1,603</u>
18. Corporation tax		
Corporation Tax	345,799	124,873
	<u>345,799</u>	<u>124,873</u>

FOUR SOFT LLC, USA

(a wholly owned subsidiary of Four Soft Ltd.)

Financial Year

1st April' 2005 - 31st March'2006

Board of Directors

Palem Srikanth Reddy

Office:

Four Soft LLC
New York,
USA

Bankers

Bank of America
Citi Group

DIRECTOR'S REPORT

The Board of Directors of your Company are pleased to present the Annual Report for the year ended 31st March, 2006.

Business Overview

The Board of Directors of your Company are pleased to inform you that the company during the last fiscal year 1st April 2005 to 31st March 2006 has achieved a total revenue of US \$ 0.32 million (US \$ 0.70 millions previous year) and recorded a net loss of US \$ 0.05 million (a profit of US \$ 0.08 million previous year). This is because of decreased service revenues and licensed sales and also transfer pricing mechanism with the holding company.

The Company has received 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 from services, 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: 15th June, 2006
Place: Houston, USA

Palem Srikanth Reddy
Director

FOUR SOFT LLC BALANCE SHEET AS AT 31ST MARCH, 2006

	Schedules	As at March 31, 2006		As at March 31, 2005	
		US \$	Rs.	US \$	Rs.
SOURCES OF FUNDS					
Shareholders' Funds					
Capital	1	15,000	727,500	15,000	727,500
Reserves and surplus	2	99,961	4,401,798	150,195	6,509,185
Total		<u>114,961</u>	<u>5,129,298</u>	<u>165,195</u>	<u>7,236,685</u>
APPLICATION OF FUNDS					
Current Assets, Loans and Advances					
Sundry debtors	3	112,354	5,012,974	201,965	8,844,032
Cash and bank balances	4	15,147	675,830	18,393	805,419
Loans and advances	5	1,158	51,667	1,526	66,841
		<u>128,659</u>	<u>5,740,471</u>	<u>221,884</u>	<u>9,716,292</u>
Less: Current Liabilities and Provisions					
Liabilities	6	20,296	905,572	45,698	1,999,292
Provisions	7	2,102	93,786	22,591	988,290
		<u>22,398</u>	<u>999,358</u>	<u>68,289</u>	<u>2,987,582</u>
Net Current Assets		106,261	4,741,113	153,595	6,728,710
Miscellaneous Expenditure (to the extent not written off or adjusted)	8	8,700	388,185	11,600	507,975
Total		<u>114,961</u>	<u>5,129,298</u>	<u>165,195</u>	<u>7,236,685</u>

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

For and on behalf of the Board of Directors

Dated : 15th June 2006
Place : Houston, USA

Palem Srikanth Reddy
Director

FOUR SOFT LLC PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

	Schedules	As at March 31, 2006		As at March 31, 2005	
		US \$	Rs.	US \$	Rs.
INCOME					
Sales	9	320,118	14,085,743	701,397	32,049,784
Total		<u>320,118</u>	<u>14,085,743</u>	<u>701,397</u>	<u>32,049,784</u>
EXPENDITURE					
Personnel expenses	10	248,898	10,995,343	450,762	20,199,429
Administrative and other expenses	11	65,194	2,723,663	143,345	7,011,918
Miscellaneous expenditure written off		2,900	128,855	2,900	130,050
Total		<u>316,992</u>	<u>13,847,860</u>	<u>597,007</u>	<u>27,341,397</u>
Profit before tax		3,126	237,883	104,390	4,708,387
Provision for current tax		4,812	204,589	23,743	1,116,397
Tax for earlier years		48,548	2,140,681	—	—
		<u>53,360</u>	<u>2,345,270</u>	<u>128,133</u>	<u>5,824,784</u>
Net profit		(50,234)	(2,107,387)	80,647	3,591,990
Balance brought forward from last year		150,195	5,841,617	69,548	2,249,627
Profit available for Appropriation		99,961	3,734,230	150,195	5,841,617
Surplus carried to Balance Sheet		<u>99,961</u>	<u>3,734,230</u>	<u>150,195</u>	<u>5,841,617</u>

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

For and on behalf of the Board of Directors

Dated : 15th June, 2006
Place : Houston, USA

Palem Srikanth Reddy
Director

FOUR SOFT LLC SCHEDULES TO THE BALANCE SHEET

	As at March 31, 2006		As at March 31, 2005	
	US \$	Rs.	US \$	Rs.
SCHEDULE - 1				
SHARE CAPITAL				
Authorised				
1500 Equity Shares of \$ 1 each	15,000	727,500	15,000	727,500
Issued, Subscribed and Paid-up				
1500 Equity Shares of \$ 1 each	15,000	727,500	15,000	727,500
Total	15,000	727,500	15,000	727,500
SCHEDULE - 2				
RESERVES AND SURPLUS				
Profit and Loss Account				
Current year translation adjustment	99,961	3,734,230	150,195	5,841,617
	—	667,568	—	667,568
Total	99,961	4,401,798	150,195	6,509,185
SCHEDULE - 3				
SUNDRY DEBTORS				
Unsecured Debts				
Considered good	112,354	5,012,974	201,965	8,844,032
Total	112,354	5,012,974	201,965	8,844,032
SCHEDULE - 4				
CASH AND BANK BALANCES				
Balance with other banks on:				
Current Accounts	15,147	675,830	18,393	805,419
	15,147	675,830	18,393	805,419
SCHEDULE - 5				
LOANS AND ADVANCES				
Unsecured, considered doubtful				
Advances recoverable in cash or in kind or for value to be received	1,158	51,667	1,526	66,841
Total	1,158	51,667	1,526	66,841
SCHEDULE - 6				
CURRENT LIABILITIES				
Sundry creditors				
Dues to small scale industrial undertakings	—	—	—	—
Dues to other than small scale industrial undertakings	20,296	905,572	45,698	1,999,292
Total	20,296	905,572	45,698	1,999,292
SCHEDULE - 7				
PROVISIONS				
For income tax				
	2,102	93,786	22,591	988,290
Total	2,102	93,786	22,591	988,290

FOUR SOFT LLC SCHEDULES TO THE BALANCE SHEET

	As at March 31, 2006		As at March 31, 2005	
	US \$	Rs.	US \$	Rs.
SCHEDULE - 8				
MISCELLANEOUS EXPENDITURE				
(to the extent not written off or adjusted)				
Preliminary Expenses	11,600	517,039	14,500	634,955
Less: Written off during the year	2,900	128,855	2,900	130,050
Total	8,700	388,185	11,600	504,905
SCHEDULE - 9				
INCOME				
Sales	320,118	14,085,743	701,397	32,049,784
Total	320,118	14,085,743	701,397	32,049,784
SCHEDULE - 10				
EXPENDITURE				
Payments to and Provisions for Employees				
Salaries, wages and bonus	229,903	10,155,512	417,753	18,822,091
Contribution to provident fund and others	18,995	839,830	32,740	1,365,499
Staff welfare expenses	—	—	269	11,839
Total	248,898	10,995,343	450,762	20,199,429
SCHEDULE - 11				
ADMINISTRATIVE & OTHER EXPENSES				
Rent	3,106	135,811	2,841	126,852
Fee, rates and taxes	(20)	(871)	2,316	101,716
Business promotion	5,091	222,832	589	27,182
Telephone Expenses / Communication expenses	205	9,124	213	9,375
Exchange rate fluctuation loss	—	(148,281)	—	587,029
Insurance	9,965	436,219	718,688	2,385
Travelling and conveyance	20,057	896,261	46,022	2,048,850
Professional Charges	25,059	1,095,727	74,896	3,370,486
Bank charges	1,730	76,841	483	21,740
Total	65,194	2,723,663	143,345	7,011,918

FOUR SOFT SINGAPORE PTE LTD

(Incorporated in Singapore)

REPORT OF THE DIRECTORS

The directors submit their report to the members together with the audited financial statements of the company for the period ended 31 March 2006.

1 DIRECTORS

The directors in office at the date of this report are: -

Palem Srikanth Reddy
Ang Ban Leong
Ramachandran Ganesan
Lee Yew Cheung

2 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Neither during nor at the end of the financial period was the company a party to any arrangement whose object was to enable the directors of the company to acquire benefits through the acquisition of shares in, or debentures of the company or any other body corporate.

3 DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

The following directors, who held office at the end of the financial period, had, according to the register of directors' shareholdings required to be kept under section 164 of the Companies Act, an interest in the company and related corporations as stated below:

Names of Directors	Shares of Rs 5/- each	
	At the beginning of the period/appointment	At end of the Period
Shares In Holding Company - Four Soft Limited, India		
Palem Srikanth Reddy	8,105,380	8,105,380

4 DIRECTOR'S CONTRACTUAL BENEFITS

During the period no director has received or become entitled to receive a benefit by reason of a contract made by the company or by a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest other than those disclosed in the financial statements.

5. OPTIONS GRANTED

During the year, there were no options to take up unissued shares of the company.

6. OPTIONS EXERCISED

During the year, no shares have been issued by virtue of the exercise of options granted.

7. OPTIONS OUTSTANDING

There were no share option outstanding as at 31 March 2006.

8. AUDITORS

The auditors, M/s MGI N Rajan Associates, Certified Public Accountants have expressed their willingness to accept re-appointment.

On behalf of the Board of Directors,

PALEM SRIKANTH REDDY
Director

LEE YEW CHEUNG
Director

Place : Singapore
Date : 30th May, 2006

STATEMENT BY DIRECTORS

We Palem Srikanth Reddy and Lee Yew Cheung, being two of the directors of Four Soft Singapore Pte Ltd, do hereby state that, in the opinion of the directors:

- the accompanying balance sheet, profit and loss account and statement of changes in equity and cash flow statement together with the notes thereto are drawn up so as to give a true and fair view of the state of affairs of the company for the period ended 31 March 2006 and of the results and changes in equity of the business and cash flows of the company for the period then ended; and
- at the date of this statement, there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

On behalf of the Board

Palem Srikanth Reddy
Director

Lee Yew Cheung
Director

Place : Singapore
Date : 30th May, 2006

**REPORT OF THE AUDITORS TO
THE MEMBERS OF
FOUR SOFT SINGAPORE PTE LTD
(Incorporated in Singapore)**

We have audited the financial statements of FOUR SOFT SINGAPORE PTE LTD set out on pages 6 to 16 for the period ended 31 MARCH 2006. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. 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 the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, Cap 50 (the "Act") and Singapore Financial Reporting Standards and so as to give a true and fair view of the state of affairs of the company as at 31 MARCH 2006 and of the results, changes in equity and cash flows of the company for the period ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

MGI N Rajan Associates
Certified Public Accountants
Singapore

Date :30th May, 2006

FOUR SOFT SINGAPORE PTE LTD

(Incorporated in Singapore)

BALANCE SHEET AS AT 31 MARCH, 2006

	Notes	31.03.2006 S \$	31.12.2004 S \$
ASSETS			
Non Current Assets	7	15,873	17,890
Intangible - Development Expenditure	8	—	34,4157
		15,873	362,047
Current Assets			
Cash and cash equivalents	9	169,862	98,807
Trade receivables	10	390,035	527,982
Other receivables	11	20,116	14,000
Due from holding company	12	248,195	188,071
Due from a related parties	13	46,372	153,240
Work in progress	14	—	62,800
		874,580	62,800
Total Assets		890,453	1,406,947
LIABILITIES AND EQUITY			
Current Liabilities			
Trade Payables		90,246	233,478
Due to holding company	12	102,001	—
Other payables	15	263,398	78,034
Due to Directors	16	—	28,000
Due to related party	16	60,000	—
Due to holding company	16	1,135,172	—
		1,650,817	339,512
Equity			
Issued Capital	17	1,000,000	1,000,000
Share Premium		130,200	130,200
Accumulated (losses)		(1,890,564)	(62,765)
Shareholders equity		(760,364)	1,067,435
Total Liability and Equity		890,453	1,406,947

The annexed notes from an integral part of and should be read in conjunction with these financial statements

On behalf of the Board

Palem Srikanth Reddy
Director

Lee Yew Cheung,
Director

Place : Singapore
Date : 30th May, 2006

FOUR SOFT SINGAPORE PTE LTD

(Incorporated in Singapore)

PROFIT & LOSS ACCOUNT FOR THE PERIOD ENDED 31 MARCH, 2006

	NOTE	Period ended 31.3.2006 (15 Months) S\$	Year ended 31.12.2004 S\$
REVENUE			
Sale of goods		1,654,908	3,490,865
Less: costs of sales		376,114	1,550,928
Gross profit		1,278,794	1,939,937
Add: Other operating income	3	55,794	4,386
		1,334,588	1,944,323
Less: Operating expenses			
Administration & Other operating expenses		2,665,874	1,486,264
Sales and Distribution expenses		236,595	152,793
		2,902,469	1,639,057
(Loss)/profit before finance cost		(1,567,881)	305,266
Less: Finance cost	4	59,918	1,020
Net (loss)/profit before tax	5	(1,627,799)	304,246
Less: Tax expense	6	—	—
Net (loss)/profit after tax		(1,627,799)	304,246

The annexed notes from an integral part of and should be read in conjunction with these financial statements

On behalf of the Board

Palem Srikanth Reddy
Director

Lee Yew Cheung
Director

Place : Singapore
Date : 30th May, 2006

FOUR SOFT SINGAPORE PTE LTD

(Incorporated in Singapore)

CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 MARCH 2006

	Period ended 31.3.2006 S\$	Year ended 31.12.2004 S\$
Cash flows from operating activities		
Net (loss) for the year before tax	(1,627,799)	304,246
Adjustment for:		
Amortisation of intangibles	344,158	38,240
Depreciation on fixed assets	21,800	36,117
Interest paid	57,848	—
Provision for doubtful debts	36,162	12,976
Operating profit / (loss) before reinvestment of capital	(1,167,831)	391,579
(Increase)/Decrease in Work in progress	62,800	(62,800)
(Increase)/Decrease in trade receivables	101,785	1,299,599
(Increase)/Decrease in other receivables	(6,116)	267,474
Increase/(Decrease) in trade payables	(143,232)	9,435
Increase/(Decrease) in other payables	185,363	(1,596,354)
Increase/(Decrease) in related party	46,744	—
Cash generated from / (used in) operations	(920,487)	308,933
Tax paid	—	—
Net cash flows from operating activities	(920,487)	308,933
Cash flows from investing activities:		
Acquisition of fixed assets	(19,783)	(23,247)
Investments in intangible assets	—	(382,397)
Net cash flows from/ (used in) investing activities	(19,783)	(405,644)
Cash flows from financing activities		
Loan from holding company/related party	1,244,030	(2,203)
Dividend paid	(200,000)	—
(Decrease) in loan from directors	(28,000)	28,000
Interest paid	(4,705)	200
Net Cash flows from financing activities	1,011,325	25,997
Net Increase/(decrease) in cash & cash equivalents	71,055	(70,714)
Cash & cash equivalents at the beginning of the year	98,807	169,521
Cash & Cash equivalents at end of the year	169,862	98,807

FOUR SOFT SINGAPORE PTE LTD
(Incorporated in Singapore)

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL

The company is incorporated in Singapore and the financial statements of the company are expressed in Singapore dollars.

The name of the company has been changed from Comex Frontier Pte Ltd to Four Soft Singapore Pte Ltd. The company had also changed to its accounting year from December to March .

The principal activities of the company are to carry on the business of software development, sale of software and provision of information technology consultancy services.

The company has become wholly owned subsidiary of **Four Soft Limited, India**

The company's registered office & principal place of business address:-

4 Leng Kee Rd, #05-11 A , Singapore 159088

The financial statements of the company for the period ended 31 MARCH 2006 were authorised for issue in accordance with a resolution of the directors on the date of the Statement by Directors.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards (FRS) as required by the Companies Act.

The accounting policies have been consistently applied by the company and consistent with those used in the previous year.

b) Property, Plant & Equipment & Depreciation

All items of property, plant and equipment are recorded at cost.

Depreciation is calculated on the straight-line method to write off the cost of the assets over their estimated useful lives. The annual rates have been taken as follows:

Computers & accessories	33 1/3 %
Computer Softwares	50 %
Furniture and Fittings	20 %
Office equipment	20 %
Renovation	20 %

Full depreciation is provided in the year of the purchase and no depreciation is provided in the year of disposal.

c) Development Costs

Development costs which relate to the design and testing of new computer software are recognized as an asset to the extent that it is expected that such assets will generate future economics benefits

Deferred development costs are amortised from the date of commercial production of the product or from the date the process is put into use, on a straight-line basis over their useful lives, not exceeding five years.

d) Functional and Presentation currency

Items included in the financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the company ("the functional currency"). The financial statements are prepared in Singapore Dollars, which is the functional and presentation currency of the Company.

Transactions and balances

Monetary assets and liabilities in foreign currencies are translated into Singapore dollars at rates of exchange closely approximating those ruling at balance sheet date. Transactions in foreign currencies are converted at rates closely approximating those ruling at transaction dates. Exchange differences arising from such transactions are recorded in the profit and loss account in the year in which they arise. However, where a foreign currency transaction is to be settled at a contracted rate or is covered by a related or matching forward exchange contract, the rate of exchange specified in the contract will be used and any corresponding monetary assets or liabilities will not be retranslated.

e) Borrowing cost

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition or production of an asset which necessarily takes substantial period of time to prepare for its intended use or sale.

f) Trade and other receivables

Trade and other receivables are stated at cost less allowable for doubtful debts.

g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank deposits.

h) Liabilities and interest bearing borrowings

Trade and other payables and interest bearing borrowings are stated at cost. Interest bearing borrowings are recognised initially at cost less attributable transaction costs. Subsequent to initial recognition, interest - bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit & loss account over the period of the borrowings on effective interest basis.

i) Revenue recognition

Revenue from services is recognised based on milestones achieved.

Revenue from maintenance contracts is recognised on over the period of service.

Revenue from sale of goods is recognised upon delivery and acceptance of goods.

j) Taxation

The tax expenses are determined on the basis of tax effect accounting, using the liability method, and it is applied to all significant timing differences. Deferred tax benefits are not recognised unless there is reasonable expectation of their realisation.

k) Employee benefits

The company contributes to the Central Provident Fund ("CPF"), a defined contribution plan regulated and managed by the Government of Singapore, which applies to the majority of the employees. The company's contributions to CPF are charged to the profit and loss account in the period to which the contributions relate.

l) Impairment

The carrying amounts of company's assets, other than inventories, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset (or) loss its cash generating unit exceeds its recoverable amount. All impairment losses are recognised in the profit and loss account.

m) Related party

For the purpose of these financial statements, parties are considered to be related to the company if the company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the company and the party are subject to common control or significant influence. Related parties may be individuals or other entities.

n) Going concern

Although the accumulated losses S\$ 1,890,564/- , and the shareholders equity stands at deficiency S\$ 760,364, the financial statements have been prepared on the basis that the company is a going concern as the immediate holding company has given written confirmation of its continued financial support as and when required by the company.

3. OTHER OPERATING INCOME

	Period ended 31.03.2006 S\$	Year ended 31.12.2004 S\$
Rent received	36,155	—
Bank interest	1,489	164
Government Grant	4,268	3,689
Others	13,882	533
	<u>55,794</u>	<u>4,386</u>

4. FINANCE COSTS

	Period ended 31.03.2006 S\$	Year ended 31.12.2004 S\$
Bank charges	2,070	1,020
Interest paid to bank	4,705	—
Interest to Holding company	53,143	—
	<u>59,918</u>	<u>1,020</u>

5. PROFIT BEFORE TAX

The above is arrived after charging	Period ended 31.03.2006 S\$	Year ended 31.12.2004 S\$
Amortisation of Intangibles	344,157	38,240
Depreciation	21,800	36,117
Central Provident Fund- Directors	11,983	16,817
Directors remuneration & allowances	194,052	258,013
Bank interest	1,489	164
Provision Doubtful debts- Trade	36,162	12,976
Exchange loss	4,836	404
Interest paid to holding company	53,143	—
And Crediting		
Bank interest	1,489	164
Government Grant	4,268	3,689

6. TAXATION

No tax provision has been made in the accounts in view of loss. Subject to agreement by the Comptroller of Income Tax the estimated losses and capital allowances available for future setoff would be S\$1,261,841/- and S\$11,648/- respectively. Deferred tax asset on losses are not recognized since there is no convincing evidence available that the company will make sufficient profit to utilize the asset.

A reconciliation of statutory tax rate to the company's effective tax rate

	Period ended 31.03.2006 S\$	Year ended 31.12.2004 S\$
Tax on (loss)/ profit at 20%	(325,560)	60,849
Expenses not deductible/taxable to tax	68,831	8,392
Others	—	2,574
Unrecognized deferred tax asset utilised	256,729	(71,815)
	<u>—</u>	<u>—</u>

7. PROPERTY, PLANT & EQUIPMENT

	Computers & Accessories S\$	Furniture & Fittings S\$	Office Equipment S\$	Total S\$
At cost				
At beginning of period	90,329	29,166	—	119,495
Additions	7,581	5,193	7,009	19,783
At end of period	97,910	34,359	7,009	139,278
Accumulated depreciation				
At beginning of period	72,439	29,166	—	101,605
Charge for the period	19,822	433	1,545	21,800
At end of period	92,961	29,599	1,545	123,405
Charge for 2004	21,534	14,583	—	36,117
Net book value				
At end of period	5,649	4,760	5,464	15,873
At beginning of period	17,890	—	—	17,890

8. INTANGIBLES

	Period ended 31.03.2006 S\$	Year ended 31.12.2004 S\$
Costs	382,397	382,397
Less: Accumulated Amortisation	382,397	(38,240)
Total	—	344,157

During the year the management decided to fully amortise the cost.

9. CASH & CASH EQUIVALENTS

	Period ended 31.03.2006 S\$	Year ended 31.12.2004 S\$
Cash on hand	705	299
Cash at banks	169,157	98,508
Total	169,862	98,807

10. TRADE RECEIVABLES

	Period ended 31.03.2006 S\$	Year ended 31.12.2004 S\$
Trade debtors(net of provision)	346,417	527,982
Unbilled receivables	43,618	—
	390,035	527,982
Movements of provision		
Balance at the beginning of the period	114,085	98,829
Current year	154,429	15,256
Balance at the end of the period	268,514	114,085

11. OTHER RECEIVABLES

	Period ended 31.03.2006 S\$	Year ended 31.12.2004 S\$
Other debtors	3,433	—
Deposit	14,192	7,000
Prepayments	2,491	7,000
Total	20,116	14,000

12. DUE FROM/TO HOLDING COMPANY

The amount due from holding company is for non trading transactions , unsecured, interest free and no fixed repayment terms.

The amount due to holding company is for trading transactions and no fixed repayment terms.

13. DUE FROM RELATED PARTIES

This is due for trading transactions, unsecured and have no fixed repayment terms.

14. WORK IN PROGRESS

This represents project costs incurred and the project has not reached the staged where the revenue can be recognized.

15. OTHER PAYABLES

	Period ended 31.03.2006 S\$	Year ended 31.12.2004 S\$
Other creditors	127,608	—
Unearned revenue	105,782	23,729
Accrued liabilities	30,008	54,305
Total	263,398	78,034

16. DUE TO HOLDING COMPANY/RELATED PARTY/DIRECTOR

The amounts due to related party and director are for non-trading transactions, unsecured, interest free and no fixed terms of repayment.

The amount due to holding company is a non trading advance and carries interest 8.3% per annum, unsecured and no fixed terms of repayment

17. SHARE CAPITAL

	Period ended 31.03.2006 S\$	Year ended 31.12.2004 S\$
Authorised		
Ordinary shares of S\$ 1/- each	930,000	930,000
Class"A" preference shares of S\$1/- each	70,000	70,000
Total	1,000,000	1,000,000
Issued & fully paid up		
Ordinary shares of S\$ 1/- each	930,000	930,000
Class"A" preference shares of S\$1/- each	70,000	70,000
Total	1,000,000	1,000,000

Subsequent to the balance sheet date authorize capital clause has been deleted from the Act.

18. STAFF COSTS

	Period ended 31.03.2006 S\$	Year ended 31.12.2004 S\$
Salary to Staff	1,652,140	850,837
Salary to Directors	194,052	258,013
Central providend fund		
Staff	118,461	76,142
Directors	11,983	16,817
Foreign workers levy	2,396	76

19. FINANCIAL INSTRUMENTS- RISK MANAGEMENT

The company does not have any written financial risk management policies and guidelines. The company does not hold or issue derivative financial instruments for trading purposes or to hedge against fluctuations, if any, in interest rates and foreign exchange. The company's exposure to financial risks associated with financial instruments held in the ordinary course of business include:

i) Credit risk

Credit risk refers to the risk that counterparties will default on their contractual obligations resulting in financial loss to the company. The Company has no major concentration of credit risk.

ii) Interest rate risk

The Company is not exposed to interest rate risk through the impact of rate changes on interest bearing debts. The interest rate and terms of repayment of long term of the Company are disclosed in the respective notes.

iii) Foreign currency risk

The Company is not exposed to foreign currency risk.

iv) Liquidity risk

Liquidity or funding risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The company ensures that there are adequate funds to meet all its obligations in a timely and cost-effective manner.

The holding company has given assurance to the company to give financial support as and when required to meet its working capital requirements.

v) Fair value of financial assets and financial liabilities

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 2 to the financial statements.

20. TRANSACTION WITH RELATED PARTIES AND HOLDING COMPANY

During the period the company had significant related parties transaction at terms agreed between the parties as follows.

	Period ended 31.03.2006 S\$	Year ended 31.12.2004 S\$
Sales to related party	207,085	75,600
Sales to holding company	—	141,009
Purchases from holding company	105,369	—

21. DIVIDEND

The company has paid a final exempt dividend of S\$200,000/- for the year ended 31.12.2004 during the year.

22. COMPARATIVE FIGURES

Comparative figures are not comparable since the current financial period covers fifteen months period.

FOUR SOFT MALAYSIA SDN BHD, MALAYSIA

(a wholly owned subsidiary of Four Soft Ltd.)

For the Period

1st January, 2005 - 31st March'2006

Board of Directors

Palem Srikanth Reddy
Ba-azlan bin Che'wan Inrahim,
Lee Saik Liang,
Ramachandran Ganasan

Office:

28A-1 Jalan Serampang,
Taman Pelangi, 80050
Johor Bahru, Johor

DIRECTOR'S REPORT

The Board of Directors of your Company are pleased to present the Annual Report for the period ended 31st March, 2006.

In May 2005, your company was acquired by Four Soft Limited, a leading transportation and logistic solutions provider based out of India. During the year your company was renamed as Four Soft Malaysia Sdn Bhd. Your Company is expected to break even in next 18 months period. The financial year of the company was extended by 3 months up to 31st March, 2006

Business Overview

The Board of Directors of your Company are pleased to inform you that the company during the period from 1st January, 2005 to 31st March 2006 has achieved a total revenue of MYR 386,349 and recorded an net loss of MYR 99,505.

The Company has received full support from parent Company Four Soft Limited in terms of Technology and delivery capabilities. The Company believes that with growing services from Malaysian customers, the company 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 Malaysia Government, 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 : 30th May, 2006
Place: Johor

Palem Srikanth Reddy
Director

FOUR SOFT MALAYSIA SDN BHD

BALANCE SHEET AS AT 31ST MARCH, 2006

As at March 31, 2006			
	Schedule	MYR	Rs.
SOURCES OF FUNDS			
Shareholders' Funds			
Capital	1	10,000,000	114,667,000
Reserves and surplus	2	(10,036,215)	(115,105,365)
Total		(36,215)	(438,365)
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	3	340,734	4,124,414
Less: Accumulated Depreciation		340,734	4,124,414
Net Block		—	—
Current Assets, Loans and Advances			
Sundry debtors	4	73,453	889,116
Cash and bank balances	5	28,722	347,663
Loans and Advances	6	91,649	1,109,364
		193,824	2,346,143
Less: Current Liabilities and Provisions			
Liabilities	7	230,039	2,784,508
Provisions		—	—
		230,039	2,784,508
Net Current Assets		(36,215)	(438,365)
Total		(36,215)	(438,365)

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 : 30th May, 2006
Place: Johor

Palem Srikanth Reddy
Director

FOUR SOFT MALAYSIA SDN BHD PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

As at March 31, 2006			
	Schedule	MYR	Rs.
INCOME			
Sales	8	372,702	4,403,331
Other Income	9	13,647	161,234
		<u>386,349</u>	<u>4,564,565</u>
EXPENDITURE			
Personnel expenses	10	10,565	124,826
Operating and other expenses	11	474,622	5,607,468
Depreciation and Amortisation		667	7,879
		<u>485,854</u>	<u>5,740,173</u>
Profit before tax		(99,505)	(1,175,608)
Provision for current tax		—	—
Tax for earlier years		—	—
		<u>(99,505)</u>	<u>(1,175,608)</u>
Net profit		(99,505)	(1,175,608)
Balance brought forward from last year		(9,936,710)	(113,941,277)
Profit available for Appropriation		(10,036,215)	(115,116,885)
Surplus carried to Balance Sheet		<u>(10,036,215)</u>	<u>(115,116,885)</u>

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 : 30th May, 2006
Place: Johor

Palem Srikanth Reddy
Director

FOUR SOFT MALAYSIA SDN BHD SCHEDULES TO THE BALANCE SHEET

	As at March 31, 2006	
	MYR	Rs.
SCHEDULE - 1		
SHARE CAPITAL		
Authorised		
10,000,000 Ordinary Shares of RM 1.00 each	10,000,000	114,667,000
Issued, Subscribed and Paid-up		
10,000,000 Ordinary Shares of RM 1.00 each	10,000,000	114,667,000
Total	<u>10,000,000</u>	<u>114,667,000</u>
SCHEDULE - 2		
RESERVES AND SURPLUS		
Profit and Loss Account	(10,036,215)	(115,116,885)
Current year translation adjustment	—	11,520
Total	<u>(10,036,215)</u>	<u>(115,105,365)</u>
SCHEDULE - 4		
SUNDRY DEBTORS		
Debts outstanding for a period exceeding 6 months		
Considered doubtful	281,828	3,411,391
Less: Provision for doubtful debts	208,375	2,522,275
Total	<u>73,453</u>	<u>889,116</u>
SCHEDULE - 5		
CASH AND BANK BALANCES		
Cash on hand	1,700	20,578
Balance with other than scheduled banks on:		
Current Accounts	27,022	327,085
Total	<u>28,722</u>	<u>347,663</u>
SCHEDULE - 6		
LOANS AND ADVANCES		
Advances and loans to subsidiaries	35,715	432,312
Advances recoverable in cash or in kind or for value to be received	55,934	677,052
Total	<u>91,649</u>	<u>1,109,364</u>
SCHEDULE - 7		
CURRENT LIABILITIES		
Sundry creditors	6,967	84,331
Due to Holding Company	105,622	1,278,503
Advance from Customers	117,450	1,421,674
Total	<u>230,039</u>	<u>2,784,508</u>

FOUR SOFT MALAYSIA SDN BHD SCHEDULES TO THE BALANCE SHEET

	As at March 31, 2006	
	MYR	Rs.
SCHEDULE - 8 INCOME		
Off Shore Development	33,354	394,067
On Site Development	9,796	115,732
Annual Maintenance Services	112,232	1,325,979
Sale of Licenses	217,320	2,567,553
Total	<u>372,702</u>	<u>4,403,331</u>
SCHEDULE - 9 OTHER INCOME		
Miscellaneous Income	13,647	161,234
Total	<u>13,647</u>	<u>161,234</u>
SCHEDULE - 10 PERSONAL EXPENSES		
Salaries, wages and bonus	9,296	109,832
Contribution to provident fund and others	1,269	14,994
Total	<u>10,565</u>	<u>124,826</u>
SCHEDULE - 11 OPERATING AND OTHER EXPENSES		
Fee, rates and taxes	33,457	395,291
Implementation Expenses	405,707	4,793,271
Telephone Expenses / Communication expenses	1,987	23,481
Exchange rate fluctuation loss	29,302	346,191
Insurance	753	8,891
Travelling and conveyance	374	4,419
Professional Charges	2,940	34,737
Bank charges	101	1,197
Total	<u>474,622</u>	<u>5,607,468</u>

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

Sl. No.	Particulars	Four Soft BV	Four Soft LLC	Four Soft Singapore Pte Ltd	Four Soft Malaysia Sdn Bhd.
1	Financial Year ending of the Subsidiary	31.03.2006	31.03.2006	31.03.2006	31.03.2006
2	Shares of Subsidiary Company held on the above date and extend of holding				
i.	Number of Shares held	15,000	18,152	1,000,000	10,000,000
ii)	Extend of holding	100%	100%	100%	100%
3	Net aggregate amount of profits/losses of the subsidiary for the above financial year so for as they concern members of Four Soft Limited				
i)	dealt with in the accounts of Four Soft Limited	Nil	Nil	Nil	Nil
ii)	not dealt with in the accounts of Four Soft Limited	€ 857,481	US\$ (50,234)	S\$ (1,627,799)	MYR (99,505)
4	Net aggregate amount of profits/loss 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	Nil	Nil
ii)	not dealt with in the accounts of Four Soft Limited	€ 244,349	US\$ 80,647	S\$ 304,246	Nil

For and on behalf of the Board of Directors

Palem Srikanth Reddy
CEO & Managing Director

P Mangamma
Director

Place : Hyderabad
Date : 26th August, 2006

ELECTRONIC CLEARING SERVICES (ECS) MANDATE FORMAT

To

Karvy Computershare Private Limited
 Unit : Four Soft Limited
 Karvy House
 46, Avenue, 4, Street No.1
 Banjara Hills
 HYDERABAD - 500 034

To

The Depository Participant Concerned
 (In case of Electronic Holding)

Dear Sirs,

FORM FOR ELECTRONIC CLEARING SERVICES FOR PAYMENT OF DIVIDEND

Please fill-in the information in CAPITAL LETTERS in English Only. Please Tick (✓) wherever is applicable.

For shares held in physical form.

Registered Folio No.

--	--	--	--	--	--	--	--	--	--

ECS
Ref.No

--For Office Use Only--

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Name of the First holder									
Bank Name									
Branch Name									
Branch Code	<table border="1" style="display: inline-table; width: 100%; height: 25px;"> <tr> <td style="width: 25px;"> </td> </tr> </table> <p style="font-size: small; margin-top: 5px;">(9 Digits Code Number appearing on the MICR Band of the cheque supplied by the Bank). Please attach a xerox copy of a cheque or a blank cheque of your bank duly cancelled for ensuring accuracy of the banks name, branch name and code number.</p>								

Account Type	→	Savings	→	Current	→	Cash Credit
--------------	---	---------	---	---------	---	-------------

Account No. (as appearing in the cheque book)	→	<table border="1" style="width: 100%; height: 25px;"> <tr> <td style="width: 25px;"> </td> </tr> </table>													

Effective date of this mandate	→	<table border="1" style="width: 100%; height: 25px;"> <tr> <td style="width: 25px;"> </td> </tr> </table>							

I hereby declare that the particulars given above are correct and complete. If any transaction is delayed or not effected at all for reasons of incomplete or incorrect information, I shall not hold Four Soft Limited or Karvy Computershare Private Ltd responsible. I also undertake to advise any change in the particulars of my account to facilitate updation of records for purpose of credit of dividend amount through ECS.

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

Dated:

(Signature of First Holder)

Notes:

1. Whenever the shares in the given folio are entirely dematerialized, then this ECS form will stand rescinded.
2. For shares held in dematerialized form, ECS is required to be filled with the Depository Participant in their prescribed form.





FOUR SOFT LIMITED

Registered Office: 5QI A3, 5th Floor, Cyber Towers, Hitech City, Madhapur, Hyderabad - 500 033 India.

ATTENDANCE SLIP

7th Annual General Meeting 29th September, 2006

**PLEASE COMPLETE THIS ATTENDANCE SLIP AND
HAND IT OVER AT THE ENTRANCE OF THE MEETING HALL**

Name & Address Of the Member	Registered Folio No.	Client ID & DP ID No.	No. of Shares Held

I hereby record my presence at Seventh Annual General Meeting of the Company to be held on the 29th September' 2006 at Chip Auditorium, Cyber Towers, Hitec City, Madhapur, Hyderabad, A.P at 2.30 p.m.

SIGNATURE OF THE MEMBER OR THE PROXY ATTENDING THE MEETING

If Member, please sign here	If Proxy, please sign here

Note : Members are requested to bring their copies of the AGM Notice at the Meeting as the same will not be circulated at the Meeting.



FOUR SOFT LIMITED

Registered Office: 5QI A3, 5th Floor, Cyber Towers, Hitech City, Madhapur, Hyderabad - 500 033 India.

PROXY FORM

7th Annual General Meeting 29th September, 2006

Folio No

Client ID No. & DP ID No

I/We of being a Member / Members of FOUR SOFT LIMITED, hereby appoint of or failing him / her of or failing him / her of as my / our Proxy to attend and vote for me / us on my / our behalf at the Seventh Annual General Meeting of the Company to be held on Friday, the 29th September' 2006 at Chip Auditorium, Cyber Towers, Hitec City, Madhapur, Hyderabad, A.P at 2.30. p.m. and at any adjournment thereof.

Signed this day of 2006.

Affix
Revenue
Stamp

Note : The Proxy form duly completed must be deposited at the Registered Office of the Company, not less than 48 hours before the time of holding the meeting. The Proxy need not be a Member of the Company.

**PRINTED MATTER
BOOK - POST**

If undelivered, please return to:

4S **FOUR SOFT**
Internet Solutions for Logistics

5Q1 A3,
Cyber Towers,
HITEC City, Madhapur,
Hyderabad - 500 081 India.
Web : www.four-soft.com