FOUR SOFT

Internet Solutions for Logistics

Annual Report 2006-07

BOARD OF DIRECTORS

Mr. Suresh C Rajpal	Chairman
Mr. Palem Srikanth Reddy	CEO & Managing Director
Mr. Koh Boon Hwee	Independent Director
Mr. K.V. Vishnu Raju	Independent Director
Mr. Douglas Terence Ash	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 & Associates 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. Plot No.17 to 24, Vittal Rao Nagar, Madhapur, Hyderabad - 500 081
Company Secretary & Compliance Officer	Mr. P. Subramanyam

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NOTICE

Notice is hereby given that the Eighth Annual General Meeting of Four Soft Limited will be held on Friday, the 28th day of September, 2007 at The Chip Auditorium, Cyber Towers, HITEC City, Madhapur, Hyderabad, A.P at 10.00 A.M. 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' 2007 and the Audited Balance Sheet as on that date together with the Report of the Board of Directors and Auditors thereon.

2. To appoint a director in place of Mr. Suresh C Rajpal, who retires by rotation, and being eligible, offers himself for reappointment.

3. To appoint a director in place of Mr. Koh Boon Hwee, who retires by rotation, and being eligible, offers himself for reappointment.

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

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

For and on behalf of the Board of Directors

Palem Srikanth Reddy
CEO & Managing Director

Place : Hyderabad
Date : 27th August, 2007

Notes:

1. 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 before the expiry of 48 hours from the date of Annual General Meeting.

2. The Register of members and the Share Transfer Registers of the Company will remain closed from 25th September, 2007 to 28th September, 2007 (Both days inclusive) in connection with the Annual General Meeting.

3. 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.

4. 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.

5. 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 from must send the advice about change in address to their respective Depository Participants and not to the Company.

6. 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
   Plot No.17 to 24, Vittal Rao Nagar,
   Madhapur, Hyderabad - 500 081
   Phone Nos. 040-23420818,23420828,
   Fax No. 040-23420814
   EMAIL : manoj.pillai@karvy.com

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

AS required by Clause 49 of the listing agreement on Corporate Governance, the particulars of Directors being reappointed provided hereunder.

Item No. 2

Mr. Suresh C Rajpal.

Mr. Suresh is the CEO of Technova Global. He served as President and CEO of Trigyn Technologies Ltd. He is also recipient of "Entrepreneur of the year award 2000" for India by Ernst and Young, the US Ambassador's award for strengthening the relationship with US as president of American Business Council. He holds engineering degree from IIT and MBA from Canada. He is serving on the Board of Four Soft since February 2000.

Your Directors recommend the resolution for your approval.

Except Mr. Suresh C Rajpal, none of the other Directors of the Company is in any way concerned or interested in the resolution.

Item No. 3

Mr Koh Boon Hwee is the Chairman of DBS Group Holdings and DBS Bank Ltd. DBS is one of the largest financial services groups in Asia with operations in 15 markets. DBS has leading positions in corporate, SME and consumer banking, treasury and markets, wealth management, securities brokerage, equity and debt fund raising. His other current appointments are Executive Chairman and CEO of Sunningdale Tech Ltd, Executive Director of Mediaring Ltd and Chairman of the Nanyang Technological University's Board of Trustees. He serves on the boards of Temasek Holdings Pte Ltd and Agilent Technologies, Inc in the United States.

He was previously the Chairman of Singapore Airlines Ltd (2001-2005), SIA Engineering Company Ltd (2003-2005), Singapore Telecom Group and its predecessor organisations (1986-2001), Omni Industries Ltd (1996-2001), Executive Chairman of the Wuthelam Group (1991-2000), and before that Managing Director of Hewlett Packard, Singapore (1985-1990) where he started his career in 1977.

Boon Hwee received his Bachelor's Degree (First Class Honours) in Mechanical Engineering from the Imperial College of Science and Technology, University of London and his MBA (Distinction) from the Harvard Business School, USA.

Your Directors recommend the resolution for your approval.

Except Mr. Koh Boon Hwee, none of the Directors of the Company is in any way concerned or interested in the resolution.

For and on behalf of the Board of Directors

Palem Srikanth Reddy
CEO & Managing Director

Place : Hyderabad
Date : 27th August, 2007

DIRECTORS' REPORT

To the Members,

Your directors are pleased to place before the shareholders, the 8th Annual Report of the Company together with the audited statement of accounts for the year ended 31st March' 2007.

FINANCIAL RESULTS

Rs. in Millions, except per share

Particulars	2006-07	2005-06	Growth%
Total Income	**375.33**	244.04	53.80
Total Expenditure	**297.44**	183.59	62.01
Operating Profit (EBDTA)	**77.88**	60.45	28.89
Depreciation	**19.71**	11.51	71.24
Profit Before Tax	**58.13**	48.88	18.92
Provision for Tax	**4.37**	5.27	-17.07
Deferred Tax	**1.52**	0.81	87.65
Fringe Benefit Tax	**1.32**	0.90	–
Profit after tax	**50.91**	41.90	21.50
Dividends	**–**	27.13	–
tax on Dividends	**–**	3.81	–
Basic Earnings per share	**1.42**	1.26	12.70
Paid up Equity share capital	**191.53**	176.48	–
Reserves	**776.14**	532.69	45.70

Changes to Share Capital

During the year under review the company has acquired company in Denmark called Transaxiom Holding A/S along with its subsidiaries towards Cash and Stock consideration. To finance the said acquisition and part fund its working capital requirements, the company has made a private placement and allotted 10,11,925 equity shares towards purchase consideration to select group of persons and 17,70,170 equity shares to sellers of Transaxiom Holding A/S. The Company also issued and allotted and 20,00,000 Warrants to Citicorp Finance (India) Ltd and 1,00,000 Warrants to IndusAge Management Services Pvt Ltd. During the year the paid-capital of the company increased from Rs. 176.49 million to Rs. 191.53 million by way of allotment of 27,82,095 equity shares on preferential basis as mentioned below:

i. Allotment of 1011,925 equity shares of Rs. 5 each at a premium of Rs. 60/- per share to select group of persons on preferential basis,

ii. Allotment 17,70,170 equity shares of Rs. 5/-each at a premium of Rs. 70/- per share to sellers of Transaxiom Holding A/S towards acquisition of the entire business of M/s. Transaxiom Holding A/S along with its subsidiaries for cash and stock consideration.

During the year under review, the Company didn't increased Authorized Share Capital of the company which is stood at Rs.350 Millions.

Dividend

In view of future requirements of business, the directors do not recommend dividend for the year 2006-07.

Transfer to Reserves

The Company proposes the entire amount of profit after tax for an amount of Rs. 130.25 Millions to be retained in the profit and loss account.

BUSINESS PERFORMANCE

Result of Operations

During the financial year 2006-2007, your Company achieved strong business growth, and was successful in delivering high value to customers. During the year your company has acquired Transaxiom Holding A/S, Denmark based company along with its subsidiaries and through its step subsidiary acquired the shipping line business of FWL Technologies Limited, UK Based company for an amount of Rs. 69 Millions. During the year under review your company continues to grow both organically and inorganically and shall continue the same in future also.

Revenues

Total income in financial year 2006-07 is Rs.375.33 Millions (Previous year Rs.244.04 Millions) and Rs.1630.89 Millions as per the Consolidated Accounts (previous Year Rs.934.78 Millions).

Operating Profit at Rs. 77.88 Millions (previous year Rs. 60.45 Millions) and Rs. 108.76 Millions as per Consolidated Accounts (previous year Rs.127.55 Millions) Profit after tax is Rs. 50.91 Millions or 13.56% of total income (Previous Year Rs. 41.89 Millions or 17.17% of total income and Rs. 9.48 Millions or 0.58% as per the Consolidated Accounts (Previous Year Rs. 59.41 Millions or 6.35 % of total income)

During the year under review your Company increased its client's base across the globe. Your company continues to grow towards becoming the Industry leader in this domain, leveraging our excellence in technology, domain and processes and continue to get 80% of revenues from existing customers. During the year we added new clients and the customers through acquisition of companies that included some of the Fortune 1000 companies, including some Logistics and Transportation majors.

We continue adding space with 25,000 sq.ft additional spaces at Cyber Towers, Madhapur, Hyderabad office. The total space available space now stands at 58,000 sq.ft. The company has incurred capital expenditure of Rs. 37.03 million for infrastructure & facilities, Rs. 114.34 million towards acquisition and overseas office set-up. The company has incurred Rs. 51.23 Million on R&D expenses, up from Rs. 28.30 Million.

Liquidity

During the year under review the Company entered a Facility Agreement with Citicorp Finance (India) Limited for a draw down facility of Rs. 13.50 Million. The Company used this drawdown facility on 14th August, 2007.

Your company continues to generate cash from operations and been able to manage working capital requirements and had cash equivalents of Rs. 37.96 million as on March 31, 2007. These funds have been invested in fixed deposits and liquid mutual funds.

ACQUISITIONS:

During the year, the Company has made the following international strategic acquisitions towards attaining its goals of being global leader in logistic and supply chain management companies.

i. **Acquisition of Transaxiom Holding A/S, Denmark based Company:**

Your Company consolidates leadership in Logistics solution market by acquiring Transaxiom Holding A/S, a Denmark based Company during the year for cash-and-stock consideration of Rs 40.00 Million (Approx). This acquisition consolidates Four Soft's position in the transportation & logistics industry and strengthening of Scandinavian operations and expansion into Australia. This acquisition adds a number of strategic players in transportation and logistics to current customer base of the company. This Acquisition augment Four Soft's current domain and technology competence and expand global presence in Scandinavia, Australia and Hong Kong markets. The annualized revenue of the operations of Transaxiom Holding A/S at the time of acquisition is around Rs. 320 Million.

Transaxiom Holding A/S provides IT solutions for International transportation and logistics services companies with its head quarters in Denmark and regional offices in Australia, UK, USA and Hong Kong. It has performed more than 325 installations spread across 79 countries. Its major customers include global giants like TNT Freight, DHL, EGL, Maersk Logistics, BAX Global, Blue Water Shipping and Andreas Andersen

ii. **Acquisition of the Assets of FWL Technologies Limited, UK based Company:**

During the year your company has also acquired the assets of the freight and shipping software business of FWL Technologies Limited, UK through its step subsidiary Four Soft UK Ltd. in an all cash transaction in October, 2006. The acquisition of business includes IP, staff, customer contracts and business assets.

With this acquisition, your company expands into the Shipping liner software business while further consolidating its coverage in the transportation and logistics vertical. It adds strong domain and technology teams based out of UK, India, Singapore and USA to Four Soft's current operations. The customer base expanded significantly to add shipping liner customers. This acquisition helps the company for further consolidate the leadership position in the transportation and logistics domain.

This acquisition adds Revenue in the range of Rs. 60 million (approx) per year.

SUBSIDIARIES:

Presently your Company has four direct subsidiaries; Four Soft B.V, Netherlands, Four Soft Singapore Pte Ltd. , Four Soft Malaysia Sdn Bhd. ,Four Soft Nordic A/s Denmark and four step down subsidiaries Four Soft Netherlands B.V, Netherlands Four Soft UK Ltd., UK, Four Soft Germany GmBH, Germany, Four Soft USA Inc. USA. Four Soft Japan, KK

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.

In September, 2005 your company acquired DCS T&L division with four entities for a 100% cash consideration of US$ 19.00 million through its subsidiary Four Soft B.V. the acquisition was part financed through debt funding of GBP 5.72 million from leading Indian bank, based of UK. With this acquisition Four Soft B.V. holds four subsidiaries viz., Four Soft UK Ltd., Four Soft Netherlands B.V, Four Soft Germany GmBH and Four Soft USA Inc. During the year under review the Company has generated net revenues of Rs.68.04 million with a net profit of Rs.31.77 million.

Four Soft LLC, USA

Four Soft LLC, was incorporated as 100% wholly owned subsidiary in 2001, to address implementation projects for US customers. The company has generated revenues of Rs.4.31 Million, with a net Profit / loss of Rs.0 .37 Million.

During the year under review Four Soft LLC (Non-Surviving Company) is merged with Four Soft USA Inc (Surviving Company) which is a subsidiary of Four Soft B.V. Netherlands. This merger is purely an intra group transaction with a view to simplify the group structure of Four Soft.

Four Soft Singapore Pte. Ltd

In May' 2005 the company acquired Comex Frontier Pte Ltd. (renamed as Four Soft Singapore Pte Ltd). The Company generated revenues of SG$ 1.94 Million, with a net loss of SG$ 0.50 Million. The company is expected to break even in next 6 months period.

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 .51 Million, with a net loss of RM .07 Million. The Company is expected to break even in next 6 months period.

Four Soft Nordic A/S.

In January, 2007, the company acquired Transaxiom Holding A/S and after the name of the company was changed to Four Soft Holding A/S. Four Soft Holding A/S has merged with its subsidiary called Four Soft Nordiac A/S. Four Soft Nordic A/S along with its subsidiaries generated revenues of DKK 11.09 Million, with a net profit of DKK 3.20 Million.

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

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, visiLog, iLogistics, eSupply and eTrans SME. Services include Consulting, Software Development and System Integration & Implementation.

HUMAN RESOURCES

Four Soft is 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 583 employees to 842 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 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 continued to be 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 improvising on complying and provide additional disclosures apart from complying with recommended SEBI guidelines on Corporate Governance. The 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 initiated 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. Suresh C Rajpal, and Mr. Koh Boon Hwee retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for reappointment.

Mr. Walter J Sousa ceased from directorship with effect from 29^{th} September, 2006. We place on record our appreciation for the services rendered by Mr. Walter J Sousa during his tenure on the Board.

Pursuant to the provisions of Clause 49 of the Listing Agreement, 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. The company has received their willingness for re-appointment as auditors of the company and a certificate under Section 224 (1B) of the Companies Act, 1956.

AUDITOR'S REPORT

A Report of the Auditor's on the financials of the company is appended to this Annual Report.

With reference to point no (iv) of annexure to the Auditors Report, the company has taken steps to strengthen the internal control system for sale of services and has suitably modified the processes to improve the controls.

With reference to point no.(ix) (a) of annexure to the Auditors Report, the undisputed statutory dues have been regularly deposited with the appropriate authorities though there have been slight delays in a few cases which is not material in relation to total remittances.

The other observations, reservations or adverse remarks expressed by the auditors in the Audit Report are self explanatory.

DISCLOSURE AS PER LISTING AGREEEMNT

Clause 32

The cash flow statement in accordance with the Accounting Standard on cash flow statement (AS-3) issued by ICAI is appended to this Annual Report.

Clause: 43A

Your Company's shares are listed on the Bombay Stock Exchange Limited, Mumbai (Stock Code: 532521) and National Stock Exchange of India Limited, Mumbai (Stock Code: FOURSOFT). The Annual Listing Fees for the year 2007-08 has been paid.

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 110,000 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, 2007 the trust has 868,567 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	943,608
Granted during the year	110,000
Forfeited during the year	205,714
Exercised during the year	226,954
Expired during the year	NIL
Outstanding at the end of the year	620,940
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	1.41

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 recently amended the Companies (Particulars of employees) Rules, 1975 to the effect that particulars of employees of companies engaged information technology sector posted and working outside India not being directors or their relatives, drawing more than rupees twenty four 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 Government of India, particularly department of Information Technology, Customs and Excise, Income Tax, Software Technology Park of Hyderabad, Reserve Bank of India and other government agencies for their overall support and look forward for their continued support in the future.

For and on behalf of the board of Directors

Palem Srikanth Reddy — CEO & Managing Director
P. Mangamma — Director

Place : Hyderabad
Date : 27th August, 2007

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.51.23 Million in current year (Rs. 28.29 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.

Your company also having Service Oriented Architecture (SOA) which is essentially a collection of services. These services communicate with each other. The communication can involve either simple data passing or it could involve two or more services coordinating some activity. SOA Activities at Technology Team included Web Services and BPEL. Your company has done some integration POCs with eTrans and eLog and currently working on WS-Security, BPEL and IBM SOA certifications.

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 Australia with sales support staff providing services to large international clients.

b) Foreign exchange earned and used for the year ended March 31' 2007

(Rs. in Millions)

	2007	2006
Gross Earnings	**368.63**	218.39
Outflow (including capital goods And imported software)	**30.11**	35.19
Net Foreign Exchange Earnings	**338.52**	183.20
NFE/Gross Earnings %	**91.83**	83.88

For and on behalf of the board of Directors

Palem Srikanth Reddy
CEO & Managing Director

P. Mangamma
Director

Place : Hyderabad
Date : 27th August, 2007

ANNEXURE TO DIRECTORS' REPORT ON CORPORATE GOVERNANCE

forming part of Director's Report of Four Soft Ltd. for the year ended March 31, 2007 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 2006-07.

A. Board Composition

1. Size and composition of the board

The Company has optimum combination of Executive and Non-executive directors with six Independent Non-Executive Directors. The Chairman is an independent and non-executive director and the number of Independent Directors is more than 75%. 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	
					Indian				
		Held	Attended		Public Companies	Private Companies	Foreign Companies	This Company	Other Companies
Suresh C. Rajpal	Independent and Non- Executive Chairman	9	-	No	Nil	4	Nil	-	-
Palem Srikanth Reddy	CEO & Managing Director	9	6	Yes	1	2	10	-	-
Koh Boon Hwee	Non-Executive and Independent Director	9	-	No	Nil	Nil	12	1	-
Walter Joseph Sousa*	Non-Executive and Independent Director	4**	Nil	No	Nil	Nil	1	-	-
Douglas Terence Ash	Non-Executive and Independent Director	9	-	No	Nil	Nil	3	-	-
K.V. Vishnu Raju	Non-Executive and Independent Director	9	9	Yes	7	1	Nil	3	-
Sarat Naru	Non-Executive and Independent Director	9	2	No	3	8	Nil	2	-
P. Mangamma	Non-Executive	9	9	Yes	Nil	1	Nil	1	-
K.V. Ramakrishna	Independent & Nominee Director	9	5	No	2	2	Nil	2	-

* Ceased to be Director w.e.f. 29.9.2006

** 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**

   As per provisions of Article 88, Mr. Suresh C Rajpal and Mr. Koh Boon Hwee, directors retire at the ensuing general meeting and being eligible offer themselves for re-appointment for consideration of shareholders.

   During the financial year 2006-07 Mr. Walter J Sousa, ceased to be a director with effect from 29.09.2006.

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 lest four times a year, with a maximum gap of four months between any two meetings.

During the financial year 2006-07, there were 9 board meetings held during the year ended March 31, 2007. These were 27.05.2006, 15.06.2006, 27.07.2006, 26.08.2006, 20.10.2006, 20.12.2006, 22.12.2006, 30.01.2007 and 02.02.2007. 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 to regularly update them on all business-related issues and new initiatives. The executive directors and other senior management personnel shall make such presentations on relevant issues.

C. Board Committees

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

1. Audit Committee

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

The Audit committee reviews, acts and reports to Board of Directors:

- auditing and accounting matters, including appointment of statutory and internal auditors
- Compliance with legal and statutory requirements
- Integrity of company financial statements, scope of annual audit, fees paid to statutory and internal auditors
- Statement of related party transactions.
- 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.

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
Sarath Naru	: Member

Attendance at the Audit Committee Meeting:

The audit committee met four times during the year 2006-07.

Name	Number of meetings held during the year	Number of meetings attended during the year
K.V.Vishnu Raju	4	4
K.V.Ramakrishna	4	4
Sarath Naru	4	–

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 non-executive director being majority

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

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
Mr. K.V. Vishnu Raju	-	Member
Mr. K.V. Ramakrishna	-	Member

b. Name and Designation of Compliance Officer:

Mr. P. Subramanyam, Company Secretary

c. Status of Share transfers as on the date of the Report

There are no pending share transfers as on the date of this report.

d. Details of Investor Correspondence/ grievances for the year 2006-2007

Received	Redressed	Pending
31	31	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 91.89% as against 84.2% previous year.

D. General Body Meetings

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

Financial Year	Date	Time	Venue
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
2005-06	29-09-06	2.00 P.M	Chip Auditorium, Cyber Towers, Hitech City, Hyderabad-33

One Extra-Ordinary General Meeting has been held during the financial year on 19th January, 2007 at Chip Auditorium, Cyber Towers, Hitech City, Hyderabad-81.

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 non-executive directors have any pecuniary material relationship with the company for the year ended March 31, 2007

2. In the opinion of the Board, during the year March 31, 2007, 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.

   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.

   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, 2007

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

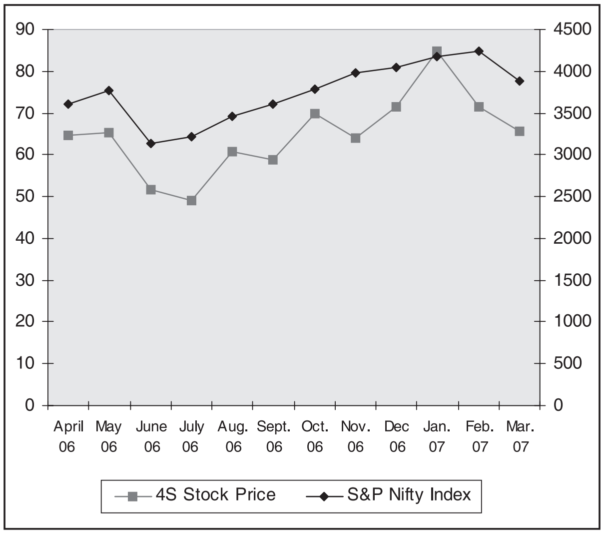
1.	**Date, time and venue of 8th AGM**	28th September, 2007 at 10.00 A.M The Chip Auditorium, Cyber Towers, HITEC City, Madhapur, Hyderabad - 500 081, AP, INDIA
2.	**Financial Calendar**	1st April to 31st March
3.	**Dates of book closure**	25th September, 2007 to 28th September, 2007 (both days inclusive)
4.	**Listing on stock exchanges**	National Stock Exchange of India Ltd. (NSE) and the The Stock Exchange, Mumbai (BSE) Listing fees have been paid for 2007-08 have been paid to both the stock exchanges.
5.	**Stock Code**	Bombay Stock Exchange Ltd., Mumbai : 532521 National Stock Exchange of India Ltd. : Four Soft
6.	**Electronic Connectivity**	National Securities Depository Ltd. & Central Depository Services (India) Ltd.

7. **Stock market data**

Monthly closing high and low quotations of shares traded on National and Mumbai Stock Exchanges for the year 2006-07.

Year 2006 - 07	NSE			BSE		
Month	HighRs.	Low Rs.	No.of Shares	High Rs. Traded	Low Rs.	No. of Shares Traded
April	64.8	56.45	2039961	64.50	56.30	1652542
May	65.25	51.7	907357	65.20	51.70	812658
June	51.65	35.1	753632	50.40	35.25	731846
July	49.1	39.6	290346	49.05	39.65	358293
August	60.85	47.35	873904	60.55	46.70	829528
September	58.85	53.45	856066	58.85	53.35	933185
October	69.85	55.75	5268475	70.05	55.70	3892635
November	63.85	58.65	1539855	64.35	58.40	1396307
December	71.45	53.85	12115145	71.15	53.80	11430456
January	84.8	69.25	15792410	85.00	71.30	12825021
February	71.45	63.35	4204606	71.50	63.70	3954013
March	65.55	57.25	2252073	63.85	57.45	1659245

Four Soft Stock Price and S&P CNX Nifty Index



8. 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

9. 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 LIMITED
Plot No.17 to 24, Vittal Rao Nagar,
Madhapur, Hyderabad - 500 081
Phone Nos. 040-23420818,23420828, Fax No. 040-23420814
EMAIL : manoj.pillai@karvy.com

10. Share Transfer System

The Board has delegated the Power of Share Transfer to Registrar and Share Transfer Agents for processing of share transfers 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 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:

Mr. P. Subramanyam
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: subramanyam.p@four-soft.com

For queries on Financial statements

Mr. 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

11. Distribution of shareholding as on March 31, 2007

No. of Equity shares held	No. of Shareholders	% of Shareholders	Total Shares	Amount of Shares	% of Total Amount
1 - 5000	24998	93.07	5535173	27675865	14.21
5001 - 10000	852	3.17	1345076	6725380	3.45
10001 - 20000	444	1.65	1323215	6616075	3.40
20001 - 30000	229	0.85	1159590	5797950	2.98
30001 - 40000	70	0.26	502371	2511855	1.29
40001 - 50000	74	0.28	713987	3569935	1.83
50001 - 100000	89	0.33	1269264	6346320	3.26
100001 & Above	104	0.39	27111068	135555340	69.59
Total	26860	100.00	38959744	194798720	100.00

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	2,31,064	10th October' 2011
2005-06	29th September, 2006	1,87,375	6th November, 2013

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. Nomination in case of shares held in physical form

The companies Act, 1956 facility 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.

3. 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 wit the aggregate total number of shares in physical form and the total number of dematerialized shares held in NSDL and CDSL.

4. Compliance

The Certificate dated 29th June, 2007 obtained from M/s. AGR Reddy & Co., Company Secretaries is given at relevant page in annual report.

5. 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, 2007

Place : Hyderabad
Date : 27th August, 2007

Palem 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, 2007*

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, 2007.

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	110,000
3.	Pricing Formula	Price of Rs. 5/- per share
4.	Options vested as on March 31, 2007	Nil
5.	Options exercised during the year	226,954
6.	Options lapsed during the year	205,714
7.	Grant Price	Rs. 5/-
8.	Total No. of options in force as on 31st March'06	620,940
9.	Variation of terms of option	Nil
10.	Money realized by exercise of options	1,134,770
11.	Grant details to members of senior management team - Biju S. Nair	16,298
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	1.41

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. 565,335

(iii) The impact of this difference on profits and on EPS of The company :

PAT	Rs. 50,912,835
Less: Additional employees Compensation cost based on Fair value	Rs. 565,335
Adjusted Pat	Rs. 50,347,500
Adjusted EPS	
Basic	Rs. 1.41
Diluted	Rs. 1.39

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

Stock options granted on	Weighted average exercise price (Rs.)	Weighted average fair value (Rs.)	Closing market price at NSE on the date of grant (Rs.)
10/10/2006	5/-	30.82	62.05

(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 restri ctions are fully transferable. Since options pricing models require use of substantive assumptions, changes therein.

(vi) Description of the method and significant assumptions Used during the year to estimate the fair value of the Options, including the following weighted average Information : The Black Scholes option pricing model was developed for estimating the fair value of traded options that have not vesting restrictions and are fully transferable. Since Option pricing models require use of Substantive assumptions, changes therein can materially affect fair value of options. The option pricing model do not necessarily Provide a reliable measure of fair value of Options.

(vii) The main assumptions used in the Black Scholes option pricing model during the year were as follows:

		2007	2006
Risk free interest rate	:	**8.05%**	**7.50%**
Expected life of options from the date(s) of grant	:	1 to 3 Years	**1 to 3 Years**
Expected volatility	:	**0.53**	**0.642**
Expected Dividend Yield	:	**Nil**	**1.06%**

For and on behalf of the board of Directors

Place : Hyderabad
Date : 27th August, 2007

Palem Srikanth Reddy
CEO & Managing Director

P. Mangamma
Director

COMPLIANCE CERTIFICATE

To
The Members of
Four Soft Ltd.
Hyderabad

We have examined the compliance of conditions of Corporate Governance by Four Soft Limited, for the year ended 31st March' 2007 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. Our examination was limited to procedures and implementation thereof, adopted by the company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of my information and according to the explanation give to me, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the Listing Agreement. We 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.

We 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 : 29th June, 2007

For AGR Reddy & Co.,
Company Secretaries

K.V. Subramanyam
Partner

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Four Soft operates in a niche market 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. 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 the Assets of FWL Technologies Ltd, UK Based Company and the acquisition of the entries business of Transaxiom Holding A/S along with its subsidiaries of Denmark based Company are key examples. These acquisitions gave us the Scandinavian presence and entering into shipping line business 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. The 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 acquisition and product suite offering covering solutions for Transportation, Logistics, 3PL/4PL providers, Distributions, 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 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, 4S Visilog. 4S iShipping and 4S ePoms. 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 outsourced 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 acquisitions of the year 2006-07, the company increased its customer based across the globe. Further our clientele includes worlds top 12 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 continue 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 to 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	**2007**	**% of Revenue**	2006	% of Revenue
Revenue from Services	**1276.22**	**80.10**	766.84	85.15
Support Services	**201.32**	**12.63**	87.10	9.67
Software Licenses	**93.83**	**5.88**	36.63	4.07
Third Party	**21.90**	**1.37**	9.99	1.11
Total	**1593.28**	**100**	900.56	100

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	**2007 %**	2006 %
North America	**32.00**	32.00
EMEA	**64.00**	63.00
APAC	**4.00**	5.00
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	FY 2004	FY 2005	FY2006	**FY2007**
Rupees in Million	0.92	0.63	1.54	**1.87**

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

A. 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.

B. 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.

C. 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

D. 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.

E. 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 acquisitions well with proper strategy and planning. The benefits of these acquisitions will take another 6 months to start showing financial results.

F. 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.

G. 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.

H. 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 tradeshows, 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 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 Authorize Share capital is Rs. 350 Million divided in to 5,60,77,600 equity shares of Rs. 5/- each and 6,96,120 Redeemable preference Shares of Rs. 100/- each.

During the year under review, the Company didn't increased Authorized Share Capital of the company which is stood at Rs. 350 Millions.

During the year under review the company has increased the paid-up share capital from Rs. 176.49 Million to Rs. 191.53 Million by allotment of 27,82,095 equity shares on preferential basis.

This includes:

i. Allotment of 1011,925 equity shares of Rs. 5 each at a premium of Rs. 60/- per share to select group of persons on preferential basis,

ii. Allotment 17,70,170 equity shares of Rs. 5/-each at a premium of Rs. 70/- per share to sellers of Transaxiom Holding A/S towards acquisition of the entire business of M/s. Transaxiom Holding A/S along with its subsidiaries for cash and stock consideration.

During the year under review, The Company has also issued and allotted and 20,00,000 Warrants to Citicorp Finance (India) Ltd and 1,00,000 Warrants to IndusAge Management Services Pvt Ltd at a price Rs. 68/- each. These warrants can be convertible into equity shares of Rs. 5/- each per warrant at the option of the allottees within 18 months from the date of allotment of warrants.

II. Reserves & Surplus:

During the year, your company recorded a net profit after tax of Rs. 50.91 Million (Rs. 41.89 Million previous year) out of which the entire amount Rs. 50.91 Million transferred to Balance Sheet. The total reserves and surplus as on the balance sheet date is Rs. 776.14 Million (Rs. 532.69 Million Previous Year). There is an expense of Rs. 17.58 Million towards stock option compensation during the year (Rs.12.65 Million previous year).

The Company has decided to adopt AS - 15 (Revised) with respect to General Reserve from the current year. As per the transitional provisions contained in Para 143 of AS - 15 (Revised), the difference between the liability computed as on the date of adoption of AS - 15 (Revised) with pre-revised AS - 15 is adjusted against opening balance of revenue reserves and surplus.

III. Secured Loans:

The company has taken a furnished office premises on lease for a non-cancelable period of thirty six months, from L&T Info City at VI floor of Cyber Towers. The amount represents principle amount payable towards finance lease of the furniture. As on the date of balance sheet, the amount of Secured Loan is at Rs. 1.94 Million (Rs. 2.70 Million previous).

IV. Fixed Assets:

During the year under review, the total additions to the gross block of assets amounted to Rs.36.15 million which included major capitalization at 3rd Floor Cyber towers, HI-Tech City. The entire investment in fixed assets was funded out of internal accruals. We have added additional space in Denmark due to acquisitions in abroad.

(Rs. In millions)

Particulars	Additions
Computers	15.96
Office Equipment	9.48
Furniture & Fittings	6.79
Leasehold Improvements	1.38
Buildings	0
Software	2.54
Total	36.15

V. Investments:

During the year under review, the company has made a strategic investment by acquiring the entire shareholding of Transaxiom Holding A/S , Denmark based company along with its subsidiaries towards Cash and Stock consideration. The company has made investments in aggregating of Rs.287.10 Million in its subsidiary Four Soft BV towards increase in the value of existing investment by capitalization of loan into equity.

VI. Current Assets, Loans and Advances

1. Sundry Debtors

Sundry Debtors, considered good and realizable as of March 31, 2007 amounts to Rs.349.29 million (Rs. 115.583 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 93 % (47.36% previous year) of total revenues.

The additional provision for doubtful debts is Rs.2.77 million (Rs.9.04 million previous year).

2. Cash and Bank Balances

The Bank balance in India included both rupees accounts and foreign currency accounts. Cash and Bank balances are Rs.37.96 million and Rs.273.41 million for the financial year ended 31 March 2007 and 31 March 2006 respectively. Cash and Bank balance constitutes 3.35% of the total assets (33.10% previous year).

3. Other Current Assets

Other current assets include interest accrued as at March 31, 2007 amounting to Rs..02 million (Previous year 0.54 million) on fixed deposits with scheduled banks and 10.75 million (Previous years 8.21 million) being interest accrued and due on loans given to wholly owned subsidiaries namely Four Soft B.V, The Netherlands and Four Soft Pte, Singapore.

4. Loans and Advances

Decrease in Loans given to Four Soft BV,The Netherlands in the current financial year is due to conversion of Loan into equity for the total amount of Rs.225.66 million and fresh loan of Rs.5.212 million was given to Four Soft BV, The Netherlands in the current financial year.

Advances recoverable in cash, kind or value to be received are primarily towards prepayments, travel advances and staff advances and other receivables.

Deposits represent electricity deposits, telephone deposits and other deposits. During the year the increase in deposits is on account of additional rental deposits made towards 3rd Floor office in Cyber Towers, training center and Guest house.

5. Current Liabilities and Provisions

Sundry creditors for capital goods amounting to Rs.3.64 million represent amount payable against assets capitalized in the 3rd and 6th floor of Cyber Towers, Hitec City, Madhapur, Hyderabad. Liabilities also include 1.039 million (previous year 1.382 million) towards advance from customers and other payroll related liabilities.

Provisions include 11.53 million (previous year 1.93 million) gratuity & leave encashment on account of application of AS - 15 (Revised) during the year.

B. Results of Operations

I. Income

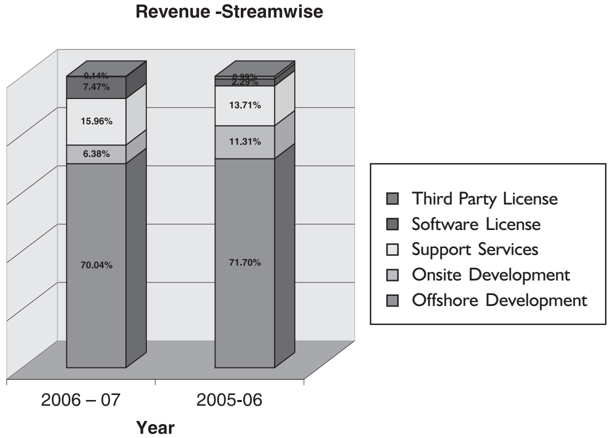
Income from software services and products.

(Rs. In millions)

Particulars	2006-07	% of Revenue	2005-06	% of Revenue
Off Shore Development	**255.63**	**70%**	156.80	72%
Onsite Development	**23.28**	**6%**	24.74	11%
Support Services	**58.26**	**16%**	29.98	14%
Software License	**27.27**	**7%**	5	2%
Third Party License	**0.51**	**1%**	2.17	1%

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.

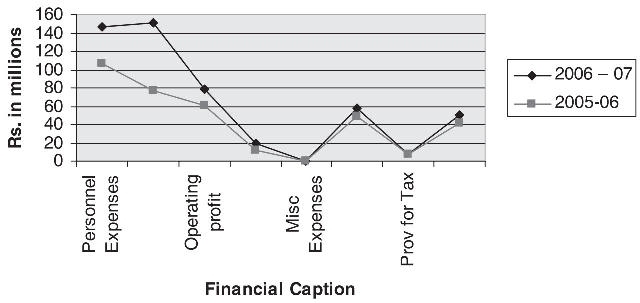


II. Expenditure

The Total expenditure statement is as follows:

(Rs. In million)

Particulars	2006-07	% of Total Income	2006-05	% of Total Income
Total Income	375.33	100%	244.04	100%
Personnel Expenses	**146.28**	39%	106.30	44%
Operating and other expenses	**151.16**	40%	77.29	32%
Operating profit	**77.88**	21%	60.45	25%
Depreciation	**19.71**	5%	11.51	5%
Misc Expenses W /off	**0.05**	0%	0.06	0%
PBT	**58.13**	15%	48.88	20%
Prov for Tax	**7.21**	2%	6.98	3%
Net Profit After Tax	**50.91**	14%	41.89	17%



1. Personnel Expenses:

During the year under review, the company incurred personnel expenses at 39% of its total revenue as compares to 44% during the previous year. The personal expenses increased from Rs.106.30 Millions to Rs.146.28 duto to increase in Headcount from 331 to 531 at the year end and increase in employee's wages in the current financial year.

2. Operating and other expenses:

The company has incurred Operating expenses at 40% of its revenue during the current financial year as compared to 32 % during the previous year. The major increase is attributable to Rent, office Maintenance, Travel expenses, communication cost and insurance.

3. Operating Profits

During the year the company earned an operating profit of Rs.77.88 million representing 21% of total revenues as compared to 60.45 million, representing 25 % of total revenues during the previous year.

4. Depreciation

The company provided a sum of Rs.19.71 million compared to 11.51 million previous year towards depreciation representing 5% of total revenues in both the years. The increase is on account of capital additions amounting to Rs.36.15 million

5. Provision for Tax

Provision for Tax includes income tax, fringe benefit tax and deferred tax. The profits derived from software export activities were entitled to tax holiday in accordance with Indian Tax Laws.

6. Net profit

The net profit of the company amounted to Rs.50.91 Million for the current financial year and Rs.41.89 million (previous year). This represents 14% of the total revenue in the current financial year and 17 % of the total revenue for the previous year

7. Liquidity

During the year the company has been financed from proceeds of equity shares as well as from cash generated from operations. As of March 31, 2007, the company had cash and cash equivalents to the extent of Rs.37.95 million.

8. 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 1.42 (1.26 previous year). The Diluted earnings per share Rs.1.41 per share compared to Rs.1.24 per share in the previous year. Shares available under Four Soft Limited Employees Welfare Trust has been considered in the calculation of EPS.

9. Stock option plan

The 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.

10. Foreign Exchange

The company has an amount of Rs.7.90 million as loss compared to Rs.4.44 million gain in previous year due to downward movement in Rs./Dollar rate during the current year

11. Related Party Transaction

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

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, 2007 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, 2007, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2007 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, 2007;

      (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
Ali Nyaz
Partner
Membership No.: 200427

Place: Hyderabad
Date : June 29, 2007

Annexure referred to in paragraph [3] of our report of even date

Re: Four Soft Limited ('the Company')

(i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) All fixed assets have not been physically verified by the management during the year but there is a regular programme of verification 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 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. 220,115,874 and the year- end balance of loans granted to such parties was Rs. 36,397,702.

(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 the principal amount is as stipulated and payment of interest have been regular.

(d) There is no overdue amount more than rupees one lakh 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. *However, the internal control system for sale of services needs to be strengthened.* In our opinion there is no continuing failure to correct major weakness in the internal control system.

(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.

(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 have been slight delays 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	1,695,573	Financial year 2002-2003	Income tax appellate tribunal
Income tax Act, 1961	Tax on income	2,625,937	Financial year 2003-2004	Commissioner of 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 given guarantee for loans taken by its wholly owned overseas subsidiaries from bank or financial institutions, the terms and conditions whereof in our opinion are not prima-facie prejudicial to the interest of the Company.

(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 made preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Act. In our opinion the price at which shares have been issued is not prejudicial to the interest of the Company.

(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 22 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
Ali Nyaz
Partner
Membership No.: 200427

Place: Hyderabad
Date : June 29, 2007

BALANCE SHEET AS AT 31ST MARCH, 2007

Amount in Rupees

	Schedules	As at March 31, 2007	As at March 31, 2006
SOURCES OF FUNDS			
Shareholders' Funds			
Capital	1	**191,531,385**	176,488,060
Equity share warrants (Refer note-d on schedule 1)		**14,280,000**	–
Share application money pending allotment		**4,439,101**	–
Reserves and surplus	2	**776,142,529**	532,688,948
Loan funds			
Secured loan	3	**1,945,296**	2,704,250
Deferred tax liability	17(4)	**3,813,320**	2,291,333
		992,151,631	714,172,591
APPLICATION OF FUNDS			
Fixed Assets	4		
Gross block		**129,224,380**	93,069,066
Less : Accumulated depreciation		**48,737,872**	29,031,104
Net block		**80,486,508**	64,037,962
Capital work-in-progress including capital advances		**375,156**	–
		80,861,664	64,037,962
Investments	5	**438,587,415**	141,221,967
Current assets, Loans and advances			
Sundry debtors	6	**335,945,406**	104,819,079
Cash and bank balances	7	**37,958,349**	273,411,771
Other current assets	8	**10,765,290**	8,755,062
Loans and advances	9	**227,792,659**	233,675,663
		612,461,704	620,661,575
Less: Current liabilities and Provisions			
Liabilities	10	**127,943,204**	76,333,832
Provisions	11	**11,815,948**	35,466,931
		139,759,152	111,800,763
Net Current Assets		**472,702,552**	508,860,812
Miscellaneous Expenditure			
(to the extent not written off or adjusted)	12	**–**	51,850
		992,151,631	714,172,591
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.Batliboi & Associates
Chartered Accountants

Per
Ali Nyaz
Partner
Membership No.: 200427

Place : Hyderabad
Date : June 29, 2007

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

Palem Srikanth Reddy
Managing Director

P. Mangamma
Director

P. Subramanyam
Company Secretary

Biju S. Nair
Vice President - Finance

Place : Hyderabad
Date : June 29, 2007

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2007

Amount in Rupees

	Schedules	For the Year ended March 31, 2007	For the Year ended March 31, 2006
INCOME			
Revenue from software services and products	13	**364,946,821**	218,685,155
Other income	14	**10,386,720**	25,352,076
		375,333,541	244,037,231
EXPENDITURE			
Personnel expenses	15	**146,282,302**	106,297,931
Operating and other expenses	16	**151,161,387**	77,289,413
Depreciation and amortisation	4	**19,706,768**	11,508,385
Miscellaneous expenditure written off		**51,850**	63,000
		317,202,307	195,158,728
Profit before tax		**58,131,234**	48,878,502
Provision for current tax		**3,200,000**	5,000,000
Tax for earlier years		**1,174,699**	273,558
Deferred tax		**1,521,987**	806,713
Fringe benefit tax		**1,321,713**	900,000
Total tax expense		**7,218,399**	6,980,271
Proft after tax		**50,912,835**	41,898,231
Balance brought forward from previous year		**79,340,994**	70,476,348
Profit available for appropriation		**130,253,829**	112,374,579
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		**130,253,829**	79,340,994
Earnings per share	17 (24)		
Basic		**1.42**	1.26
Diluted		**1.41**	1.24
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
Ali Nyaz
Partner
Membership No.: 200427

Place : Hyderabad
Date : June 29, 2007

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

Palem Srikanth Reddy
Managing Director

P. Mangamma
Director

P. Subramanyam
Company Secretary

Biju S. Nair
Vice President - Finance

Place : Hyderabad
Date : June 29, 2007

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2007

Amount in Rupees

	As at March 31, 2007	As at March 31, 2006
SCHEDULE - 1		
CAPITAL		
Authorised		
56,077,600 (Previous year : 56,077,600) equity shares of Rs.5 each	**280,388,000**	280,388,000
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	350,000,000
Issued, Subscribed and Paid-up		
38,959,744 (Previous year : 36,177,649) equity shares of Rs. 5 each fully paid-up	**194,798,720**	180,888,245
Less: Calls in arrears	**10,500**	12,000
	194,788,220	180,876,245
Less: Amount recoverable from ESOP trust [868,567 equity shares (Previous year: 1,094,837) including 217,200 bonus shares alloted to the trust]	**3,256,835**	4,388,185
	191,531,385	176,488,060
	191,531,385	176,488,060

Notes:

Of the above:

a. 4,563,970 equity shares of Rs. 5 each are allotted as fully paid up bonus shares by captilisation of general reserve.

b. 10,452,102 equity shares were alloted as fully paid up for consideration other than cash.

c. 301,633 shares (Previous year: 75,363 shares) were issued to employees (through ESOP trust) pursuant to the employee stock option scheme.

   Of the above 209,814 shares were issued at Rs.19.65 out of which Rs.14.65 per share were received in the form of employee service and 91,819 shares were issued at Rs. 70.75 out of which Rs. 65.75 per share were received in the form of employee service.

d. As approved by the shareholders in Extra ordinary general meeting of the Company held on January 19, 2007, the Board of Directors of the Company at their meeting held on February 2, 2007, alloted 2,000,000 warrants to Citicorp Finance (India) Limited and 100,000 warrants to IndusAge Management Services Private Limited at a price of Rs. 68 determined in accordance with the Securities and Exchange Board of India (SEBI) Guidelines. These warrants are convertible at a future date into equal number of equity shares of face value of Rs. 5 each. Warrant-holders are entitled to subscribe to these warrants within a period not exceeding 18 months from the date of allotment of warrants. As required by SEBI Guidelines, subscribers have deposited non-refundable amount of Rs. 14,280,000, an amount equivalent to 10% of total consideration.

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2007

Amount in Rupees

		As at March 31, 2007	As at March 31, 2006
SCHEDULE - 2			
RESERVES AND SURPLUS			
Securities Premium Account			
Balance as per last account		**434,174,118**	184,214,070
Add: Received during the year		**184,627,479**	251,451,447
"Add: Transferred from stock options outstanding "on exercise of stock options"		**8,006,814**	1,104,068
		626,808,411	436,769,584
Less: Utilised towards share issue expenses		**497,121**	2,595,466
	(I)	**626,311,290**	434,174,118
General Reserve			
As per last Balance Sheet		**6,524,691**	4,429,779
Less: Adjustment for employee benefits provision		**4,528,477**	–
Add: Transferred from Profit and Loss Account		**–**	2,094,912
	(II)	**1,996,214**	6,524,691
Profit and Loss Account	(III)	**130,253,829**	79,340,994
Stock Option Adjustments			
Stock option outstanding		**44,262,850**	6,751,140
Add: Additions during the year		**3,311,000**	40,645,006
		47,573,850	47,396,146
Less: Deletions during the year		**10,161,994**	2,029,228
Less: Transfer to securities premium on exercise of stock options		**8,006,814**	1,104,068
		29,405,042	44,262,850
Less: Deferred stock employee compensation		**11,823,846**	31,613,705
	(IV)	**17,581,196**	12,649,145
TOTAL (I+II+III+IV)		**776,142,529**	532,688,948

Note:

Deferred stock employee compensation :

Stock compensation expense outstanding	**31,613,705**	4,211,837
Add: Stock options granted during the year	**3,311,000**	40,645,006
Less: Stock options cancelled/forfeited during the year	**(10,161,994)**	(2,029,228)
Less: Stock compensation amortised during the year	**(12,938,865)**	(11,213,909)
Closing balance of deferred employee stock compensation	**11,823,846**	31,613,706

Schedule - 3: Secured loan

Finance Lease Obligation (Secured by underlying leased assets)	**1,945,296**	**2,704,250**
Total	**1,945,296**	**2,704,250**

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, 2006	Additions	Deductions	**As at March 31, 2007**	As at April 1, 2006	**For the year March 31, 2007**	Deletions/ Adjust-ments	**As at March 31, 2007**	**As at March 31, 2007**	As at March 31, 2006
	Rs.	Rs.	Rs.	**Rs.**	Rs.	**Rs.**	Rs.	**Rs.**	**Rs.**	Rs.
Tangible Assets										
Computers	28,675,119	15,961,135	-	**44,636,254**	13,126,450	**9,247,806**	-	**22,374,256**	**22,261,998**	15,548,670
Office equipment	11,029,829	9,478,247	-	**20,508,076**	2,364,619	**2,095,077**	-	**4,459,696**	**16,048,381**	8,665,210
Furniture and fittings	10,374,137	6,793,658	-	**17,167,795**	5,101,335	**3,205,649**	-	**8,306,984**	**8,860,811**	5,272,802
Building	30,594,644	-	-	**30,594,644**	2,870,275	**1,552,565**	-	**4,422,840**	**26,171,804**	27,724,369
Lease hold improvements	2,108,771	1,378,765	-	**3,487,536**	715,884	**930,499**	-	**1,646,384**	**1,841,152**	1,392,887
Total (A)	82,782,500	33,611,804	-	**116,394,305**	24,178,563	**17,031,596**	-	**41,210,159**	**75,184,146**	58,603,938
Intangible assets										
Software **(B)**	10,286,566	2,543,510	-	**12,830,075**	4,852,541	**2,675,172**	-	**7,527,713**	**5,302,362**	5,434,024
Total (A+B)	93,069,066	36,155,314	-	**129,224,380**	29,031,104	**19,706,768**	-	**48,737,872**	**80,486,508**	64,037,962
Previous year	68,928,742	24,140,324		**93,069,066**	17,522,719	**11,508,385**		**29,031,105**	**64,037,962**	51,406,023

Note: Furniture and fittings include capitalised as finance lease with gross block 2,908,974 (Previous Year: 2,908,974), net block 590,410 (Previous year: 1,736,499)

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2007

Amount in Rupees

		As at March 31, 2007	As at March 31, 2006
SCHEDULE - 5			
INVESTMENTS			
Long Term Investments (Unquoted and at cost)			
(Refer note 18 on schedule 17)			
Other than trade			
A. In subsidiaries			
Nil (Previous year : 15,000) equity shares of US Dollar 1 each fully paid up in Four Soft LLC		–	727,500
31 (Previous year : Nil) equity shares of US Dollar 0.01 each fully paid up in Four Soft USA Inc.		**727,500**	–
18,152 (Previous year : 18,152) equity shares of Euro 1 each fully paid up in Four Soft BV ,The Netherlands		**370,603,185**	83,501,864
930,000 (Previous year: 930,000) equity shares of Singapore Dollar 1 each in Four Soft Singapore Pte Limited		**38,435,758**	52,988,239
70,000 (Previous year: 70,000) Class A preference shares of Singapore Dollar 1 each in Four Soft Singapore Pte Limited		**3,988,362**	3,988,362
1,000 (Previous year: Nil) ordinary shares of Danish Kroner 1,000 each fully paid up in Four Soft Nordic A/s		**24,829,985**	–
10,000,000(Previous year: 10,000,000) equity shares of Malaysian ringgit 1 each fully paid up in Four Soft Sdn Bhd		**2,625**	2,625
		438,587,415	141,208,590
B. In joint venture			
25,000 (Previous Year : 25,000) shares of US Dollar 1 (Previous year : US Dollar 1) in Four Soft International Inc., USA		**7,699,375**	7,699,375
		446,286,790	148,907,965
"Less: Provision for diminution other than temperory in value of "long term investment"		**7,699,375**	7,699,375
	(I)	**438,587,415**	141,208,590
Current Investment (Quoted)			
(At lower of cost and market value)			
Balance of unutilised monies of IPO			
Non trade investments (quoted)			
"Nil (Previous year 1,337.72) units of Rs. 10 each in "Prudential ICICI Floating Rate Plan"		–	13,377
	(II)	–	13,377
Total (I+II)		**438,587,415**	141,221,967
Aggregate amount of quoted investments			
"Market value Rs. Nil (previous year Rs.13,383)"		–	13,377
Aggregate amount of unquoted investments		**438,587,415**	141,208,590

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2007

Amount in Rupees

	As at March 31, 2007	As at March 31, 2006
SCHEDULE - 6		
SUNDRY DEBTORS		
(Refer note 10 on schedule 17)		
Debts outstanding for a period exceeding six months		
Unsecured, considered good	**142,594,076**	3,184,478
Considered doubtful	**13,342,409**	10,764,343
	155,936,485	13,948,821
Other debts		
Unsecured, considered good	**193,351,330**	101,634,601
	349,287,815	115,583,422
Less : Provision for doubtful debts	**13,342,409**	10,764,343
	335,945,406	104,819,079
SCHEDULE - 7		
CASH AND BANK BALANCES		
Cash on hand	**15,413**	3,238
Balances with scheduled banks on:		
Current accounts	**36,985,036**	95,372,555
Deposit accounts	**332,556**	90,250,283
Unpaid dividend accounts	**420,385**	321,860
Unpaid IPO refund accounts	**204,959**	210,459
	37,942,936	186,155,157
Balance of unutilised monies raised by issue in deposit accounts with scheduled banks	**–**	87,253,376
	37,958,349	273,411,771
SCHEDULE - 8		
OTHER CURRENT ASSETS		
Interest accrued on fixed deposits	**18,053**	540,455
Interest accrued on loans to subsidiaries	**10,747,237**	8,214,607
	10,765,290	8,755,062
SCHEDULE - 9		
LOANS AND ADVANCES		
(Refer note 12 on schedule 17)		
Unsecured, considered good		
Advances and loans to subsidiaires	**77,496,473**	225,658,208
Loan to Four Soft Limited employee welfare trust	**484,810**	401,815
Advances recoverable in cash or in kind or for value to be received	**8,171,236**	1,824,195
Advance for investment	**127,144,976**	–
Deposits	**13,798,971**	5,791,445
Advance fringe benefit tax (net of provision)	**696,193**	–
Unsecured, considered doubtful		
Advances recoverable in cash or in kind or for value to be received	**–**	759,467
	227,792,659	234,435,130
Less: Provision for doubtful advances	**–**	759,467
	227,792,659	233,675,663

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2007

Amount in Rupees

	As at March 31, 2007	As at March 31, 2006
SCHEDULE - 10		
LIABILITIES		
Sundry creditors		
- dues to small scale industrial undertakings	–	–
- others	**44,322,626**	45,687,849
	44,322,626	45,687,849
Subsidiary companies	**77,705,835**	25,777,453
Advance from customers	**1,039,813**	1,382,938
Unclaimed dividends	**420,385**	321,860
Application moneys due for refund	**204,959**	210,569
Other liabilities	**4,249,586**	2,953,163
	127,943,204	76,333,832
SCHEDULE - 11		
PROVISIONS		
For employee benefits	**11,535,351**	1,934,606
For income tax (net of advance payments)	**280,597**	2,405,859
For fringe benefit tax (net of advance payments)	–	187,793
For proposed dividends	–	27,133,237
For tax on proposed dividend	–	3,805,436
	11,815,948	35,466,931
SCHEDULE - 12		
MISCELLANEOUS EXPENDITURE		
(to the extent not written off or adjusted)		
Deferred patents and trade marks	**51,850**	114,850
Less: Written off during the year	**51,850**	63,000
	–	51,850
	–	51,850

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2007

Amount in Rupees

	For the Year ended March 31, 2007	For the Year ended March 31, 2006
SCHEDULE - 13		
REVENUE FROM SOFTWARE SERVICES AND PRODUCTS		
Revenue from services	**278,908,470**	181,543,464
Annual maintenance services	**58,259,487**	29,978,515
Sale of licenses	**27,265,933**	4,997,526
Income from sale of third party licenses (net)	**512,931**	2,165,650
	364,946,821	218,685,155

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2007

Amount in Rupees

	For the Year ended March 31, 2007	For the Year ended March 31, 2006
SCHEDULE - 14		
OTHER INCOME		
Interest on fixed deposits (gross)	**2,702,716**	3,560,636
[Tax deducted at source Rs. 606,489 (Previous year Rs. 712, 272)]		
Interest on loan	**2,721,021**	8,214,607
Profit on sale of investments	–	789,694
Dividend income from non trade investments - short term	**2,836,993**	6,951,872
Miscellaneous income	**2,125,990**	1,396,878
Exchange difference (net)	–	4,438,389
	10,386,720	25,352,076
SCHEDULE - 15		
PERSONNEL EXPENSES		
Salaries, wages and bonus	**110,152,728**	84,698,832
Retirement benefits	**6,735,658**	1,844,985
Contribution to provident fund	**12,499,774**	6,012,268
Employee stock compensation expenses	**12,938,865**	11,213,909
Staff welfare expenses	**3,955,277**	2,527,937
	146,282,302	106,297,931
SCHEDULE - 16		
OPERATING AND OTHER EXPENSES		
Rent	**13,036,649**	4,734,026
Fee, rates and taxes	**593,749**	1,400,139
Office maintenance	**9,415,199**	4,618,250
Auditors' remuneration	**2,594,652**	1,380,627
Implementation expenses	**56,577,513**	14,196,530
Advertisement and recruitment	**3,070,694**	2,725,728
Business promotion	**2,528,634**	3,474,518
Communication costs	**6,759,307**	4,167,242
Postage and courier	**829,910**	484,379
Insurance	**1,967,415**	431,453
Electricity and water charges	**5,517,884**	2,794,457
Travelling and conveyance	**26,738,342**	22,635,636
Legal and professional fees	**8,136,558**	2,615,886
Exchange difference (net)	**7,898,238**	–
Bank charges	**593,171**	625,182
Finance lease charges	**632,835**	113,293
General meeting expenses	**553,857**	397,621
Provision for doubtful debts	**2,770,330**	9,044,475
Provision for doubtful advances	–	759,467
Doubtful advances written off	**245,477**	–
Prior period expenses (net) (Refer note 8 on Schedule 17)	–	641,826
Donations	**58,877**	48,678
Loss on sale of investment	**466,517**	–
Miscellaneous expenses	**175,579**	–
	151,161,387	77,289,413

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2007

Amount in Rupees

		For the Year ended March 31, 2007	For the Year ended March 31, 2006
A.	**Cash flow from operating activities**		
	Net Profit before taxation and extraordinary activities	**58,131,234**	48,878,502
	Adjustments for:		
	Depreciation	**19,706,768**	11,508,385
	Employee stock compensation expenses	**12,938,865**	11,213,910
	Loss/ (Profit) on sale of non trade current investments	**466,517**	(789,694)
	Provision for employee benefits	**5,072,268**	931,246
	Foreign exchange (loss)/ gain (net)	**6,783,300**	(1,261,546)
	Interest income on fixed deposits	**(2,702,716)**	(3,560,636)
	Interest income on loans to subsidiaries	**(2,721,021)**	(8,214,607)
	Dividends from non trade current investments	**(2,836,993)**	(6,951,872)
	Miscellaneous expenditure written off	**51,850**	63,000
	Provision for doubtful debts	**2,770,330**	9,044,475
	Provision for doubtful advances	–	759,467
	Finance lease charges	**632,835**	113,293
	Operating profit before working capital changes	**98,293,237**	61,733,923
	Movements in working capital :		
	Increase in sundry debtors	**(244,060,419)**	(76,381,572)
	Decrease/ (Increase) in loans and advances	**(46,682,281)**	(2,646,429)
	Increase in current liabilities	**72,762,254**	11,311,895
	Cash (used in)/ generated from operations:	**(119,687,208)**	(5,982,183)
	Direct taxes paid (includin fringe benefit tax), net of refunds	**(8,705,660)**	(1,522,912)
	Net Cash (used in)/ generated from operating activities	**(128,392,868)**	(7,505,095)
B.	**Cash flows from investing activities**		
	Purchase of fixed assets	**(32,891,948)**	(20,209,828)
	Purchase of investments in subsidiaries	**(125,250,459)**	(48,317,275)
	Loans to subsidiaries	**(6,706,098)**	(224,139,521)
	Advances for investment	–	(276,049)
	Payment towards finance lease obligation	**(758,954)**	(204,724)
	Sale of investments	**(453,140)**	10,847,116
	Interest received	**3,413,509**	3,379,716
	Dividends received	**2,836,993**	6,951,872
	Net cash used in investing activities	**(159,810,097)**	(271,968,693)

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2007

Amount in Rupees

		For the Year ended March 31, 2007	For the Year ended March 31, 2006
	Contd...		
C.	**Cash flows from financing activities**		
	Proceeds from issuance of share capital	**66,410,933**	247,428,529
	Share application money received	**4,439,101**	–
	Proceeds from issuance of share warrants	**14,280,000**	–
	Finance lease charges	**(632,835)**	(113,293)
	Dividends paid	**(27,034,712)**	–
	Tax on dividend paid	**(3,805,436)**	–
	Net Cash generated from financing activities	**53,657,050**	247,315,236
	Net decrease in cash and cash equivalents (A + B + C)	**(234,545,915)**	(32,158,552)
	Cash and cash equivalents at the beginning of the year	**273,411,771**	305,468,216
	Cash and cash equivalents at the end of the year	**38,865,856**	273,309,664

Notes:

1.	Cash and cash equivalents include:		
	Cash and bank balances	**37,333,005**	185,626,076
	Unpaid dividend accounts	**420,385**	321,860
	Unpaid public issue refund accounts	**204,959**	210,459
	Balance of unutilised monies raised by issue	**–**	87,253,376
	Cash and cash equivalends as per Balance Sheet	**37,958,349**	273,411,771
	Effect of unrealised exchange (gain)/ loss as on Balance Sheet date	**907,507**	(102,107)
	Cash and cash equivalents considered for Cash Flows	**38,865,856**	273,309,664

2. Previous year 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 : Hyderabad
Date : June 29, 2007

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

Palem Srikanth Reddy
Managing Director

P. Mangamma
Director

P. Subramanyam
Company Secretary

Biju S. Nair
Vice President - Finance

Place : Hyderabad
Date : June 29, 2007

Notes on Accounts

1. **Statement of Significant Accounting Policies**

(a) Basis of Preparation

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards ("AS") issued by the Institute of Chartered Accountants of India ("the ICAI") and the relevant provisions of the Companies Act, 1956 ("the Act"). The financial statements have been prepared under the historical cost convention on an accrual basis. The accounting policies have been consistently applied by the Company and 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 technical and commercial feasibility has been established.

(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 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.

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 declared 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 is a defined benefit obligation and provided for on the basis of an actuarial valuation made at the end of each financial year. Actuarial gains and losses are recognised in full in the Profit and Loss Account for the period in which they occur.

(iii) Short term compensated absences are provided for based on estimates. Long term compensated absences are provided for based on actuarial valuation.

(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 Income tax Act, 1961. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

At each balance sheet date the Company re-assesses unrecognised deferred tax assets and recognises it to the extent that it has become reasonably certain 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. 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 Singapore Pte. Ltd.	Singapore	Wholly owned subsidiary
Four Soft Malaysia Sdn. Bhd.	Malaysia	Wholly owned subsidiary
Four Soft Nordic A/S	Denmark	Wholly owned subsidiary
Transaxiom UK Limited	United Kingdom	WOS of Four Soft Nordic A/S
Transaxiom (USA) Inc.	USA	WOS of Four Soft Nordic A/S
Transaxiom (HK) Ltd.	Hong Kong	WOS of Four Soft Nordic A/S
Four Soft Australia Pty Ltd.	Australia	WOS of Four Soft Nordic A/S
Four Soft USA Incorporated	USA	WOS of Four Soft BV
Four Soft UK Ltd.	United Kingdom	WOS of Four Soft BV
Four Soft NL BV	The Netherlands	WOS of Four Soft BV
Four Soft Germany GmbH	Germany	WOS of Four Soft BV
Four Soft Japan KK	Japan	WOS of Four Soft Singapore Pte Limited
Four Soft International Incorporated	USA	Joint venture
Four Soft Employee Welfare Trust	India	Controlling interest
Palem Srikanth Reddy	India	Key Management Personnel
Biju S. Nair	India	Key Management Personnel
Dr. Kalyan Gangavarupu	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, 2007 are as follows:

	Year ended March 31,	
	2007 (Rs)	2006 (Rs)
SUBSIDIARIES		
Four Soft LLC,USA		
(a) Implementation expenses	**4,385,709**	14,196,530
Four Soft BV, The Netherlands		
(a) Reimbursable expenses (Net)	**Nil**	(4,869,275)
(b) Loan	**5,305,570**	188,930,974
(c) Interest accrued on loan	**Nil**	6,766,999
(d) Guarantees	**Nil**	698,116,000
(e) Investment into equity	**287,101,321**	Nil
Four Soft NL BV, The Netherlands		
(a) Reimbursable expenses (Net)	**505,814**	340,785
(b) Sales	**65,464,672**	31,404,140
Four Soft UK Ltd, United Kingdom		
(a) Reimbursable expenses (Net)	**30,215,803**	3,190,322
(b) Sales	**7 8,092,356**	26,194,775
(c) Implementation expenses	**2,624,828**	Nil

	Year ended March 31, 2007 (Rs)	2006 (Rs)
Four Soft USA Inc., USA		
(a) Reimbursable expenses (Net)	**(43,814,455)**	1,427,226
(b) Sales	**32,028,217**	14,808,204
(c) Implementation expenses	**49,567,431**	Nil
(d) Issue of shares on merger with Four Soft LLC, USA	**727,500**	Nil
Four Soft Singapore Pte Ltd., Singapore		
(a) Investment in shares	**Nil**	56,976,601
(b) Reimbursable expenses (Net)	**(3,957,488)**	72,591
(c) Sales	**11,945,605**	2,876,277
(d) Loan	**Nil**	29,691,600
(e) Interest accrued on loan	**2,580,423**	1,447,608
(f) Purchase of Fixed Assets	**159,251**	Nil
Four Soft Malaysia Sdn Bhd, Malaysia		
(a) Investment in Equity Shares	**Nil**	2,625
Four Soft Nordic A/s, Denmark		
(a) Investment in Equity Shares	**24,829,985**	Nil
Four Soft Japan KK, Japan		
(a) Reimbursable expenses (Net)	**(1,385,293)**	Nil
JOINT VENTURE		
Four Soft Logistics Software (Shanghai) Ltd		
(a) Advances for investment	**Nil**	276,049
(b) Provision for doubtful advances	**245,477**	759,467
KEY MANAGEMENT PERSONNEL		
Palem Srikanth Reddy		
(a) Remuneration	**1,686,759**	1,698,697
(b) Dividends	**6,079,035**	Nil
Biju Nair		
(a) Remuneration	**1,290,000**	997,065
(b) Dividends	**13,012**	Nil
Dr. Kalyan Gangavarupu		
(a) Remuneration	**2,366,863**	Nil
ENTERPRISES SIGNIFICANTLY INFLUENCED BY RELATIVES OF KEY MANAGEMENT PERSONNEL:		
Sonata Information Technology Limited		
(a) Purchase and implementation of enterprise resource program	725,964	1,800,000
(b) Purchase of license	625,000	819,880

Debit/(Credit) Balance Outstanding

	Year ended March 31, 2007 (Rs)	2006 (Rs)
Four Soft LLC, USA	**Nil**	(5,028,984)
Four Soft BV , The Netherlands	**137,438**	190,828,698
Four Soft USA Inc.	**19,777,192**	16,235,430
Four Soft UK Ltd , United Kingdom	**118,293,423**	23,004,453
Four Soft NL BV , The Netherlands	**109,135,937**	31,744,925
Four Soft Singapore Pte. Ltd., Singapore	**42,433,535**	41,149,808
Four Soft Malaysia Sdn. Bhd.	**(448,223)**	432,152
Four Soft Japan	**(1,390,066)**	Nil
Four Soft Nordic A/s	**(28,725)**	Nil
Four Soft Logistics Software (Shanghai) Limited	**Nil**	245,478
Sonata Information Technology Limited	**4,805**	(358,767)
Four Soft Employee Welfare Trust	**3,741,645**	4,790,000
Key Management Personnel	**(2,086,130)**	(1,295,605)

3. 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, 2007 (Rs)	2006 (Rs)
Total minimum lease payments at the year end	**2,499,649**	3,840,939
Less : Amount representing finance charges	**554,353**	1,136,689
Present value of minimum lease payments (Rate of interest: 26.89% p.a.)	**1,945,296**	2,704,250
Minimum Lease Payments :		
Not later than one year [Present value 990,124 as on March 31, 2007 (758,954 as on March 31, 2006)]	**1,391,790**	1,391,790
Later than one year but not later than five years [Present value 935,904 as on March 31, 2007 (1,949,296 as on March 31, 2006)]	**1,107,859**	2,449,149
Later than five years [Present value Nil as on March 31, 2007 (Nil as on March 31, 2006)	**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, 2007 (Rs)	2006 (Rs)
Lease payments for the year	**13,036,649**	4,734,026
Minimum Lease Payments:		
Not later than one year	**21,659,922**	5,894,640
Later than one year but not later than five years	**38,420,555**	10,426,541
Later than five years	**Nil**	Nil

4. Deferred tax liability

Deferred tax liability amounting to Rs. 3,813,320 (Previous year Rs. 2,291,333) represents differences in depreciation and other differences in block of fixed assets as per tax books and financial books originated as at year end and reversing after the tax holiday period

5. Research and development

During the year ended March 31, 2007 the Company has incurred expenses amounting to Rs. 51,230,516 (Previous Year Rs. 28,297,090) towards research and development included under various heads of expenses.

6. Employee Stock Option Scheme (ESOP)

(a) The Company has established Four Soft Limited Employees Welfare Trust ("the Trust") to administer the ESOP Scheme and as at March 31, 2007 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, 110,000 (Previous year 618,175) 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, 2007 the total shares held by the Trust is 868,567 (previous year 1,094,837).

(b) During the year ended March 31, 2007 the Company has amortized stock compensation expenses amounting to 12,938,865 (Previous Year 11,213,909).

(c) Changes in number of shares representing stock options outstanding as at the year ended on March 31, 2007 were as follows:

	Year Ended March 31, 2007		As at March 31, 2006	
	Number of shares	**Weighted average exercise price (Rs)**	Number of shares	Weighted average exercise price (Rs)
Outstanding at the beginning of the year	**943,608**	**5**	460,828	5
Granted during the year	**110,000**	**5**	618,175	5
Forfeited during the year	**205,714**	**5**	60,032	5
Exercised during the year	**226,954**	**5**	75,363	5
Expired during the year	**Nil**	**5**	Nil	5
Outstanding at the end of the year	**620,940**	**5**	943,608	5
Exercisable at the end of the year	**Nil**	**5**	Nil	5

(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 April1, 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,	
	2007 (Rs)	2006 (Rs)
Profit as reported	**50,912,835**	41,898,231
Add: Employee stock compensation under intrinsic value method	**12,938,865**	11,213,909
Less: Employee stock compensation under fair value method	**13,504,200**	12,722,422
Proforma profit	**50,347,500**	40,389,718
Earnings Per Share		
Basic		
- As reported	**1.42**	1.26
- Pro forma	**1.41**	1.21
Diluted		
- As reported	**1.41**	1.24
- Pro forma	**1.39**	1.20

(e) The weighted average fair value of the stock options granted during the year was Rs.30.82 (Previous year: Rs. 65.58). The fair value of options was estimated at the date of grant using the Black Scholes method with the following assumptions:

	Assumptions	
	2007 (Rs)	2006 (Rs)
Risk-free interest rate	**8.05%**	7.50%
Expected life	**1 to 3 years**	1 to 3 years
Expected volatility	**0.53**	0.642
Expected dividend yield	**–**	1.06%

The expected volatility was determined based on historical volatility data; historical volatility includes early years of the Company's life; the Company expects the volatility of its share price to reduce as it matures.

The weighted average share price at the date of exercise for stock options exercised during the year was Rs. 53.33. Options outstanding at March 31, 2007 had an exercise price of Rs. 5, and a weighted average remaining contractual life of 10.48 months.

7. Gratuity

The Company has a defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on departure at 15 days salary (last drawn salary) for each completed year of service. The scheme is funded with an insurance company in the form of a qualifying insurance policy.

The following tables summarises the components of net benefit expense recognised in the Profit and Loss Account and the funded status and amounts recognised in the Balance Sheet for the respective plans.

	Year ended March 31, 2007
a) Net gratuity expense recognised in the Profit and Loss Account (under Personnel expenses)	
Current service cost	**2,067,089**
Interest cost on benefit obligation	**282,451**
Expected return on plan assets	**(142,971)**
Net actuarial (gain) / loss recognised in the year	**1,753,017**
Past service cost	**Nil**
Net benefit expense	**3,959,586**
Actual return on plan assets	**161,796**
b) Details of provision recognised in the Balance Sheet	
Defined benefit obligation	**7,858,429**
Fair value of plan assets	**(2,323,344)**
	5,535,085
Less: Unrecognised past service cost	**Nil**
Net provision for gratuity	**(5,535,085)**
Actual return on plan assets	**161,796**
c) Changes in the present value of the defined benefit obligation are as follows:	
Opening defined benefit obligation	**3,869,746**
Interest cost	**282,451**
Current service cost	**2,067,089**
Benefits paid	**(76,154)**
Actuarial (gains) / losses on obligation	**1,715,297**
Closing defined benefit obligation	**7,858,429**

		Year ended March 31, 2007
d)	**Changes in the fair value of plan assets are as follows:**	
	Opening fair value of plan assets	**1,010,019**
	Expected return	**142,971**
	Contributions by employer	**1,227,683**
	Benefits paid	**(76,154)**
	Actuarial gains / (losses)	**18,825**
	Closing fair value of plan assets	**2,323,344**
	The Company expects to contribute 1,571,896 to the plan in 2007 - 08	
e)	**The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:**	
	Investments with insurer	**100%**
f)	**The principal assumptions used in determining gratuity obligations for the Company's plans are shown below:**	
	Discount rate	**8.05% p.a.**
	Expected rate of return on assets	**7.50% p.a.**

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors.

Note: No disclosures of previous year(s) as required by AS - 15 (Revised 2005) "Employee Benefits" is made as the relevant information is not available.

8. Prior period items

Prior period expense (net) consists of the following:

Particulars	Year ended March 31,	
	2007 (Rs)	2006 (Rs)
Communication expenses	**Nil**	664,895
Others	**Nil**	(23,069)
	Nil	641,826

9. 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 Management believes that the Company no longer controls the said joint venture due to an ongoing dispute between parties to the Joint Venture.

10. Sundry Debtors

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

Particulars	As at March 31,	
	2007 (Rs)	2006 (Rs)
Four Soft USA Incorporated	**65,091,792**	14,808,204
Four Soft UK Limited	**91,987,457**	26,194,775
Four Soft NL BV , The Netherlands	**101,927,361**	31,404,140
Four Soft Singapore Pte. Limited	**18,220,926**	2,876,321

11. Loans and advances

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

	Balance as at March 31,		Maximum amount outstanding	
	2007 (Rs)	2006 (Rs)	**2007 (Rs)**	2006 (Rs)
Four Soft BV , The Netherlands	**10,275,189**	193,627,199	**193,627,199**	193,627,199
Four Soft Singapore Pte. Ltd.,	**31,537,879**	29,873,970	**31,537,879**	29,873,970
Four Soft UK Limited	**33,227,756**	285,000	**33,227,756**	285,000
Four Soft NL BV , The Netherlands	**994,718**	444,815	**994,718**	444,815
Four Soft USA Inc.	**1,460,931**	1,427,226	**1,460,931**	1,427,226

(b) Details of loans given to subsidiaries

	Balance as at March 31,		Maximum amount outstanding	
	2007 (Rs)	2006 (Rs)	**2007 (Rs)**	2006 (Rs)
Four Soft BV, The Netherlands	**5,212,801**	188,930,974	**5,212,801**	188,930,974
Four Soft Singapore Pte. Limited, Singapore	**31,184,900**	29,691,600	**31,184,900**	29,691,600

12. Un-hedged Foreign Currency Exposure

Particulars	Year ended March 31,	
	2007 (Rs)	2006 (Rs)
Sundry debtors	**344,716,546**	114,685,697
Loans and advances to subsidiaries	**75,329,411**	195,835,287
Other current assets	**10,747,237**	8,214,607
Advance for investment	**127,144,976**	Nil
Payable towards purchase consideration of investments	**Nil**	22,440,999
Dues to subsidiary	**77,827,497**	18,283,616
Investments	**446,286,790**	148,907,965

13. Capital Commitments

Estimated amounts of contracts remaining to be executed on capital account and not provided for as at March 31, 2007 by the Company are 49,035 (Previous year: 372,800).

14. Contingent Liabilities not provided for

		As at March 31,	
		2007 (Rs)	2006 (Rs)
a.	Guarantees given on behalf of overseas subsidiary	**758,725,000**	698,116,000
b.	Income tax demand in respect of which the Company has gone on appeal. Management is of the opinion that appeal is likely to be accepted by appellate authority.	**4,321,330**	2,829,896
c.	Contingent liability in respect of additional purchase consideration payable due to price protection offered to erstwhile shareholders of Transaxiom Holding A/s Denmark (Previous year Comex Frontier Pte Limited), the financial effect of which is not measurable (refer note 18.1 to schedule 17).		
d.	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 has not crystalised.		
e.	All the movable fixed assets of the Company have been hypothecated with Unit Trust of India Advisory Services Ltd, who are acting as on shore security trustee for ICICI Bank Plc. for the facility taken by Four Soft B.V., The Netherlands from ICICI Bank Plc.		

15. Remuneration to auditors (including service tax)

	Year ended March 31, 2007 (Rs)	2006 (Rs)
As Auditors		
- for audit	**2,244,800**	1,081,600
- for certification	**318,810**	284,015
Reimbursement of out-of-pocket expenses	**31,042**	15,012
	2,594,652	1,380,627

16. Supplementary Statutory Information

16.1 Managing Director's Remuneration

	Year ended March 31, 2007 (Rs)	2006 (Rs)
Salaries	**240,000**	240,000
Perquisites	**156,862**	237,463
Commission on net profit	**1,261,097**	1,192,434
Contribution to provident fund and other funds	**28,800**	28,800
	1,686,759	1,698,697

The above figures do not include provision for gratuity and leave encashment payable to the director as the same is actuarially determined for the Company as a whole.

16.2 Computation of net profit in accordance with section 349 of the Act for calculation on commission payable to director

	Year ended March 31, 2007 (Rs)	2006 (Rs)
Profit before tax as per Profit and Loss Account	**58,131,234**	48,878,502
Add:		
Managing Director's remuneration	**1,686,759**	1,698,697
Depreciation as per books of account	**19,706,768**	11,508,385
Loss on sale of investments	**466,517**	–
Provision for doubtful debts	**2,770,330**	9,044,475
	82,761,608	71,130,059
Less: Depreciation under Section 350 of the Act	**19,706,768**	11,508,385
Net profit as per Section 349 of the Act	**63,054,840**	59,621,674
Commission to Managing director at 2% of the net profits as approved by shareholders	**1,261,097**	1,192,434

16.3 Earnings in foreign currency

	Year ended March 31, 2007 (Rs)	2006 (Rs)
License fees	**24,010,062**	4,475,558
Annual maintenance services	**57,216,634**	29,441,015
Revenue from services	**273,519,153**	179,991,784
Sale of third party licenses (gross)	**13,290,216**	4,316,583
Others	**Nil**	168,515
	368,634,001	218,393,455

16.4 Expenditure in foreign currency (on payment basis)

	Year ended March 31, 2007 (Rs)	2006 (Rs)
Traveling	**10,958,612**	11,390,155
Implementation expenses	**9,925,615**	18,252,332
Salaries	**Nil**	1,147,834
Cost of third party licenses	**4,392,894**	1,433,008
Others	**4,831,418**	2,974,749
	30,108,519	35,198,078

16.5 Value of imports calculated on CIF basis

During the year ended March 31, 2007 the Company has imported capital goods amounting to 16,856,162 (Previous year 9,223,111)

16.6 Net dividend remitted in foreign exchange

	Year ended March 31, 2007 (Rs)	2006 (Rs)
Period to which it relates	**2005-06**	–
Number of non-resident share-holders	**17**	Nil
Number of equity shares held on which dividend was due	**4,049,928**	Nil
Amount remitted	**3,037,448**	Nil

17. 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.

18. Investments

18.1 In December 2006 the Company had entered into a share purchase agreement for purchase of 100% equity shares of Transaxiom Holding A/S, Denmark (renamed as Four Soft Nordic A/S) from its erstwhile shareholders in consideration not exceeding Danish Kroner (DKK) 69,000,000 beside the price protection as stated below. The final purchase consideration will be determined and accounted based on the average eligible revenues of the acquired entity over a period of 36 months ending December 31, 2009 and payable in cash and shares of the company. The company has recorded DKK 2,493,180 as cost of investment being the amount fully determinable as on the balance sheet date. Amount of DKK 16,361,806 being the payment made in excess of consideration determinable as on the balance sheet date has been shown as 'advance for investment

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. 75, the price protection, offered upto maximum of Rs. 15 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 in future as per terms of share purchase agreement.

18.2 In the current year, the Company has converted the amounts of loans of 287,101,321 given to Four Soft BV, the Netherlands a wholly owned subsidiary into equity capital, by increasing the value of existing investment in that company.

18.3 The Company has acquired 100% outstanding shares of Four Soft Singapore and Four Soft Nordic A/s, The Netherland for an amount of Rs. 42,424,120 and Rs. 24,829,985 respectively. As at March 31, 2007, the net worth of these entities are substantially lower than the price at which these investments were acquired. However, in view of the strategic importance of these acquisitions and the future profitability projections, Management is of the opinion that there is no other than temporary diminution in the carrying value of the said investments and thus, no provision is considered necessary there against.

18.4 In May 2005, the Company had entered into share purchase agreement with Skywest International Limited, Singapore for purchase of 100% shares of Four Soft Singapore Pte Limited (formerly known as Comex Frontier Pte Limited) in consideration not exceeding SG $ 2,100,000. As per the terms of agreement, final purchase consideration was determinable based on revenues of Singapore subsidiary for three years ended March 31, 2007. Based on actual revenues, purchase consideration was revised to SG $ 1,546,560. The differential amount has been adjusted in the value of investment.

18.5 Investments purchased and sold/ redeemed during the year

Description	Year ended March 31, 2007 (Rs)	Year ended March 31, 2006 (Rs)
3,051,604 (8,983,131) DSP Merilynch MF- Floater	**30,542,582**	90,965,564
Nil (1,002,105) Prudential ICICI- Floater-Div	–	10,073,781
19,901 (2,796,536)UTI MF- Floater	**20,190,553**	28,143,080
Nil (1,861,214) HSBC - F-ST- INST.DD	–	18,596,341
1,702,975(1,000,120) Prudential ICICI- Floater-DD	**20,180,602**	10,002,408
Nil (1,000,000) Pru.ICICI - Blended Fund-A	–	10,000,000
Nil (899,892) Pru. ICICI FRF- DD	–	8,999,998
Nil (10,142,353) HDFC FRIF STP DIV REIN	–	102,218,580
Nil (1,807,934) HDFC Multi yield fund	–	20,001,000
Nil (5,004,803) ICICI Blend plan - B	–	50,970,045
Nil (10,062,174) ICICI Blend plan - C - Phase ii	–	100,639,353
Nil (5,120,029) ICICI Blend plan - D	–	51,200,299
2,025,661 (6,115,576) Tata FRF ST IP-DD	**20,271,935**	61,220,160
2,840,248 (4,906,171)Kotak Floater STP -DIV	**30,293,087**	49,121,477
656,228 (998,515) Reliance Floating Fund-W	**10,001,447**	10,064,113
4,000,000 (4,021,422) Reliance FMP	**40,000,000**	40,293,574
1,756,811(Nil) Reliance MIP	**20,210,019**	–
Nil (1,002,126) Templeton FRF	–	10,046,388
Nil (1,007,080) SBI Mutual Fund -Debt fund Series	–	10,070,800
3,263,484 (3,006,002) LIC MF -FRF-STP- DP	**33,132,116**	30,266,220
5,571,134 (2,525,521) LIC MF -LF-STP- DDP	**61,104,260**	27,619,074
2,984,624 (2,984,624) JM Derivative Fund	–	30,278,957
1,007,168 (Nil) Principal Cash Management Fund	**10,073,892**	–

Note: Previous year figures have been stated in brackets.

19. Utilization of issue funds

	Year ended March 31, 2007 (Rs)	2006 (Rs)
Proceeds from IPO	**Nil**	Nil
Unutilized issue proceeds at the beginning of the year	**87,266,753**	152,735,278
Proceeds from preferential issue	**84,494,244**	250,000,000
Total	**171,760,997**	402,735,278
Less: Issue expenses	**(112,302)**	(2,595,466)
Net proceeds/ balance	**171,648,695**	400,139,812
Less: Utilisation of funds		
Expansion of facilities/equipment	**(37,032,674)**	(20,209,828)
Product development	**(49,084,770)**	(27,348,131)
International marketing set-up and acquisition	**(114,335,861)**	(265,315,100)
Unutilized issue funds		
Mutual funds	**Nil**	13,377
Fixed deposits	**Nil**	87,253,376

20. Earnings per share (EPS)

	Year ended March 31, 2007 (Rs)	2006 (Rs)
Net profit as per Profit and Loss Account	**50,912,835**	41,898,231
Weighted average number of equity shares in calculating basic EPS	**35,735,631**	33,141,978
Effect of dilutive equity shares	**486,518**	559,410
Weighted average number of equity shares in calculating diluted EPS	**36,222,150**	33,701,388

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 April1, 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.

21. Segment Information

In accordance with AS 17 - Segment Reporting, segment information has been given in the consolidated financial statements of Four Soft and therefore no separate disclosure on segment information is given in these financial statements.

22. The identification of micro, small and medium enterprise suppliers as defined under the provisions of "The Micro, Small and Medium Enterprises Development Act, 2006" is based on Management's knowledge of their status. There are no dues to micro, small and medium enterprises as on March 31, 2007.

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
Ali Nyaz
Partner
Membership No.: 200427

Place : Hyderabad
Date : June 29, 2007

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

Palem Srikanth Reddy
Managing Director

P. Mangamma
Director

P. Subramanyam
Company Secretary

Biju S. Nair
Vice President - Finance

Place : Hyderabad
Date : June 29, 2007

Balance Sheet Abstract and Company's general business profile

Registration details
Registration No. : 33131
State Code : 01

Balance Sheet date	**March 31, 2007 (Rs.in Thousand except per share data)**
Capital raised during the year	
Public Issue	—
Rights Issue	—
Bonus Issue	—
Private placement	**13,910**
Sweat Equity shares to Directors	—
Shares allotted to Four Soft Ltd. Employee Welfare Trust	—
Position of Mobilisation and Deployment of Funds	
Total Liabilities	**992,152**
Total Assets	**992,152**
Sources of Funds	
Paid-up Capital	**191,531**
Reserves and Surplus	**776,142**
Secured Loans	**1.945**
Unsecured Loans	—
Application of Funds	
Net Fixed assets	**80,486**
Investments	**438,587**
Net current assets	**472,703**
Miscellaneous expenditure	—
Accumulated losses	—
Performance of Company	
Income from software products and related services	**364,947**
Other Income	**10,386**
Total Income	**375,333**
Total Expenditure	**317,202**
Profit / (Loss) before tax	**58,131**
Profit / (Loss) after tax	**50,912**
Earnings per share (basic) (Rs.)	**1.42**
Earnings per share (diluted) (Rs.)	**1.41**
Dividend per par value (Rs. 5/-) (%)	**Nil**
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 audited the attached consolidated balance sheet of Four Soft Limited ('the Company') as at March 31, 2007, 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 (h) Four Soft Japan KK, Japan (i) Four Soft Nordic A/s (j) Four Soft Australia Pty Limited (k) Transaxiom UK Limited (l) Transaxiom (USA) Inc. and (m) Transaxiom (HK) Ltd. ("the Subsidiaries") and also the 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 the 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 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 certain subsidiaries, whose financial statements reflect aggregate total assets of Rs. 2,383,514,175 as at March 31, 2007 and aggregate total revenues of Rs. 1,592,555,179 and net cash outflows aggregating to Rs. 36,701,329 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,* 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, 2007 include the unaudited financial statements of (a) Four Soft USA Inc., USA, (b) Four Soft Germany GmbH, Germany (c) Four Soft B.V.,The Netherlands and (d) Four Soft Japan KK, Japan, whose unaudited financial statements reflect aggregate total assets of Rs. 1,255,985,790 as at March 31, 2007 (previous year Rs. 1,191,516,941) and aggregate total revenue of Rs. 310,480,307 (previous year Rs. 256,356,959) and net cash outflows amounting to Rs. 13,582,571(previous year Rs. 1,858,580) as at and for the year 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. *In the absence of audited financial statements in respect of the entities referred to in paragraph 4 above, we are unable to express an opinion as to the balances, results from operation and cash flows pertaining to such entities included in the Consolidated Balance sheet, Profit and loss account and Cash flow statement respectively as at and for the year ended March 31, 2007.*

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. We draw attention to Note 15 (e) to the financial statements with regard to cancellation of contract and a claim against Four Soft Singapore Pte. Limited, by one of its customers. The auditors' of Four Soft Singapore Pte. Limited M/s. MGI N Rajan Associates have in their report of June 29, 2007 included a matter of emphasis as follows:

   "*Without qualifying our opinion we draw attention to Note 19 to the financial statements with regard to cancellation of contract by a customer and a claim against the company. The company is the defendant. The Company has filed a counter action for the claim and is also in the process of appointing an arbitrator for the damages and penalties. The proceedings are at preliminary stages and the ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result, has been made in the financial statements*".

8. 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 *subject to our observation in paragraph 4 & 5 above,* 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, 2007;

(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 : 27th August, 2007

CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2007

Amount in Rupees

	Schedules	As at March 31, 2007	As at March 31, 2006
SOURCES OF FUNDS			
Shareholders' Funds			
Capital	1	**191,531,385**	176,488,060
Share application money pending allotment		**4,439,101**	–
Share warrants		**14,280,000**	–
Reserves and surplus	2	**771,290,673**	562,166,055
Loan funds			
Secured loan	3	**470,917,901**	429,703,553
Deferred tax liability		**7,316,231**	2,291,333
TOTAL		**1,459,775,291**	1,170,649,001
APPLICATION OF FUNDS			
Fixed Assets	4		
Gross block		**1,403,869,301**	1,174,309,547
Less : Accumulated depreciation		**197,114,418**	158,787,203
Net block		**1,206,754,883**	1,015,522,344
Capital work-in-progress including capital advances		**375,156**	-
		1,207,130,039	1,015,522,344
Investments	5	**-**	13,377
Deferred tax asset		**20,158,637**	5,162,515
Current Assets, Loans and Advances			
Sundry debtors	6	**537,690,933**	321,108,613
Cash and bank balances	7	**110,833,502**	382,784,039
Other current assets	8	**18,053**	540,455
Loans and advances	9	**236,407,272**	158,395,200
		884,949,760	862,828,307
Less: Current Liabilities and Provisions			
Liabilities	10	**570,749,057**	642,356,577
Provisions	11	**81,714,088**	70,960,999
		652,463,145	713,317,576
Net Current Assets		**232,486,615**	149,510,731
Miscellaneous Expenditure			
(to the extent not written off or adjusted)	12	**-**	440,034
TOTAL		**1,459,775,291**	1,170,649,001
Notes to 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.Batliboi & Associates
Chartered Accountants

Per
Ali Nyaz
Partner
Membership No. 200427

Place : Hyderabad
Date : 27th August, 2007

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

Palem Srikanth Reddy
CEO & Managing Director

P. Mangamma
Director

P. Subramanyam
Company Secretary

Biju S. Nair
Vice President - Finance

Place : Hyderabad
Date : 27th August, 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2007

Amount in Rupees

	Schedules	**For the Year ended March 31, 2007**	For the Year ended March 31, 2006
INCOME			
Revenue from software services and products	13	**1,593,282,382**	900,558,740
Other income	14	**37,608,981**	34,228,444
TOTAL		**1,630,891,363**	934,787,184
EXPENDITURE			
Personnel expenses	15	**1,126,038,871**	593,942,921
Operating and other expenses	16	**396,091,358**	213,289,539
Depreciation and amortisation	4	**39,713,512**	22,086,475
Finance Charges	17	**39,818,699**	27,544,885
Miscellaneous expenditure written off		**440,034**	191,855
TOTAL		**1,602,102,474**	857,055,675
Profit before tax		**28,788,889**	77,731,509
Provision for current tax		**18,954,236**	20,065,307
Tax for earlier years		**(2,500,540)**	1,787,474
Deferred tax		**1,537,310**	(4,430,548)
Fringe benefit tax		**1,321,713**	900,000
		19,312,719	18,322,233
Net profit		**9,476,170**	59,409,276
Balance brought forward from previous year		**112,299,756**	85,924,065
Profit available for appropriation		**121,775,926**	145,333,341
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		**121,775,926**	112,299,756
Earnings per share			
Basic		**0.27**	1.79
Diluted		**0.26**	1.76
Nominal value of shares		**5**	5
Notes to 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.Batliboi & Associates
Chartered Accountants

Per
Ali Nyaz
Partner
Membership No. 200427

Place : Hyderabad
Date : 27th August, 2007

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

Palem Srikanth Reddy
CEO & Managing Director

P. Mangamma
Director

P. Subramanyam
Company Secretary

Biju S. Nair
Vice President - Finance

Place : Hyderabad
Date : 27th August, 2007

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2007

Amount in Rupees

	As at March 31, 2007	As at March 31, 2006
SCHEDULE - 1		
CAPITAL		
Authorised		
56,077,600 (Previous year : 36,077,600) equity shares of Rs.5 each	**280,388,000**	280,388,000
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	350,000,000
Issued, Subscribed and Paid-up		
38,959,744 (Previous year : 36,177,649) equity shares of Rs. 5 each fully paid-up	**194,798,720**	180,888,245
Less: Calls in arrears by others	**10,500**	12,000
	194,788,220	180,876,245
Less: Amount recoverable from ESOP trust [868,567 equity shares (Previous year: 1,094,837), including 217,200 bonus shares alloted to the trust]	**3,256,835**	4,388,185
	191,531,385	176,488,060
	191,531,385	176,488,060

Note

Of the above

a. 4,563,970 equity shares of Rs. 5 each are allotted as fully paid up bonus shares by captilisation of general reserve.

b. 10,452,102 equity shares were alloted as fully paid up for consideration other than cash.

c. 301,633 shares (Previous year: 75,363 shares) were issued to employees (through ESOP trust) pursuant to the employee stock. Of the above 209,814 shares were issued at Rs. 19.65 out of which Rs. 14.65 per share were received in the form of employee service and 91,819 shares were issued at Rs.70.75 out of which Rs. 65.75 per share were received in the form of employee service.

d. As approved by the shareholders in Extra ordinary general meeting of the Company held on January 19, 2007, the Board of Directors of the Company at their meeting held on February 2, 2007, alloted 2,000,000 warrants to Citicorp Finance (India) Limited and 100,000 warrants to IndusAge Management Services Private Limited at a price of Rs. 68 determined in accordance with the Securities and Exchange Board of India (SEBI) Guidelines.These warrants are convertible at a future date into equal number of equity shares of face value of Rs. 5 each. Warrant-holders are entitled to subscribe to these warrants within a period not exceeding 18 months from the date of allotment of warrants. As required by SEBI Guidelines, subscribers have deposited non-refundable amount of Rs. 14,280,000, an amount equivalent to 10% of total consideration.

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2007

Amount in Rupees

	As at March 31, 2007	As at March 31, 2006
SCHEDULE - 2		
RESERVES AND SURPLUS		
Securities Premium Account		
Balance as per last account	**434,174,119**	184,214,070
Add: Received during the year	**184,627,479**	251,451,447
Add: Transferred from stock options outstanding on exercise of stock options	**8,006,814**	1,104,068
	626,808,412	436,769,585
Less: Utilised towards share issue expenses	**497,121**	2,595,466
	626,311,291	434,174,119
General Reserve		
As per last Balance Sheet	**6,524,691**	4,429,779
Less: First time application of AS-15 (revised)	**4,528,477**	–
Add: Transferred from Profit and Loss Account	**–**	2,094,912
	1,996,214	6,524,691
Profit and Loss Account	**121,775,926**	112,299,756
Foreign Currency Translation Reserve		
Balance as per last account	**(3,481,655)**	(142,174)
Add: Current year translation adjustment	**7,107,700**	(3,339,481)
	3,626,045	(3,481,655)
Stock Option Adjustments		
Stock option outstanding	**44,262,850**	6,751,140
Add: Additions during the year	**3,311,000**	40,645,006
	47,573,850	47,396,146
Less: Deletions during the year	**10,161,994**	2,029,228
Less: Transfer to securities premium on exercise of stock options	**8,006,814**	1,104,068
	29,405,042	44,262,850
Less: Deferred stock employee compensation	**11,823,846**	31,613,706
	17,581,196	12,649,145
TOTAL	**771,290,673**	562,166,055
SCHEDULE - 3		
SECURED LOAN		
Finance Lease Obligation (Secured by underlying leased assets)	**1,945,296**	2,704,250
Loans and advances from banks		
Term loan (Refer note 11 on schedule 18)	**468,972,605**	426,999,303
TOTAL	**470,917,901**	429,703,553

FOUR SOFT LIMITED
SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2007

SCHEDULE - 4
FIXED ASSETS

(Amount in Rupees)

Sno	Particulars	GROSS BLOCK						DEPRECIATION						Net Block	
		As at 01 Apr 06	Acquired/ on Acquisition	Additions	Dedu- cations	Exchange Difference	**As at 31 Mar 07**	Upto 01 Apr 06	Acquired on Acquisition	For the Year	Deletion/ Adjust- ments	Exchange Diference	**Upto 31 Mar 07**	**As at 31 Mar 07**	As at 31 Mar 06
1	Computers	136,653,562	-	26,075,550	22,623,229	(6,516,051)	**146,621,934**	106,126,196	-	18,272,757	22,066,587	(6,892,555)	**109,224,922**	**37,397,012**	30,527,366
2	Office Equipment	11,843,628	28,647,552	9,676,429	38,850	(355,363)	**50,484,122**	2,653,223	25,415,040	3,065,342	-	(679,065)	**31,812,671**	**18,671,451**	9,190,405
3	Furniture & Fittings	44,402,799	-	16,618,792	8,585,342	(1,904,825)	**54,341,074**	31,404,813	-	8,005,986	9,264,513	(1,034,487)	**31,180,773**	**23,160,301**	12,997,986
4	Building	37,345,888	68,827,520	-	68,492,550	(172,299)	**37,853,157**	5,956,122	10,361,216	3,247,549	10,603,264	(230,593)	**9,192,216**	**28,660,941**	31,389,766
5	Lease Hold Improvements	2,108,771	-	1,378,765	-	25,518	**3,462,019**	715,884	-	1,028,284	-	17,813	**1,726,356**	**1,735,663**	1,392,887
6	Vehicles	2,475,788	3,115,392	-	2,566,647	(164,211)	**3,188,744**	1,755,875	1,280,512	293,933	2,012,430	(124,103)	**1,441,992**	**1,746,752**	719,913
	(A)	234,830,436	100,590,464	53,749,536	102,306,618	(9,087,231)	**295,951,050**	148,612,113	37,056,768	33,913,852	43,946,794	(8,942,990)	**184,578,930**	**111,372,120**	86,218,323
	Intangibles														
1	Goodwill	922,193,667	-	107,190,766	-	60,126,793	**1,089,511,226**	-	-	1,494,929	-		**1,501,389**	**1,088,009,837**	922,193,667
2	Software	17,285,444	-	3,108,963	2,746,056	(758,674)	**18,407,025**	10,175,090	-	4,304,731	2,746,056	699,666	**11,034,099**	**7,372,926**	7,110,354
	(B)	939,479,111	-	110,299,729	2,746,056	59,368,118	**1,107,918,251**	10,175,090	-	5,799,659	2,746,056	699,666	**12,535,488**	**1,095,382,763**	929,304,021
	(A+B)	1,174,309,547	100,590,464	164,049,265	105,052,673	50,280,887	**1,403,869,301**	158,787,203	37,056,768	39,713,512	46,692,850	(8,243,324)	**197,114,418**	**1,206,754,883**	1,015,522,344
	Previous year	147,711,466	0	892,949,092	-	-	**1,174,309,547**	18,192,946	-	22,086,475	-	-	**158,787,203**	**1,015,522,344**	129,518,520

Note:
Furniture and fittings includes furniture taken on finance lease
Gross book value Rs. 2,908,974 (Previous year : Rs. 2,908,974)
Net book value Rs. 590,410 (Previous year : Rs. 1,736,499)

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2007

Amount in Rupees

	As at March 31, 2007	As at March 31, 2006
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	**7,699,375**	7,699,375
	7,699,375	7,699,375
Less: Provision for permanent diminution in value of "long term investment"	**7,699,375**	7,699,375
Current Investment		
(At lower of cost and market value)		
Nil (Previous year 1,337) units of Rs. 10 each in Prudential ICICI Floating Rate Plan	**–**	13,377
	–	13,377
Aggregate amount of quoted investments		
Market value Rs.Nil (previous year Rs.13,377)	**–**	13,377
SCHEDULE - 6		
SUNDRY DEBTORS		
Debts outstanding for a period exceeding six months		
Unsecured, considered good	**20,058,918**	48,569,798
Considered doubtful	**52,528,972**	20,682,782
	72,587,890	69,252,580
Other debts		
Unsecured, considered good	**517,632,015**	272,538,815
Considered doubtful	**10,902,120**	3,433,143
	528,534,135	275,971,958
	601,122,025	345,224,538
Less: Provision for doubtful debts	**63,431,092**	24,115,925
TOTAL	**537,690,933**	321,108,613
SCHEDULE - 7		
CASH AND BANK BALANCES		
Cash on hand	**152,956**	123,241
Balances with scheduled banks on:		
Current accounts	**36,985,037**	95,372,555
Deposit accounts	**332,556**	90,250,283
Unpaid dividend accounts	**420,385**	321,860
Unpaid IPO refund accounts	**204,959**	210,459
	37,942,937	186,155,157
Balance with other banks on:		
Current Accounts	**60,692,690**	46,289,433
Deposit Accounts	**12,044,919**	62,962,832
Balance of unutilised monies raised by issue in deposit accounts with scheduled banks	**–**	87,253,376
TOTAL	**110,833,502**	382,784,039

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2007

Amount in Rupees

	As at March 31, 2007	As at March 31, 2006
SCHEDULE - 8		
OTHER CURRENT ASSETS		
Interest accrued on fixed deposits	**18,053**	540,455
TOTAL	**18,053**	540,455
SCHEDULE - 9		
LOANS AND ADVANCES		
Unsecured, considered good		
Loan to Four Soft Limited employee welfare trust	**484,810**	401,815
Advances recoverable in cash or in kind or for value to be received	**73,634,727**	126,459,771
Advance for investment	**127,144,976**	–
Deposits	**18,681,186**	8,724,983
Advance income tax (net of provision)	**15,765,380**	22,808,631
Advance fringe benefit tax (net of provision)	**696,193**	–
Unsecured, considered doubtful		
Advances recoverable in cash or in kind or for value to be received	**2,003,201**	759,467
	238,410,473	159,154,667
Less: Provision for doubtful advances	**2,003,201**	759,467
	236,407,272	158,395,200
SCHEDULE - 10		
LIABILITIES		
Sundry creditors		
Dues to small scale industrial undertakings	**-**	-
Dues to other than small scale industrial undertakings	**351,049,080**	444,428,573
	351,049,080	444,428,573
Advance from customers	**164,828,531**	95,873,733
Unclaimed dividends	**420,385**	321,860
Application moneys due for refund	**204,959**	210,569
Other liabilities	**54,246,102**	101,521,842
TOTAL	**570,749,057**	642,356,577
SCHEDULE - 11		
PROVISIONS		
For retirement benefits	**54,785,132**	15,752,355
For income tax (net of advance payments)	**26,928,956**	24,082,178
For fringe benefit tax (net of advance payments)	**–**	187,793
For proposed dividends	**–**	27,133,237
For tax on proposed dividend	**–**	3,805,436
TOTAL	**81,714,088**	70,960,999
SCHEDULE - 12		
MISCELLANEOUS EXPENDITURE		
(to the extent not written off or adjusted)		
Preliminary expenses	**388,184**	517,039
Less: Written off during the year	**388,184**	128,855
	-	388,184
Deferred patents and trade marks	**51,850**	114,850
Less: Written off during the year	**51,850**	63,000
	–	51,850
TOTAL	**–**	440,034

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2007

Amount in Rupees

	For the Year ended March 31, 2007	For the Year ended March 31, 2006
SCHEDULE - 13		
REVENUE FROM SOFTWARE SERVICES AND PRODUCTS		
Revenue from services	**1,276,223,694**	766,843,762
Annual maintenance services	**201,322,456**	87,100,626
Sale of licenses	**93,834,854**	36,628,535
Income from sale of third party licenses (net)	**21,901,378**	9,985,817
TOTAL	**1,593,282,382**	900,558,740
SCHEDULE - 14		
OTHER INCOME		
Interest on fixed deposits (gross)	**3,955,927**	4,226,408
Profit on sale of investments	**–**	789,694
Dividend income from non trade investments - short term	**2,836,993**	6,951,872
Gain on sale of asset	**5,639,236**	–
Miscellaneous income	**23,561,125**	22,189,391
Liability no longer required written back	**1,615,700**	71,079
TOTAL	**37,608,981**	34,228,444
SCHEDULE - 15		
PERSONNEL EXPENSES		
Salaries, wages and bonus	**944,770,264**	501,420,165
Retirement benefits	**49,824,871**	17,197,502
Contribution to provident fund	**40,304,686**	50,895,846
Employee stock compensation expenses	**12,938,865**	11,213,909
Staff welfare expenses	**78,200,185**	13,215,499
TOTAL	**1,126,038,871**	593,942,921

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2007

Amount in Rupees

	For the Year ended March 31, 2007	For the Year ended March 31, 2006
SCHEDULE - 16		
OPERATING AND OTHER EXPENSES		
Rent	**69,187,795**	30,534,873
Fee, rates and taxes	**4,500,327**	2,864,277
Office maintenance	**24,321,112**	12,984,275
Auditors' remuneration	**5,703,340**	2,686,370
Implementation expenses	**25,680,143**	1,660,646
Advertisement and recruitment	**6,661,788**	7,582,110
Business promotion	**6,423,426**	7,190,450
Communication costs	**29,937,397**	20,404,021
Postage and courier	**3,205,347**	2,457,747
Insurance	**5,912,068**	6,819,164
Electricity and water charges	**10,831,817**	7,150,314
Travelling and conveyance	**99,117,522**	73,618,567
Legal and professional fees	**41,436,538**	17,451,015
Exchange difference (net)	**1,659,634**	(7,388,369)
Commission to other than sole selling agents	–	771,813
General meeting expenses	**553,857**	397,621
Bad and doubtful debts written off	**24,966,686**	277,266
Provision for doubtful debts	**5,512,748**	9,420,575
Provision for doubtful advances	–	759,467
Prior period expenses (net)	–	641,826
Donations	**385,495**	97,924
Loss on sale of investments	**466,517**	–
Miscellaneous expenses	**29,627,801**	14,907,587
TOTAL	**396,091,358**	213,289,539
SCHEDULE - 17		
FINANCE CHARGES		
Bank charges	**2,781,032**	8,071,631
Interest-bank	**36,404,832**	19,234,721
Finance lease charges	**632,835**	238,533
TOTAL	**39,818,699**	27,544,885

Consolidated Cash Flow Statement for the year ended 31ST March, 2007

Amount in Rupees

		2006-2007	2005-2006
A.	**Cash flow from operating activities**		
	Net profit before taxation, and extraordinary items	**28,788,890**	77,731,509
	Adjustments for:		
	Depreciation	**39,713,512**	22,086,475
	Employee stock compensation expenses	**12,938,866**	11,213,909
	Loss/(Profit) on sale of non trade current investments	**466,517**	(789,694)
	Provision for retirement benefits	**5,358,593**	2,374,799
	Foreign exchange loss/(gain)	**41,973,302**	39,103
	Interest income on fixed deposits	**(3,955,927)**	(4,226,408)
	Dividends from non trade current investments	**(2,836,993)**	(6,951,872)
	Miscellaneous expenditure written off	**440,034**	191,855
	Provision for doubtful debts	**30,479,434**	9,697,841
	Provision for doubtful advances	**2,003,201**	759,467
	Interest expense	**39,818,699**	27,544,885
	Gain/(Loss) on sale of fixed assets	**5,639,236**	-
	Operating profit before working capital changes	**200,827,363**	139,671,869
	Movements in working capital :		
	Increase in sundry debtors	**(196,543,994)**	(126,888,026)
	Decrease/(increase) in loans and advances	**54,257,673**	288,776,856
	(Decrease)/increase in current liabilities	**115,912,879**	(118,201,358)
	Cash generated from operations	**174,453,921**	183,359,341
	Direct taxes paid (including fringe benefit tax)	**(26,624,958)**	(37,734,179)
	Net cash generated from operating activities	**147,828,963**	145,625,162
B.	**Cash flows from investing activities**		
	Purchase of fixed assets	**(148,557,225)**	(29,605,558)
	Proceeds from sale of fixed assets	**73,812,465**	-
	Payments for net assets acquired of subsidiaries, net of cash	**(213,780,600)**	(722,782,790)
	Advance for investment	**(127,144,976)**	(276,049)
	Payment towards finance lease obligation	**(758,954)**	(204,724)
	Sale (purchase) of short term investments (net)	**(453,140)**	10,847,117
	Interest received	**3,955,927**	4,045,488
	Dividends received	**2,836,993**	6,951,872
	Net cash used in investing activities	**(410,089,511)**	(731,024,644)

Consolidated Cash Flow Statement for the year ended 31ST March, 2007

Amount in Rupees

		2006-2007	2005-2006
	Contd...		
C.	**Cash flows from financing activities**		
	Proceeds from issuance of share capital, share warrant and share application money	**85,130,034**	247,428,529
	Proceeds from long-term borrowings	**–**	426,999,303
	Repayment of long term borrowings	**(34,120,960)**	–
	Interest paid	**(36,868,090)**	(27,544,885)
	Dividends paid, including dividend tax	**(30,938,673)**	–
	Net cash generated from / (used in) financing activities	**(16,797,689)**	646,882,947
D.	**Effect of exchange rate changes on cash and cash equivalents**	**7,107,700**	(3,273,799)
	Net increase/(decrease) in cash and cash equivalents (A + B + C + D)	**(271,950,537)**	58,209,666
	Cash and cash equivalents at the beginning of the year	**382,784,039**	324,676,480
	Cash and cash equivalents at the end of the year	**110,833,502**	382,886,146

Notes:

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

	2006-2007	2005-2006
Cash and bank balances	**110,208,158**	294,998,344
Unpaid dividend accounts	**420,385**	321,860
Unpaid public issue refund accounts	**204,959**	210,459
Balance of unutilised monies raised by issue	**–**	87,253,376
Cash and cash equivalents as per Balance Sheet	**110,833,502**	382,784,039
Effect of unrealised exchange gain as on the Balance Sheet date	**–**	102,107
Cash and cash equivalents considered for Cash Flows	**110,833,502**	382,886,146

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.Batliboi & Associates
Chartered Accountants

Per
Ali Nyaz
Partner
Membership No. 200427

Place : Hyderabad
Date : 27th August, 2007

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

Palem Srikanth Reddy
CEO & Managing Director

P. Mangamma
Director

P. Subramanyam
Company Secretary

Biju S. Nair
Vice President - Finance

Place : Hyderabad
Date : 27th August, 2007

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, 2007

1. 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 collectively termed as "the Group" or "the Consolidating 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 B.V., The Netherlands	The Netherlands	October 1, 2004
Four Soft Singapore Pte Limited	Singapore	May 28, 2005
Four Soft Sdn Bhd	Malaysia	May 28, 2005
Four Soft NL B.V.	The Netherlands	September 2, 2005
Four Soft UK Limited	United Kingdom	September 2, 2005
Four Soft USA Inc.	United States of America	September 2, 2005
Four Soft Germany GmbH	Germany	September 2, 2005
Four Soft Japan KK	Japan	Not Applicable
Four Soft Nordic A/s (Formerly known as Transaxiom Nordic A/s)	Denmark	January 1, 2007
Four Soft Australia Pty Limited (Formerly Transaxiom Australia Pty Limited)	Australia	January 1, 2007
Transaxiom UK Limited	United Kingdom	January 1, 2007
Transaxiom (USA) Inc.	United States of America	January 1, 2007
Transaxiom (HK) Ltd.	Honk Kong	January 1, 2007

With effect from July 1, 2006 Four Soft LLC, a wholly owned subsidiary of Company has been merged with Four Soft USA, Inc. a 100% owned step down subsidiary of Four Soft Limited.

(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 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 :

i. Four Soft USA Inc. uses MACRS (Modified Accelerated Cost recovery System) for depreciating its fixed assets.

ii. Fixed assets of all the other subsidiaries are depreciated over the estimated useful lives, using the "Straight Line Method".

Lease hold improvements and assets acquired on finance lease are depreciated using the written down value method over the lower of the useful life or the lease period of three years.

(f) Intangible Assets

Software licenses

Intangible assets in the nature of purchased software licenses are stated at cost and are amortized over six years, using 'Written Down Value Method'. Intangible assets of subsidiaries 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. Goodwill is evaluated periodically for impairment and impairment losses are recognized where applicable. Four Soft UK Ltd. amortizes goodwill on Straight Line Method.

(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 no significant uncertainty exists regarding the amount of consideration that will be derived from rendering the services.

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

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.

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.

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

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 is disclosed as "Foreign Currency Translation Reserve Account" in the consolidated Balance Sheet.

In accordance with the accounting principles laid down under AS 11 (Revised) the Company has designated all its foreign operations, as "non-integral foreign operations".

(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 fund is due. There are no other obligations other than the contribution payable to the respective fund.

(ii) Gratuity liability is a defined benefit obligation and provided for on the basis of an actuarial valuation made at the end of each financial year. Actuarial gains and losses are recognised in full in the Profit and Loss Account in the period in which they occur.

(iii) Short term compensated absences are provided for based on estimates. Long term compensated absences are provided for based on actuarial valuation.

(iv) 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 for on actual basis. Company also contributes to a private pension plan on the basis of a defined contribution plan.

(v) 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. Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income tax Act, 1961. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax assets and deferred tax liabilities across various countries of operations are not set off against each other as the Company does not have a legal right to do so.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be 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.

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. Difference in Accounting Policies

As per the requirement of AS- 21, in the preparation of consolidated financial statements, the accounting policies of the consolidating entities are required to be aligned with those of the parent to the extent practicable. The following accounting policy followed by various consolidating entities is not aligned with those of the Parent Company:

Depreciation in certain consolidating subsidiaries is provided on straight line method or modified accelerated cost recovery system as compared to written down value method followed in the books of the Parent Company. The Company has not ascertained the impact of such differential accounting policy on the consolidated profits for the year ended and financial position of the Company as at March 31, 2007. The total proportion of depreciation so accounted is 51% of the depreciation of the consolidated enterprise.

3. Acquisition of wholly owned subsidiaries

a) Effective December 31, 2006 Company has acquired entire outstanding share capital of Four Soft Holding A/s (formerly known as Transaxiom Holding A/s). On same date, Four Soft Holding A/s was merged with Four Soft Nordic A/s. Four Soft Nordic A/s holds the entire share capital in (a) Four Soft Australia Pty Limited (b) Transaxiom UK Limited (c) Transaxiom (USA) Inc. and (d) Transaxiom (HK) Ltd.

The excess of purchase price over the carrying value of 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 acquisition.

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

i) Goodwill arised on consolidation of Four Soft Holding A/s:-

(Amount in Rs)

Purchase consideration	A	24,829,985
Adjustment of book value of net assets/liabilities		
Assets		
Fixed assets, net	63,533,696	
Sundry debtors	50,517,760	
Cash and bank balances	27,624,704	
Loans and advances	6,605,568	
Liabilities		
Secured Loan	34,120,960	
Current liabilities and provisions	102,636,160	
Book value of net liabilities acquired	B	11,524,608
Goodwill	C=A-B	13,305,377

ii) Summary of post acquisition profits of the acquired entities included in the Consolidated Profit and Loss Account for the year ended March 31, 2007

	(Amount in Rs)
Revenues	86,110,384
Expenses	76,103,507
Net Profit considered in the Consolidated Financial Statements for the year ended March 31, 2007	24,873,035

iii) The assets and liabilities of the acquired entity included in the Consolidated Balance Sheet as at March 31, 2007 are:

	(Amount in Rs)
Fixed assets (Net)	4,043,718
Deferred tax asset	16,705,500
Net current assets	15,126,007

b) In June 2006, Four Soft Japan was incorporated as wholly owned subsidiary of Four Soft Singapore Pte Ltd, a wholly owned subsidiary of Company.

4. Goodwill

a. In May 2005, the Company had entered into share purchase agreement with Skywest International Limited, Singapore for purchase of 100% shares of Four Soft Singapore Pte Limited (formerly known as Comex Frontier Pte Limited) in consideration not exceeding SG $ 2,100,000. As per the terms of agreement, final purchase consideration was determinable based on revenues of Singapore subsidiary for three years ended March 31, 2007. Accordingly, based on actual revenues, the purchase consideration was revised to SG $ 1,546,560. The differential amount has been adjusted in the carrying value of goodwill.

b. In December 2006 the Company had entered into a share purchase agreement for purchase of 100% equity shares of Transaxiom Holding A/S, Denmark (renamed as Four Soft Nordic A/S) from its erstwhile shareholders in consideration not exceeding Danish Kroner (DKK) 69,000,000 beside the price protection as stated below. The final purchase consideration will be determined and accounted based on the average eligible revenues of the acquired entity over a period of 36 months ending December 31, 2009 and payable in cash and shares of the company. The company has recorded DKK 2,493,180 as purchase consideration being the amount fully determinable as on the balance sheet date. Amount of DKK 16,361,806 being the payment made in excess of consideration determinable as on the balance sheet date has been shown as 'advance for investment'.

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. 75, the price protection, offered upto maximum of Rs. 15 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 in future as per terms of share purchase agreement. The carrying value of goodwill as at March 31, 2007 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, 2007 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, 110,000 (Previous year 618,175) 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, 2007 the total shares held by the Trust is 868,567 (previous year 1,094,837).

(b) During the year ended March 31, 2007 the Company has amortized stock compensation expenses amounting to 12,938,865 (Previous Year 11,213,909).

(c) Changes in number of shares representing stock options outstanding as at the year ended on March 31, 2007 were as follows:

	Year Ended March 31, 2007		As at March 31, 2006	
	Number of shares	**Weighted average exercise price (Rs)**	Number of shares	Weighted average exercise price (Rs)
Outstanding at the beginning of the year	**943,608**	**5**	460,828	5
Granted during the year	**110,000**	**5**	618,175	5
Forfeited during the year	**205,714**	**5**	60,032	5
Exercised during the year	**226,954**	**5**	75,363	5
Expired during the year	**Nil**	**5**	Nil	5
Outstanding at the end of the year	**620,940**	**5**	943,608	5
Exercisable at the end of the year	**Nil**	**5**	Nil	5

(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 April1, 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,	
	2007 (Rs)	2006 (Rs)
Profit as reported	**9,476,170**	41,898,231
Add: Employee stock compensation under intrinsic value method	**12,938,865**	11,213,909
Less: Employee stock compensation under fair value method	**13,504,200**	12,722,422
Proforma profit	**8,910,835**	40,389,718
Earnings Per Share		
Basic		
- As reported	**0.27**	1.26
- Pro forma	**0.26**	1.21
Diluted		
- As reported	**0.25**	1.24
- Pro forma	**0.24**	1.20

(e) The weighted average fair value of the stock options granted during the year was Rs.30.82 (Previous year: Rs. 65.58). The fair value of options was estimated at the date of grant using the Black Scholes method with the following assumptions:

	Assumptions	
	2007 (Rs)	2006 (Rs)
Risk-free interest rate	**8.05%**	7.50%
Expected life	**1 to 3 years**	1 to 3 years
Expected volatility	**0.53**	0.642
Expected dividend yield	**–**	1.06%

The expected volatility was determined based on historical volatility data; historical volatility includes early years of the Company's life; the Company expects the volatility of its share price to reduce as it matures.

The weighted average share price at the date of exercise for stock options exercised during the year was Rs. 53.33. Options outstanding at March 31, 2007 had an exercise price of Rs. 5, and a weighted average remaining contractual life of 10.48 months.

6. Gratuity

FSL has a defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on departure at 15 days salary (last drawn salary) for each completed year of service. The scheme is funded with an insurance company in the form of a qualifying insurance policy.

The following tables summarises the components of net benefit expense recognised in the Profit and Loss Account and the funded status and amounts recognised in the Balance Sheet for the respective plans.

		Year ended March 31, 2007
a)	**Net gratuity expense recognised in the Profit and Loss Account (under Personnel expenses)**	
	Current service cost	**2,067,089**
	Interest cost on benefit obligation	282,451
	Expected return on plan assets	(142,971)
	Net actuarial (gain) / loss recognised in the year	1,753,017
	Past service cost	**Nil**
	Net benefit expense	3,959,586
	Actual return on plan assets	161,796
b)	**Details of provision recognised in the Balance Sheet**	
	Defined benefit obligation	7,858,429
	Fair value of plan assets	**(2,323,344)**
		5,535,085
	Less: Unrecognised past service cost	Nil
	Net provision for gratuity	**(5,535,085)**
	Actual return on plan assets	161,796
c)	**Changes in the present value of the defined benefit obligation are as follows:**	
	Opening defined benefit obligation	3,869,746
	Interest cost	282,451
	Current service cost	2,067,089
	Benefits paid	(76,154)
	Actuarial (gains) / losses on obligation	1,715,297
	Closing defined benefit obligation	**7,858,429**
d)	**Changes in the fair value of plan assets are as follows:**	
	Opening fair value of plan assets	1,010,019
	Expected return	142,971
	Contributions by employer	1,227,683
	Benefits paid	(76,154)
	Actuarial gains / (losses)	18,825
	Closing fair value of plan assets	**2,323,344**
	The Company expects to contribute 1,571,896 to the plan in 2007 - 08	
e)	**The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:**	
	Investments with insurer	100%
f)	**The principal assumptions used in determining gratuity obligations for the Company's plans are shown below:**	
	Discount rate	8.05% p.a.
	Expected rate of return on assets	7.50% p.a.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors.

Note: No disclosures of previous year(s) as required by AS - 15 (Revised 2005) "Employee Benefits" is made as the relevant information is not available.

7. Related party transactions

List of related Parties

Names of the related parties	Country	Nature of relationship
Four Soft International Inc.	USA	Joint Venture
Four Soft Employee Welfare Trust	India	Controlling interest
Palem Srikanth Reddy	India	Key Management Personnel
Biju Nair India Key Management Personnel		
Kalyan Gangavarappu	India	Key Management Personnel
Sonata Information Technology Limited	India	Enterprises significantly influenced by relatives of key
management personnel		

Details of related party transactions entered into by the Company during the year ended March 31, 2007 and closing balance as at March 31, 2007 are as follows:

Particulars	Year ended March 31, 2007 (Rs)	2006 (Rs)
Joint Ventures		
JOINT VENTUREFour Soft Logistics Software (Shanghai) Ltd		
(a) Advances for investment	**Nil**	276,049
(b) Provision for doubtful advances	**245,477**	759,467
KEY MANAGEMENT PERSONNEL		
Palem Srikanth Reddy		
(a) Remuneration	**1,686,759**	1,698,697
(b) Dividends	**6,079,035**	Nil
Biju Nair		
(a) Remuneration	**1,290,000**	997,065
(b) Dividends	**13,012**	Nil
Dr. Kalyan Gangavarupu		
(a) Remuneration	**2,366,863**	Nil

	As at March 31, 2007 (Rs)	2006 (Rs)
ENTERPRISES SIGNIFICANTLY INFLUENCED BY RELATIVES OF KEY MANAGEMENT PERSONNEL:		
Sonata Information Technology Limited		
(a) Purchase and implementation of enterprise resource program	**725,964**	1,800,000
(b) Purchase of license	**625,000**	819,880
Debit/(Credit) Balance Outstanding		
Four Soft Logistics Software (Shanghai) Limited	**Nil**	245,478
Sonata Information Technology Limited	**4,805**	(358,767)
Four Soft Employee Welfare Trust	**3,741,645**	4,790,000
Key Management Personnel	**(2,086,130)**	(1,295,605)

8. 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 Management believes that the Company no longer controls the said joint venture due to an ongoing dispute between parties to the Joint Venture.

9. 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,	
	2007 (Rs)	**2006 (Rs)**
Total minimum lease payments at the year end	**2,499,649**	3,840,939
Less : Amount representing finance charges	**554,353**	1,136,689
Present value of minimum lease payments (Rate of interest: 26.89% p.a.)	**1,945,296**	2,704,250
Minimum Lease Payments :		
Not later than one year [Present value 990,124 as on March 31, 2007 (758,954 as on March 31, 2006)]	**1,391,790**	1,391,790
Later than one year but not later than five years [Present value 935,904 as on March 31, 2007 (1,949,296 as on March 31, 2006)]	**1,107,859**	2,449,149
Later than five years [Present value Nil as on March 31, 2007 (Nil as on March 31, 2006)	**Nil**	Nil

Operating Leases

The Company has entered into operating lease agreements for its offices 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 (Rs)	**2005 (Rs)**
Lease payments for the year	**69,187,795**	30,534,873
Minimum Lease Payments:		
Not later than one year	**56,833,172**	31,561,547
Later than one year but not later than five years	**152,548,099**	95,090,746
Later than five years	**272,363,840**	265,496,392

10. Deferred tax

(a) Liability

Deferred tax liability amounting to Rs. 3,813,320 (Previous year Rs. 2,291,333) 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 and reversing after the tax holiday period.

Deferred tax liability amounting to Rs. 3,502,911 (Previous year Rs. Nil) represents differences in depreciation and other differences in block of fixed assets as per tax books and financial books of Four Soft NL, B.V., the Netherlands originated as at year end and reversing in subsequent years.

(b) Assets

Deferred tax assets amounting to Rs. 20,158,637 (Previous year Rs. 5,162,515) represents excess of taxation allowances over depreciation on fixed assets in respect of Four Soft UK Limited and Four Soft Nordic A/s.

11. Secured Loan

Term loan of the subsidiary company is secured by:

a. 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.

b. 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. Hypothecation of movable fixed assets of the FSL with Unit Trust of India Investment Advisory services, who are acting as onshore security trustee for ICICI Bank Plc.

d. Pledge to be created in respect of Four Soft Limited'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.

12. Research and development

During the year ended March 31, 2007 the Company has incurred expenses amounting to Rs. 51,230,516 (Previous Year Rs. 28,297,090) towards research and development included under various heads of expenses.

13. Un-hedged Foreign Currency Exposure

		Year ending March 31, 2007			Year ended March 31, 2006		
Particulars	Foreign Currency	Foreign Currency Amount	Closing Exchange Rate	Rs.	Foreign Currency Amount	Closing Exchange Rate	Rs.
Foreign debtors	USD	1,508,094	43.44	65,511,610	750,805	44.23	33,208,113
	SGD	3,803	28.61	108,804	4,803	27.24	130,834
	EUR	6,584	57.94	381,477	49,584	53.60	2,657,702
	MYR	121,500	12.55	1,524,825	139,000	11.90	1,654,100
Advance for investment	DKK	16,361,806	7.77	127,144,976			–
Payable towards purchase consideration of investments	GBP	1,500,000	85.25	127,901,619	3,400,000	77.64	286,409,808
	SGD				463,314	27.79	12,875,499
	EUR				175,000	53.60	9,565,500
Secured Loans	GBP	5,500,000	85.25	468,972,605	5,500,000	77.64	426,999,303

14. Capital Commitments

Estimated amounts of contracts remaining to be executed on capital account and not provided for as at March 31, 2007 by the Company are Rs. 49,035 (Previous year: Rs. 372,800).

15. Contingent Liabilities not provided for

		As at March 31,	
		2007 (Rs)	**2006 (Rs)**
a.	Guarantees given by the Group	758,725,000	698,116,000
b.	Income tax demand in respect of which the Company has gone on appeal. Management is of the opinion that appeal is likely to be accepted by appellate authority.	4,321,330	2,829,896
c.	Contingent liability in respect of additional purchase consideration payable due to price protection offered to erstwhile shareholders of Transaxiom Holding A/s Denmark (Previous year Comex Frontier Pte Limited), the financial effect of which is not measurable (refer note 4(b) to schedule 18).		

d. 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 has not crystalised.		
e. In Four Soft Singapore Pte Ltd., one of the customers terminated their contract alleging substantial breach by the company. The customer has not quantified the claim but there is a verbal indication of the claim in the region of S$ 1.8 M. Company disputes the alleged breach and is of the opinion that it would succeed in the case.	51,498,000	Nil
f. Four Soft Singapore Pte Ltd is denying a claim by a plaintiff for the sum of S$ 201,000 alleged on the ground that the company was the plaintiff's collection agent in respect of the said sum due and owing from plaintiff's clients / customers. Company counter claims against the plaintiffs for work preformed and salaries paid for the plaintiff's employees.	5,750,952	Nil
g. In Four Soft Malaysia Sdn. Bhd., during the year, a client has instituted a legal suit against the company for damages amounting to RM 526,600 arising from defective software sold. The company is denying the basis of the claims.	6,610,526	Nil

16. Earnings Per share

	Year ended March 31, 2007 (Rs)	2006 (Rs)
Net Consolidated profit/ (loss) as per consolidated profit and loss account (Amount in Rs)	**9,476,170**	59,409,276
Weighted average number of equity shares in calculating basic EPS (number)	**35,735,631**	33,141,978
Effect of dilutive equity shares (number)	**486,518**	559,410
Weighted average number of equity shares in calculating diluted EPS (number)	**36,222,150**	33,701,388

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 April1, 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.

17. 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:

For the Year Ended March 31, 2007

Particulars	India	Europe	USA	Rest of the world	Total	Eliminations	Consolidated
REVENUE:							
External sales	176,519,489	1,184,651,535	171,208,940	60,902,417	1,593,282,381	–	1,593,282,382
Inter-segment sales	188,427,332	8,309,138	69,511,680		266,248,150	266,248,150	–
Total revenue	364,946,821	1,192,960,673	240,720,620	60,902,417	1,859,530,531	266,248,150	1,593,282,382
RESULT:							
Segment result	48,970,520	(37,584,556)	1,775,599	(19,408,586)	(6,247,023)	37,245,632	30,998,609
Finance expense					42,539,720	(2,721,021)	39,818,699
Other Income					112,146,562	(74,537,581)	37,608,981
Income taxes					17,775,409		17,775,409
Deferred taxes					1,537,310		1,537,310
Net profit							9,476,170
OTHER INFORMATION as at March 31, 2007							
Segment assets	690,658,180	1,128,277,378	141,200,531	42,890,184	2,003,026,273	(88,678,372)	2,091,704,644
Segment liabilities	137,485,589	1,675,947,950	112,078,044	83,543,714	2,009,054,797	885,673,750	1,123,381,047
Capital expenditure (including CWIP)	36,530,470	227,012,784	1,341,514	130,117	265,014,885		265,014,885
Depreciation	19,706,768	18,105,829	1,663,432	237,483	39,713,512		39,713,512
Other non-cash expenses	3,015,807	18,495,236	437,325	8,531,066	30,479,434		30,479,434

For the Year Ended March 31, 2006

Particulars	India	Europe	USA	Rest of the world	Total	Eliminations	Consolidated
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
Finance 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

18. 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 : Hyderabad
Date : 27th August, 2007

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

Palem Srikanth Reddy
CEO & Managing Director

P. Mangamma
Director

P. Subramanyam
Company Secretary

Biju S. Nair
Vice President - Finance

Place : Hyderabad
Date : 27th August, 2007

FOUR SOFT B.V. NETHERLANDS

(a wholly owned subsidiary of Four Soft Ltd.)

Financial Year
1st April'2006 - 31st March'2007

Board of Directors
Palem Srikanth Reddy

Regd. Office:
Four Soft B.V.
Amstelwijckweg 11,
3316BB Dordrecht,
Netherlands

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, 2007.

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' 2007 has a Net Profit of Euro 547,341 on account of dividend received from a subsidiary.

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 subsidiary of Company has strong customer presence in Europe and US and will continue receiving Annual maintenance revenues and additional License Sales over the coming years.

For and on behalf of Board of Directors

Dated : 29th June, 2007
Place : Hyderabad

Palem Srikanth Reddy
Managing Director

PRINCIPLES OF FINANCIAL REPORTING

PARENT COMP ANY

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

GENERAL ACCOUNTING POLICIES

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 diHerence 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 - AS SETS AND LIABILITIES

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 diferences 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 consitute the proceeds of sales of goods and services to third parties less discounts.

Cost of sales

Costs of raw and ancilliary materiais, 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 B.V.
BALANCE SHEET AS AT MARCH 31, 2007

	Schedules	**Euros**	INR
SOURCES OF FUNDS			
Shareholders' Funds			
Capital	1	18,152	1,051,545
Reserves and surplus	2	6,703,244	388,318,896
Loan funds			
Secured loan	3	8,095,505	468,972,605
Deferred tax liability		349,400	20,240,742
TOTAL		15,166,301	878,583,788
APPLICATION OF FUNDS			
Investments	4	18,092,017	1,048,070,548
Current Assets, Loans and Advances			
Sundry debtors	5	340,170	19,706,024
Cash and bank balances	6	280,435	16,245,628
Loans and advances	7	784,625	45,453,354
		1,405,230	81,405,006
Less: Current Liabilities and Provisions			
Liabilities	8	4,330,947	250,891,764
		4,330,947	250,891,764
Net Current Assets		(2,925,717)	(169,486,758)
TOTAL		15,166,300	878,583,790

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

Place: Hyderabad
Date: June 29, 2007

Palem Srikanth Reddy
Managing Director

FOUR SOFT B.V.
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2007

	Schedules	**Euros**	INR
INCOME			
Other income	9	1,172,271	68,038,607
TOTAL		**1,172,271**	**68,038,607**
EXPENDITURE			
Finance Expenses	10	607,367	35,251,546
Operating and other expenses	11	63,270	3,672,242
TOTAL		**670,637**	**38,923,788**
Profit before tax		**501,634**	**29,114,819**
Provision for current tax		–	-
Tax for earlier years		(45,707)	(2,652,834)
		(45,707)	**(2,652,834)**
Net profit		**547,341**	**31,767,653**
Balance brought forward from previous year		1,093,998	63,375,319
Surplus carried to Balance Sheet		**1,641,339**	**95,142,972**

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

Place: Hyderabad
Date: June 29, 2007

Palem Srikanth Reddy
Managing Director

SCHEDULES TO THE ACCOUNTS

	Euros	INR
Schedule 1:Capital		
18, 152 shares of Euro 1 each fully paid-up	18,152	1,051,545
	18,152	**1,051,545**
Schedule 2: Reserves and surplus		
Securities Premium Account	5,061,905	293,236,132
Profit and Loss Account	1,641,339	95,142,972
Foreign Currency Translation Reserve		
Balance as per last account		
Add: Current year translation adjustment		(60,208)
TOTAL	**6,703,244**	**388,318,896**
Schedule 3: Secured loan		
Loans and advances from banks		
Term loan	8,095,505	468,972,605
TOTAL	**8,095,505**	**468,972,605**
Schedule 4: Investments		
Long Term Investments (Unquoted and at cost)		
Other than trade		
In subsidiaries	18,092,017	1,048,070,548
TOTAL	**18,092,017**	**1,048,070,548**

FOUR SOFT B.V.
SCHEDULES TO THE ACCOUNTS

	Euros	INR
Schedule 5: Sundry debtors		
Unsecured, considered good	340,170	19,706,024
	340,170	19,706,024
Less : Provision for doubtful debts	–	–
TOTAL	**340,170**	**19,706,024**
Schedule 6: Cash and bank balances		
Cash on hand	–	–
Balances with banks on:		
Current accounts	140,875	8,160,899
Deposit accounts	139,560	8,084,729
TOTAL	**280,435**	**16,245,628**
Schedule 7: Loans and advances		
Unsecured, considered good		
Advances and loans to subsidiaires	742,221	42,996,890
Advance income tax (net of provision)	42,404	2,456,464
	784,625	**45,453,354**
Schedule 8: Liabilities		
Sundry creditors	2,049,253	118,713,201
Subsidiary companies	2,285,580	132,403,659
Other liabilities	(3,886)	(225,096)
TOTAL	**4,330,947**	**250,891,764**
Schedule 9: Other income		
Interest income	180	10,420
Dividend from subsidiary	1,172,091	68,028,187
TOTAL	**1,172,271**	**68,038,607**
Schedule 10: Personnel expenses		
Bank charges	1,429	82,911
Interest-bank	605,938	35,168,635
TOTAL	**607,367**	**35,251,546**
Schedule 11: Operating and other expenses		
Rent	4,274	248,054
Fee, rates and taxes	140	8,119
Auditors' remuneration	5,190	301,228
Legal and professional fees	52,455	3,044,510
Exchange difference (net)	912	52,919
Miscellaneous expenses	300	17,412
TOTAL	**63,270**	**3,672,242**

FOUR SOFT SINGAPORE PTE LTD

(Incorporated in Singapore)
FINANCIAL STATEMENTS - 31 MARCH 2007

REPORT OF THE DIRECTORS

The directors submit their report to the members together with the audited financial statements of the company for the year ended 31 March 2007.

1 DIRECTORS

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

KALYANA CHAKRAVARTHI GANGAVARAPU
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 year 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 year, 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:

	Shares of Rs 5/- each	
Names of Directors	At the beginning of the year	At end of the year
SHARES IN HOLDING COMPANYFOUR SOFT LIMITED, INDIA		
Palem Srikanth Reddy	8,105,380	8,259,226

4 DIRECTOR'S CONTRACTUAL BENEFITS

During the year 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 2007.

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 directors,

PALEM SRIKANTH REDDY

KALYANA CHAKRAVARTHI GANGAVARAPU

SINGAPORE
DATE: 29 JUNE 2007

STATEMENT BY DIRECTORS

We, PALEM SRIKANTH REDDY and KALYANA CHAKRAVARTHI GANGAVARAPU being two of the directors of FOUR SOFT SINGAPORE PTE LTD, do hereby state that, in the opinion of the directors:

(a) 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 year ended 31 March 2007 and of the results and changes in equity of the business and cash flows of the company for the year then ended; and

(b) 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 directors,

PALEM SRIKANTH REDDY

KALYANA CHAKRAVARTHI GANGAVARAPU

SINGAPORE
DATE: 29 JUNE 2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF

FOUR SOFT SINGAPORE PTE LTD

Report on the Financial Statements

We have audited the accompanying financial statements of the Company, which comprise the balance sheet as at 31 March 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director's Responsibility for the Financial Statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with Singapore Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 so as to give a true and fair view of the state of affairs of the company as at 31 March 2007 and of the results, changes in equity of the company and the cash flows of the company for the year 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.

Without qualifying our opinion we draw attention to Note 18 to the financial statements with regard to cancellation of contract by a customer and a claim against the company. The Company is the defendant. The Company has filed a counter action for the claim and is also in the process of appointing an arbitrator for the damages and penalties. The proceedings are at preliminary stages and the ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result, has been made in the financial statements.

MGI N RAJAN ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

SINGAPORE
DATE: 29 JUNE 2007

FOUR SOFT SINGAPORE PTE LTD

(Incorporated in the Republic of Singapore)

BALANCE SHEET AS AT 31 MARCH 2007

	Notes	2007 S$	2006 S$
Current assets			
Cash and cash equivalents	8	134,121	169,862
Trade receivables	9	488,018	390,035
Other receivables,deposits and prepayments	10	60,984	20,116
Loan to a subsidiary	13	153,623	-
Amounts due from related companies (trade)	12	206,607	46,372
Amounts due from related companies (non-trade)		66,501	-
Amounts due from holding company (trade)		102,635	251,563
Amounts due from holding company (non-trade)	11	302,203	-
Total current assets		1,514,692	877,948
Non-current assets			
Property, plant and equipment	7	15,204	15,873
Investment in subsidiary	13	41,632	-
Total non-current assets		56,836	15,873
Total assets		1,571,528	893,821
Current Liabilities			
Trade payables		18,293	90,246
Other payables and accruals	14	662,612	263,398
Amount due to holding company (trade)		646,480	-
Amount due to holding company (non-trade)	15	1,217,767	1,240,541
Amounts due to related companies (trade)		285,945	60,000
Total current liabilities		2,831,097	1,654,185
Net (liabilities)		(1,259,569)	(760,364)
Share capital and reserves			
Share capital	16	1,130,200	1,130,200
Accumulated (losses)		(2,389,769)	(1,890,564)
		(1,259,569)	(760,364)

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

FOUR SOFT SINGAPORE PTE LTD

(Incorporated in the Republic of Singapore)

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

	NOTE	Year ended 31.03.07 S$	Period ended 31.03.06 S$
REVENUE			
Sale of goods		1,942,184	1,654,908
Less: costs of sales		320,772	376,114
Gross profit		1,621,412	1,278,794
Add: Other operating income	3	22,166	55,794
		1,643,578	1,334,588
Less: Operating expenses			
Administration & Other operating expenses		1,257,378	2,665,874
Sales and Distribution expenses		792,716	236,595
		2,050,094	2,902,469
(Loss) before finance cost		(406,516)	(1,567,881)
Less: Finance cost	5	92,689	59,918
(Loss) after finance cost		(499,205)	(1,627,799)
(Loss) before tax		(499,205)	(1,627,799)
Less: Tax expense		-	-
(loss) after tax		(499,205)	(1,627,799)

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

FOUR SOFT SINGAPORE PTE LTD

(Incorporated in the Republic of Singapore)

STATEMENTS OF CHANGES IN EQUITY

	Issued Capital S$	Premium S$	Accumulated (losses) S$	Total S$
Balance as at 31 December 2004	1,000,000	130,200	(62,765)	1,067,435
Transfer of share premium to share capital account				
(Amendment of Act w.e.f 30.1.2006)	130,200	(130,200)	-	-
Dividend paid	-	-	(200,000)	(200,000)
(Loss) for the period	-	-	(1,627,799)	(1,627,799)
Balance as at 31 March 2006	1,130,200	-	(1,890,564)	(760,364)
Issuance of ordinary shares	-	-	-	-
(Loss)for the year	-	-	(499,205)	(499,205)
Balance as at 31 March 2007	1,130,200	-	(2,389,769)	(1,259,569)

FOUR SOFT SINGAPORE PTE LTD

(Incorporated in the Republic of Singapore)

CASH FLOW STATEMENT

	NOTE	Year ended 31.03.07 S$	Period ended 31.03.06 S$
Cash flows from operating activities			
(Loss) for the year before tax		(499,205)	(1,627,799)
Adjustment for:			
Amortisation of intangibles		-	344,158
Depreciation on fixed assets		7,573	21,800
Interest paid		90,470	57,848
Bad debts written off		960	36,162
Profit on sale of Asset		(4,550)	-
FD interest		(1,419)	-
Gain on exchange		(12,654)	-
Others		(3,542)	-
Operating profit / (loss) before reinvestment of capital		(422,367)	(1,167,831)
(Increase)/Decrease in Work in progress		-	62,800
(Increase)/Decrease in trade receivables		(98,943)	101,785
(Increase)/Decrease in other receivables		(40,868)	(6,116)
Increase/(Decrease) in trade payables		(71,953)	(143,232)
Increase/(Decrease) in other payables		399,214	(185,363)
Increase/(Decrease) in related party(receivables)		(226,736)	46,744
Increase/(Decrease) in related party(payables)		225,945	-
Increase/(Decrease) in due from holding Co.		(153,275)	-
Increase/(Decrease) in due to holding Co.		646,480	-
Cash generated from / (used in) operations		257,497	(920,487)
Tax paid		-	-
FD interest		1,419	-
Gain on exchange		12,654	-
Others		3,542	-
Net cash flows from operating activities		275,112	(920,487)
Cash flows from investing activities:			
Acquisition of fixed assets		(6,904)	(19,783)
Sale of fixed assets		4,550	-
Investments in subsidiary		(41,632)	-
Net cash flows from/ (used in) investing activities		(43,986)	(19,783)
Cash flows from financing activities			
Loan from holding company		(113,244)	1,244,030
Loan to a related party/subsidiary		(153,623)	(200,000)
(Decrease) in loan from directors		-	(28,000)
Interest paid		-	(4,705)
Net Cash flows from financing activities		(266,867)	1,011,325
Net Increase/(decrease) in cash & cash equivalents		(35,741)	71,055
Cash & cash equivalents at the beginning of the year		169,862	98,807
Cash & Cash equivalents at end of the year	8	134,121	169,862

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

FOUR SOFT SINGAPORE PTE LTD

(Incorporated in Singapore)

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2007

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

1. GENERAL

The company is incorporated and domiciled in Singapore. The financial statements of the company are expressed in Singapore dollars, which is the company's functional currency.

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'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 year ended 31 MARCH 2007 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 financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of these financial statements in conformity with FRS requires management to exercise its judgment in the process of applying the Company's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. There are no estimates and assumptions made by the company that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Interpretations and amendments to published standards effective in 2006

On 1 January 2006, the company adopted the new and revised FRS and Interpretations to FRS (INT FRS) that are mandatory for application from that date. Changes to the company's accounting policies have been made as required, in accordance with the relevant transitional provisions in the respective FRS and INT FRS.

The following are the revised FRS that are relevant to the Company:

FRS 19 (Amendment) Employee Benefits

FRS 21 (Amendment) The Effects of Changes in Foreign Exchange Rates

FRS 32 (Amendment) Financial Instruments: Disclosure and Presentation

FRS 39 (Amendment) Financial Instruments:Recognition and Measurement

The adoption of the above FRS and INT FRS did not result in any substantial changes to the Company's accounting policies.

b) PROPERTY, PLANT & EQUIPMENT & DEPRECIATION

(i) Measurement

All property ,plant and equipment are initially recognized at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

(ii) Depreciation

Depreciation on property, plant and equipments calculated using the straight line method to allocate their depreciable amounts over their estimated useful lives at the following rates

Computers & accessories	33 1/3 %
Computer Softwares	50%
Office equipment	20 %

The residual values and useful lives of property plant and equipment are reviewed and adjusted as appropriate , at each balance sheet date. The effects of any revision of the residual values and useful lives are included in the income statement of the financial year in which the changes arise.

(iii) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognized is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Other subsequent expenditure is recognized as an expense in the income statement during the financial year in which it is incurred.

(iv) Disposal

On disposal of an item of property, plant and equipment, the difference between the net disposable proceeds and its carrying amount is taken to the income statement.

c) Subsidiaries

Subsidiaries are entities over which the company has power to govern the financial and economic policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the company controls another entity.

d) Subsidiaries :- contd

Investments in the subsidiaries are stated in the financial statements of the Company at cost less impairments losses. Where an indication of impairment exists , the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

The subsidiaries' results have not been consolidated as the company is itself a wholly owned subsidiary of another company, Four Soft Ltd India, which publishes the consolidated financial statements .

e) 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 form the date the process is put into use, on a straight-line basis over their useful lives, not exceeding five years.

f) 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.

g) 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.

h) Trade and other receivables

These are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method.

An allowance for impairment of loans and receivables, including trade and other receivables, is recognised when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the allowance for impairment is recognised in the income statements.

i) Cash and cash equivalents

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

j) 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.

k) 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.

l) 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.

m) 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.

n) 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.

o) 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.

p) Going concern

The accumulated losses of the company is S$ 2,389,770/-. The financial statements have been prepared on the basis that the company is a going concern as the immediate holding company has given assurance of its continued financial support to the company as and when required.

3. OTHER OPERATING INCOME

	31.03.07 S$	31.03.06 S$
Bank Interest	1,419	1,489
Gain on exchange	12,654	-
Profit on sale of asset	4,550	-
Rent received	-	36,155
Government grant	-	4,268
Others	3,542	13,882
	22,166	55,794

4. PROFIT BEFORE TAX

The above is arrived after charging:		
Amortisation of intangibles	-	344,157
Depreciation	7,573	21,800
Bad debts written off-trade	960	36,162
Provision for doubtful debts:		
Trade	200,476	-
Non -trade	70,017	-
And crediting		
Bank interest	1,419	1,489
Government Grant	-	4,268
Gain on exchange	12,654	-
Profit on sale of property ,plant and equipment	4,550	-
Others	3,542	-

5. FINANCE COST

Interest paid to holding company	90,470	53,143
Bank interest	2,219	2,070
Interest paid to bank	-	4,705
	92,689	59,918

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$1,669,603/- and S$22,619/- 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

	S$ 2007	S$ 2006
Tax on (loss)/ profit at 18%	(89,857)	(325,560)
Expenses not deductible/taxable to tax	12,603	68,831
Unrecognized deferred tax asset utilised	77,254	256,729
	-	-

7. PROPERTY, PLANT AND EQUIPMENT

	Computers S$	Office Equipment S$	Computer Software S$	Total S$
At Cost				
Beginning of year	97,910	7,010	34,359	139,278
Additions	6,904	-	-	6,904
Disposal	4,550	-	-	4,550
At end of year	100,264	7,010	34,359	141,632
Accumulated Depreciation				
At beginning of year	92,261	1,546	29,599	123,406
Charge for the year	3,506	2,336	1,731	7,573
Written back	(4,550)	-	-	(4,550)
At end of the year	91,217	3,882	31,330	126,429
Net book value				
At end of year	9,047	3,128	3,029	15,204
At beginning of year	5,649	5,464	4,760	15,873

8. CASH & CASH EQUIVALENTS

	31.03.2007 S$	31.03.2006 S$
Cash on hand	595	705
Cash at banks	133,526	169,157
	134,121	169,862

9. TRADE RECEIVABLES

Trade debtors (net of provision)	488,018	390,035
	488,018	390,035
Movements of provision		
Balance at the beginning of the year	268,514	114,085
(Written off)	(179,526)	154,429
Provision for the year	200,476	-
Balance at the end of the year	289,464	268,514

10. OTHER RECEIVABLES

Other debtors(net of provision 2007- S$70,017, 2006- nil)	45,272	3,433
Deposit	14,192	14,192
Prepayments	1,520	2,491
	60,984	20,116

11. DUE FROM HOLDING COMPANY

The amount due form 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.

12. DUE FROM RELATED PARTIES

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

13. INVESTMENT IN SUBSIDIARY

	2007S$	2006S$
Investments in unquoted equity shares, at cost	41,632	-

The loan to subsidiary is unsecured, interest free, is repayable on demand and is denominated in Singapore dollors.The carrying amounts of the loan and amount due from subsidiaries approximate their fair values.

Details of investments in subsidiaries are as follows:

Subsidiary company	Principal activities	Country of incorporation	Equity Holding	Cost of InvestmentS$
Four Soft -Japan	Development and sales of hardware and software	Japan	100%	41,632

14. OTHER PAYABLES

	31.03.2007 S$	31.03.2006 S$
Other creditors	11,252	127,608
Unearned revenue	550,091	105,782
Accrued liabilities	-	30,008
	662,612	263,398

15. 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

16. SHARE CAPITAL

	31.03.2007 S$	31.03.2006 S$
Issued & fully paid up		
Ordinary shares	930,000	930,000
Class"A" preference shares	70,000	70,000
Share premium	130,200	130,200
	1,130,200	1,130,200

17 STAFF COSTS

Salary	S$	S$
Staff	740,060	1,652,140
Directors	-	194,052
	740,060	1,846,192
Central provident fund		
Staff	57,161	118,461
Directors -	11,983	
Foreign workers levy	104	2,396
	57,265	132,840

18 CLAIMS

1. One of the customers terminated their contact alleging substantial breach by the Company. The customer has not quantified the claim but there is a verbal indication of the claim in the region of S$ 1.8M. Company disputes the alleged breach and assert that the termination of the contract was wrongful.
2. Company is denying a claim by a Plaintiff for the sum of S$ 201,000 allegedly on the ground that the Company was the Plaintiff's collecting agent in respect of the said sum due and owing from Plaintiff's clients/customers. Company counterclaim against the Plaintiffs for work performed and salaries paid for the Plaintiff's employees totaling to S$ 484,481.
3. No provision has been made in the accounts in respect of matters referred in the above paragraphs as the directors are confident of defending the same.

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.

	31.03.2007 S$	31.03.2006 S$
Sales to related party	282,569	-
Sales to holding company	155,056	251563
Purchases from holding company	877,326	1,240,541
Purchases from related party	279,019	60,000

21 CONTINGENT LIABILITY

	31.03.2007 S$	31.03.2006 S$
In respect of claims against the company not provided for	2,001,000	-

FOUR SOFT MALAYSIA SDN BHD

(Incorporated in Malaysia)

DIRECTORS' REPORT

31 MARCH 2007

The directors have pleasure in presenting their Seventh Annual Report on the affairs of the company together with the audited financial statements for the financial year ended 31 March 2007.

PRINCIPAL ACTIVITIES

The company is principally engaged in the development, licensing, marketing and implementation of e~commerce business solutions, innovations and applications for the logistics and distribution industry and the provision of ancillary consultancy and maintenance services. There have been no significant changes in the nature of these principal activities during the financial year.

RESULTS FOR THE FINANCIAL YEAR

	RM
Loss before tax	(72,143)
Tax expense	–
Loss after tax	(72,143)
Accumulated losses at beginning of year	(9,981,850)
Accumulated losses at end of year	(10,053,993)

DIVIDENDS

Since the end of the previous financial year, no dividends have been paid or declared or recommended to be paid by the directors of the company.

MOVEMENTS IN RESERVES OR PROVISIONS

There were no transfers to or from reserves or provisions during the financial year except as disclosed in the financial statements.

BAD AND DOUBTFUL DEBTS

Before the financial statements of the company were made out, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and have satisfied themselves that all known bad debts have been written off and that adequate provision have been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances which would render the amount written off for bad debts or the provision for doubtful debts in the financial statements of the company, inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the company were made out, the directors took reasonable steps to ensure that any current assets which were unlikely to be realised in the ordinary course of business, including their values as shown in the accounting records of the company, have been written down to an amount which they might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the company misleading.

VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets and liabilities in the financial statements of the company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist :-

(a) any charge on the assets of the company which has arisen since the end of the financial year which secures the liabilities of any other person ; and

(b) any contingent liability of the company which has arisen since the end of the financial year

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the company to meet its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the company which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

In the opinion of the directors, the results of the operations of the company for the financial year ended 31 March 2007 have not been substantially affected by any item, transaction or event of a material and unusual nature nor have there been any occurrences of such an item, transaction or event in the interval between the end of the financial year and the date of this report which will substantially affect the results of operations of the company for the financial year in which this report is made.

ISSUE OF SHARES OR DEBENTURES

During the financial year, the company did not issue any new ordinary shares or debentures.

SHARE OPTIONS

During the financial year, no share options have been granted by the company and no shares have been issued by virtue of the exercise of any options to take up unissued shares of the company.

As at the end of the financial year, there were no unissued shares under option.

DIRECTORS AND THEIR INTEREST IN SHARES

The directors holding office since date of the last report are :

Ang Ban Leong

Ramachandran Ganesan

Ba-azlan bin Che' Wan Ibrahim

Lee Siak Liang

Palem Srikanth Reddy

None of the directors holding office at the end of the financial year has any interest in the shares of the company. The directors in office at the end of the financial year and their interests in the shares of the holding company during the year as recorded in the register required to be kept under the provisions of the Companies Act 1965 are as follows :

	Number of ordinary shares of Rs.5 each			
	As at 01/04/06	Bought	Sold	As at 31/03/07
Four Soft Limited				
Palem Srikanth Reddy	8,105,380	153,846	–	8,259,226

By virtue of his shareholding in the holding company, Palem Srikanth Reddy is deemed to have interests in the shares of the company and its related companies.

In accordance with Regulation 68 of the company's Articles of Association, Ang Ban Leong and Ramachandran Ganesan shall retire at the forthcoming Annual General Meeting and being eligible, shall offer themselves for re-election.

DIRECTORS' BENEFITS

Neither at the end of the financial year nor at any time during that year did there subsist any arrangements to which the company is a party, being arrangements whose object is to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors as shown in the financial statements) by reason of a contract made by the company or 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.

DIRECTORS' RESPONSIBILITIES

Company law requires directors to maintain proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and attribute responsibility to directors to prepare financial statements and all information and representations contained therein which show a true and fair view of the results of its operations, changes in equity and cash flows and of its state of affairs for each year under review and which comply with the statutory reporting requirements and practices in Malaysia. The directors also have general responsibilities in maintaining an adequate internal control and reporting system to ensure the overall accuracy, completeness and propriety of the transactions of the company and that transactions are free from material misstatements, properly authorised, executed and recorded, assets and liabilities are safeguarded against unauthorised use or disposition and in the prevention and detection of fraud and other irregularities.

AUDITORS

TLH Associates (AF1009) has expressed its willingness to continue in office and the reappointment shall be confirmed at the forthcoming Annual General Meeting.

Signed on behalf of the Board in accordance with a resolution of the directors

Sd/-	Sd/-
Lee Siak Liang	Ba-azlan bin Che' Wan Ibrahim

Johor Bahru
14 June 2007

STATEMENT BY DIRECTORS

We, Lee Siak Liang and Ba-azlan bin Che Wan Ibrahim, being two of the directors of FOUR SOFT MALAYSIA SDN. BHD. (502653-M), do hereby state that in the opinion of the directors, the financial statements set out on pages 7 to 17 are drawn up in accordance with approved accounting standards in Malaysia and applicable requirements of Malaysian law so as to give a true and fair view of the results of the business and of the changes in equity and cash flows of the company for the financial year ended 31 March 2007 and of the state of affairs of the company as at the end of that date.

Signed on behalf of the Board in accordance with a resolution of the directors

Sd/-	Sd/-
Lee Siak Liang	Ba-azlan bin Che' Wan Ibrahim

Johor Bahru
14 June 2007

STATUTORY DECLARATION

I, Lee Siak Liang, the director primarily responsible for the financial management of FOUR SOFT MALAYSIA SDN. BHD. (502653-M), do solemnly and sincerely declare that the financial statements for the financial year ended 31 March 2007, as set out on pages 7 to 17 and drawn up in accordance with approved accounting standards in Malaysia and applicable requirements of Malaysian law, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared)
by the abovenamed Lee Siak Liang)
at Johor Bahru in the State of Johor)
on 14 June 2007)

Sd/-

Lee Siak Liang

AUDITOR'S REPORT
TO THE MEMBERS OF
FOUR SOFT MALAYSIA SDN BHD
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 7 to 17 for the financial year ended 31 March 2007. As described more fully on page 4, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion on these financial statements based on our audit and to report our opinion to you in accordance with the Companies Act 1965 (the "Act") and for no other purpose. We do not assume responsibility to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with approved auditing standards in Malaysia. An audit includes examination on a test basis, of evidence relevant to the amounts and disclosures in the financial statements, including an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we require in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud, irregularities or errors. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion :

(a) the financial statements are properly drawn up in accordance with approved accounting standards in Malaysia and applicable requirements of Malaysian law so as to give a true and fair view of :

  (i) the results and changes in equity and cash flows of the company for the financial year ended 31 March 2007 and of the state of affairs of the company as at the end of that date ; and

  (ii) the matters required by Section 169 of the Act to be dealt with in the financial statements

(b) the accounting and other records and the registers required by the Act to be kept by the company have been properly kept in accordance with the provisions of the Act

Sd/-	Sd/-
TLH Associates No. AF 1009 Chartered Accountants (M)	Teoh Lye Huat No. 1616/07/07 (J/PH) Sole Practitioner

Johor Bahru
14 June 2007

FOUR SOFT MALAYSIA SDN BHD
INCOME STATEMENT 31 MARCH 2007

	Note	**01/04/06 to 31/03/07 RM**	01/01/05 to 31/03/06 RM
Operating revenue	2(c)	**506,502**	468,088
Costs and expenses			
Cost of services provided and purchases		**399,249**	346,109
Depreciation	6	**–**	1,144
Staff costs		**94,464**	28,674
Other operating expenses		**84,932**	106,376
Total costs and expenses		**578,645**	482,303
Loss before tax		**(72,143)**	(14,215)
Tax expense	3	**–**	(2,233)
Loss after tax		**(72,143)**	(16,448)
Loss before tax is arrived at after charging/(crediting) :			
Auditor's remuneration		**3,000**	3,000
Bad debts written off		**54,060**	–
Defined contribution post-employment benefits plan costs		**10,080**	3,036
Foreign currency alignment adjustments		**1,140**	29,302

BALANCE SHEET 31 MARCH 2007

	Note	**2007**	2006
Current Assets			
Trade debtors	4	**265,388**	127,513
Other debtors, deposits and prepayments		**55,438**	61,472
Cash and bank balances		**102,972**	28,722
		423,798	217,707
Current Liabilities			
Other creditors and accruals		**21,130**	9,967
Amount owing to related companies	5	**319,463**	69,907
Deferred income		**134,965**	117,450
Income tax payable		**2,233**	2,233
		477,791	199,557
Net Current (Liabilities)/Assets		**(53,993)**	18,150
Non-Current Assets			
Property, plant and equipment	6	**–**	–
NET (LIABILITIES)/ASSETS		**(53,993)**	18,150
Financed by :			
Share capital		**10,000,000**	10,000,000
Accumulated losses		**(10,053,993)**	(9,981,850)
(NEGATIVE)/POSITIVE EQUITY		**(53,993)**	18,150

Movements in the share capital are disclosed in the statement of changes in equity on page next papge.

FOUR SOFT MALAYSIA SDN BHD
STATEMENT OF CHANGES IN EQUITY 31 MARCH 2007

	Note	**01/04/06 to 31/03/07 RM**	01/01/05 to 31/03/06 RM
Share capital - ordinary shares at par value of RM1 each :			
Authorised share capital			
At beginning and end of year		**10,000,000**	10,000,000
Issued and fully paid share capital			
At beginning and end of year		**10,000,000**	10,000,000
Income statement			
At beginning of year, as previously reported		**(9,981,850)**	(9,972,436)
Errors and omissions		**–**	7,034
At beginning of year, as restated		**(9,981,850)**	(9,965,402)
Loss for the year		**(72,143)**	(16,448)
At end of year		**(10,053,993)**	(9,981,850)
(Negative)/positive equity		**(53,993)**	18,150
Net change in equity other than from the income statement and capital transactions with owners		**–**	–

Holders of ordinary shares are entitled to receive dividends out of distributable reserves as and when declared by the company and return of capital in a winding up after the debts of all classes of creditors have been fully satisfied. All fully paid ordinary shares shall carry one vote per share without any restrictions.

STATEMENT OF CASH FLOWS 31 MARCH 2007

	01/04/06 to 31/03/07 RM	01/01/05 to 31/03/06 RM
Cash flows from operating activities		
Loss before tax	**(72,143)**	(14,215)
Adjustments to reconcile net income to net cash used in operations :		
Depreciation	**–**	1,144
Operating loss before working capital changes	**(72,143)**	(13,071)
Debtors	**(131,841)**	59,153
Creditors (including related companies)	**278,234**	(265,768)
Net cash generated by/(used in) operating activities	**74,250**	(219,686)
Cash flows from investing activities		
Net cash from investing activities	**–**	–
Cash flows from financing activities		
Net cash from financing activities	**–**	–
Net increase/(decrease) in cash	**74,250**	(219,686)
Cash at beginning of year	**28,722**	248,408
Cash at end of year	**102,972**	28,722

FOUR SOFT MALAYSIA SDN BHD
NOTES TO FINANCIAL STATEMENTS 31 MARCH 2007

1. CORPORATE INFORMATION

The financial statements of the company for the financial year ended 31 March 2007 have been authorised for issue in accordance with a resolution of the directors on 14 June 2007.

Four Soft Malaysia Sdn. Bhd. (502653-M) is a private company limited by shares, incorporated and domiciled in Malaysia. The registered office is situated at 28A-1 Jalan Serampang, Taman Pelangi, 80050 Johor Bahru, Johor.

The company is principally engaged in the development, licensing, marketing and implementation of e~commerce business solutions, innovations and applications for the logistics and distribution industry and the provision of ancillary consultancy and maintenance services. There have been no significant changes in the nature of these principal activities during the financial year.

The company is a wholly-owned subsidiary of Four Soft Limited, a public-listed company incorporated in the Republic of India and which is regarded by the directors as its ultimate holding company.

As at the end of the financial year, the company has 2 full-time employees (2006: Nil).

2. ACCOUNTING POLICIES

The financial statements, expressed in the functional currency, the Ringgit and prepared within the framework of the historical cost convention, are drawn up in accordance with approved accounting standards in Malaysia in all material respects and applicable requirements of Malaysian law.

The financial statements have been prepared on the basis that the company shall continue as a going concern. The efficacy of the basis is dependent upon the continuing financial support of the holding company and its group of technology-driven related companies in providing the requisite technical innovations, resources, personnel and funding in carrying on business to deliver steady earnings and cashflow streams to revitalise its operations. Should the going concern basis in the preparation of financial statements be no longer valid, adjustments relating to real and prospective liabilities, recoverability and reclassification of recorded amounts may become necessary.

The main accounting policies of the company, which have been consistently applied, are summarised below :

(a) Financial Assets and Liabilities

Regular purchases and sales of financial assets are transactions that require delivery of assets in the ordinary course of business established either by contractual obligations or market conventions. Purchases of financial assets are recognised on the trade date, being the date that the company commits to purchase the asset and sales of financial assets are recognised on the settlement date, being the date the asset is delivered and accepted by the counterparties.

Trade receivables under normal operating cycles and trade terms not exceeding 90 days are recognised and carried at invoiced prices less allowances for any uncollectible amounts. An estimate of doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Trade and other payables under normal operating cycles and settlement terms not exceeding 90 days are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received. Payables to related parties are carried at cost.

(b) Impairment of Assets

At the balance sheet date, an assessment is made to determine whether any assets or group of assets may be impaired. Where objective evidence is available to support the basis, an impairment loss is immediately recognised in the income statement for the difference between the recoverable amount of the asset, the value in use and the carrying amount or its cash-generating unit. A reversal of an impairment loss is recorded only when the conditions giving rise to the loss are no longer present or have been substantially mitigated.

Where fair value measurements are adopted, an impairment loss is charged against previously recognised revaluation reserves in shareholders' equity. To the extent that an impairment loss cannot be covered by previous accretions to revaluation reserves, it is charged immediately as an expense against the income statement.

(c) Revenue Recognition

Revenue is recognised when the company has transferred the significant risks and rewards of proprietary and copyright materials which generally coincide with the passing of possession and performance of the services and the acceptance by the clients and that the revenue can be reliably measured, economic benefits shall flow to the company and when there is no significant uncertainty as to its collectibility.

Revenue from the use by others of enterprise' intellectual properties yielding licensing fees is recognised upon notification of rights to receive payments have been established and that economic benefits associated with such enterprise assets shall flow to the company and when there is no uncertainty as to its collectibility.

Annual maintenance revenue and recurring consultancy services are systematically allocated to income over the accounting period of the maintenance and the performance of the services to which it relates. Maintenance revenue in respect of future periods and advance billings on consultancy services are excluded from the income statement and credited to deferred income.

Income from software development is recognised by reference to the stage of completion of development activity at the balance sheet date or the separately identifiable components of a contract to reflect the substance of the transaction, determined on the basis of survey of work done and acceptance by clients. Where contracts have been substantially completed at the balance sheet date, the full contract value and related costs to complete are accrued and included in the income statement. Provision is made in full to cover all foreseeable losses on software development irrespective of the stage of completion.

Revenue represents the invoiced value of software development, licensing fees, consultancy services and maintenance income net of allowances, discounts and deferred income.

(d) Foreign Currency Transactions

Transactions in foreign currencies are recorded in the functional currency at exchange rates ruling at the transaction dates. Recorded monetary balances that are denominated in foreign currencies at the end of the financial year are reported at the rate of exchange ruling at the balance sheet date. All foreign currency alignment adjustments are dealt with in the income statement.

The exchange rates used in reporting foreign currency monetary balances at the date of the balance sheet are as follows :

	2007	2006
Singapore Dollar	**2.28**	2.28

(e) Employee Benefits

The undiscounted amount of short-term employee benefits is charged as an expense in the year in which employees render their services. Short-term vested accumulating compensated absences are recognised when employees render services that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences are recognised when the absences occur.

Contributions of post-employment benefits to defined contribution plans are recognised as an expense as and when they are incurred.

(f) Property, Plant and Equipment

Property, plant and equipment are carried at cost (determined by reference to purchase prices) net of accumulated depreciation. At the balance sheet date, an assessment of the recoverable amounts is carried out and a writedown of the assets is made for any differences between the net recoverable amounts and the carrying amounts where the diminution in value is other than temporary.

Depreciation is calculated on the straight-line method over the estimated useful lives of the related assets at the following annual rates :

	%
Office equipment and computers	$33^{1/3}$
Furniture and fittings	$33^{1/3}$

Fully depreciated assets are retained in the financial statements until they are no longer in use.

(g) Income Tax Expense

The income tax expense comprises a current tax and a deferred tax charge against the profit and loss account. Current tax charge is the amount payable on the taxable earnings for the fiscal year to which it relates calculated by reference to the applicable tax rate structure extant as of the date of the balance sheet.

Deferred tax charge is provided in full under the liability method in respect of future tax consequences arising from temporary differences between the financial reporting basis of recognising assets and liabilities and their related tax bases. Temporary differences are not given effect where the initial recognition of assets and liabilities do not affect accounting or taxable profit.

Deferred tax assets are not recognised except where there are probable expectations that future taxable earnings will be available against which the temporary differences can be utilised.

(h) Cash and Cash Equivalents

Cash and cash equivalents comprise cash and bank balances, demand deposits and highly liquid short-term investments that are readily exchanged for cash with insignificant risks to changes in value. Cash for the statement of cash flows includes cash and cash equivalents net of bank overdrafts but excludes demand deposits earmarked against security documents.

3. TAX EXPENSE

	2007 RM	2006 RM
Current tax charge	–	2,233
Tax charge based on the results for the year	–	2,233
	%	%
Effective tax rate of tax charge to results for the year	–	(16)
Reconciliation of effective tax rate		
Statutory tax rate	**(28)**	28
Tax effect of permanent differences :		
Exempt income and tax incentives	**–**	–
Non-deductible expenses	**1**	(124)
Other tax effects :		
Unrelieved tax losses and allowances not recognised in the financial statements	**27**	80
Effective tax rate	**–**	(16)

Following substantial ownership rules in the intervening qualifying period introduced by new tax legislation, the company has forfeited its rights to the utilisation of unrelieved tax losses and allowances of RM3,200,000 against future taxable income.

Based on the company's fiscal records, current unrelieved tax losses and allowances of RM127,000 are available for offset against future taxable earnings provided there are no substantial changes in shareholders. Deferred tax assets are not recognised in the financial statements as the company has a history of recurring losses from its operations and there are no indications that sufficient taxable earnings shall be available against which the timing differences can be utilised.

4. TRADE DEBTORS

	2007 RM	2006 RM
Trade debtors	**280,903**	166,228
Provision for bad debts	**(15,515)**	(38,715)
	265,388	127,513
Movements in the provision for doubtful debts are as follows :		
Bad debts written off against specific gross debtors	**23,200**	169,660
Bad debts provided and assumed by holding company	**–**	(35,715)
	23,200	133,945
Bad debts charged directly to income statement	**54,060**	–

5. AMOUNT OWING TO RELATED COMPANIES

	2007 RM	2006 RM
Amount owing to a fellow subsidiary	**355,178**	105,622
Amount owing by holding company	**(35,715)**	(35,715)
	319,463	69,907

Parties are classified as related where the company has the ability, directly or indirectly, to control the party or exercise significant influence over its operating and financial decisions or vice versa or under circumstances where the company and the party are subject to common control or significant influence. The amount owing to related companies are unsecured, non-interest bearing and there are no fixed terms of repayment.

Significant transactions and arrangements with related companies in the ordinary course of business and the effect of these on bases determined between the parties and reflected in the financial statements are as follows :

	2007 RM	2006 RM
Project and reimbursible costs	399,249	275,000

6. PROPERTY, PLANT AND EQUIPMENT

	Office equipment, computers RM	Furniture and fittings RM	TOTAL 2007 RM	TOTAL 2006 RM
Gross carrying amounts				
As at 1 April 2006	266,102	74,628	340,730	340,730
As at 31 March 2007	266,102	74,628	340,730	340,730
Accumulated depreciation				
As at 1 April 2006	266,102	74,628	340,730	339,586
Depreciation charge	-	-	-	1,144
As at 31 March 2007	266,102	74,628	340,730	340,730
Depreciation charge				
31 March 2006	962	182	-	1,144
Net carrying amounts				
As at 31 March 2007	-	-	-	-
As at 31 March 2006	-	-	-	-

7. CONTINGENT ASSETS AND LIABILITIES

During the year, a client has instituted a legal suit against the company for damages amounting to RM526,600 arising from defective software sold. The company is denying the basis of the claims and making a counterclaim of RM52,700 in respect of the unpaid purchase price of the software.

The litigation proceeding is in the preliminary stage and has not advanced to a stage where the outcome is predictable or significant litigation costs have been incurred or where reimbursement of party-to-party costs can be ascertained. The directors are of the opinion that it may be too early to assess such costs and accordingly, no provision for future litigation costs has been made in the financial statements.

8. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

Transactions in financial instruments give rise to a variety of financial risks as described below which is or may be assumed by the company in the ordinary course of its business dealings. The company's overall financial risk management objectives and policies is to strike a prudent balance between value creation and managing financial risks by ensuring that adequate resources are available to develop overall business strategies, risk tolerance profiles and to establish general guidelines and business processes for control and monitoring purposes. It is the company's policy not to engage in speculative transactions or use derivative financial instruments.

(b) Price Risks

The company has limited exposure to currency risks as its operating cash flows are primarily denominated in the functional currency. Financial liabilities accruing from project cost commitments denominated in currencies other than the functional currency give rise to foreign currency risks and expected cash flow risks. There are no hedging mechanisms in place for the open positions and the company operates within the exchange control mechanisms fixed by Bank Negara Malaysia as a natural hedge against currency risks during the settlement process in the ordinary course of business.

(c) Credit Risks

The company has a significant concentration of credit and liquidity risks arising from its exposure to two major clients. The company has in place a credit policy and manages these risks through continuous credit evaluations and reviews and market and industry assessments to avert or mitigate any potential adverse impact on its financial performance and position.

The maximum exposure to credit risks is the carrying value of each financial asset as of the date of the balance sheet.

(d) Liquidity Risks

The company does not have any committed bank credit lines and engages a policy of maintaining adequate and reliable operating cash flows from cash-generating units and internal gearing to meet working capital requirements. Management actively reviews funding requirements and manages its overall leverage structure to optimise cost efficiencies in funding and liquidity.

(e) Fair Values

The fair values of financial assets and liabilities approximate the carrying values of recognised financial instruments in view of their relatively short maturity periods.

9. COMPARATIVE FIGURES

The comparative figures are presented for a period of 15 month owing to changes in its financial year to be coterminous with that of its holding company and accordingly, the income statement, statement of changes in equity and of cash flows and related notes are not comparable.

Four Soft Nordic A/S

Corporate information

Four Soft Nordic A/S
Bizonvej 12
Skovby
8464 Galten

Tel: +45 86 945 099
Fax: +45 86 945 447
Web-side: www.four-soft.com

CVR-no.: 12 31 61 00
Founded: 1 August 1988
Domicile: Galten

Board of Directors

Srikanth Reddy Palem (chairman)
Kalyana Chakravarthi Gangavarapu
Biju Sivaraman
David George Pickburn
Ganesan Ramachandran
Jørgen Winter Nielsen
Søren Salling Højgård (medarbejderrepræsentant)
Peter Matthiesen (medarbejderrepræsentant)

Management

Frank Holmstrup
Poul Rene Larsen
David George Pickburn
Ganesan Ramachandran

Firm of Accountants

Ernst & Young
Søren Frichs Vej 38A
8230 Åbyhøj

Share ownership

Four Soft Ltd. holds 100% of the company's shares. Four Soft Ltd. prepares consolidated financial statements in which Four Soft Nordic A/S as subsidiary is included. The consolidated statements are available at Four Soft Ltd., 5Q1 A2-A3, Cyber Towers, Hitec City, Madhapur, Hyderabad.

This Annual Report by Four Soft Nordic A/S is an English translation of the original report in Danish, which was adopted by the Management and Board of Directors. Whereas all possible care has been taken to ensure a true and faithful translation into English, differences between the English and Danish versions may exist in which case the original Danish version prevail.

Management statement

Today the Executive Committee and The Board of Directors approved the Annual Report of Four Soft Nordic A/S for 1 January - 31 March 2007.

The Annual Report has been prepared in accordance with the Danish Financial Statements Act. In our opinion, the accounting policies applied are appropriate and the Annual Report gives a true and fair view of the assets, liabilities, financial position, results of operations for the year of the Group and the Parent Company and Group cash flows for the year.

The Annual Report is recommended for approval by the Annual General Meeting.

Skovby, 23 July 2007

Executive Committee

Frank Holmstrup	Poul Rene Larsen
David George Pickburn	Ganesan Ramachandran

Board of Directors

Srikanth Reddy Palem	Kalyana C. Gangavarapu	Biju Sivaraman
David George Pickburn	Genesan Ramachandran	Jørgen Winter Nielsen
Søren Salling Højgård	Peter Matthiesen	

Four Soft Nordic A/S

Auditors' report

To the shareholders of Four Soft Nordic A/S

We have audited the Annual Report of Four Soft Nordic A/S for the financial year ended 31 March 2007, which comprises the Statement of the Supervisory and Executive Boards on the Annual report, the Management's review, a summery of significant accounting policies, the income statement, balance sheet and notes for the Group as well as the Parent Company and the consolidated cash flow statement for the year then ended. The Annual Report has been prepared in accordance with the Danish Financial Statements Act.

The Supervisory and Executive Board's responsibility for the Annual Report

The Supervisory and Executive Boards are responsible for the preparation and fair presentation of this Annual Report in accordance with the Danish Financial Statements Act. This responsibility includes: designing, implementation and maintaining internal control relevant to the preparation and fair presentation of an Annual Report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility and basis of opinion

Our responsibility is to express an opinion on this Annual Report based on our audit. We conducted our audit in accordance with Danish Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Annual Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual Report. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the Annual Report, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the Annual Report in order to design audit procedures that are appropriate in the circumstances, but not for the propose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the Annual Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The audit did not result in any qualification

Opinion

In our opinion, the Annual Report gives a true and fair view of the Group's and the Parent Company's financial position at 31 March 2006 and of the results of the Group's and the Parent Company's operations and the consolidated cash flow for the financial year ended in accordance with the Danish Financial Statements Act.

Åbyhøj, 23 July 2007
Ernst & Young

H. Steenfeldt Jacobsen
Hans A. Nielsen
State Authorised Public Accountant
State Authorised Public Accountant

Management's review

Main activity

The most important business area of Four Soft Nordic is the development and servicing of IT solutions for the international transport and logistics sector.

Development in activities and financial affairs

With financial effect as at 1 January 2007 Four Soft Nordic A/S, the former Transaxiom (DK) A/S, merged with its former parent company Transaxiom Holding A/S with Four Soft Nordic A/S as continuing company. As a consequence from the merger financial highlights and comparative figures for the group are the figures for the former Transaxiom Holding Group as the activities are unchanged.

With effect from 1 January 2007 the company was acquired by Four Soft Ltd. and the company's financial year changed to the period 1 April - 31 March in accordance with the parent company's financial year. As a consequence the current financial year retain only the three months period 1 January - 31 March 2007.

In the period 1 January - 31 March 2007, the group achieved revenue of DKK 11,096k compared to DKK 47,020k in the year 2006. Profit before depreciation, amortisation, impairment losses and write-downs, net financials and tax (EBITDA) was DKK 1,518k compared to DKK 14,447k for the year 2006.

The result for the three months period was a profit of DKK 3,205k compared to a loss of DKK 8,245k in 2006. The result for the period include profit from sale of property of DKK 686k and adjustment of deferred tax asset related to previous years of DKK 1,596k. The tax asset is expected to be set-off against future income.

The management considers the result for the period to be satisfactory.

During the period, the group developed its position as a niche supplier of solutions covering all major areas within logistics, forwarding, shipping, storage hotels and distribution by improving existing products and expanding its product portfolio.

Financing and investments

In the period 1 January - 31 March 2007, the group saw a negative total cash flow of DKK 2,140k compared to a positive total cash flow of DKK 1,150k in 2006. The negative cash flow in the period was primarily coursed by increases in receivables including receivables from sale of property. In the period the company has sold its domicile at Bizonvej 12 and leased back the property for an irrevocable period of five years.

Risk factors and management

Market risks

Four Soft Nordic's strategic position as a supplier to a large number of international customers makes the group more resistant to fluctuations in the demand for the company's services as compared with many of the local suppliers/competitors. The company is, however, not immune to downturns in the global or regional level of economic activity as a decline in growth and especially a recession may adversely affect revenue and earnings in specific countries or in the group as a whole.

Credit risks

The current assets of the group, which may lead to losses, primarily comprise accounts receivable. The group's customers are not concentrated in a specific geographical area or in a specific business segment, for which reason a certain spreading of the credit risks exists. Even if the group's large international customers may be affected by fluctuations in the general economic trends resulting in an increased risk of bad debts, no individual customer represents a considerable credit risk.

Liquidity risks

The interest-bearing debt in Four Soft Nordic is insignificant. Despite this, a liquidity risk may exist if the budgeted cash flows do not materialise as planned.

Interest and foreign currency risks

The policy of the group is to hedge material risks caused by exchange rate fluctuations arising in connection with day-to-day business.

The company does not imply any material risks of interest rate fluctuations.

Development activities

Every other year, Four Soft Nordic spends considerable amounts of money improving and further developing the group's existing products and developing customer-specific solutions. These costs have been recognised in the income statement.

Knowledge resources

It is primarily through the knowledge possessed by its employees that Four Soft Nordic can make a difference. The recruitment of the most qualified employees, the possibility of job rotation and on-the-job training are important elements in developing the competences of our employees.

In addition to the general build-up of knowledge, each business unit is responsible for the further training of consultants in respect of their specific competences. Constant updating within professional and industry-specific areas is a prerequisite for Four Soft Nordic's continuing ability to supply competitive key competences to every area of the logistics and transport sector which the company has chosen to target.

Environmental issues

As experts in IT development and consultancy activities, the company's core service largely consists of immaterial services which by nature have little or no direct influence on the environment and which are limited to the operation of office facilities and business trips. Nevertheless, our solutions contribute to reducing pollution by allowing our customers to plan transport more expediently and reduce paper consumption.

Events occurring after the end of the financial year

No important events have occurred after the end of the financial year, which influence the financial statements for 1 January - 31 March 2007.

Outlook

The management believes that the consolidated enterprises will maintain their ability to increase revenue and the gross profit under Four Soft's ownership.

Four Soft Nordic A/S
Accounting policies

The annual report has been presented in accordance with the provisions of the Danish Financial Statements Act (Årsregnskabsloven) for class C enterprises.

The accounting policies have been applied consistently with last year.

Consolidation

The consolidated financial statements include Four Soft Nordic A/S (the parent) as well as subsidiaries in which the parent, directly or indirectly, holds more than 50 per cent of the voting rights or in which it, in some other way, has a controlling influence.

The consolidated financial statements have been prepared on the basis of the financial statements of the parent and its subsidiaries through a consolidation of items of a similar nature. All financial statements used for consolidation are prepared in accordance with the accounting policies of the parent. On consolidation, intra-group transactions, intra-group shareholdings and balances as well as unrealized intra-group profits aare eliminated.

The acquisition of new enterprises is recognized according to the purchase method, meaning that the assets and liabilities of the enterprise are revalued at fair value at the time of acquisition. Positive balances between the revalued net assets and the acquisition cost are recognized under intangible assets as goodwill and are amortized over the expected useful life of the assets. Goodwill from acquired enterprises may be adjusted p until the end of the year of acquisition.

Proceeds or losses from the divestment or winding-up of subsidiaries are determined as the difference between the selling price and the carrying amount of net assets at the time of divestment as well as expected divestment or winding-up costs. Proceeds or losses from the divestment or winding-up of subsidiaries are recognized in the income statement under operation income or other operating expenses.

Newly acquired enterprises are recognized in the consolidated financial statements as of the time of acquisition. Divested or wound-up enterprises are recognized in the consolidated financial statement up until the time of disposal. Comparative figures have not been restated for newly acquired, divested or wound-up enterprises.

Foreign currency translation

Transactions denominated in foreign currencies are translated using the exchange rates applicable at the transaction date.

Receivables, payables and other monetary items denominated in foreign currencies are translated using the exchange rates applicable at the balance sheet date. Foreign currency translation adjustments arising as a result of this are recognized in the income statement under net financials.

On the recognition of foreign subsidiaries, which are independent units, the income statements are translate using the average exchange rates, and the balance sheet items are translated using the exchange rates applicable at the balance sheet date. Translation adjustments arising from the translation of the net assets of subsidiaries at the beginning of the financial year using the exchange rates applicable at the balance sheet date as well as from the translation of income statements from average exchange rates to the exchange rates applicable at the balance sheet date are recognized directly in equity.

Translation adjustments of intra-group balances with independent foreign subsidiaries, which are considered part of the investment in the subsidiary, are also recognized directly in equity.

Net revenue

The sale of goods for resale and finished goods is recognized as income in step with delivery and the passing of the risk to the buyer taking place. Net revenue constitutes sales invoices for the year exclusive of value added tax and less returned products and discounts granted in connection with the sales.

Contract work in progress is recognized as revenue by reference to the stage of completion. Revenue constitutes the selling price of work performed during the year. Sales are recognised as income in step with delivery and the passing of the risk to the buyer taking place.

Intangible assets

Intangible assets are measured at cost less accumulated amortization and impairment losses.

Goodwill is amortized on a straight-line basis over the expected useful lift of the assets, estimated at 5 years.

Development projects that are clearly defined and identifiable and where the technical utilization degree, sufficient resources and a potential future market or scope for development in the company can be proven and where the company intends to produce, market or use the project are recognized as intangible assets where the cost of the project can be calculated reliably and there is sufficient certainty that future earnings can cover the costs of production, sale, administration and development. Other development costs are expensed as incurred.

Development costs comprise expenses, pay and amortization, which are directly or indirectly attributable to the company's development activities.

Upon completion of the development work, capitalized development projects are amortized on a straight-line basis over the expected useful life of the assets. The amortization period is usually 5 years.

Acquired rights are amortised on a straight-line basis over the expected useful life of the asset, estimated at 5 years.

If the carrying amount of intangible assets exceeds the recoverable amount, the carrying amount of the asset is reduced to the higher of the net selling price and the value in use and an impairment loss is recognized in the income statement. Annual impairment tests are conducted of individual assets or groups of assets if there are indications of impairment losses.

Tangible assets

Tangible assets are measured at cost less accumulated depreciation and impairment losses.

The cost of assets held under finance leases is determined at the present value of future lease payments, calculated on the basis of the internal rate of interest of the lease.

Depreciation is according to the straight-line method over the expected useful lives of the assets:

Buildings	50 years
Equipment, fixtures and fittings	2-5 years

If the carrying amount of tangible assets exceeds the recoverable amount, the carrying amount of the asset is reduced to the higher of the net selling price and the value in use and an impairment loss is recognized in the income statement. Annual impairment tests are conducted of individual assets or groups of assets if there are indications of impairment losses.

Financial assets

Investments in subsidiaries are measured according to the equity method. Negative equity values in subsidiaries are set off against the receivables of such subsidiaries. Where the negative equity value exceeds the receivables, the residual amount is recognized under provisions.

Loans to subsidiaries are recognized at nominal value.

Deposits are measured at cost.

Inventories

Inventories are measured at cost according to the FIFO principle. The cost of manufactured goods comprise direct production costs such as row materials, consumables and direct production wages as well as indirect production costs such as staff expenses, depreciation and amortization and maintenance.

For inventories where the expected selling price less any costs of completion and costs necessary to make the sale is lower than the cost, a write-down is made to the net realizable value.

Work in progress for third parties

Work in progress for third parties is measured by reference to the stage of completion at the selling price of the work performed less invoices paid on account. The state of completion is determined as the costs incurred relative to the total budgeted costs.

Provisions for bad debts are made in respect of work in progress. Provisions are based on an individual assessment of the expected loss up until the completion of the work.

Receivables

Receivables are recognized at nominal value less potential losses on irrecoverable claims. Write-downs are based on an individual assessment of loss risks of the individual claims.

Income taxes

Tax on profit/loss for the year in the income statement comprises current tax for the year and changes in deferred tax.

Current tax comprises tax calculated on the basis the expected taxable income for the year as well as any adjustments made in respect of tax from previous years.

Deferred tax is measured using the balance sheet liability method on the basis of all temporary differences between the carrying amount and tax base of assets and liabilities.

Deferred tax assets, including the tax base of tax loss carry-forwards, are recognized at the expected value of their utilization; either as a set-off against future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction. Tax assets are presented as separate items under financial assets.

Liabilities other than provisions

Liabilities other than provisions are measured at amortized cost.

Dividend

The proposed dividend payable for the year is presented as a separate item under equity.

Cash flow statement

The cash flow statement shows the group's cash flows for the year divided into cash flows from operating, investing and financing activities as well as cash funds at the beginning and end of the year. The consolidated cash flow statement is prepared using the indirect method on the basis of the profit/loss for the year.

Cash flow from operating activities is determined as the profit/loss for the year adjusted for non-cash operating items, changes in working capital as well as interest and income taxes paid.

Cash flow from investing activities comprises the purchase and sale of intangible, tangible and financial assets.

Cash flow from financing activities comprises payment to and contributions from shareholders as well as the arrangement and repayment of loans.

Cash funds primarily comprise bank deposits.

Four Soft Nordic A/S

Profit and loss account

Parent Company				Group	
	1.1-31.3			1.1-31.3	
2006	2007	Note	DKK '000	2007	2006
39,950	9,262		Net revenue	11,096	47,020
-2,317	-568		Cost of goods sold	-568	-2,395
37,633	8,694		**Gross profit**	10,528	44,625
-19,601	-6,022	1	Staff costs	-6,649	-22,772
-8,451	-1,876	2	Other operating expenses	-2,361	-7,406
9,581	796		Profit before depreciation, amorti-zation, interest and tax (EBITDA)	1,518	14,447
-16,336	-90	6	Depreciation and amortization of intangible and tangible assets	-173	-23,545
0	686		Profit from sale of property	686	0
-6,755	1,392		**Operating profit (EBIT)**	2,031	-9,098
0	625	7	Profit before tax from investments in subsidiaries	0	0
108	19	3	Financial incomes	26	191
-261	-61	4	Financial expenses	-82	-321
-6,908	1,975		**Profit before tax**	1,975	-9,228
1,526	1,230	5	Income taxes	1,230	983
-5,382	3,205		**Profit for the year**	3,205	-8,245
			Proposal for distribution of profit		
0	91		Transfer to reserve for net revaluation according to equity method		
-5,382	3,114		Transfer to retained earnings		
-5,382	3,205				

Four Soft Nordic A/S

Balance sheet

Parent Company				Group	
	1.1-31.3			1.1-31.3	
31.12.2006	31.03.2007	Note	DKK '000	31.03.2007	31.12.2006
			ASSETS		
			Long-term assets		
0	0	6	Land and buildings	0	7,488
414	422	6	Equipment, fixtures and fittings	520	649
414	422		**Tangible assets**	520	8,137
0	3,963	7	Investments in subsidiaries	0	0
0	2,150	8	Deferred tax asset	2,150	0
562	506		Deposits	510	222
562	6,619		**Financial assets**	2,660	222
976	7,041		**Total long-term assets**	3,180	8,359
			Current assets		
503	407		Goods for resale	407	503
503	407		**Inventories**	407	503
5,731	6,375		Trade receivables	7,478	6,470
26	320		Work in progress for third parties	320	26
614	427		Receivables from group companies	908	0
7	0		Income taxes	0	0
3	3,174		Other receivables	3,174	9
30	255		Prepayments	255	86
6,411	10,551		**Receivables**	12,135	6,591
925	180		**Cash funds**	1.398	3,538
7,839	11,138		**Total current assets**	13,940	10,632
8,815	18,179		**TOTAL ASSETS**	17,120	18,991

Four Soft Nordic A/S

Balance sheet

Parent Company				Group	
	1.1-31.3			1.1-31.3	
31.12.2006	31.03.2007	Note	DKK '000	31.03.2007	31.12.2006
			EQUITY AND LIABILITIES		
			Shareholders' equity		
1,000	1,000		Share capital	1,000	2,000
0	0		Revaluation reserve	0	3,000
0	3,073		Reserve for net revaluation according to equity method	0	0
-4,745	544		Retained earnings	3,617	-3,524
0	0		Proposed dividend	0	0
-3,745	4,617	9	**Total shareholders' equity**	4,617	1,476
			Liabilities		
0	445	7	Other provisions	0	0
0	445		Total provisions	0	0
0	0		Mortgage debt	0	4,370
0	0		Lang-term liabilities	0	4,370
0	0		Mortgage debt	0	156
0	294		Bank debt	294	0
2,493	516		Trade payables	550	2,733
3,622	3,318		Payables to group companies	46	0
0	1,067		Income taxes	1,358	498
4,289	5,889	10	Other payables	6,581	5,233
2,156	2,033		Deferred income	3,674	4,525
12,560	13,117		**Short-term liabilities**	12,503	13,145
12,560	13,117		**Total liabilities**	12,503	17,515
8,815	18,179		**TOTAL EQUITY AND LIABILITIES**	17,120	18,991
		11	Commitments and contingencies		
		12	Related party transactions		

Four Soft Nordic A/S

Cash flow statement

	Group	
DKK'000	1.1-31.3 2007	2006
Profit for the year	3,205	-8,245
Reversals with no effect on cash flow:		
Depreciation and amortization	173	23,545
Profit from sale of property	-686	0
Income taxes	-1,230	-983
Net financials	56	130
Other reversals with no effect on cash flow	-92	47
Income taxes paid	-33	-165
Interest received and interest paid, net	-56	-130
Cash flow before change in working capital	1,337	14,199
(Increase)/decrease in receivables	-5,544	1,043
(Increase)/decrease in inventories	96	226
(Increase)/decrease in trade payables and other liabilities	-1,640	930
Cash flow from operating activities	-5,751	16,398
Purchase of intangible assets	0	-8,415
Purchase of tangible assets	-17	-606
Purchase of financial assets	-288	-2
Sale of tangible assets	8,148	101
Cash flow from investing activities	7,843	-8,922
New short-term debt	294	0
Repayment of long-term loan	-4,526	-154
Dividend to shareholders	0	-6,172
Cash flow from financing activities	-4,232	-6,326
Net change in cash funds	-2,140	1,150
Cash funds at 1 January	3,538	2,388
Cash funds at 31 December	1,398	3,538

Notes

Note 1 Staff costs

Parent Company 2006	Parent Company 1.1-31.3 2007	DKK '000	Group 1.1-31.3 2007	Group 2006
19,900	5,363	Wages and salaries	5,985	23,025
1,569	399	Pensions	399	1,569
122	62	Other contributions to social security	62	122
319	198	Other staff costs	203	365
21,910	6,022		6,649	25,081
-2,309	0	Staff costs distributed to development projects	0	-2,309
19,601	6,022		6,649	22,772
39	39	Average number of employees	47	47

Staff costs for the group in the period 1 January - 31 March 2007 include remuneration for the Board of Executives of the parent totaling DKK 570k (2006: DKK 2,332k) and pensions totaling DKK 570k (2006: DKK 233k)

During the financial year, the Board of Directors has not received any remuneration (2006: DKK 0).

Note 2 Fees to statutory auditors

Parent Company 2006	Parent Company 1.1-31.3 2007	DKK '000	Group 1.1-31.3 2007	Group 2006
		Ernst & Young:		
70	50	Statutory audit	50	90
44	52	Other services	52	143
114	102		102	233

Note 3 Financial income

Parent Company 2006	Parent Company 1.1-31.3 2007	DKK '000	Group 1.1-31.3 2007	Group 2006
44	6	Interest income	12	127
64	13	Foreign exchange gains	14	64
108	19		26	191

Note 4 Financial expenses

Parent Company 2006	Parent Company 1.1-31.3 2007	DKK '000	Group 2007	Group 1.1-31.3 2006
188	0	Interest expenses group companies	0	0
1	61	Other interest expenses	82	233
72	0	Foreign exchange losses	0	88
261	61		82	321

Note 5 Income taxes

Parent Company 2006	Parent Company 1.1-31.3 2007	DKK '000	Group 1.1-31.3 2007	Group 2006
-7	892	Current tax on profit for the year	920	469
-1,519	-554	Deferred tax on profit for the year	-554	-1,587
0	-1,596	Adjustments related to previous years	-1,596	135
0	28	Tax in subsidiaries	0	0
1,526	1,230		1,230	-983

Notes

Note 6 Tangible assets

Group		
DKK '000	Land and buildings	Equip., fixturesand fittings
Cost at the beginning of 2007	5,215	4,068
Additions during the year	0	17
Disposals during the year	-5,215	-5
Exchange rate adjustments	0	16
Cost at the end of March 2007	0	4,096
Revaluation at the beginning of 2007	3,600	0
Disposals during the year	-3,600	0
Revaluation at the end of March 2007	0	0
Depreciation at the beginning of 2007	1,327	3,419
Depreciation for the year	31	142
Disposals during the year	-1,358	0
Exchange rate adjustments	0	15
Depreciation at the end of March 2007	0	3,576
Carrying amount at the end of March 2007	0	520

Parent Company		
DKK '000	Land and buildings	Equip., fixturesand fittings
Cost at the beginning of 2007	0	1,641
Additions from merger	5,215	1,043
Disposals during the year	-5,215	0
Cost at the end of March 2007	0	2,684
Revaluation at the beginning of 2007	0	0
Additions from merger	3,600	0
Disposals during the year	-3,600	0
Revaluation at the end of March 2007	0	0
Depreciation at the beginning of 2007	0	1,227
Additions from merger	1,327	976
Depreciation for the year	31	59
Disposals during the year	-1,358	0
Depreciation at the end of March 2007	0	2,262
Carrying amount at the end of March 2007	0	422

Notes

Note 7 Investments in subsidiaries

DKK '000	Parent Company
Cost at the beginning of 2007	0
Additions from merger	2,227
Cost at the end of March 2007	2,227
Adjustments at the beginning of 2007	0
Additions from merger	441
Profit before tax for the period	625
Income taxes for the period	-28
Dividends for the period	0
Exchange rate adjustments	-64
Adjustments at the end of March 2007	974
Negative equity in subsidiaries set off in receivables from subsidiaries	317
Negative equity in subsidiaries transferred to other provisions	445
Carrying amount at the end of March 2007	3,963

Subsidiaries:

Name	Country	Pct. of Shares owned
Transaxiom (HK) Ltd.	Hong Kong	100
Transaxiom (US) Inc.	USA	100
Transaxiom (UK) Ltd.	England	100
Four Soft (Australia) Pty. Ltd.	Australia	100

Note 8 Deferred tax asset

Parent company	DKK '000	Group
0	At the beginning of the year 2007	0
1,596	Adjustments related to previous years	1,596
554	Deferred tax on profit for the year	554
2,150	Total deferred tax asset end March 2007	2,150

Notes

Note 9 Shareholders' equity

The share capital has remained unchanged for the past 5 years and consists of 1,000 shares of DKK 1,000.

DKK '000	Share capital	Revaluation reserve	Reserve for net revaluation according to equity method	Retained earnings	Proposed dividend	Total equity
Equity at the beginning of 2007	1,000	0	0	-4,745	0	-3,745
Additions from merger	0	3,000	2,982	-761	0	5,221
Profit for the year	0	0	91	3,114	0	3,205
Disposal revaluation reserve	0	-3,000	0	3,000	0	0
Exchange rate adjustments foreign subsidiaries	0	0	0	-64	0	-64
Equity at the end of March 2007	1.000	0	3,073	544	0	4,617

Note 10 Other payables

Parent Company			Group	
	1.1-31.3		1.1-31.3	
31.12.2006	31.03.2007	DKK '000	31.03.2007	31.12.2006
3,748	4,250	Staff costs payable	4,815	4,322
393	960	Taxes and duties payable	1,037	528
148	679	Other payables	729	383
4,289	5,889		6,581	5,233

Note 11 Commitments and contingencies

Parent Company			Group	
	1.1-31.3		1.1-31.3	
31.12.2006	31.03.2007	DKK '000	31.03.2007	31.12.2006
		Operating lease commitments		
		Lease commitments expiring within the following periods as from the balance sheet date:		
2,760	1,317	Within one year	1,317	621
498	3,259	Between one and five years	3,259	429
3,258	4,576		4,576	1,050

Note 12 Related party transactions

Four Soft Nordic A/S is subject to controlling influence of Four Soft Ltd., who holds 100% of the share in Four Soft Nordic A/S.

Other related parties of Four Soft Nordic A/S with a significant influence comprise group enterprises, and the Board of Executives and Board of Directors of these companies and the company it self.

During the year, no material transactions have been made between the company and its related parties.

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

(Amounts in Rs.)

Sl. No.	Particulars	Four Soft BV	Four Soft Singapore Pte Ltd	Four Soft Malaysia Sdn Bhd.	Four Soft Nordic A/S
1	Financial Year ending of the Subsidiary	**31.03.2007**	**31.03.2007**	**31.03.2007**	**31.03.2007**
2	Shares of Subsidiary Company held on the above date and extend of holding				
	i) Number of Shares held	**18,152**	**1,000,000**	**10,000,000**	**1,000**
	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	**31,767,653**	**(14,437,038)**	**(908,279)**	**24,873,035**
4	Net aggregate amount of profits/loss for previous financial years of the subsidiary so far as they concern membrs 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	**59,081,755**	**(14,860,363)**	**(566,506)**	**–**

For and on behalf of the Board of Directors

Palem Srikanth Reddy
CEO & Managing Director

P Mangamma
Director

Place : Hyderabad
Date : 27th August, 2007

FOUR SOFT LIMITED

Registered Office: 5Q1 A3, 5th Floor, Cyber Towers, Hitech City, Madhapur, Hyderabad - 500 081 India.

ATTENDANCE SLIP

8th Annual General Meeting 28th September, 2007

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 Eighth Annual General Meeting of the Company to be held on Friday, the 28th September' 2007 at Chip Auditorium, Cyber Towers, Hitec City, Madhapur, Hyderabad, A.P at 10.00 A.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: 5Q1 A3, 5th Floor, Cyber Towers, Hitech City, Madhapur, Hyderabad - 500 081 India.

PROXY FORM

8th Annual General Meeting 28th September, 2007

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 Eighth Annual General Meeting of the Company to be held on Friday, the 28th September' 2007 at Chip Auditorium, Cyber Towers, Hitec City, Madhapur, Hyderabad, A.P at 10.00. A.M. and at any adjournment thereof.

Signed this .... day of .... 2007.

Affix Re.1.00 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.

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