

ANNUAL REPORT 2003 - 04



**4S FOUR SOFT LIMITED**

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## Board Profile

Suresh C. Rajpal	Non Executive Chairman
Palem Srikanth	Managing Director
Koh Boon Hwee	Independent and Non Executive Director
Douglas Terence Ash	Independent and Non Executive Director
Walter Joseph Sousa	Independent and Non Executive Director
K.V.Vishnu Raju	Independent and Non Executive Director
M.M Pallam Raju	Independent and Non Executive Director
K.E.C Rajakumar	Independent Director and Nominee Director
P.Mangamma	Director
Company Secretary	Naresh Kumar Patro
Statutory Auditors	M/s. A.G.S Reddy & Co., Chartered Accountants
Registrar and Share Transfer Agents	M/s. Karvy Computershare Pvt. Ltd. 46, Avenue 4, Street No.1 Banjara Hills, Hyderabad - 34 Tel: +91-40-2331 2454 Fax : +91-40-2331 2986
Registered Office	5Q1 A3, 5th Floor, Cyber Towers HITEC City, Madhapur, Hyderabad - 500 033 A.P, INDIA Tel: +91-40-2310 0600 / 01 Fax: +91-40-2310 0602 Email: investorinfo@four-soft.com
Overseas Offices	North America, Singapore, UK

## NOTICE

Notice is hereby given that the Fifth Annual General Meeting of Four Soft Limited will be held on Friday the 3rd September, 2004 at Surana Auditorium, FAPCCI, 11-6-841, Red Hills, Hyderabad, A.P., at 9.30 a.m to transact the following items of business:

### ORDINARY BUSINESS:

1. To receive, consider and adopt the profit and loss account for the financial year ended on March 31, 2004 and the balance sheet as at that date together with the report of the Board of Directors and auditors thereon.
2. To declare dividend on equity shares.
3. To appoint a director in place of Mr. Suresh C. Rajpal, who retires by rotation, and being eligible, offers himself for reappointment.
4. To appoint a director in place of Mr. Koh Boon Hwee, who retires by rotation, and being eligible, offers himself for reappointment.
5. To consider and, if thought fit, to pass with or without modification, the following resolution as ordinary resolution.  
"Resolved that M/s. S.R. Batliboi & Co., Chartered Accountants be and are hereby appointed Auditors of the company in place of the retiring auditors to hold office from the conclusion of ensuing general meeting until the conclusion of the next annual general meeting at a remuneration to be fixed by the board of directors of the company."

### SPECIAL BUSINESS

6. To consider and, if thought fit, pass with or without modification(s), the following resolutions as Ordinary Resolution  
  
"RESOLVED that Mr. Walter Joseph Sousa Jr. who was appointed as additional director with effect from September 5, 2003 and whose term of office expires at the ensuing annual general meeting, be and is hereby appointed as a Director of the company, liable to retire by rotation.
7. To consider and, if thought fit, pass with or without modification(s), the following resolutions as Ordinary Resolution

"RESOLVED that Mr. K.V.Vishnu Raju who was

appointed as additional director with effect from March 3, 2004 and whose term of office expires at the ensuing annual general meeting, be and is hereby appointed as a Director of the company, liable to retire by rotation.

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

"RESOLVED that Mr. M.M Pallam Raju who was appointed as additional director with effect from March 3, 2004 and whose term of office expires at the ensuing annual general meeting, be and is hereby appointed as a Director of the company, liable to retire by rotation.

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

"RESOLVED THAT pursuant to the provisions of Section 309 and other applicable provisions, if any, of the Companies Act, 1956, a sum not exceeding 2% per annum of the net profits of the Company calculated in accordance with the provisions of Sections 198, 349 and 350 of the Companies Act, 1956, be paid to Mr. Palem Srikanth, Managing Director and in such manner and in all respects as may be directed by the Board of Directors till March 31, 2008, and such payments shall be made out of the profits of the Company for each corresponding year."

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

RESOLVED that pursuant to Section 31 and other applicable provisions, if any, of the Companies Act, 1956, consent of the members of the company be and is hereby accorded for effecting alteration in the Articles of Associations of the company in the following manner:

Insertion of new Article 127 (iii) after 127 (ii)

127 (iii) That the Company shall not forfeit unclaimed dividends before the claim is barred by law.

By Order of the Board  
for Four Soft Limited

Place : Hyderabad  
Date : July 29, 2004

Palem Srikanth  
Managing Director

**Notes:**

1. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 is annexed hereto.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend the meeting and the proxy need not be a member of the Company. Under the Companies Act, 1956, voting is by show of hands unless a poll is demanded by a member or members present in person, entitled to vote on the resolution. A proxy may not vote except on a poll.
3. The instrument appointing the proxy should be deposited at the registered office of the Company not less than 48 hours before the commencement of the meeting.
4. Members / proxies should bring their copies of Annual Report and duly filled Attendance Slips sent herewith for attending the meeting. Copies of Annual Report will not be provided at the meeting.
5. The Register of Members and Share Transfer Books will remain closed from 1st September, 2004 to 3rd September, 2004, (both days inclusive).
6. Subject to the provisions of Section 206 A of the Companies Act, 1956, dividend as recommended by the Board of Directors, will be payable on or after September 7, 2004 to those members whose names appear on the Register of Members as on September 1, 2004 (Record date for dividend).
7. Members holding shares in physical form, may write to the company's Registrar and Share Transfer Agents for any change in their address and bank mandates, members whose shareholding is in the electronic mode are requested to direct change of address notifications and updations of savings bank account details to their respective Depository Participants.
8. Members are requested to address all correspondences, including dividend matters, to the Registrar and Share Transfer Agents - Karvy Computershare Pvt. Limited, 46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad - 500 034 India.

12. Members wishing to claim dividends of the previous years, which remain unclaimed, are requested to correspond with Mr. Naresh Kumar Patro, Company Secretary, at the Company's registered office. Members are requested to note that dividends not encashed or claimed within seven years from the date of transfer to the Company's Unpaid Dividend Account, will, as per Section 205A of the Companies Act, 1956, be transferred to the Investor Education and Protection Fund. Members are encouraged to utilize the Electronic Clearing System (ECS) for receiving dividends.

Explanatory statement under section 173(2) of the Companies Act, 1956

## Item 3

Mr. Suresh C. Rajpal (Chairman)



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. He is a member of Remuneration committee of the company.

Your Directors commend 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 4

Mr. Koh Boon Hwee (Director)



Mr. Koh Boon Hwee is present Chairman of Singapore Airlines Group He is also Director on various Boards viz., Agilent Technologies Inc., Broad Vision Inc., Temasek Holdings Pte Ltd., Mediaring Ltd. He was Chairman of Singapore Telecom Group (1986-2001) and Internet Technology Group Ltd. (2000-01) Executive Chairman of Wuthelam Group (1991-2000), Managing Director of Hewlett Packard, Singapore (1985-1990). He is on Board of Four Soft since February' 2000 and Chairman of Remuneration Committee of the company.

He has first class honors degree in Mechanical Engineering from Imperial College of Science and Technology, University

of London and MBA (distinction) from Harvard Business School, USA.

Your Directors commend the resolution for your approval. Except Mr. Koh Boon Hwee, none of the other Directors of the Company is in any way concerned or interested in the resolution.

#### Item 6

Mr. Walter Joseph Sousa Jr. (Director)

Mr. Walter Joseph Sousa Jr. is presently Executive Chairman of Mediaring Ltd. and Chairman of Docutek Information Technologies Inc., He served as MD of GE Asia Pacific Capital Technology Fund, a venture fund sponsored by GE Capital. He was founder partner of Asia Capital. He served as CEO of AT&T Asia Pacific and CEO of Astec (BSR) Plc. a London stock exchange listed company. He also worked as President of Hewlett Packard Asia. He is on the Board of Four Soft since September, 2003.



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

Your Directors commend the resolution for your approval. Except Mr. Walter Joseph Sousa Jr. none of the other Directors of the Company is in any way concerned or interested in the resolution.

#### Item 7

Mr. K.V.Vishnu Raju (Independent Director)

Mr. K.V. Vishnu Raju is MD of Anjani Portland Cements Ltd. He is presently director on Board of Raasi Cement Ltd. He also served as MD of Raasi Cement Ltd. and director in other Raasi Group of Companies. He is on the board of Four Soft since March' 2004 and Chairman of Audit Committee and member of Investor Grievance Committee.



He is a B.Tech from REC, Trichy and Post graduate from Michigan Technological University. He worked with E.I DuPont De Nemours, USA.

Your Directors commend the resolution for your approval. Except Mr. K.V. Vishnu Raju, none of the other Directors of the Company is in any way concerned or interested in the resolution.

#### Item 8

Mr. M.M Pallam Raju (Independent Director)

Mr. M.M Pallam Raju is presently MD of TTM (India) Pvt. Ltd. He also serves board of Limra Infotech Ltd. Ocean Sparke Ltd and Photon Energy Systems Pvt. Ltd. He served as

Director of AIR India and Indian Airlines during 1994-97. He is on the board of Four Soft since March' 2004. He is also Chairman of Investor Grievance Committee and member of Audit committee of the company.



He has a Bachelor's degree in Electronics and Telecommunications from Andhra University and MBA (MIS & Intrnl. Business) USA.

Your Directors commend the resolution for your approval. Except Mr. M.M. Pallam Raju, none of the other Directors of the Company is in any way concerned or interested in the resolution.

#### Item 9

Mr. Palem Srikanth, was appointed as Managing Director of your Company for a period of five years with effect from 18th July, 2003. the Board of Directors of your Company at their meeting held on 3rd March, 2004 recommended payment of commission 2% of net profits in addition to salary, with effect from financial year 2003-04. Section 198, 309 of the Companies Act, 1956 read with section 349 and 350 provides that a director may be paid remuneration by way of commission, in addition to salary if the Company by special resolution, authorises such payment. The proposed resolution would allow the Company to make payment by way of commission to the Managing Director till the period ending March 31, 2008 in accordance with Section 309.

Your company, under his able leadership, has progressed tremendously, year after year and developed excellent products through his domain knowledge and bagged prestigious orders from customers. The Managing Director of the Company is deemed to be interested in the resolution to the extent of the commission payable to him in accordance with the proposed resolution.

Your Directors commend the resolution for your approval.

#### Item 10

As per the listing agreement of the National Stock Exchange of India Limited. The company has undertaken to include the said additional clause in the articles of association of the company in its ensuing general meeting. The board commends the resolution for your approval.

None of the directors are interested in this resolution.

By Order of the Board  
for Four Soft Limited

Place : Hyderabad  
Date : July 29, 2004

Palem Srikanth  
Managing Director

## Directors' Report

Dear Members,

Your directors are pleased to place before the shareholders the Fifth Annual report for the financial year ended 31st March' 2004.

### Financial Results

*In Rs. Lacs, except per share*

Year ended March 31,	2003 - 04	2002 -03
Total Income	1423.51	735.04
Total Expenditure	840.06	408.36
Operating Profit (PBIDTA)	583.45	326.68
Depreciation	38.50	24.89
Profit before tax	544.95	301.79
Provision for tax	10.42	13.51
Profit after tax	534.53	288.28
Dividends	79.66	23.47
Tax on dividends	10.21	3.01
Transfer to general reserve	272.50	0.00
Profit retained in profit and loss account	272.50	272.50
Basic Earnings per share	2.59	2.12

### Overview

During the year the company went with its maiden Initial Public Offering of equity shares in February' 2004 and received overwhelming response from all sections of investors. The issue was for 79,50,000 equity shares of Rs. 5/- each at a premium of Rs. 20/- per share. The Company listed its shares on The National Stock Exchange of India Ltd. and The Stock Exchange, Mumbai in March 2004. The Company recorded gross revenue of Rs 1423.51 Lacs for the year ended 31st March' 2004 compared to Rs 735.04 Lacs for the previous year ended 31st March 2003. The Company posted net profits after tax of Rs. 534.53 Lacs during the year against Rs. 288.28 Lacs during the corresponding previous year.

### Dividend

Your directors recommend a dividend of 5% for the year ended 31st March' 2004 (previous year 5%) on the equity share capital of the Company.

The register of members and share transfer books will remain closed from 1st September to 3rd September, 2004. The

Annual General Meeting of the company is scheduled for September 3rd 2004..

### Business overview

Your company is engaged in the business of developing and implementing web centric enterprise software solutions and consulting services for global transportation, logistics, distribution and supply chain industry. The company has now over 13 customers across the globe and has been in the radar of most of the potential worldwide customers. The company has a perfect mix of small, mid-segment and large corporate customers. Our company has been seriously looked at by most of the largest business houses, transportation and logistic companies.

The Company during last year has achieved considerable growth almost doubling revenues and net profit. The Company has always been focused on achieving excellence through customer satisfaction, quality consciousness and technology advancements. This year has been good in terms of customers going live on our application for our first product 4S e-supply SP, that is in the domain of transportation and logistics. This shows the user acceptance of those products, which is encouraging for the coming years. During the end of the year there was general weakening of US Dollar resulting in rupee reverting to its levels of over four years ago.

Your Company has received ISO 9001: 2000 Quality certification from BVQi as a step towards Quality consciousness. Your company has presence in North America, Europe and Asia-Pacific through subsidiaries and branch offices. Your company has added four new customers during the year for its e-Supply SP product.

Your company seeks long term relationship with clients while addressing their Information Technology requirements, resulting in higher satisfaction to clients.

Your company has a total 10, 337 Sq. Ft facility at the state of the art facility at Cyber Towers. The company owns 4308 Sq. Ft out of the above facility. The total manpower of the Company increased to 145 (as on 31st March 2004) compared to 101 of the previous year as on 31st March 2003).

### Share Capital

During the year, the paid-up share capital has increased due to fresh infusion of capital through Initial Public Offering (IPO) in March' 2004. Due to this, the outstanding issued, subscribed and paid-up equity share capital increased from

Rs. 4,69,36,670 to Rs. 15,86,63,970 comprising 3,18,64,794 shares through IPO, Preferential Issue and Sweat Equity Shares and ESOP shares to Four soft Employee Welfare Trust.

#### Listing

The Company has during the year listed its shares on National Stock Exchange of India Ltd. (NSE) and The Stock Exchange, Mumbai, granted their in-principle approval, as a result of which the Company's shares have been traded on 12th March' 2004.

#### Strategic Investments

Your Company entered into Joint Venture Agreement with an Entrepreneur for setting up a Wholly Owned Foreign Enterprise in Shanghai, China at Zhangjiang Hitech Zone. This Company will be registered and operational from September, 2004 with a strategic investment of approximately US\$ 68,600. This will be an initial marketing arm of your Company in China to serve Logistics and Transportation companies in China. The products of the company have been rolled out in the Chinese version to enter the local Chinese market.

#### Quality

Your company strongly believes that pursuit of excellence is a critical factor of success in global market place, to ensure process and performance improvement in an integrated manner to enable world-class product and service deliverables.

#### Corporate Governance Report

Your company has complied as per the format prescribed by Securities and Exchange Board of India (SEBI) and Clause 49 of the Listing Agreement. For fiscal 2004, the compliance report is provided in the Corporate Governance Report in this Annual Report. The auditor's certificate on compliance with the mandatory recommendations of the committee is annexed in this report.

#### Employees Welfare Trust

In 2003, your company had issued 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 the benefit of the employees.

#### Liquidity

Your company continues to be debt-free, and maintains sufficient cash to meet its strategic objectives. During the current year, internal cash accruals have increased to Rs. 800 Lacs covering capital expenditure and working capital requirements. As on March 31, 2004, your company had liquid assets including deposits with banks of Rs.3388.52 Lacs.

#### Fixed Deposits

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

#### Responsibility statement of the Board of Directors

The directors' responsibility statement, setting out the compliance with the accounting and financial reporting requirements specified under Section 217(2AA) of the Companies (Amendment Act) 2000, with respect to the financial statements, is annexed in this report.

#### Directors

Mr. Walter Joseph Sousa, Mr. K. Vishnu Raju, Mr. M.M Pallam Raju and Mr. K.E.C Rajakumar Nominee Director of UTI Venture Funds Management Company were appointed as additional directors during the year.

As per Article 88 of the Articles of Association, Mr. Koh Boon Hwee and Mr. Suresh C. Rajpal retire by rotation in the forthcoming Annual General Meeting. All of them, being eligible offer themselves for reappointment.

#### Auditors

The auditors, M/s. A.G.S Reddy & Co., Chartered Accountants retire at the ensuing Annual General Meeting and have expressed their unwillingness to continue as statutory auditors. Hence the board recommends M/s. S. R. Batliboi & Co., and are hereby appointed as auditors of the Company from this annual general meeting till the conclusion of the next annual general meeting.

Conservation of energy, research and development, technology absorption, foreign earnings and outgo.

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

### Subsidiary

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

### Particulars of Employees

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

### 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 is made possible by continued commitment to work, co-operation and support.

Your directors thank the Government of India, particularly the 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

Hyderabad	Palem Srikanth	K.V. Vishnu Raju
July 29, 2004	Managing Director	Director

### Annexure to the Directors' Report

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

#### 1. Conservation of energy

The business operations of your company are not energy intensive. However, significant measures are taken to reduce energy consumption by using energy efficient computers and equipments. Your company continuously evaluates new

technologies and invests for making infrastructure more energy efficient. Since the facility is located in L&T Infocity premises, Air-conditioners and, the hydro-pneumatic pumps that are used are highly energy efficient. As energy costs comprise a nominal part of company's total expenses, the financial impact of these measures is material.

#### 2. Research and Development

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

#### b) Specific R&D activities at your company

Your company spent Rs. 820.00 Lacs in the financial year 2004. Out of which Rs. 750.00 was spent on product enhancement through new functionalities in e-Supply SP and e-Supply EP. e-Supply SP is world's first web centric product in the world and is accredited "Award of Excellence" by Global Institute of Logistics. Other expenses are incurred on methodologies and new technologies, which help your company in improving its quality and service capability.

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

Your company's product performance testing has been certified by NSTL (National Software Testing Lab) and R&D is instrumental in building expertise in domain specific software for Logistics, Transportation, Distributions businesses and Supply Chain Process Management. The company has also concluded Load Testing of its products internally.

#### 3. Technology absorption, adaptation and innovation

Your company has identified thought leadership areas in Knowledge Management and Collaborative Commerce along with RFID Roadmap. This will help product enhancements and building collaborative commerce across various platforms as EDI, Customs Brokerage and so on.

#### 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 channel partner and alliance partners across the world, including North America, Europe and Asia-



Pacific regions. The company has subsidiary in US as direct marketing arm in North American region. Your company expects to set up other offices in Asia-Pacific, including China, Japan and Australia with sales and marketing staff providing services to large international clients.

- b) Foreign exchange earned and used for the year ended March 31' 2004

	<i>in Rs. Lacs</i>	
	2004	2003
Earnings	1187.76	589.86
Outflow (including capital goods and imported software)	277.02	139.76

For and on behalf of the board of Directors

Hyderabad                      Palem Srikanth              K.V. Vishnu Raju  
July 29, 2004              Managing Director              Director

- b) Information as per Section 217(2A) of the Companies Act' 1956, read with the companies (particulars of employees) Rules, 1975, and forming part of the director's report for the year ended March 31, 2004

None of the employees employed throughout the year or for part of the financial year is drawing remuneration exceeding the limit specified in Section 217(2A) of the Companies Act' 1956 as amended from time to time.

- c) The director's responsibility statement as required under Section 217(2AA) of the Companies (Amendment) Act, 2000

The Directors confirm that:

- i. in the preparation of the annual accounts, the applicable accounting standards have been followed and there has been no material departure.
- ii. Appropriate accounting policies have been selected and consistently the Directors have made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of Your Company as on March 31, 2004 and the profit of Your Company for the year ended March 31, 2004.
- iii. Proper and sufficient care is taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of Your Company and for preventing and detecting fraud and other irregularities;
- iv. The annual accounts have been prepared on a going concern basis.

For and on behalf of the board of Directors

Hyderabad                      Palem Srikanth              K.V. Vishnu Raju  
July 29, 2004              Managing Director              Director

### Auditor's Certificate on Corporate Governance to the Members of Four Soft Limited

We have examined the compliance of conditions of Corporate Governance by Four Soft Limited ("the Company"), for the period March 11, 2004 to March 31, 2004, as stipulated in clause 49 of the Listing Agreement of the said company with the stock exchanges.

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

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

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

We state that in respect of investor grievances during the period ended March 31, 2004, no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Company.

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

For A.G.S Reddy & co.,  
Chartered Accountants

Hyderabad  
June 18, 2004

A.G.Surendranatha Reddy  
Proprietor  
Membership No. 12621-F

## Corporate Governance Report

### Corporate Governance Philosophy

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

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

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

### A. Board Composition

#### 1. Size and composition of the board

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

Name of Director	Position	Directorships		Attendance in Last AGM	Other Board Committee	
		Indian Companies	Other Companies		Member	Chairman
Suresh C.Rajpal	Non executive Chairman	4	-	-	1	-
Palem Srikanth Reddy	Managing Director and Promoter	5	1	Yes	-	-
Koh Boon Hwee	Independent and Non Executive Director	1	17	-	-	1
Douglas Terence Ash	Independent and Non Executive Director	1	3	-	1	-
Walter Joseph Sousa Jr.*	Independent and Non Executive Director	1	3	-	2	-
K.V. Vishnu Raju **	Independent and Non Executive Director	9	-	-	1	1
M.M Pallam Raju **	Independent and Non Executive Director	5	-	-	1	1
K.E.C Rajakumar **	Independent and Non Executive Director	5	-	-	1	-
P. Mangamma	Non Executive Director	2	-	Yes	1	-

\* The director was appointed in September, 2003.

\*\* These directors are appointed during the year and their period was for a period of less than a month.

#### 2. Definition of Independent Director

An independent director is a person other than an officer or employee of the company or its subsidiaries or any other individual having a material pecuniary relationship or

transactions with the company, in the opinion of the company's board of directors, this would interfere in exercising of independent judgment in carrying out the responsibilities of a director.

### 3. Membership Criteria

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

### 4. Board compensation review

The compensation committee recommends to the board the compensation payable to the directors. The shareholders approve all board-level compensation and are separately disclosed in the financial statements.

### B. Board Meetings

The Board meetings are held at the registered office of the Company and independent directors are required to attend minimum four meetings in a year. The board meets once a quarter to review the quarterly results and other items on the agenda, and also on the occasion of the annual shareholders' meeting. The company effectively uses teleconference facilities to facilitate their participation. Committees of the board usually meet the same day before the formal board meeting, or when required for transacting business.

Total 16 board meetings were held during the year, Since the Company was listed and the Corporate Governance norms are mandatory from 11th March, 2004. As most of the Board Committees were constituted on 3rd March, 2004 only one board meeting was held on 3rd March 2004, where seven directors were present out of total nine directors

### 2. Board Procedure

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

Following information should be placed before the Board meetings:

- a. Annual Operating Plans and budgets
- b. Capital budgets and updates
- c. Recruitment and remuneration of executive directors should be approved by remuneration committee.

- d. Quarterly financial reporting
  - e. Details of Joint Ventures and Collaboration agreements
  - f. Investments in JVs', Subsidiaries, Capital assets not in normal course of business.
  - g. Non-compliance of any statutory, regulatory, delay in listing and shareholder services.
  - h. Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement, if material.
  - i. Other Committee minutes and reports
- ### 3. Remuneration of Directors
- a. Scope of the Compensation committee, inter alia, includes determining the quantum of remuneration for executive directors.

Below is the remuneration to Managing Director made during the financial year 2003-04.

Name of MD	Gross Emoluments including, salary, commission, benefits, etc.	Tenure
Palem Srikanth	Rs. 1,235,938	5 Years (from 18th July, 2003)

### 4. Independent directors' meeting

As a company policy, the independent directors of the board are regularly updated on all business-related issues and new initiatives. The Managing Director and other senior management personnel shall make such presentations on relevant issues.

### C. Board Committees

The Company currently has three (3) committees - the Audit Committee, the Remuneration Committee and the Investor Grievance Committee. The Audit committee consists of three (3) independent directors; the Remuneration committee and the Investor Grievance Committee consist of independent directors. The Chairman of the Board in consultation with the Company Secretary decides the frequency of the committee meetings. All the committees meet at least four times in a year and the recommendations of the committee are submitted to the Board. The Quorum of these committee meetings is either one-third of 2 whichever is higher. Recommendations of the committees are submitted to the entire board for approval.

## 1. Audit Committee

The current audit committee consists of three (3) independent directors. One of the members shall be elected as the chairman, either by the entire Board of Directors or by members by majority vote.

K.Vishnu Raju	: Chairman of the committee
M.M Palam Raju	: Member
K.E.C Rajakumar	: Member

The primary objective of the Audit committee is to monitor and provide effective supervision of Management financial reporting with the view that timely and proper disclosures are made and transparency is maintained. The Committee functions in consultation with the Internal and Statutory Auditor. The Audit committee shall meet four (4) times a year, one meeting before the finalisation of annual accounts and balance three meetings at the end of each quarter. Minimum quorum of two directors or one-third whichever is higher is applicable. The Company secretary acts as the Secretary to the Committee.

The Company confers the Audit committee with the following powers:

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

The audit committee shall have the following roles & responsibilities

- Open path of communication between the auditors and the Board of Directors.
- Meet at least four (4) times in a year or frequently as circumstances occur.
- Appoint, compensate and oversee the work of auditors for the purpose of preparing or issuing an audit report.
- Correct disclosure of financial transactions with enough support
- Review and approve related party transactions in the company.
- Review annual financial statements before submitting to the Board
  - Accounting policy changes
  - Qualifications in draft audit report
  - Significant adjustments out of audit
  - Compliance with accounting standards

- Related party transactions
- g. Review of Internal Control Systems
- h. Review of Internal Audit functions, together with management responses
- i. Reviewing the Company's financial risk management policies
- j. Book-keeping or other services related to the accounting records of financial statements of the Company;
- k. Financial information, system design and implementation;
- l. Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- m. Actuarial services;
- n. Management functions or human resources;
- o. Any other service that the BoD deems fit.
- p. Review before release, the un-audited quarterly operating results in the Company's quarterly earnings before each release.
- q. Oversee compliance with the requirements of the SEBI and Stock Exchanges as the case may be, for disclosure of auditor's services and audit committee members, member qualifications and activities.
- r. Review and discuss with management and the independent auditors, the annual audited financial statements and quarterly audited /un-audited financial statements, including company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations"
- s. Review, approve and monitor the code of ethics that the Company plans for its senior financial officers.
- t. Review management's monitoring of compliance with the Company's standards of business conduct.
- u. Review, in conjunction with counsel, any legal matters that could have a significant impact on the Company's financial statements.
- v. Provide oversight and review at least annually of the Company's risk management policies, including its investment policies.
- w. Review the Company's compliance in employee benefit plans.
- x. Oversee and review the Company's policies regarding information technology and management information systems.
- y. If necessary, institute special investigations with full access to all books, records, facilities and personnel of the Company.
- z. As appropriate, obtain advice and assistance from external legal, accounting or other advisors.

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

Audit committee attendance during FY 2004

Name of audit Committee members	No. of meetings held	No. of meetings attended
*K. V. Vishnu Raju	-	-
*M.M.P Raju	-	-
*K.E.C Rajakumar	-	-

\* Since the reconstituted audit committee is formed for a period less than a month (i.e., 3rd March, 2004) during the year, there were no meetings held.

## 2. Remuneration Committee

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

The remuneration committee consists of following directors:

Mr. Koh Boon Hwee	: Chairman of the committee
Mr. Walter J. Sousa Jr.	: Member
Mrs. P.Mangamma	: Member

Remuneration committee attendance during FY 2004:

Name of audit Committee members	No. of meetings held	No. of meetings attended
Mr. Koh Boon Hwee	1	1
Mr. Walter J. Sousa Jr.	1	1
Mrs. P. Mangamma	1	1

The remuneration committee held its meeting on 18th July, 2003 during the year.

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

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

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

## 3. Investor Grievance Committee

The Investor grievance committee consists of following Independent directors.

Mr. M.M Pallam Raju	: Chairman of the committee
Mr. K.V. Vishnu Raju	: Member
Mr. K.E.C Rajakumar	: Member

The Company has mandate to review and redress shareholder grievances. Details of complaints resolved during the year 2003-04 are as follows:

Complaint nature	Received	Resolved	Closed
Change in address	8	8	0
Correction in name	3	3	0
Allotment money	7	7	0
Bank Mandate	105	105	0
Credit of shares	78	78	0
Refund Orders/Shares	60	60	0
Miscellaneous	22	22	0

Name of Committee members	No. of meetings held	No. of meetings attended
M.M Palam Raju	-	-
K.Vishnu Raju	-	-
K.E.C Raja Kumar	-	-

\* Since the constituted Investor Grievance committee is less than a month during the year, there were no meetings held.

The committee expresses satisfaction with the company's performance in dealing with investor grievances and its share transfer system. It is also noted that the shareholding in dematerialisation mode is 38.65% against 100% previous year.

## 4. Compliance Officer

The name and designation of the Compliance Officer is Mr. Naresh Kumar Patro, Company Secretary.

## 5. Postal Ballot

For the year ended March 31, 2004 there have been no ordinary or special resolutions passed by the Company's shareholders through postal ballot.

6 Disclosures of Non Compliance, Related Party transactions, if any

The Company has complied with the requirement of regulatory authorities on Capital markets and no penalties / strictures have been imposed against the company in the last three years.

Related party transactions have been disclosed in Note 15 of the "Notes to Accounts" in this Annual Report.

#### D. Management Review and Responsibility

##### 1. Formal evaluation of Board

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

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

The Managing Director along with G.M Finance interacts with all the clients, employees, investors, media and Government bodies.

##### 3. Management's discussion and analysis

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

#### E. Shareholders

##### 1. Disclosures regarding appointment or re-appointment of directors

According to the Articles of Association, one-third of the directors retire by rotation and, if eligible, offer themselves for re-election at the Annual General Meeting of shareholders. A brief resume of the director, nature of expertise in specific functional areas and name of companies in which the person holds directorship and Membership of committees of the Board.

##### 2. Communication to shareholders

- a. The Quarterly, Half Yearly and Annual financial results of the company are displayed on the company's website [www.four-soft.com](http://www.four-soft.com). The site also displays official press releases.
- b. The company regularly provides information to the stock exchanges as per the requirements of the Listing Agreement.
- c. Quarterly financial results are published in newspapers having appropriate circulation as required under the Listing agreement such as Business Standard and Andhra Bhoomi.
- d. The company also communicates with stakeholders and analyst with press releases, and other media.

e. The company also raises its exposure through carefully selected industry seminars and meeting with trade partners.

f. The company has provided Investor's online Email address on its website whereby the investors can directly contact the concerned persons through email. However, this Email address is merely to facilitate the investors and communication sent to this Email address would not constitute legal service of the document to the company.

##### 3. Investors' grievances and share transfer

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

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

##### 4. Compliance

The company shall obtain a certificate on Corporate Governance in annual reports of the Company with a detailed compliance report on Corporate Governance. The auditors' report should be annexed to the Directors' report sent annually to the shareholders. The same certificate should also be sent to the stock exchanges wherever listed.

##### 5. General body meetings

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

Financial Year	Date	Time	Venue
2001	24-09-01	2.00 P.M	5Q1 A3, 5th floor, Cyber Towers, Madhapur, Hyderabad -33
2002	30-09-02	2.00 P.M	- do -
2003	22-05-03	2.00 P.M	- do -

## Shareholder Information

Financial calendar and date of book closure, dividend payment date, listing information, market price data, registrar & share transfer agents, share transfer system, distribution of shareholding, dematerialisation and liquidity, address for correspondence.

1.	Date, time and venue of 5th AGM	September 3, 2004 at the Surana Udyog Auditorium, FAPCCI, Federation House, 11-6-841, Red Hills, Hyderabad - 500 004.																											
2.	Dates of book closure	September 1 to September 3, 2004 (both days inclusive)																											
3.	Dividend payment	On or after September 7, 2004, but within the statutory time limit of 30 days.																											
4.	Listing on stock exchanges	National Stock Exchange of India Ltd. (NSE) and the The Stock Exchange, Mumbai (BSE)																											
5.	Listing fees for 2004-05	Paid for both the stock exchanges.																											
6.	Registered Office	5Q1 A3, 5th floor, Cyber Towers, Hitec City, Madhapur, Hyderabad - 500 003, A.P India Tel: +91-40-2310 0600/01, Fax: +91-40-2310 0602 Website: www.four-soft.com, Email: investorinfo@four-soft.com																											
7.	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 Pvt. Ltd. Registrar and Transfer Agents UNIT: Four Soft Limited 46, Avenue 4, Road No. 10 Banjara Hills, Hyderabad - 500 034, India Tel: +91-40-2331 2454, Fax: +91-40-2331 2968 Email: mohsin@karvy.com																											
8.	Share transfers in physical form	Shares sent for physical transfer are affected after approval by the share transfer committee of the company.																											
9.	Investor Services -complaints	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Complaint nature</th> <th style="text-align: center;">Received</th> <th style="text-align: center;">Attended to</th> </tr> </thead> <tbody> <tr> <td>Change in address</td> <td style="text-align: center;">8</td> <td style="text-align: center;">8</td> </tr> <tr> <td>Correction in name</td> <td style="text-align: center;">3</td> <td style="text-align: center;">3</td> </tr> <tr> <td>Allotment money</td> <td style="text-align: center;">7</td> <td style="text-align: center;">7</td> </tr> <tr> <td>Bank Mandate</td> <td style="text-align: center;">105</td> <td style="text-align: center;">105</td> </tr> <tr> <td>Credit of shares</td> <td style="text-align: center;">78</td> <td style="text-align: center;">78</td> </tr> <tr> <td>Refund Orders/Shares</td> <td style="text-align: center;">60</td> <td style="text-align: center;">60</td> </tr> <tr> <td>Miscellaneous</td> <td style="text-align: center;">22</td> <td style="text-align: center;">22</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: center;"><b>283</b></td> <td style="text-align: center;"><b>283</b></td> </tr> </tbody> </table>	Complaint nature	Received	Attended to	Change in address	8	8	Correction in name	3	3	Allotment money	7	7	Bank Mandate	105	105	Credit of shares	78	78	Refund Orders/Shares	60	60	Miscellaneous	22	22	<b>Total</b>	<b>283</b>	<b>283</b>
Complaint nature	Received	Attended to																											
Change in address	8	8																											
Correction in name	3	3																											
Allotment money	7	7																											
Bank Mandate	105	105																											
Credit of shares	78	78																											
Refund Orders/Shares	60	60																											
Miscellaneous	22	22																											
<b>Total</b>	<b>283</b>	<b>283</b>																											

## 10. Stock market data relating to shares listed

The company's market capitalization is Rs. 74.88 crs as on 31st March, 2004. Since your company was listed on 12th March, 2004 only one (1) month; hence Monthly high, low and trading volume for FY 2004 is available for one (1) month only.

NSE				BSE			
Month	High	Low	Volume Nos.	Month	High	Low	Volume Nos.
March, 04	27.35	18.00	32,01,338	March, 04	27.30	15.00	15,96,744

## 11. Distribution of shareholding as on March 31, 2004.

Category	No. of Shareholders	Voting Strength (%)	No. of Shares Held
Individuals	19334	19.72	62,84,851
Companies	230	7.64	24,35,234
FII	2	0.09	30,200
NRI	77	0.12	37,391
Promoter	1	26.69	85,05,380
Promoter group	15	23.45	74,73,844
Directors & relatives	6	0.64	2,02,548
Mutual funds, Banks, FI's and others	518	21.65	68,95,346

## 12. Investor's correspondence

For investor matters:

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

For queries on Financial statements

Biju S. Nair  
 General Manager, Finance & Accounts  
 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

## 13. Stock Exchange Codes

FOURSOFT (NSE)

532521 (BSE)



Management's discussion and analysis of financial conditions 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.

#### A. Financial Condition

##### 1. Share Capital

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

During the year the company has offered 79,50,000 equity shares of Rs. 5/- each to Public in its Initial Public offering in February' 2004 for which it received subscription of 80,90,300 equity shares of Rs. 5/- each, leading to an increase in issued, subscribed and outstanding shares by 1,97,11,852 equity shares. During the year the company has issued bonus shares in the ratio of 2:5 and shares of Rs. 10/- each were split two equity shares of Rs. 5/- each.

##### 2. Reserves and Surplus

The addition to the share premium account of Rs. 22.09 crores during the year due to the premium received on issue of 1,42,58,922 equity shares. The reserves and surplus increased by Rs. 21.36 Crores to Rs. 24.68 Crores.

##### 3. Fixed Assets

As of March 31, 2004, the company added Rs. 154.17 Lacs to its gross block of assets. The Cost of computer equipments, office equipments, furniture and fixtures and office building increased by Rs. 27.25 Lacs, Rs. 12.60 Lacs, Rs. 10.86 Lacs and Rs. 106.40 Lacs respectively. To meet its capital expenditure requirements for expansion for Rs. 306 Lacs the company has raised funds.

##### 4. Investments

The company has not made any strategic investments during the year.

##### 5. Sundry Debtors

Sundry debtors amount to Rs. 299.64 Lacs as on March 31, 2004, as compared to Rs. 281.95 Lacs as of March 31, 2003. These debtors are considered good and realizable. Bad Debts of Rs. 139.76 Lacs, which the management perceives as outstanding for more than 180 days; hence considered doubtful depending on management's perception of risk and written off. Debtors are 21% of revenue for the year ended March 31, 2004, against 39% for the previous year.

The agewise analysis of debtors is given below:

Period in days	as of March 31	
	2004	2003
0- 30	38.23%	21.66%
31-60	33.80%	29.49%
61-90	12.35%	1.89%
more than 90 days	15.62%	46.96%
	100.00%	100.00%

##### 6. Cash and Cash Equivalents

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

as of March 31	Rs. In Lacs	
	2004	2003
Cash Balance	0.07	0.29
Bank Balances in India		
current accounts	10.91	31.59
deposit accounts	2676.91	103.27
EEFC accounts in		
foreign curr.	697.34	155.40
Bank balances - overseas		
current accounts	3.29	0.67
Total Cash and		
Bank balances	3388.52	291.22
Cash and cash equivalents		
as a % of total assets	84.31	33.52
Cash and cash equivalents		
as a % of revenues	238.04	39.62

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

## 7. Loans, Advances and other Current Assets

	<i>Rs. In Lacs</i>	
As of March 31	2004	2003
Prepaid expenses	1.85	5.30
Traveling	2.47	1.83
Advance Income tax	24.50	14.00
Staff advance	1.28	1.93
Deposits with L&T	6.68	18.96
Telephone, Central Excise & Sales Tax deposit	3.41	3.92
Deposit with NSE	20.22	0.00
Other assets	69.45	46.13
	129.86	112.87

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

## 8. Current Liabilities

	<i>Rs. In Lacs</i>	
as of March 31	2004	2003
Sundry Creditors for goods	30.72	2.40
for accrued salaries and benefits	38.69	13.75
Provision for expenses	5.51	10.75
Taxes payable	10.51	1.48
Managerial remuneration payable	7.19	0.00
Others	32.26	11.92
Advance received from clients	4.76	0.00
Unclaimed dividend	0.02	0.03

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

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

## 9. Provisions

	<i>Rs. In Lacs</i>	
as of March 31	2004	2003
Proposed Dividend	79.66	23.47
Provision for tax on dividend	10.21	3.01
Income taxes	9.12	13.51

Proposed dividend represents the dividend recommended to the shareholders by the Board of Directors. This will be

paid after the Annual General Meeting, upon approval by the shareholders.

Provision for taxation represent estimated income tax liabilities, in India is Rs. 9.12 Lacs for March 31, 2004 against Rs. 13.51 Lacs for March 31, 2003.

## B. Results of Operations

## 1. Income

Income from software services and products.

	<i>Rs. In Lacs</i>			
as of March 31	2004	%	2003	% Growth %
Exports	1369.85	97.97	724.34	99.00
Domestic	28.34	2.03	7.38	1.00
	1398.19	100.00	731.72	100.00

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

The company's revenue is also from onsite and offshore revenues. Onsite revenue 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 revenue is due to an all-round growth in various segments of the business mix and growth in business volumes.

	<i>Rs. In Lacs</i>	
Yr. ended March 31	2004	2003
Income from software products and services		
Software Products	1007.94	719.04
Software Services	390.25	12.68
	1398.19	731.72

## Software Products and Services

During the year, the software product licenses grew by 40.18%. During the year, the Software Services volumes grew by 2977%

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

			<i>Rs. In Lacs</i>	
Yr. ended March 31	2004	2003		
North America	1200.39	635.75		
Europe	16.10	3.97		
Asia-pacific	99.24	84.62		
India	82.46	7.38		
	<u>1398.19</u>	<u>731.72</u>		

## 2. Expenditure

						<i>Rs. In Lacs</i>	
Yr. ended March 31	2004	%	2003	%	Growth%		
Total Income	1398.19	100.00	731.72	100.00	91.08		
Soft Devl. Exp	272.55	19.49	169.35	23.14	60.93		
Gross Profit	1125.64	80.51	562.37	76.86	100.16		
Selling & Mktg. Exp	213.87	15.30	107.44	14.68	125.97		
Gen. & Admin. Exp	377.44	26.99	124.93	17.07	159.94		
Total Opr. Exp	591.31	42.29	232.37	41.321	44.23		
Operating Profit (PBIDTA)	534.33	38.22	330.00	58.68	69.13		
Interest	NIL		NIL		NIL		
Depreciation	38.51	2.75	24.89	3.40	54.72		
PBIDT	495.82	35.46	305.11	41.70	70.31		
Other Income	25.32	1.81	3.32	0.45	662.65		
Profit before tax	521.14	37.27	301.79	41.2	480.57		
Provision for tax	9.12	0.65	13.51	1.85	(22.87)		
Net Profit after tax	512.02	36.62	288.28	39.40	85.42		

### 2.1 Software Development Expenses

						<i>Rs. In Lacs</i>	
Yr. ended March 31	2004	%	2003	%	Growth%		
Salaries, Bonus & PF	260.92	18.66	162.63	22.23	60.44		
Communication Exp.	11.63	0.83	6.72	0.92	72.92		
Total Software Devl Revenues	1398.19	100.00	731.72	100.00	91.08		

Employee costs consist of salaries paid to employees in India include overseas staff expenses. The total software professionals increased to 145 during March 31, 2004. Major part of the revenue is from Product License fees and offshore services. The communication expenses represent 0.83% and 0.92% for the years ended March 31, 2004 and 2003, respectively. Other expenses include staff welfare, computer maintenance, consumables and post-sales customer support.

### 2.2 Selling , marketing and Implementation expenses

The company incurred selling and marketing expenses of 15.30% of its revenue during fiscal 2004 against 14.68% during the previous year.

Overseas travel expenses increased due to travel cost for onsite support, consultancy, participation in seminars and sales promotion. The company added 4 new customers during the year compared to 3 in the previous year.

Professional charges relating to payments made to PR, Consultants, legal charges etc., Commission charges Other expenses increased due to increased activities during the year.

						<i>Rs. In Lacs</i>	
Yr. ended March 31	2004	%	2003	%	Growth%		
Salaries and PF	171.46	80.17	83.84	78.03	83.79		
Overseas traveling	36.50	17.07	23.42	21.80	253.46		
Other Mktg. Exp.	5.91	2.76	0.18	0.17	3183.33		
Total	<u>213.87</u>	<u>100.00</u>	<u>107.44</u>	<u>100.00</u>			

### 2.3 General and administration expenses

						<i>Rs. In Lacs</i>	
Yr. ended March 31	2004	%	2003	%	Growth%		
Salaries, Bonus & PF	11.31	3.48	6.09	4.87	85.71		
Professional Charges	4.71	1.61	3.98	3.19	31.41		
Electricity and Water	13.65	4.20	6.30	5.04	116.67		
Telephone charges	5.04	1.55	5.19	4.15	-2.89		
Repairs & Maintenance	11.16	3.44	7.94	6.36	40.55		
Traveling & Conveyance	61.30	0.87	1.14	0.91	149.12		
Other expenses	270.27	84.84	94.29	75.47	192.19		
Total	<u>377.44</u>	<u>100</u>	<u>124.93</u>	<u>100</u>			

The company incurred general and administration expenses amounting to 26.99% of its total revenue during fiscal 2004 as compared to 17.07% in 2003.

Employee costs increased as administrative personnel increased. These charges include fees paid for availing services such as tax consultancy, recruitment and training, legal charges. Electricity and water, telephone charges, repairs and maintenance and traveling and conveyance increased due to increased business activity. Other expenses are primarily due to insurance, Bad debts written off for Rs. 139.76 Lacs.

### 3. Operating profits

During the current year, the company earned an operating profit (PBIDTA) of Rs. 534.33 Lacs representing 38.21% of total revenue against 330.00 Lacs, representing 45.10% of total revenue in the previous year.

### 4. Depreciation

The company provided a sum of Rs.38.51 Lacs and Rs.24.89 Lacs towards depreciation for the years ended March 31, 2004 and 2003, representing 2.71% and 3.39% of total revenues and includes an amount of Rs. 2.63 Lacs towards 100% depreciation on assets costing less than Rs. 5,000 each.

## 5. Other Income

Yr. ended March 31	Rs. In Lacs	
	2004	2003
Interest received on deposits	10.23	3.32
Dividend received on investment in mutual funds	9.93	Nil
Miscellaneous income	5.15	Nil
Exchange differences	(82.18)	(4.29)

The average Rupee-US Dollar rate during the year was Rs. 45.78 as compared to Rs. 48.36 during the previous year resulting in rupee appreciation of Rs. 5.3%. The company derives 98% of its export revenues in US \$ and the balance from other currencies. During the year, the US\$ had depreciated against the other currencies, substantially. The closing rate of rupee against the US Dollar as of March 31, 2004 was Rs. 43.39 against Rs. 47.53 as of March 31, 2003 resulting in rupee appreciation of 8.7%.

## 6. Provision for Tax

The company has provided for its tax liability both in India and Overseas. The present Indian Corporate tax is 35.875% (comprising a base rate of 35% and a surcharge of 2.5% on the base rate). Export profits are entitled to benefit from scheme of Govt. of India. The profits attributable to the operations of the company under the 100% export oriented unit scheme - are entitled to a tax holiday for a consecutive period of 10 years from the financial year in which the unit started producing computer software, or March 31, 2000, whichever is earlier. Your company pays taxes in India, US and Singapore, in which it operates, on income that is sourced to those countries. The details of provision for taxes are as follows:

Yr. ended March 31	Rs. In Lacs	
	2004	2003
Domestic Tax	9.12	13.51
Overseas Tax	1.30	Nil

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

## 7. Net Profit

The net profit of the company from ordinary activities amounted to Rs. 512.02 Lacs and Rs.288.28 Lacs for the years ended March 31, 2004 and 2003. This represents 36.62 % and 39.22 % of total revenue.

## 8. Liquidity

The growth of the company has been financed largely from cash generated from operations and, to a lesser extent, from the proceeds of equity issues. As on March 31, 2004, the company had cash and cash equivalents increased by Rs. 3097.30 Lacs during the year. The bank balances in overseas accounts are maintained to meet the expenditure of the overseas branches, and to meet overseas project related expenditure.

## 9. Stock Option Plan

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

## 13. Related party transactions

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

## C. Outlook: Issues and risks

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

## External Risk factors

- Macro economic factors
- Foreign exchange rate fluctuations
- Competitive environment
- Geographic Concentration of revenues
- Inflation and cost structure
- Technology obsolescence

## Internal Risk Factors

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

## 1. Macro economic factors

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

Clients channeled their investments into areas delivering business benefits. This translated into increased demand

for domain skills and expertise. With intent to enter into new geographic regions, your company will invest in language training and hiring local talent and continues to develop country-specific-marketing strategies for de-risking global economic variations.

## 2. Foreign exchange rate fluctuations

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

## 3. Competitive Environment

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

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

## 4. Geographic concentration of revenues

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

Since your company caters to industry segment, like Transportation and logistics Industry, 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 Southeast and Far East Asia.

Your company relies on repeated business based on strength of client relationships; the major portion of which is from existing clients. As the 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 revenue. 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.

## 5. Inflation and cost structure

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

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

## 6. Technology obsolescence

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

## Internal Risks

### 1. Financing reporting risks

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

### 2. Liquidity

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

### 3. Contractual compliance

Litigations regarding deliverables and Intellectual property

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

#### 4. Intellectual Property

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

#### 5. Human Resource Management

Your company has the expertise to develop world-class products and solutions, which deliver value to clients.

Generally human relations pose inherent risks associated with the ability to hire and retain skilled and experienced IT professionals. The total head count has reached 145 this fiscal against 101 last fiscal. The average age of your company staff is 28 years, which is low compared to industry standards in product companies.

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

#### 6. Culture, values and leadership

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

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

## Auditors' Report to the members of Four Soft Limited

We have audited the attached balance sheet of M/s. Four Soft Limited, as at March 31, 2004, the Profit and Loss Account and also the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As required by the Companies (Auditor's Report) Order, 2003 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.

Further to our comments in the annexure referred to in paragraph (3) above, we report that:

- a. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
- b. In our opinion, proper books of account as required by law, have been kept by the company so far as it appears from our examination of those books. No separate books of accounts have been maintained by the branches, but all the transactions of the branches were duly accounted in the company's books and thus no separate audit of branch accounts was done by us.
- c. The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
- d. 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 the sub-section (3C) of section 211 of the Companies Act' 1956;
- e. On the basis of written representations received from the directors, as on March 31, 2004 and taken on record by the Board of directors, we report that none of the directors is disqualified as on March 31, 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act' 1956.
- f. In our opinion, and to the best of our information and according to the explanations given to us, the said accounts read in conjunction with the Schedules A to M together with notes thereon, and in particular clause no(s): 7 and 10 of Schedule M to the accounts, give the information required and give a true and fair view in conformity with the accounting principles generally accepted in India.
  - i. In the case of the balance sheet, of the state of the affairs of the company as at March 31, 2004,
  - ii. In the case of the profit and loss account of the "profit" of the company for the year ended March 31, 2004.
  - iii. In the case of cash flow statement, of the cash flows for the year ended on that date.

For A.G.S. Reddy & Co.,  
Chartered Accountants

Place : Hyderabad  
Date : June 18, 2004

A.G. SURENDRANATHA REDDY  
Proprietor  
Membership No. 12621 - F

## Annexure to Auditor's Report

The annexure referred to in paragraph (3) of our report of Four Soft Ltd. (the Company) for the year ended March 31, 2004.

1.
  - (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
  - (b) All the assets have been physically verified by the management at the end of the year. In our opinion, the frequency of verification is adequate and we are informed that no material discrepancies were noticed on such verification.
  - (c) During the year the company has disposed off part of the office equipment. According to the information and explanations given to us, we are of the opinion that the sale of the said part of office equipment has not affected the going concern status of the company.
2. The company has no stocks during the year under review.
3.
  - (a) As per records no loans have been taken from companies, firms or other parties listed in register maintained u/s 301 of the Companies Act' 1956.
  - (b) As per records no loans have been granted to companies, firms, or other companies listed in the register maintained u/s 301 of the Companies Act' 1956.
4. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and nature of its business with regard to purchase of inventory, fixed assets and with regard to the sale of goods. During the course of our audit we have not observed any continuing failure to correct major weaknesses in internal controls.
5.
  - (a) According to the information and explanation given to us, we are of the opinion that the transactions that need to be entered in to the register maintained under section 301 of the Companies Act' 1956, have been so entered.
  - (b) In our opinion and according to information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rs. 5.00 Lacs in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market price at the relevant time.
6. In our opinion and according to the information and explanations given to us, the company has not accepted any deposits to which the provisions of section 58A of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules 1975 would apply.
7. In our opinion, the company has an internal audit system commensurate with its size and nature of its business, but requires effective implementation.
8. We are informed that the Central Government has not prescribed maintenance of cost records u/s 209(1)(d) of the Companies Act, 1956.
9.
  - (a) According to the information and explanations given to us, that the company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, income tax, sales tax, custom duty, excise duty, cess and other material statutory dues applicable to it.
  - (b) According to the information and explanation given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty, excise duty and cess were in arrears, as at March 31, 2004 for a period of more than six months from the date they became payable.
  - (c) According to the information and explanation given to us, there are no dues of sales tax, income tax, customs duty, wealth tax, excise duty and cess, which have not been deposited on account of any dispute.
10. In our opinion, the company has not accumulated losses as at March 31, 2004. And the company has not incurred any cash losses during the financial year covered by our audit and the immediately preceding financial year.



11. In our opinion and according to the information and explanations given to us, the company has not taken any loan from financial institutions, banks and are not issued debentures. Therefore, the provisions of clause 4(xi) of the Companies (Auditors' Report) Order, 2003 are not applicable to the company.
12. We are of the opinion that the company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Therefore, the provisions of clause 4(xii) of the Companies (Auditors' Report) Order, 2003 are not applicable to the company.
13. The Company is not a chit fund and nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the companies (Auditor's Report) Order, 2003 are not applicable to the company.
14. The company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditors' Report) Order, 2003 are not applicable to the company.
15. The company has not given any guarantees for loans taken by others from banks and financial institutions during the year.
16. The company has not obtained any term loans.
17. According to the information and explanations given to us and on an overall examination of the balance sheet of the company, we report that no funds raised on short term basis have been used for long term investment. No long term funds have been used to finance short term assets.
18. According to the information and explanations given to us, the company has not made preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Act, except sweat equity to the parties as detailed hereunder:

Managing Director : 40,47,000 equity shares of Rs. 5/- each, (60,000 shares of Rs. 10/- each @ Re. 1/- per share paid and Rs. 9/- treated as discount before sub-division and 28,47,000 shares of Rs. 5/- each @ Re. 0.35/- per share paid, and Rs. 4.65/- treated as discount, after sub-division of shares)

Directors : 80,000 equity shares of Rs. 5/- each (80,000 shares of Rs. 5/- each @Re. 0.35/- per share paid and Rs. 4.65/- treated as discount)

19. According to the information and explanations given to us, during the period covered by our audit report, the company has not issued debentures.
20. We have verified the end use of money raised by public issues as disclosed in the notes vide clause no. 21 of Schedule -M to the financial statements.
21. During the course of our examination of books and records of the company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the company, noticed or reported during the year, nor have we been informed of such case by the management.

For A.G.S. Reddy & Co.,  
Chartered Accountants

Place : Hyderabad  
Date : June 18, 2004

A.G. SURENDRANATHA REDDY  
Proprietor  
Membership No. 12621 - F

## FOUR SOFT LIMITED

Regd. Off: 5Q1 A3, 5th Floor, Cyber Towers,HITEC City, Madhapur, Hyderabad - 500 033

## BALANCE SHEET AS AT MARCH 31, 2004

(Amount in Rupees)

Particulars	Sch No.	As at 31-03-2004	As at 31-03-2003
<b>I. SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Share Capital	A	158,663,970	46,936,670
Reserves & Surplus	B	246,773,532	33,136,416
Total		<u>405,437,502</u>	<u>80,073,086</u>
<b>II. APPLICATION OF FUNDS</b>			
<b>Fixed Assets</b>			
Gross Block	C	31,250,195	15,861,814
Less: Depreciation		<u>9,878,432</u>	<u>6,038,800</u>
Net Block		21,371,763	9,823,014
Investments	D	8,426,875	8,426,875
<b>Current Assets, Loans and Advances</b>			
Cash and Bank Balances	E	71,226,600	18,795,887
Sundry Debtors	F	29,963,579	28,195,366
Loans and Advances	G	9,837,563	8,998,288
Other Current assets	H	270,839,178	12,640,885
Sub-Total (i)		381,866,920	68,630,426
<b>Current Liabilities &amp; Provisions</b>			
Liabilities	I	6,573,865	1,264,033
Provisions		16,291,305	6,768,330
Sub-Total(ii)		22,865,170	8,032,363
Net and Current assets	(i - ii)	359,001,750	60,598,063
Miscellaneous Expenditure (to the extent not written off or adjusted)	J	16,637,114	1,225,134
Total		<u>405,437,502</u>	<u>80,073,086</u>
Notes on Accounts	M		

Note: Schedules 'A' to 'M' form part of accounts

Per our report of even date annexed  
For A.G.S. Reddy & Co.,  
Chartered Accountants

A.G. SURENDRANATHA REDDY  
Proprietor

Place : Hyderabad  
Date : June 18, 2004

For and on behalf of the Board

PALEM SRIKANTH                      P.MANGAMMA  
Managing Director                      Director

NARESH KUMAR PATRO  
Company Secretary

## FOUR SOFT LIMITED

Regd. Off: 5Q1 A3, 5th Floor, Cyber Towers,HITEC City, Madhapur, Hyderabad - 500 033

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2004

*(Amount in Rupees)*

Particulars	Sch No.	For the Year ended 31-03-2004	For the Year ended 31-03-2003
<b>I. INCOME</b>			
From Software products and services	K	139,819,147	73,172,227
Other Income -			
a) Income earned on Mutual Funds		993,429	0
b) Interest on fixed deposits		1,023,048	332,230
c) Other receipts		515,452	0
Total		<u>142,351,076</u>	<u>73,504,457</u>
<b>II. EXPENDITURE</b>			
Administrative and selling expenses	L	86,386,073	40,836,516
Depreciation	C	<u>3,850,527</u>	<u>2,488,703</u>
Total	II	90,236,600	43,325,219
Profit before tax for the year	(I - II)	52,114,476	30,179,238
Less : Provision for taxation - India		911,763	1,351,018
Proposed Dividend		7,966,199	2,346,834
Dividend Tax		1,020,669	300,688
Transferred to General Reserve		27,249,626	0
Add: Profit / (Loss) brought forward from previous year		27,249,626	1,068,928
Transferred to Schedule - B		42,215,845	27,249,626
Notes on Accounts	M		

Note: Schedules 'A' to 'M' form part of accounts

Per our report of even date annexed  
For A.G.S. Reddy & Co.,  
Chartered Accountants

A.G. SURENDRANATHA REDDY  
Proprietor

Place : Hyderabad  
Date : June 18, 2004

For and on behalf of the Board

PALEM SRIKANTH                      P.MANGAMMA  
Managing Director                      Director

NARESH KUMAR PATRO  
Company Secretary

## Schedules to the Accounts

(Amount in Rupees)

Particulars	As at 31-03-2004	As at 31-03-2003
A. Share Capital		
Authorised:		
i. 3,60,77,600 Equity shares of Rs. 5/- each (Previous year 50,00,000 Equity shares of Rs.10/- each)	180,388,000	50,000,000
ii. 6,96,120 - 14% Redeemable optionally convertible cumulative preference shares (Previous year Nil)	69,612,000	0
	<u>250,000,000</u>	<u>50,000,000</u>
Issued, Subscribed and Paid-up Share Capital		
1. 3,18,64,794 Equity Shares of Rs. 5/- each fully paid up	159,323,970	
Less: Calls in arrears	660,000	
	158,663,970	46,936,670
Of the above equity shares:		
a. 47,23,378 Equity shares of Rs. 5/- each issued at par aggregating to Rs. 23,616,890/-		
b. 83,18,524 Equity shares of Rs. 5/- each issued under sweat equity aggregating to Rs. 4,15,92,620/-		
i. 24,54,262 Equity shares of Rs. 10/- each issued at Re.1/- per share and Rs. 9/- per share treated as deferred expenditure aggregating to Rs. 2,45,42,620/- (before sub-division of share capital)		
ii. 34,10,000 Equity shares of Rs. 5/- each issued at Re. 0.35/- per share and Rs. 4.65/- per share treated as deferred expenditure aggregating to Rs. 1,70,50,000/- (after sub- division of share capital)		
c. 1,42,58,922 Equity Shares of Rs. 5/- each issued at a premium aggregating to Rs. 7,12,94,610/-		
i. 3,79,073 Equity shares of Rs. 10/- each issued at a premium of Re. 0.24/- per share aggregating to Rs. 37,90,730/- (before sub-division)		
ii. 5,13,345 Equity Shares of Rs. 10/- each issued at a premium of Rs. 20/- per share aggregating to Rs. 51,33,450/- (before sub-division)		
iii. 2,01,593 Equity shares of Rs. 10/- each issued at a premium of Rs. 50/- per share aggregating to Rs. 20,15,930/- (before sub-division)		
iv. 39,80,600 Equity shares of Rs. 5/- each issued at a premium of Rs. 15/- per share aggregating to Rs.1,99,03,000/- (before sub-division)		
v. 80,90,300 Equity shares of Rs. 5/- each issued at a premium of Rs. 20/- per share aggregating to Rs.4,04,51,500/- (after sub-division)		
d. 45,63,970 Equity shares of Rs.5/- each issued as Bonus shares aggregating to Rs. 2,28,19,850/- [2 Bonus shares of Rs. 10/- each issued for 5 shares of Rs.10/- each held on 29/07/03(before sub-division)] by Capitalisation of General Reserve		
Per Balance Sheet	<u>158,663,970</u>	<u>46,936,670</u>
B. Reserves and Surplus		
General Reserve	4,429,779	0
Share Premium account	226,741,790	
Less: Written off (i) 1/5th of IPO expenses	4,099,227	
(ii) Deferred sweat equity	22,514,655	
	200,127,908	5,886,790
Profit and Loss Account	42,215,845	27,249,626
Per Balance Sheet	<u>246,773,532</u>	<u>33,136,416</u>

FOUR SOFT LIMITED  
FIXED ASSETS

## SCHEDULE - C

Sl. No.	Particulars	GROSS BLOCK			DEPRECIATION				WDV			% of Depn.
		As at 01-04-03 Rs.	Additions during the Period Rs.	Sale/Adj. during the Period Rs.	As on 31-03-04 Rs.	As on 01-04-03 Rs.	For the Period Rs.	Adjustment During the Rs.	As on 31-03-04 Rs.	As on 31-03-04 Rs.	As at 31-3-03 Rs.	
1.	Computers	9,783,221	2,725,262	0	12,508,483	4,345,168	2,552,514	0	6,897,682	5,610,801	5,438,053	40.00
2.	Office Equipment	2,320,013	1,260,501	29,000	3,551,514	498,376	390,987	10,895	878,468	2,673,046	1,821,637	13.91
3.	Furniture & Fittings	3,750,580	1,085,704	0	4,844,284	1,195,256	907,026	0	2,102,282	2,742,002	2,563,324	10.10
4.	Building - Office	0	10,345,914	0	10,345,914	0	0	0	0	10,345,914	0	10.00
	Total	15,861,814	15,417,381	29,000	31,250,195	6,038,800	3,850,527	10,895	9,878,432	21,371,763	9,823,014	
	Previous Year	10,152,023	5,709,791	0	15,861,814	3,550,097	2,488,703	0	6,038,800	9,823,014	6,601,926	

Note-1 : Depreciation for the period has been provided on Written Down Value Basis as per rates specified in Schedule-XIV to the Companies Act, 1956, on time basis.

(Amount in Rupees)

Particulars	As at 31-03-2004	As at 31-03-2003
D. Investments		
Trade Investments - Unquoted (at cost)		
Investment in Joint Ventures / Subsidiaries		
25,000 shares of common stock at no par value in Four Soft International Inc. USA	7,699,375	7,699,375
15,000 shares of one US Dollar each fully paid up in Four Soft LLC, USA	727,500	727,500
Per Balance Sheet	<u>8,426,875</u>	<u>8,426,875</u>
E. Cash and Cash Equivalents		
1. Cash in hand	7,152	29,471
2. Balance in Current A/c. with scheduled banks		
a. Canara Bank, Kundanbagh A/c. No. 1576	0	33
b. HSBC A/c.No. 081-030363-001 - Punjagutta, Hyderabad	731,624	2,828,905
c. HSBC A/c No. 081-030363-511 - Punjagutta, Hyderabad	69,733,980	15,540,461
d. HSCB A/c No. 081-030363-002 - Punjagutta, Hyderabad	63,633	326,439
e. HSBC A/c No. 081-030363-003 - Punjagutta, Hyderabad (Div.)	1,792	2,706
f. HSBC A/c No. 0-142-151364-001 - Singapore	328,763	67,101
g. Citibank A/c. No. 0-100705-559, Greenlands Hyderabad	359,656	771
Per Balance Sheet	<u>71,226,600</u>	<u>18,795,887</u>
F. Sundry Debtors		
(Unsecured - Considered good)		
1. Less than 6 months	25,283,681	15,395,626
2. Beyond 6 months	4,679,898	12,799,740
Per Balance Sheet	<u>29,963,579</u>	<u>28,195,366</u>
G. Loans and Advances		
(Unsecured - considered good and recoverable in cash or kind for value to be received)		
Travelling advance	247,214	183,189
Building advance -L&T Infocity (Trf. To Building Gross Block)	0	5,374,908
TDS on Interest	240,255	40,589
Withholding tax (USA & Malaysia)	1,502,436	1,207,471
Advance tax paid	2,449,571	1,400,000
Staff advance	127,856	193,345
Accrued interest on fixed deposits	290,107	45,561
Prepaid expenses	184,585	530,317
Other expenses	5,539	22,908
FSL Employees welfare trust	4,790,000	0
Per Balance sheet	<u>9,837,563</u>	<u>8,998,288</u>

(Amount in Rupees)

Particulars	As at 31-03-2004	As at 31-03-2003
H. Other Current assets		
Deposits:		
Fixed deposits with scheduled banks	267,691,177	10,327,469
L&T Infocity Ltd.		
- for parking	26,250	
- for rent	580,020	
- for electricity	<u>62,148</u>	
Telephone deposit	219,533	300,908
Caution deposit	0	25,000
Central excise deposit	115,550	85,550
Sales tax deposit (NSC)	6,000	6,000
Rent deposit - Chennai office	12,000	0
Rent deposit - Madhapur	16,600	0
Rent deposit - Singapore	81,000	0
Deposit with National Stock exchange	2,022,600	0
Other deposits	<u>6,300</u>	<u>0</u>
Per Balance sheet	<u>270,839,178</u>	<u>12,640,885</u>
I. Current Liabilities and provisions		
Current Liabilities:		
Advances from employees	0	25,000
Other advances	38,837	142,502
Sundry Debtors	3,071,675	240,000
ESOP Fund	27,226	323,031
Four Soft LLC, USA	2,959,960	533,500
Advance AMC received	<u>476,167</u>	<u>0</u>
Per Balance sheet	6,573,865	1,264,033
Provisions:		
Outstanding expenses	551,078	1,075,421
Professional tax payable	16,470	10,865
Salaries payable	3,213,031	1,116,637
Provident fund payable	374,397	247,667
TDS payable	1,051,555	148,494
Provision for taxation - India	911,763	1,351,018
Proposed dividend	7,966,199	2,346,834
Dividend tax	1,020,669	300,688
Auditors' remuneration	185,175	105,000
Sales tax audit fee payable	10,800	10,500
Secretarial fee payable	0	52,500
Managerial remuneration	719,434	0
Leave encashment	264,942	0
Rent payable	4,000	0
Unclaimed dividend FY 2001-02	<u>1,792</u>	<u>2,706</u>
Per Balance Sheet	<u>16,291,305</u>	<u>6,768,330</u>

Particulars		As at 31-03-2004	As at 31-03-2003
		Rs.	Rs.
J.	Miscellaneous expenditure		
1.	Patents and Trademarks	159,467	
	Add: Additions during the year	<u>80,307</u>	
		239,774	
	Less : 1/5th written off	62282	159,467
2.	Preliminary expenses	125,433	
	Less : 1/5th written off	62,717	125,433
3.	Deferred employee expenses	940,234	
	Add : additions during the year	0	
	Less : During the year written off	940,234	940234
4.	Deferred sweat equity expenses	0	
	Add : Additions during the year	22,514,655	
	Less : Written off to share premium account	22,514,655	0
5.	Share Issue expenses (IPO)	20,496,133	
	Less : 1/5th written off to share premium A/c.	4,099,227	0
	Per Balance sheet	<u>16,637,114</u>	<u>1,225,134</u>



(Amount in Rupees)

Particulars	As at 31-03-2004	As at 31-03-2003
K. Software product development / IT consultancy services		
Export:		
Software Products	100,794,450	71,904,203
Onsite development and services	36,190,164	530,124
Domestic		
Onsite development and services	<u>2,834,533</u>	<u>737,900</u>
Per Profit and Loss account	<u>139,819,147</u>	<u>73,172,227</u>
L. Administrative and Selling expenses		
Salaries	25,502,445	22,363,340
Medical reimbursement	1,160,928	538,457
PF Employers contribution	1,956,194	1,238,743
Travelling expenses	7,041,113	3,256,260
Managerial remuneration	1,235,938	0
Local conveyance	2,738,593	1,652,568
Advertisement and recruitment	311,664	17,641
Rent- office	487,696	92,400
Electricity and Water charges	1,364,755	629,507
Printing and stationery	209,642	83,532
Postage and courier	103,811	52,943
Books and Journals	9,053	8,442
Telephone expenses	1,667,366	1,119,185
Repairs and maintenance	1,115,680	793,977
Bank charges	134,550	110,734
Staff welfare	625,149	365,312
General expenses	128,426	62,916
Fee, rates and taxes	639,286	201,619
Professional charges	470,880	1,398,761
Business promotion	591,370	18,439
Insurance	341,380	557,415
Export agency commission	481,570	635,519
Preliminary expenses	62,717	62,717
Patents and Trademarks	62,282	46,221
Deferred employee expenses	940,234	4,933,294
Product development expenditure	14,513,608	0
Foreign exchange fluctuation	8,217,693	428,566
Sales tax audit fee	10,800	10,500
Secretarial fee	0	52,500
Legal expenses	81,000	0
Remuneration to auditors		
For Statutory audit	80,000	
For taxation matters	30,000	
For tax audit	20,000	
For certification matters	50,000	
For service tax	<u>14,400</u>	
	194,400	105,000
Loss on sale of fixed assets	10,105	0
Bad and doubtful debts written off	<u>13,975,738</u>	<u>0</u>
Per Profit and Loss account	<u>86,386,073</u>	<u>40,836,516</u>

## M. Notes to Accounts

## 1) Significant accounting policies

## a. Accounting Convention:

The accounts have been prepared under historical cost convention from the books of account maintained on accrual basis and comply with the Accounting Standards issued by the ICAI and referred to in section 211(3C) of the Companies Act, 1956.

## b. Revenue recognition

All expenses and incomes to be payable or receivable respectively are accounted on accrual basis.

The revenue from the product license fee is recognized on the milestones and/or schedule of payments falling within the relevant financial year, as per the agreement / contract concerned.

Revenue from customization is recognized on the last day of each month based on customization hours spent on the relevant month.

Annual maintenance fee (AMC) is invoiced on the first day of the start of the AMC period, but revenue from AMC is accounted for on proportionate monthly basis for the relevant financial year.

Onsite consulting services are billed on monthly basis on the basis of hours or number of man days spent for the month and the revenue is recognized on the last day of the relevant month.

The income earned of Rs. 9,93,429/- from mutual funds (per Profit & loss account) has been arrived at, after setting off of Rs. 494,907/- being the net short term capital loss on realization of investment in mutual funds.

## c. Fixed assets

Fixed assets are stated at actual cost less accumulated depreciation. The actual cost capitalized includes cost of the asset, freight, insurance. Installation costs, duties and taxes and other incidental expenses incurred.

## d. Depreciation

Depreciation has been provided in accordance with the rates prescribed in Schedule XIV to the Companies Act, 1956 and rules thereon and in accordance with the period they are put to use. However, depreciation in respect of individual items costing less than Rs. 5000/- was fully written off in the year of their acquisition as per Sch-XIV of the Companies Act, 1956.

## e. Inventories

Inventories are valued at cost or market value whichever is less. (Nil)

## f. Investments

Long term investments are stated at cost.

## 2) Additional particulars required to be furnished as per amendments to Part -II of Schedule VI to the Companies Act, 1956 (As certified by the Management)

	2004 Rs. ('000)	2003 Rs. ('000)
I. a) Particulars of Opening, Closing Stocks purchases and sales		
Export Sales:		
On site development & services	36,190	530
Software products	100,794	71,904
Domestic Sales		
Onsite development and services	2,835	738
b) Value of imports on C.I.F basis	2,717	2,057
c) Expenditure in foreign currency	23,677	10,795
d) Amount remitted in foreign currency on account of dividends	1,308	386
e) Earnings in foreign exchange	118,763	58,986

## II. Managing Director's Remuneration

## a) Information regarding Managing Director's remuneration paid:

	2004 Rs.	2003 Rs.
Remuneration	169,333	Nil
PF Contribution	20,320	Nil
Commission	1,046,285	Nil
Total	<u>1,235,938</u>	<u>Nil</u>

b) Calculation of Managerial Remuneration u/s 198, 309 of the Companies Act, 1956  
(Managerial remuneration payable not to exceed 5% to one Whole-time Director and 10% for all Whole-time directors in total).

Calculation of Net Profit u/s 349 of the Companies Act, 1956:

	Rs.	Rs.
Profit before tax	52,114,476	Nil
Add: Loss on sale of fixed assets	10,105	
Director's Remuneration	189,653	
Commission	<u>1,046,285</u>	
	1,246,043	Nil
Net Profit	<u>53,360,519</u>	<u>Nil</u>
Maximum allowed u/s 349 (being 5% of Net profit arrived at above)	2,668,026	
Actual remuneration paid	1,235,938	

## 3) Claims against the company not acknowledged as debts

Nil Nil

## 4) Contingent liabilities not provided for

Nil Nil

## 5) The company has sent letters of confirmation of balance to the debtors. The same is yet to be received. Necessary adjustments in the accounts arising out of reconciliation will be made after receipt of the confirmation/s.

## 6) Previous years figures have been regrouped / rearranged wherever necessary to make them comparable.

## 7) Office units admeasuring 4308 Sq. Ft. and 3554 Sq. Ft. have been allotted on 1-3-2000 / 08-11-2002 respectively at Cyber Towers, Hitec City, by L&amp;T Infocity limited with option for outright purchase or deferred payment purchase in accordance with commercial terms and conditions specified. The deposits and advances including the installments paid in accordance with the terms and conditions have been reflected as current assets in the balance sheet. Pending such exercise of option, the amounts so paid were neither capitalized nor written off to the profit and loss account till last year. The company is favouring exercise of its option to purchase the said units and accordingly capitalized the same on March 31, 2004. One office unit has since been registered in favour of the company. However, the company has not claimed any depreciation on the amounts so capitalized.

## 8) Foreign Currency Transactions

Transactions in foreign currency are recorded in the books by applying the average rate and any difference on realization due to fluctuation in foreign currency is treated as loss or gain on account of foreign exchange fluctuation and debited/ credited to profit & Loss account. The monetary assets and liabilities as on the date of balance sheet are restated at the rate prevailing on the date. The gain / loss arising on such translation is credited / debited to the profit and loss a/c. as the case may be. The investment in subsidiary company is accounted at the rate prevailing on the date of investment.

## 9) Segment Reporting:

The company has web centric enterprise application software for transportation, logistics and distribution system and provides various types of services relating to that product. Hence only on segment from which revenues are

realized i.e, software product license and related services. Whereas, Geographical segmentation in concerned, the revenues are generated in the following regions namely North America Rs. 1200.39 Lacs, Asia Pacific Rs. 99.24 Lacs, India and West Asia Rs. 82.46 Lacs and Europe Rs. 16.10 Lacs.

10) Retirement Benefits:

- a) liability in respect of provide fund is provided on actual payment basis.
- b) Liability on account of leave encashment for employees is provided on accrual basis.
- c) No liability is provided in respect of Gratuity and other Superannuation benefits for the period 31/03/2004. The company had an actuarial valuation and the liability as per the actuarial valuation is Rs. 607,553/- as on the date of balance sheet. If provided, the profit for the current period would have been lesser by that amount.

11) Earnings per share (EPS): as per AS -20, the basic earnings per share is as follows:

Particulars	As at 31-03-2004 Rs.	As at 31-03-2003 Rs.
Net profit available to equity share holders	50,182,044	28,828,220
Weighted average no. of equity shares (Nos.) Outstanding, considered for basic EPS	19,409,939	13,585,926
Basic earnings per share	2.59	2.12

12) Deferred taxes:

No provision for deferred taxes has been made, as the timing differences existing as at March 31, 2004 would reverse within the tax holiday period of the company, as per the provisions of section 10A of the Income -Tax, 1961.

13) Issue of shares under Sweat Equity: (Upto 31/03/2004)

	No. of Shares
Directors	7,526,900
Employees	791,624
<b>Total</b>	<b>8,318,524</b>

14) A sum of Rs. 41,92,860/- & Rs. 2,25,14,655/- being the sweat equity expenditure for the financial years: 2002-03 and 2003-04 respectively and Rs. 40,99,227/- being 1/5th of share issue expenses (IPO) has been written off from the share premium account.

15) The company has invested in Four Soft International Inc., and Four Soft LLC, USA and those investments have been approved by the RBI.

16) Operation of Branches:

The company has branches in Singapore and United Kingdom. These overseas branches are looking after the marketing operations of the company and the revenue is totally generated in India. The said branch accounts (expenditure) have been incorporated in the accounts of the company. Hence, no separate statement of accounts have been annexed to the financial statements of the company.

17) Four Soft LLC, USA (WOS):

It is a 100% subsidiary of Four soft Limited and caters to the implementation and marketing aspects of the Four Soft Limited. During the year the company has paid Rs. 14,513,608/- to Four Soft LLC, being their share of revenue for the period under the Inter Company revenue sharing agreement. The balance outstanding and payable to them as on the balance sheet date was Rs. 2,959,960/-. The Managing Director, P.Srikanth Reddy is a director in this company.

18) Four Soft International Inc., USA J.V:

Four Soft Limited has invested 25% of the equity of Four Soft International Inc., and the volume of transactions during the period under consideration amounted to Rs. 6,095,620/- towards license sales, customization and service charges. There is no outstanding balance as on March 31, 2004 after writing off of Rs. 47,04,117/- as bad debts,

being irrecoverable. The said joint venture has made arrangements for filing the returns as and when statutorily due in that country. The Managing director, P.Srikanth Reddy was a director in this company, and resigned during the year.

- 19) At the EGM held on July 29, 2002, the authorized share capital of the company of Rs. 12,00,00,000/- divided into 1,20,00,000 equity shares of Rs. 5/- each. Further at the EGM held on 29/09/2003, the authorized share capital of the company was increased by Rs. 8,00,00,000/- divided into 20,77,600 equity shares of Rs. 5/- each and 6,96,120, 14% Redeemable Optionally Convertible Cumulative Preference shares of Rs. 100/- each and at the EGM held on 10/10/2003, the authorized share capital of the company was increased by Rs. 5,00,00,000 divided into 1,00,00,000 equity shares of Rs. 5/- each.

After the aforesaid enhancement the authorized capital of the company stood at 36,077,600 equity shares of Rs. 5/- each and 696,120, 14% Redeemable Optionally Convertible Cumulative Preference Shares of Rs. 100/- each, as on the date of the balance sheet viz., 31-03-2004.

- 20) The company has raised funds through Initial Public Offering, to an extent of Rs. 200,937,500/- (Excl. calls in arrears), by issuing 80,90,300 equity shares of Rs. 5/- each and at a premium of Rs. 20/- per share. The company is in the course of fulfilling the objectives for which the funds were raised and for the time being, the same were invested in banks, as short term deposits.

Per our report of even date annexed  
For A.G.S. Reddy & Co.,  
Chartered Accountants

A.G. SURENDRANATHA REDDY  
Proprietor

Place : Hyderabad  
Date : June 18, 2004

For and on behalf of the Board

PALEM SRIKANTH  
Managing Director

P.MANGAMMA  
Director

NARESH KUMAR PATRO  
Company Secretary

## CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2004

(Amount in Rupees)

For the Year ended	31-03-2004	31-03-2003
A. CASH FLOW FROM OPERATING ACTIVITIES:		
Net Profit before tax & extra Ordinary items	52,114,476	30,179,238
<u>ADD :</u>		
Depreciation	3,850,527	2,488,703
Preliminary expenses Written off	62,717	62,717
Patents & Trademarks Written off	62,282	46,221
Deff. Employee exp. Written off	940,234	4,933,294
Loss on sale of Fixed Assets	10,105	0
Loss on Investment in Mutual Funds	494,907	0
Foreign Exchange fluctuation Loss (Debtor and Creditors – Net)	3,545,912	428,566
Bad Debts Written off	13,975,738	0
Dividend & Interest Accrued/Received	(2,511,384)	(332,230)
Operating Profit before Working Capital changes	<u>20,431,038</u>	<u>7,627,271</u>
<u>CHANGE IN:</u>		
Sundry Debtor	(18,864,796)	(12,996,467)
Loans & Advances	(8,825,189)	(3,467,979)
Other Current Assets	(834,585)	(1,019,810)
Liabilities	4,884,767	773,919
Provisions	(21,367,936)	(16,015,630)
	<u>51,177,578</u>	<u>21,790,879</u>
Less: Advance Taxes paid for the period	<u>2,360,000</u>	<u>1,400,000</u>
Net Cash from operating activities	<u>48,817,578</u>	<u>20,390,879</u>
B. CASH FLOW FROM INVESTMENT ACTIVITY :		
Purchase of Fixed Assets	(5,071,467)	(5,709,791)
Sale of Fixed Assets	8,000	0
Patents and Trade marks acquired	(80,307)	(104,038)
Interest Income from investing activities	2,511,384	332,230
Sale proceeds of Mutual funds	265,993,428	0
Investment in JV and Subsidiary Company	0	(8,426,875)
Investment in - Fixed Deposits	(257,363,708)	(3,158,912)
- Mutual Funds	(266,488,335)	0
Net Cash used in Investing activities	<u>(260,491,005)</u>	<u>(17,067,386)</u>
C. CASH FLOW FROM FINANCIAL ACTIVITIES:		
Proceeds from issue of Equity Shares	66,392,795	2,090,930
Increase in Share Premium A/c. (Net)	220,855,000	10,079,650
Dividends paid (incl. tax)	(2,647,522)	(486,761)
IPO Expenses	(20,496,133)	0
Net Cash from Financial Activities	<u>264,104,140</u>	<u>11,686,819</u>
Surplus/(Deficit)	<u>52,430,713</u>	<u>15,007,312</u>
<u>CASH AND BANK BALANCES:</u>		
Add: Opening Balance	18,795,887	3,788,575
Closing Balance	<u>71,226,600</u>	<u>18,795,887</u>

Per our report of even date annexed  
For A.G.S. Reddy & Co.,  
Chartered Accountants

A.G. SURENDRANATHA REDDY  
Proprietor

Place : Hyderabad  
Date : June 18, 2004

For and on behalf of the Board

PALEM SRIKANTH  
Managing Director

P.MANGAMMA  
Director

NARESH KUMAR PATRO  
Company Secretary

Balance Sheet abstract and Company's general business profile

I. Registration details:

Registration No. : 33131

State Code : 01

Balance Sheet date

March 31, 2004

in Rs. Thousand except per share data

II. Capital raised during the year

Public Issue	40,452
Rights Issue	—
Bonus Issue	22,820
Private placement	49,116

III. Position of Mobilisation and Deployment of Funds

Total Liabilities	405,437
Total Assets	405,437
Sources of Funds	
Paid-up Capital	158,664
Reserves and Surplus	246,773
Secured Loans	—
Unsecured Loans	—
Application of Funds	
Net Fixed assets	21,372
Investments	8,427
Net current assets	359,002
Miscellaneous expenditure	16,637
Accumulated losses	—

IV. Performance of Company

Income from software products and related services	139,819
Other Income	2,532
Total Income	142,351
Total Expenditure	90,237
Profit / (Loss) before tax	52,114
Profit / (Loss) after tax	51,202
Earnings per share (basic) (Rs.)	2.59
Earnings per share (diluted) (Rs.)	—
Dividend per par value (Rs. 5/-) (%)	Re. 0.24

V. Generic name of principal products / services of the company

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

Statement pursuant to Section 212 of the Companies Act, 1956, relating to subsidiary companies

1. Name of the Subsidiary	Four Soft LLC. USA
2. Financial period ended	March 31, 2004
3. Holding Company's interest	100% (15,000 equity shares of no par value)
4. The net aggregate of profits or losses for the current period of the subsidiary so far as it concerns the members of the holding company	
a. dealt with or provided for in the accounts of the holding company	Nil
b. not dealt with or provided for the accounts of the holding company	Rs. 22,49,627
5. The net aggregate of profits or Losses for previous financial Year of the subsidiary so far as It concerns the members of the Holding company	
a. dealt with or provided for in the accounts of the holding company	Nil
b. not dealt with or provided for the accounts of the holding company	Nil

For and on behalf of the Board

PALEM SRIKANTH  
Managing Director

Place: Hyderabad  
Date: June 18, 2004



Consolidated financial statements of Four Soft Limited and its Subsidiary

Auditors' Report to the members of Four Soft Limited and its Subsidiary

We have examined the attached Consolidated balance sheet of M/s. Four Soft Limited, and its subsidiary Four Soft LLC, as at March 31, 2004, the Consolidated Profit and Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We further report that in respect of subsidiary, Four Soft LLC, USA, we did not carry out the audit. It's financial statements have been certified by the management and have been furnished to us, and in our opinion, in so far as it relates to the amounts included in respect of the said subsidiary is based solely on the certified financial statements. Since the financial statements of Four Soft LLC, USA, the financial year ended March 31, 2004 which were compiled and certified by the management have not been audited, any adjustment in those statements will have consequential effects on the attached consolidated financial statements.

We report that the Consolidated financial statements have been prepared by the company in accordance with the requirements of the Accounting Standard – 21 (ICAI), and on the basis of separate audited financial statements of the parent company and un-audited financial statements of the subsidiary, Four Soft LLC, USA.

Subject to the above, we report that on the basis of information and explanation given to us and on the consideration of the audited financial statements of the parent company and un-audited financial statements of the subsidiary, we are of the opinion that the said consolidated financial statements, read in conjunction with the schedules A to M together with notes thereon, and in particular Clause No. 6 and 9 of Schedule 'M' to the accounts 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 the affairs of the parent company and it's subsidiary as at March 31, 2004 and,
- b. in the case of the Consolidated Profit and Loss account of the 'Consolidated Profit' of the parent company and its subsidiary for the year ended on that date.

For A.G.S. Reddy & Co.,  
Chartered Accountants

Place: Hyderabad  
Date: June 18, 2004

A.G. SURENDRANATHA REDDY  
Proprietor  
Membership No. 12621 – F

## FOUR SOFT LIMITED

Regd. Off: 5Q1 A3, 5th Floor, Cyber Towers,HITEC City, Madhapur, Hyderabad - 500 033

## CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2004

*(Amount in Rupees)*

Particulars	Sch No.	As at 31-03-2004
I. SOURCES OF FUNDS		
SHAREHOLDERS' FUNDS		
Share Capital	A	158,663,970
Reserves & Surplus	B	<u>249,690,727</u>
Total		<u>408,354,697</u>
II. APPLICATION OF FUNDS		
Fixed Assets		
Gross Block	C	31,250,195
Less: Depreciation		9,878,432
Net Block		21,371,763
Investments	D	7,699,375
Current Assets, Loans and Advances		
Cash and Bank Balances	E	72,332,774
Sundry Debtors	F	29,963,579
Loans and Advances	G	9,837,563
Other Current assets	H	<u>270,839,178</u>
Sub-Total (i)		382,973,094
Current Liabilities & Provisions		
Liabilities	I	3,618,244
Provisions		<u>17,360,950</u>
Sub-Total(ii)		20,979,194
Net and Current assets (i – ii)		361,993,900
Miscellaneous Expenditure (to the extent not written off or adjusted)	J	17,289,659
Total		<u>408,354,697</u>
Notes on Accounts		

Note: Schedules 'A' to 'M' form part of accounts

Per our report of even date annexed  
For A.G.S. Reddy & Co.,  
Chartered Accountants

A.G. SURENDRANATHA REDDY  
Proprietor

For and on behalf of the Board

PALEM SRIKANTH  
Managing Director

P.MANGAMMA  
Director

Place : Hyderabad  
Date : June 18, 2004

NARESH KUMAR PATRO  
Company Secretary

## FOUR SOFT LIMITED

Regd. Off: 5Q1 A3, 5th Floor, Cyber Towers, Hitec City, Madhapur, Hyderabad - 500 033

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2004

*(Amount in Rupees)*

Particulars	Sch No.	Year ended 31-03-2004
I. INCOME		
From Software products and services	K	139,819,147
Other Income -		
a) Income earned on Mutual Funds		993,429
b) Interest on fixed deposits		1,023,048
c) Other receipts		515,452
Total		142,351,076
II. EXPENDITURE		
Administrative and selling expenses	L	84,006,276
Depreciation	C	3,850,527
Total		87,856,803
Profit before tax for the year (I – II)		54,494,273
Less: Provision for taxation		1,041,933
Proposed Dividend		7,966,199
Dividend Tax		1,020,669
Transferred to General Reserve		27,249,626
Add: Profit / (Loss) brought forward from previous year		27,249,626
Transferred to Schedule - B		44,465,472
Notes on Accounts	M	

Note: Schedules 'A' to 'M' form part of accounts

Per our report of even date annexed  
For A.G.S. Reddy & Co.,  
Chartered Accountants

A.G. SURENDRANATHA REDDY  
Proprietor

For and on behalf of the Board

PALEM SRIKANTH  
Managing Director

P.MANGAMMA  
Director

Place : Hyderabad  
Date : June 18, 2004

NARESH KUMAR PATRO  
Company Secretary

## Schedules to the Consolidated Accounts

(Amount in Rupees)

Particulars	As at 31-03-2004
<b>A.Share Capital</b>	
Authorised:	
i. 3,60,77,600 Equity shares of Rs. 5/- each (Previous year 50,00,000 Equity shares of Rs.10/- each)	180,388,000
ii. 6,96,120 – 14% Redeemable optionally convertible cumulative preference shares (Previous year Nil)	69,612,000
	<u>250,000,000</u>
Issued, Subscribed and Paid-up Share Capital	
1. 3,18,64,794 Equity Shares of Rs. 5/- each fully paid up	159,323,970
Less: Calls in arrears	<u>660,000</u>
	158,663,970
Of the above equity shares:	
a. 47,23,378 Equity shares of Rs. 5/- each issued at par aggregating to Rs. 23,616,890/-	
b. 83,18,524 Equity shares of Rs. 5/- each issued under sweat equity aggregating to Rs. 4,15,92,620/-	
i. 24,54,262 Equity shares of Rs. 10/- each issued at Re.1/- per share and Rs. 9/- per share treated as deferred expenditure aggregating to Rs. 2,45,42,620/- (before sub-division of share capital)	
ii. 34,10,000 Equity shares of Rs. 5/- each issued at Re. 0.35/- per share and Rs. 4.65/- per share treated as deferred expenditure aggregating to Rs. 1,70,50,000/- (after sub- division of share capital)	
c. 1,42,58,922 Equity Shares of Rs. 5/- each issued at a premium aggregating to Rs. 7,12,94,610/-	
i. 3,79,073 Equity shares of Rs. 10/- each issued at a premium of Re. 0.24/- per share aggregating to Rs. 37,90,730/- (before sub-division)	
ii. 5,13,345 Equity Shares of Rs. 10/- each issued at a premium of Rs. 20/- per share aggregating to Rs. 51,33,450/- (before sub-division)	
iii. 2,01,593 Equity shares of Rs. 10/- each issued at a premium of Rs. 50/- per share aggregating to Rs. 20,15,930/- (before sub-division)	
iv. 39,80,600 Equity shares of Rs. 5/- each issued at a premium of Rs. 15/- per share aggregating to Rs.1,99,03,000/- (before sub-division)	
v. 80,90,300 Equity shares of Rs. 5/- each issued at a premium of Rs. 20/- per share aggregating to Rs.4,04,51,500/- (after sub-division)	
d. 45,63,970 Equity shares of Rs.5/- each issued as Bonus shares aggregating to Rs. 2,28,19,850/- [2 Bonus shares of Rs. 10/- each issued for 5 shares of Rs.10/- each held on 29/07/03(before sub-division)] by Capitalisation of General Reserve	
Per Balance Sheet	<u>158,663,970</u>
<b>B.Reserves and Surplus</b>	
General Reserve	4,429,779
Share Premium account	226,741,790
Less: Written off (i) 1/5 <sup>th</sup> of IPO expenses	4,099,227
(ii) Deferred sweat equity	<u>22,514,655</u>
	200,127,908
Profit and Loss Account	44,465,472
Foreign currency translation reserve	<u>667,568</u>
Per Balance Sheet	249,690,727

FOUR SOFT LIMITED  
FIXED ASSETS

SCHEDULE - C

Sl. No.	Particulars	GROSS BLOCK			DEPRECIATION				WDV			% of Depn.
		As at 01-04-03 Rs.	Additions during the Period Rs.	Sale/Adj. during the Period Rs.	As on 31-03-04 Rs.	As on 01-04-03 Rs.	For the Period Rs.	Adjustment During the Rs.	As on 31-03-04 Rs.	As on 31-03-04 Rs.	As at 31-3-03 Rs.	
1.	Computers	9,783,221	2,725,262	0	12,508,483	4,345,168	2,552,514	0	6,897,682	5,610,801	5,438,053	40.00
2.	Office Equipment	2,320,013	1,260,501	29,000	3,551,514	498,376	390,987	10,895	878,468	2,673,046	1,821,637	13.91
3.	Furniture & Fittings	3,750,580	1,085,704	0	4,844,284	1,195,256	907,026	0	2,102,282	2,742,002	2,563,324	10.10
4.	Building - Office	0	10,345,914	0	10,345,914	0	0	0	0	10,345,914	0	10.00
	Total	15,861,814	15,417,381	29,000	31,250,195	6,038,800	3,850,527	10,895	9,878,432	21,371,763	9,823,014	
	Previous Year	10,152,023	5,709,791	0	15,861,814	3,550,097	2,488,703	0	6,038,800	9,823,014	6,601,926	

Note-1 : Depreciation for the period has been provided on Written Down Value Basis as per rates specified in Schedule-XIV to the Companies Act, 1956, on time basis.

(Amount in Rupees)

Particulars	As at 31-03-2004
D. Investments	
Trade Investments - Unquoted (at cost)	
Investment in Joint Ventures / Subsidiaries	
25,000 shares of common stock at no par value in Four Soft International Inc. USA	7,699,375
Per Balance Sheet	7,699,375
E. Cash and Cash Equivalents	
1. Cash in hand	7,152
2. Balance in Current A/c. with scheduled banks	
a. HSBC A/c.No. 081-030363-001 - Punjagutta, Hyderabad	731,624
b. HSBC A/c No. 081-030363-511 - Punjagutta, Hyderabad	69,733,980
c. HSCB A/c No. 081-030363-002 - Punjagutta, Hyderabad	63,633
d. HSBC A/c No. 081-030363-003 - Punjagutta, Hyderabad (Div.)	1,792
e. HSBC A/c No. 0-142-151364-001 - Singapore	328,763
f. Citibank A/c. No. 0-100705-559, Greenlands Hyderabad	359,656
g. Bank of America, USA.	1,001,441
h. West America Bank, USA.	104,733
Per Balance Sheet	72,332,774
F. Sundry Debtors	
(Unsecured - Considered good)	
1. Less than 6 months	25,283,681
2. Beyond 6 months	4,679,898
Per Balance Sheet	29,963,579
G. Loans and Advances	
(Unsecured - considered good and recoverable in cash or kind for value to be received)	
Travelling advance	247,214
TDS on Interest	240,255
Withholding tax (USA & Malaysia)	1,502,436
Advance tax paid	2,449,571
Staff advance	127,856
Accrued interest on fixed deposits	290,107
Prepaid expenses	184,585
Other expenses	5,539
FSL Employees welfare trust	4,790,000
Per Balance sheet	9,837,563
H. Other Current assets	
Deposits:	
Fixed deposits with scheduled banks	267,691,177
L&T Infocity Ltd.	
- for parking	26,250
- for rent	580,020
- for electricity	62,148
	668,418

(Amount in Rupees)

Particulars	As at 31-03-2004
Telephone deposit	219,533
Central excise deposit	115,550
Sales tax deposit (NSC)	6,000
Rent deposit - Chennai office	12,000
Rent deposit - Madhapur	16,600
Rent deposit - Singapore	81,000
Deposit with National Stock exchange	2,022,600
Other deposits	6,300
Per Balance sheet	<u>270,839,178</u>
I. Current Liabilities and provisions	
Current Liabilities:	
Advances from employees	4,339
Other advances	38,837
Sundry Debtors	3,071,675
ESOP Fund	27,226
Advance AMC received	476,167
Per Balance sheet	<u>3,618,244</u>
Provisions:	
Outstanding expenses	551,078
Professional tax payable	16,470
Salaries payable	4,152,506
Provident fund payable	374,397
TDS payable	1,051,555
Provision for taxation - India	1,041,933
Proposed dividend	7,966,199
Dividend tax	1,020,669
Auditors' remuneration	185,175
Sales tax audit fee payable	10,800
Managerial remuneration	719,434
Leave encashment	264,942
Rent payable	4,000
Unclaimed dividend FY 2001-02	1,792
Per Balance Sheet	<u>17,360,950</u>
J. Miscellaneous expenditure	
1. Patents and Trademarks	159,467
Add: Additions during the year	732,852
Less: 1/5th written off	<u>62,282</u>
	830,037
2. Preliminary expenses	125,433
Less: 1/5th written off	62,717
	62,716
3. Deferred employee expenses	940,234
Add: additions during the year	0
	<u>940,234</u>
Less: During the year written off	940,234
	0
4. Deferred sweat equity expenses	0
Add: Additions during the year	<u>22,514,655</u>
	22,514,655
Less: Written off to share premium account	22,514,655
	0
5. Share Issue expenses (IPO)	20,496,133
Less: 1/5th written off to share premium account	4,099,227
	<u>16,396,906</u>
Per Balance sheet	<u>17,289,659</u>

(Amount in Rupees)

Particulars	As at 31-03-2004
K. Software product development / IT consultancy services	
Export:	
Software Products	100,794,450
Onsite development and services	36,190,164
Domestic	
Onsite development and services	2,834,533
Per Profit and Loss account	<u>139,819,147</u>
L. Administrative and Selling expenses	
Salaries	35,232,980
Medical reimbursement	1,160,928
PF Employers contribution	1,956,194
Managerial remuneration	1,235,938
Travelling expenses	8,332,659
Local conveyance	2,738,593
Advertisement and recruitment	311,664
Rent- office	487,696
Electricity and Water charges	1,364,755
Printing and stationery	209,642
Postage and courier	103,811
Books and Journals	9,053
Telephone expenses	1,667,366
Repairs and maintenance	1,115,680
Bank charges	156,989
Staff welfare	625,149
General expenses	128,426
Fee, rates and taxes	1,567,322
Professional charges	522,959
Business promotion	591,370
Insurance	450,564
Export agency commission	481,570
Preliminary expenses	62,717
Patents and Trademarks	62,282
Deferred employee expenses	940,234
Foreign exchange fluctuation	8,217,693
Sales tax audit fee	10,800
Legal expenses	81,000
Remuneration to auditors	
For Statutory audit	80,000
For taxation matters	30,000
For tax audit	20,000
For certification matters	50,000
For service tax	<u>14,400</u>
	194,400
Loss on sale of fixed assets	10,105
Bad and doubtful debts written off	13,975,738
Per Profit and Loss account	<u>84,006,276</u>



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Schedules to Accounts Contd..

## M. Notes to Accounts

## 1) Significant accounting policies

## a. Accounting Convention:

The accounts have been prepared under historical cost convention from the books of account maintained on accrual basis and comply with the Accounting Standards issued by the ICAI and referred to in section 211(3C) of the Companies Act, 1956.

## b. Basis of Consolidation

The Consolidated financial statements of Four Soft Ltd., and its wholly owned subsidiary Four Soft LLC, USA are prepared under the historical cost convention in accordance with Generally Accepted Accounting Principles applicable in India and the Accounting Standard -21 (ICAI) to the extent possible in the same format as that adopted by the parent company for its separate financial statements.

The financial statement of subsidiary have been combined in full on a line by line basis by adding together the book values of like items of assets, liabilities, income and expenses, Intra-Group balances and Intra-group transactions and resulting unrealized profits are eliminated.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

## c. Use of estimates

The preparation of the financial statements in conformity with the Generally Accepted Accounting Principles requires that the management make estimate and assumptions that effect the reported amount of assets, liabilities and disclosure of contingent liabilities as at the date of reported financial statements and the amount of revenue and expenses during the reported period. Actual results could differ from these estimates.

## d. Revenue recognition

All expenses and incomes to be payable or receivable respectively are accounted on accrual basis.

The revenue from license fee is recognized on the milestones and/or schedule of payments falling within the relevant financial year, as per the agreement / contract concerned.

Revenue from customization is recognized on the last day of each month based on customization hours spent for the relevant month.

Annual maintenance fee (AMC) is invoiced on the first day of the start of the AMC period, but revenue from AMC is accounted for on proportionate monthly basis for the relevant financial year.

Onsite consulting services are billed on monthly basis on the basis of hours or number of man days spent for the month and the revenue is recognized on the last day of the relevant month.

The income earned of Rs. 993,429/- from mutual funds (per Profit & loss account) has been arrived at, after setting off of Rs. 494,907/- being the net short term capital loss on realization of investment in mutual funds.

## e. Fixed assets

Fixed assets are stated at actual cost less accumulated depreciation. The actual cost capitalized includes cost of the asset, freight, insurance. Installation costs, duties and taxes and other incidental expenses incurred.

The subsidiary, Four Soft LLC doesn't have any fixed assets.

## f. Depreciation

Depreciation has been provided in accordance with the rates prescribed in Schedule XIV to the Companies Act, 1956 an rules thereon and in accordance with the period they are put to use. However, depreciation in respect individual items costing less than Rs. 5000/- was fully written off in the year of their acquisition as per Sch-XIV of the Companies Act, 1956.

## g. Inventories

Inventories are valued at cost or market value whichever is less. (Nil)

## h. Investments

Long term investments are stated at cost.

- |    |  |     |     |
|----|--|-----|-----|
| 2) | Claims against the company not acknowledged as debts | Nil | Nil |
| 3) | Contingent liabilities not provided for              | Nil | Nil |
- 4) The company has sent letters of confirmation of balance to the debtors. The same are yet to be received. Necessary adjustments in the accounts arising out of reconciliation will be made after receipt of the confirmation/s.
- 5) Since it is the first year of presentation of Consolidated financial statements previous year figures have not been given.
- 6) Office units admeasuring 4308 Sq. Ft. and 3554 Sq. Ft. have been allotted on 1-3-2000 / 08-11-2002 respectively at Cyber Towers, Hitec City, by L&T Infocity limited with option for outright purchase or deferred payment purchase in accordance with commercial terms and conditions specified. The deposits and advances including the installments paid in accordance with the terms and conditions have been reflected as current assets in the balance sheet. Pending such exercise of option, the amounts so paid were neither capitalized nor written off to the profit and loss account till last year. The company is favouring exercise of its option to purchase the said units and accordingly capitalized the same on March 31, 2004. One office unit has since been registered in favour of the company. However, the company has not claimed any depreciation on the amounts so capitalized.

## 7) Foreign Currency Transactions

Transactions in foreign currency are recorded in the books of the parent company by applying the average rate and any difference on realization due to fluctuation in foreign currency is treated as loss or gain on account of foreign exchange fluctuation and debited/ credited to profit & Loss account. The monetary assets as on the date of balance sheet are restated at the rate prevailing on the date. The gain / loss arising on such translation is credited / debited to the profit and loss a/c. as the case may be. The investment in subsidiary company is accounted at the rate prevailing on the date of investment.

The consolidated financial statements are prepared in Indian Rupees. The translation of foreign currency into Indian rupee is performed for current assets and liabilities using the exchange rate in effect at the balances sheet date. For revenue and expenses using the exchange rate prevailing at the date of transaction and for share capital and reserves by using exchange rate at the transaction date. The difference in the translation are taken to reserves, under foreign currency translation reserve.

The company has branches in Singapore and United Kingdom. These overseas branches are looking after the marketing operations of the company and the revenue is totally generated in India. The said branch accounts (expenditure) have been incorporated in the accounts of the company at the rates prevailing at the date of transaction. Hence, no separate statement of accounts have been annexed to the financial statements of the Company.

## 8) Segment Reporting:

The company has web centric enterprise application software for transportation, logistics and distribution system and provides various types of services relating to that product. Hence only on segment from which revenues are realized i.e, software product license and related services. Whereas, Geographical segmentation in concerned, the revenues are generated in the following regions namely North America Rs. 1200.39 Lacs, Asia Pacific Rs. 99.24 Lacs, India and West Asia Rs. 82.46 Lacs and Europe Rs. 16.10 Lacs.

## 9) Retirement Benefits:

- a) liability in respect of provident fund is provided on actual payment basis.
- b) Liability on account of leave encashment for employees is provided on accrual basis.
- c) No liability is provided in respect of Gratuity and other Superannuation benefits for the period 31/03/04. The company had an actuarial valuation and the liability as per the actuarial valuation is Rs. 607,553/- as on the date of balance sheet. If provided, the profit for the current period would have been lesser by that amount.

- 10) Earnings per share (EPS): as per AS -20, the basic earnings per share is as follows:

	As at	
	31-03-2004	31-03-2003
	Rs.	Rs.
Net profit available to equity share holders	52,431,671	28,828,220
Weighted average no. of equity shares (Nos.)		
Outstanding, considered for basic EPS	19,409,939	13,585,926
Basic earnings per share	2.70	2.12

- 11) Deferred taxes:

No provision for deferred taxes has been made, as the timing differences existing as at March 31, 2004 would reverse within the tax holiday period of the company, as per the provisions of section 10A of the Income -Tax, 1961.

- 12) Issue of shares under Sweat Equity: (Upto 31/03/2004)

	No. of Shares
Directors	7,526,900
Employees	791,624
Total	8,318,524

- 13) A sum of Rs. 41,92,860/- & Rs. 2,25,14,655/- being the sweat equity expenditure for the financial years: 2002-03 and 2003-04 respectively and Rs. 40,99,227/- being 1/5th of share issue expenses (IPO) has been written off from the share premium account.

- 14) The company has invested in Four Soft International Inc., and Four Soft LLC, USA and those investments have been approved by the RBI.

- 15) RELATED PARTY TRANSACTIONS:

I. Four Soft LLC, USA (WOS):

It is a 100% subsidiary of Four soft Limited and caters to the implementation and marketing aspects of the Four Soft Limited. During the year the company has paid Rs. 14,513,608/- to Four Soft LLC, being their share of revenue for the period under the Inter Company revenue sharing agreement. The balance outstanding and payable to them as on the balance sheet date was Rs. 2,959,960/-. The Managing Director, of the parent company P.Srikanth Reddy is a director in this company.

II. Four Soft International Inc., USA J.V:

Four Soft Limited has invested 25% of the equity of Four Soft International Inc., and the volume of transactions during the period under consideration amounted to Rs. 60,95,620/- towards license sales, customization and service charges. There is no outstanding balance as on March 31, 2004 after writing off of Rs. 47,04,117/- as bad debts, being irrecoverable. The said joint venture has made arrangements for filing the returns as and when statutorily due in that country. The Managing director, of Four Soft Ltd. P.Srikanth Reddy is a director in this company.

- 16) At the EGM held on July 29, 2002, the authorized share capital of the company of Rs. 12,00,00,000/- divided into 1,20,00,000 equity shares of Rs. 10/- each was sub divided/split into 24,000,000 equity shares of Rs.5/- each. Further at the EGM held on 29/09/2003, the authorized share capital of the company was increased by Rs. 8,00,00,000/- divided into 20,77,600 equity shares of Rs. 5/- each and 6,96,120, 14% Redeemable Optionally Convertible Cumulative Preference shares of Rs. 100/- each and at the EGM held on 10/10/2003, the authorized share capital of the company was increased by Rs. 5,00,00,000 divided into 1,00,00,000 equity shares of Rs. 5/- each.

After the aforesaid enhancement the authorized capital of the company stood at 36,077,600 equity shares of Rs. 5/- each and 696,120, 14% Redeemable Optionally Convertible Cumulative Preference Shares of Rs. 100/- each, as on the date of the balance sheet viz., 31-03-2004.

- 17) The company has raised funds through Initial Public Offering, to an extent of Rs. 200,937,500/- (Excl. calls in arrears), by issuing 80,90,300 equity shares of Rs. 5/- each and at a premium of Rs. 20/- per share. The company is in the course of fulfilling the objectives for which the funds were raised and for the time being, the same were invested in banks, as short term deposits.

Per our report of even date annexed  
For A.G.S. Reddy & Co.,  
Chartered Accountants

A.G. SURENDRANATHA REDDY  
Proprietor

Place : Hyderabad  
Date : June 18, 2004

For and on behalf of the Board

PALEM SRIKANTH                      P.MANGAMMA  
Managing Director                      Director

NARESH KUMAR PATRO  
Company Secretary

## Four Soft LLC

### Directors' Report

Your directors are pleased to present before the shareholders the third annual report of the company for the financial year ended March 31, 2004.

Your company is the marketing arm of Four Soft Limited and been involved in marketing of Four Soft products, product Implementation and Onsite Support for various customers in North America. Four Soft LLC is a 100% wholly Owned Subsidiary of Four Soft Ltd. and is represented by its nominee director Palem Srikanth Reddy. Since there is no requirement to get the balance sheet and profit and loss account for Four Soft LLC, to be audited and published in the under the laws of USA, till now none of the previous years balance sheet and Profit and loss accounts are audited.

However, in the subsequent year the parent company Four Soft Ltd., being a limited and listed company the Parent Company financial statements should have annexed Subsidiary accounts. The revenues have increased by 32% over the previous years and Profits after Tax (PAT) increased by 24% over the previous year. The Company has been providing onsite services to the parent company Four Soft Ltd., for its customers in North America.

As the company is not required to draw its balance sheet and statement of operations the company has followed the GAAP standards and uniformly applied the concept of revenue recognition and expenses in preparing its statements.

### FOUR SOFT LLC

Off: #333 N SAM HOUSTON PKWY E HOUSTON, SUITE # 400 TX 77060-2414 USA  
BALANCE SHEET AS OF MARCH 31, 2004

Particulars	31-03-2004 US Dollars	31-03-2004 Indian rupees
ASSETS		
Current Assets		
Cash and Cash equivalents	25,494	1,106,185
Accounts receivable from related party	68,218	2,959,979
Total Current Assets	93,712	4,066,164
Preliminary expenses	14,500	652,545
Property and Equipment, Net	0	0
Total assets	<u>108,212</u>	<u>4,718,709</u>
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	0	0
Advances from employees	100	4,339
Salaries Payable	21,652	939,475
Provision for taxation	3,000	130,170
Total Current Liabilities	24,752	1,073,984
STOCKHOLDER'S EQUITY		
Common stock, \$ 1.00 par value, 15,000 shares authorised	15,000	727,500
15,000 shares issued and outstanding	15,000	727,500
Reserves & Surplus	68,460	2,917,084
Total Stockholders' Equity	83,460	3,644,695
Total Liabilities and Stockholders' Equity	<u>108,212</u>	<u>4,718,709</u>

## FOUR SOFT LLC

Off: #333 N SAM HOUSTON PKWY E HOUSTON, SUITE # 400 TX 77060-2414 USA

## STATEMENT OF OPERATIONS FOR THE YEAR ENDING MARCH 31, 2004

Particulars	31-03-2004 US Dollars	31-03-2004 Indian rupees
INCOME		
Income from Software Products and Services	<u>334,492</u>	<u>14,513,608</u>
Total Revenues	334,492	14,513,608
Operating Expenses		
Staff cost	210,291	9,730,535
Selling, general and administrative expenses	<u>52,741</u>	<u>2,403,276</u>
Total Operating Expenses	263,032	12,133,811
Income (loss) from operations	71,460	2,379,797
Other Income (expense)	0	0
Provision for taxation	3,000	130,170
Net Income (Loss)	<u>68,460</u>	<u>2,249,627</u>

For and on behalf of the Board

PALEM SRIKANTH  
Director

Date: June 18, 2004

## ELECTRONIC CLEARING SERVICES (ECS) MANDATE FORMAT

To  
 FOUR SOFT LTD.  
 C/o. KARVY COMPUTERSHARE PVT. LTD.  
 Avenue 4, Street No. 1, Banjara Hills, Hyderabad - 500 034 India.

Dear Sirs,

FORM FOR ELECTRONIC CLEARING SERVICES FOR PAYMENT OF DIVIDEND.

Please fill-in the information in CAPITAL LETTERS in ENGLISH ONLY. Please  wherever is applicable.

For Shares held in physical form

Master Folio No.

FOR OFFICE USE ONLY

ECS Ref. No.

For Shares held in electronic form

DP. Id

Client Id

Name of First Holder

Bank Name	<input type="text"/>
Branch Name	<input type="text"/>
Branch Code	<input type="text"/>
	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> (9 Digits Code Number appearing on the MICR Bank of the cheque supplied by the Bank). Please attach a xerox copy of a cheque or blank cheque of your bank duly cancelled for ensuring accuracy of the banks name, branch name and code number.

Account type

A/c. No. (as appearing in the cheque book)

Effective date of this mandate

I, hereby, declare that the particulars given above are correct and complete. If any transaction is delayed or not effected at all for reasons of incompleteness or incorrectness of information supplied as above, M/s. Karvy Computershare Pvt. Ltd., will not be held responsible. I agree to avail the ECS facility provided by RBI, as and when implemented by RBI/ Four Soft Limited.

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

Dated:

(Signature of First holder)

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