

**i-flex Solutions Limited**

**CONDENSED BALANCE SHEET AS AT SEPTEMBER 30, 2007**

(Amounts in thousands of Indian Rupees)

	<u>September 30, 2007</u>	<u>March 31, 2007</u>
<b><u>SOURCES OF FUNDS</u></b>		
Shareholders' funds		
Share capital	418,644	416,443
Share application money pending allotment	5,946	401,679
Reserves and surplus		
Securities premium	9,442,447	9,011,876
General reserve	10,145,191	10,145,191
Profit and loss account	5,357,314	4,009,569
	<b><u>25,369,542</u></b>	<b><u>23,984,758</u></b>
<b><u>APPLICATION OF FUNDS</u></b>		
Fixed assets		
Cost	4,026,986	3,232,748
Less: Accumulated depreciation and amortisation	2,046,564	1,739,532
Net book value	1,980,422	1,493,216
Capital work-in-progress and advances	1,165,448	1,270,678
	<u>3,145,870</u>	<u>2,763,894</u>
Investments		
Long term investments		
Unquoted	6,724	6,724
Quoted	33,123	33,123
In wholly owned subsidiaries (unquoted)	6,794,352	6,043,163
Current investments (quoted)	9,293	9,190
Deferred tax assets	139,105	131,351
Current assets, loans and advances		
Sundry debtors	8,514,087	10,419,437
Cash and bank balances	5,026,775	5,007,470
Other current assets	1,041,350	987,275
Loans and advances	5,088,976	4,866,857
	<u>19,671,188</u>	<u>21,281,039</u>
Less: Current liabilities and provisions		
Current liabilities	4,037,916	5,930,401
Provisions	392,197	353,325
	<u>4,430,113</u>	<u>6,283,726</u>
Net current assets	15,241,075	14,997,313
	<b><u>25,369,542</u></b>	<b><u>23,984,758</u></b>

Condensed notes referred to attached herein form an integral part of these accounts

As per our report of even date

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

**N R K Raman**                      **Y M Kale**  
Managing Director                  Director  
& Chief Executive Officer

**per Sunil Bhumralkar**  
Partner  
Membership No. 35141

**Deepak Ghaisas**                      **Tarjani Vakil**  
Company Secretary                  Director

**Bangalore, India**  
**October 26, 2007**

**Mumbai, India**  
**October 26, 2007**

**i-flex Solutions Limited**

**CONDENSED PROFIT AND LOSS ACCOUNT FOR THE THREE AND SIX MONTH PERIOD ENDED SEPTEMBER 30, 2007**  
(Amounts in thousands of Indian Rupees, except share and per share data)

	Three month period ended September 30,		Six month period ended September 30,	
	2007	2006	2007	2006
Revenue	4,351,676	3,968,002	8,198,077	7,051,906
Cost of revenue	(2,582,670)	(2,160,320)	(5,011,637)	(4,238,005)
Gross profit	1,769,006	1,807,682	3,186,440	2,813,901
Operating expenses				
Selling and marketing expenses	(215,661)	(231,480)	(356,648)	(375,069)
General and administrative expenses	(581,654)	(447,942)	(1,090,133)	(872,207)
Depreciation and amortisation	(168,213)	(136,588)	(310,915)	(264,530)
Income from operations	803,478	991,672	1,428,744	1,302,095
Non-operating income (expense)				
Provision for diminution in value of investments	(120,000)	-	(120,000)	-
Interest income	108,270	94,955	214,585	198,350
Foreign exchange gain (loss), net	39,867	29,161	(67,936)	27,405
Other income	264	4,927	2,424	5,500
Income before provision for taxes	831,879	1,120,715	1,457,817	1,533,350
Provision for taxes				
Current tax	(101,861)	(114,877)	(179,105)	(162,128)
MAT credit	62,156	-	102,034	-
Deferred tax	(6,092)	23,743	7,754	28,900
Fringe benefit tax	(20,334)	(20,200)	(40,755)	(35,200)
Net income for the period	765,748	1,009,381	1,347,745	1,364,922
Earnings per share of Rs 5/- each (in Rs)				
Basic	9.15	13.05	16.12	17.75
Diluted	9.12	12.72	16.06	17.30
Number of shares used in computing earnings per share				
Basic	83,708,693	77,347,545	83,631,627	76,890,979
Diluted	83,970,005	79,358,249	83,914,806	78,901,683

Condensed notes referred to attached herein form an integral part of these accounts

As per our report of even date

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

**N R K Raman**  
Managing Director  
& Chief Executive Officer

**Y M Kale**  
Director

**per Sunil Bhumralkar**  
Partner  
Membership No. 35141

**Deepak Ghaisas**  
Company Secretary

**Tarjani Vakil**  
Director

**Bangalore, India**  
**October 26, 2007**

**Mumbai, India**  
**October 26, 2007**

## i-flex Solutions Limited

### Notes forming part of the condensed accounts for the three and six month period ended September 30, 2007

(Amount in thousands of Indian Rupees, except share data)

#### 1. Accounting policies

The Company has followed the same accounting policies in preparing the interim financial statements as were followed for the year ended March 31, 2007.

#### 2. Commitments and contingent liabilities

- (a) Contracts remaining to be executed on capital account and not provided for (net of advances) aggregates to Rs 1,754,362 (includes capital commitment through issuance of letter of intents of Rs 559,532) as at September 30, 2007 (March 31, 2007 - Rs 1,875,264).
- (b) Financial bank guarantees given to banks on behalf of subsidiaries, aggregates to Rs 35,811 as at September 30, 2007 (March 31, 2007 - Rs 39,384).

#### 3. Movement in Company's share based compensation plans

	(Number of shares)			
	Three months period ended September 30,		Six months period ended September 30,	
	2007	2006	2007	2006
<b>Employee stock purchase scheme</b>				
Opening balance of unallocated shares	148,268	128,851	142,116	120,888
Shares forfeited during the period	1,293	1,034	7,445	8,997
Closing balance of unallocated shares	149,561	129,885	149,561	129,885
Opening balance of allocated shares	302,475	1,949,358	355,212	2,080,546
Shares exercised during the period	(36,068)	(1,78,778)	(82,653)	(302,003)
Shares forfeited during the period	(1,293)	(1,034)	(7,445)	(8,997)
Closing balance of allocated shares	265,114	1,769,546	265,114	1,769,546
Shares eligible for exercise	133,939	1,573,620	133,939	1,573,620
Shares not eligible for exercise	131,175	195,926	131,175	195,926
Total allocated shares	265,114	1,769,546	265,114	1,769,546
<b>Employee stock option plan</b>				
Outstanding at beginning of period	525,485	2,934,100	530,485	2,756,880
Granted	-	-	-	373,000
Exercised	(44,732)	(57,970)	(44,732)	(247,450)
Forfeited	(18,800)	(28,400)	(23,800)	(34,700)
Outstanding at end of the period	461,953	2,847,730	461,953	2,847,730

**Notes forming part of the condensed accounts for the three and six month period ended September 30, 2007**  
(All amounts in thousands of Indian Rupees)

**4 Segment information.**

The Company is organised geographically and by business segment. For management purposes the Company is primarily organised on a worldwide basis into two business segments:

- a) Product licenses and related activities ('Products') and  
b) IT solutions and consulting services ('Services').

The Company does not track assets and liabilities geographically.

**Three month period ended September 30, 2007**

<b>Particulars</b>	<b>Products</b>	<b>Services</b>	<b>Corporate</b>	<b>Total</b>
Revenue	2,634,286	1,717,390	-	4,351,676
Cost of revenue	(1,218,385)	(1,364,285)	-	(2,582,670)
Gross profit	1,415,901	353,105	-	1,769,006
Selling and marketing expenses	(181,961)	(33,700)	-	(215,661)
General and administrative expenses	(125,219)	(120,921)	(335,514)	(581,654)
Depreciation and amortisation	(68,200)	(74,519)	(25,494)	(168,213)
Income from operations	1,040,521	123,965	(361,008)	803,478
Provision for diminution in value of investments				(120,000)
Interest income				108,270
Foreign exchange gain, net				39,867
Other income, net				264
Income before provision for taxes				831,879
Provision for taxes				(66,131)
Net income				765,748
<u>Other information</u>				
Segment assets	7,322,634	7,275,851	15,201,170	29,799,655
Segment liabilities	2,523,879	1,569,166	337,068	4,430,113
Capital employed			25,369,542	25,369,542

**Three month period ended September 30, 2006**

<b>Particulars</b>	<b>Products</b>	<b>Services</b>	<b>Corporate</b>	<b>Total</b>
Revenue	2,205,755	1,762,247	-	3,968,002
Cost of revenue	(873,966)	(1,286,354)	-	(2,160,320)
Gross profit	1,331,789	475,893	-	1,807,682
Selling and marketing expenses	(202,431)	(29,049)	-	(231,480)
General and administrative expenses	(129,199)	(103,823)	(214,920)	(447,942)
Depreciation and amortisation	(69,904)	(49,106)	(17,578)	(136,588)
Income from operations	930,255	293,915	(232,498)	991,672
Interest income				94,955
Foreign exchange gain, net				29,161
Other income, net				4,927
Income before provision for taxes				1,120,715
Provision for taxes				(111,334)
Net income				1,009,381
<u>Other information</u>				
Segment assets	6,194,415	7,703,728	12,148,372	26,046,515
Segment liabilities	1,767,635	476,052	3,023,927	5,267,614
Capital employed			20,778,901	20,778,901

**i-flex Solutions Limited**

**Notes forming part of the condensed accounts for the three and six month period ended September 30, 2007**  
(All amounts in thousands of Indian Rupees)

**Six month period ended September 30, 2007**

Particulars	Products	Services	Corporate	Total
Revenue	4,804,185	3,393,892	-	8,198,077
Cost of revenue	<u>(2,375,012)</u>	<u>(2,636,625)</u>	-	<u>(5,011,637)</u>
Gross profit	2,429,173	757,267	-	3,186,440
Selling and marketing expenses	(310,013)	(46,636)	-	(356,649)
General and administrative expenses	(228,884)	(238,506)	(622,743)	(1,090,133)
Depreciation and amortisation	<u>(136,445)</u>	<u>(130,308)</u>	<u>(44,162)</u>	<u>(310,915)</u>
Income from operations	1,753,831	341,817	(666,904)	1,428,744
Provision for diminution in value of investments				(120,000)
Interest income				214,585
Foreign exchange loss, net				(67,936)
Other income, net				2,424
Income before provision for taxes				1,457,817
Provision for taxes				<u>(110,072)</u>
Net income				<u>1,347,745</u>

**Six month period ended September 30, 2006**

Particulars	Products	Services	Corporate	Total
Revenue	3,875,811	3,176,095	-	7,051,906
Cost of revenue	<u>(1,796,261)</u>	<u>(2,441,744)</u>	-	<u>(4,238,005)</u>
Gross profit	2,079,550	734,351	-	2,813,901
Selling and marketing expenses	(324,620)	(50,449)	-	(375,069)
General and administrative expenses	(232,519)	(198,833)	(440,855)	(872,207)
Depreciation and amortisation	<u>(122,667)</u>	<u>(104,991)</u>	<u>(36,872)</u>	<u>(264,530)</u>
Income from operations	1,399,744	380,078	(477,727)	1,302,095
Interest income				198,350
Foreign exchange gain, net				27,405
Other income, net				5,500
Income before provision for taxes				1,533,350
Provision for taxes				<u>(168,428)</u>
Net income				<u>1,364,922</u>

**i-flex Solutions Limited**

**Notes forming part of the condensed accounts for the three and six month period ended September 30, 2007  
(All amounts in thousands of Indian Rupees)**

**5. Aggregate expenses**

	Three month period ended September 30,		Six month period ended September 30,	
	2007	2006	2007	2006
Salaries and bonus	2,012,000	1,651,308	3,886,967	3,244,837
Staff welfare expenses	77,757	48,564	135,851	87,212
Contribution to provident and other funds	84,763	68,115	134,883	113,285
Travel related expenses (net of recoveries)	507,981	486,876	987,605	900,606
Professional fees	198,139	174,290	423,414	388,447
Application software	100,848	137,477	251,345	234,714
Communication expenses	56,564	26,350	83,200	61,959
Rent	114,906	63,513	199,321	139,815
Advertising expenses	19,109	38,495	25,057	62,678
Power	53,667	28,545	98,066	62,891
Insurance	13,758	12,350	30,827	25,973
Repairs and maintenance:				
Leasehold premises	5,823	1,603	7,374	3,190
Computer equipments	5,737	5,711	7,599	8,829
Others	13,928	7,598	22,192	11,188
Rates and taxes	6,046	1,524	8,252	3,654
Finance charge on leased assets	682	325	1,200	778
Provision for doubtful debts, net	64,650	43,650	65,660	44,507
Bad debts	-	-	4,864	-
Other expenses	43,627	43,448	84,741	90,718
	<b>3,379,985</b>	<b>2,839,742</b>	<b>6,458,418</b>	<b>5,485,281</b>

6. Fringe benefit tax is recorded net of recovery amount of Rs 14,289 and Rs 16,710 on account of stock option exercised during the three and six month period ended September 30, 2007, respectively.
7. Out of the projected utilisation of IPO proceeds of Rs 1,780,800 the Company has fully utilised the funds for its infrastructure projects at Mumbai, Bangalore and for other purposes.
8. During the three month period ended September 30, 2007, the Company has invested Rs 751,189 in one of it's subsidiaries for acquiring controlling interest in Athens Techonlogy Center SA.
9. During the current quarter the Company recorded provision for dimunition in value of its investments in ISP Internet Mauritius Company and Equinox Global Services Private Limited.
10. The aggregate market value of quoted investments is Rs 42,647 (March 31, 2007 - Rs 42,133).
11. Prior period/year amounts have been reclassified, where necessary to confirm with current period's/year's presentation.

As per our report of even date attached

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

**N R K Raman**  
Managing Director  
& Chief Executive Officer

**Y M Kale**  
Director

**per Sunil Bhumralkar**  
Partner  
Membership No. 35141

**Deepak Ghaisas**  
Company Secretary

**Tarjani Vakil**  
Director

**Bangalore, India**  
**October 26, 2007**

**Mumbai, India**  
**October 26, 2007**

**i-flex Solutions Limited**

**CONDENSED STATEMENT OF CASH FLOW FOR THE SIX MONTH PERIOD ENDED SEPTEMBER 30, 2007**  
(Amounts in thousands of Indian Rupees)

	<b>Six month period ended</b>	
	<b>September 30, 2007</b>	<b>September 30, 2006</b>
Net cash provided by operating activities	1,392,650	(1,045,741)
Cash flows from investing activities	(1,473,017)	(4,694,584)
Cash flows from financing activities	(20,615)	5,392,348
Effect of exchange difference on cash and bank balances	(47,778)	18,895
Net increase in cash and cash equivalents	(148,760)	(329,082)
Cash and cash equivalents at beginning of the period	1,179,050	795,736
<b>Cash and cash equivalents at end of the period</b>	<b>1,030,290</b>	<b>466,654</b>
Cash and bank balances as per balance sheet	5,026,775	4,100,765
Less:		
Bank deposits having maturity of more than 90 days	(3,988,368)	(3,628,216)
Margin money deposit	(6,067)	(3,410)
Unclaimed dividend accounts	(2,050)	(2,485)
Cash and cash equivalents at the end of the period	<b>1,030,290</b>	<b>466,654</b>

This is the Cash Flow Statement referred to in our report of even date.

As per our report of even date

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

**N R K Raman**  
Managing Director  
& Chief Executive Officer

**Y M Kale**  
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**per Sunil Bhumralkar**  
Partner  
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