

i-flex Solutions Limited

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 2007
(Amounts in thousands of Indian Rupees)

	September 30,2007	March 31,2007
<u>SOURCES OF FUNDS</u>		
Shareholders' funds		
Share capital	418,644	416,443
Share application money pending allotment	5,946	401,679
Reserves and surplus	24,496,564	23,202,085
Deferred tax liability	1,629	1,745
	24,922,783	24,021,952
<u>APPLICATION OF FUNDS</u>		
Fixed Assets		
Cost	10,845,910	9,626,043
Less: Accumulated depreciation, amortisation and impairment	2,378,966	2,030,937
Net book value	8,466,944	7,595,106
Capital work-in-progress and advances	1,190,078	1,346,108
	9,657,022	8,941,214
Investments	60,015	59,167
Deferred tax asset	149,017	141,483
Current assets, loans and advances		
Sundry debtors	7,050,266	7,494,396
Cash and bank balances	7,232,908	7,197,754
Other current assets	1,224,586	1,194,592
Loans and advances	4,669,827	4,325,016
	20,177,587	20,211,758
Less: Current liabilities and provisions		
Current liabilities	4,644,095	4,910,518
Provisions	476,763	421,152
	5,120,858	5,331,670
Net current assets	15,056,729	14,880,088
	24,922,783	24,021,952

i-flex Solutions Limited

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

	Six month period ended	
	September 30, 2007	September 30, 2006
Revenue	10,891,369	9,024,510
Cost of revenue	(6,369,072)	(5,124,860)
Gross profit	4,522,297	3,899,650
Operating expenses		
Selling and marketing expenses	(1,275,578)	(1,205,996)
General and administrative expenses	(1,600,237)	(1,075,857)
Depreciation and amortisation	(359,394)	(308,113)
Income from operations	1,287,088	1,309,684
Non-operating income (expenses)		
Interest income	237,283	198,350
Other (expenses) income, net	(111,865)	19,886
Income before provision for taxes	1,412,506	1,527,920
Provision for taxes	(172,428)	(247,425)
Net income for the period before share of profit of associate company	1,240,078	1,280,495
Share of profit of associate company	745	5,758
Net income for the period	1,240,823	1,286,253
Profit and loss account, beginning of the period	4,358,677	630,956
Amount available for appropriation	5,599,500	1,917,209
Dividend paid on stock options exercised	-	(1,237)
Corporate dividend tax on stock options exercised	-	(174)
Profit and loss account, end of the period	5,599,500	1,915,798
Earnings per share of Rs 5/- each (in Rs)		
Basic	14.82	16.73
Diluted	14.78	16.30

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

	Six month period ended	
	September 30, 2007	September 30, 2006
Cash flows from operating activities		
Income before provision for taxes	1,412,506	1,527,920
Adjustments to reconcile income before provision for taxes to cash used in operating activities :		
Depreciation and amortization	359,394	308,113
Deferred compensation expense	29,918	-
Profit on sale of fixed assets, net	(225)	-
Bad debts	4,864	-
Marked to market of current investment	(103)	382
Interest income	(237,283)	(198,350)
Effect of exchange difference on cash and bank balances	21,552	(16,080)
Finance charge on leased assets	2,397	921
Provision for doubtful debts, net	77,528	63,408
	1,670,548	1,686,314
Changes in assets and liabilities, net of effect of acquisition		
Increase in sundry debtors and unbilled revenue	341,791	(1,258,472)
Increase in loans and advances	(82,851)	(1,355,026)
Increase in current liabilities and provisions	(139,473)	388,372
Cash from operating activities	1,790,015	(538,812)
Payment of domestic and foreign taxes	(419,267)	(458,690)
Net cash provided by operating activities	1,370,748	(997,502)
Cash flows from investing activities		
Additions to fixed assets including capital work in progress	(874,209)	(340,444)
Net Investment in lease	4,949	-
Acquisition of company, net of cash acquired	(669,154)	-
Proceeds from sale of fixed assets	7,239	11,569
Bank fixed deposits having maturity of more than 90 days matured	2,875,594	4,426,250
Bank fixed deposits having maturity of more than 90 days booked	(3,030,089)	(3,275,758)
Proceeds from sale of investments	-	20,000
Interest received	187,860	166,096
Net cash used in investing activities	(1,497,810)	1,007,713
Cash flows from financing activities		
Issue of shares against ESOP scheme and options to IBM	33,138	56,152
Issue of shares to Oracle Global Mauritius Limited	-	5,814,999
Advance against equity shares to be issued under ESOP Scheme	5,946	22,001
Repayment of loan by Employee Stock Purchase Scheme ('ESPS') Trust	-	4,925
Payment of dividend and tax thereon	-	(436,350)
Payment of lease obligations	(9,796)	(5,401)
Net cash provided by (used in) financing activities	29,288	5,456,326
Effect of exchange difference on cash and bank balances	(21,552)	16,080
Net increase (decrease) in cash and cash equivalents	(119,326)	5,482,617
Cash and cash equivalents at beginning of the period	3,351,773	2,085,290
Cash and cash equivalents at end of the period (Note 1)	3,232,447	7,567,907

Note 1 :**Component of cash and cash equivalent**

	September 30,	
	2007	2006
Cash in hand	2,344	12,368
Funds in Transit	83,170	-
Cheques on hand	49	2,592
Balances with scheduled banks:		
Current accounts in foreign currency	815,299	227,930
Other current accounts	153,382	103,719
Deposit accounts	3,514,046	3,205,351
Deposit amount of		
Unutilised IPO funds	-	603,219
Preferential issue	497,263	-
Margin money deposit	10,046	3,410
Unclaimed dividend amount	2,050	2,485
Balances with non-scheduled banks:		
Current accounts in foreign currency	1,950,392	7,040,543
Deposit account in foreign currency	204,867	400
Total cash and bank balances	<u>7,232,908</u>	<u>11,202,018</u>
Less:		
Bank deposits having maturity of more than 90 days	(3,988,366)	(3,628,216)
Margin money deposit	(10,046)	(3,410)
Unclaimed dividend accounts	(2,049)	(2,485)
Cash and cash equivalents at end of the period	<u>3,232,447</u>	<u>7,567,907</u>

Schedules annexed to and forming part of the accounts as at September 30, 2007
(Amounts in thousands of Indian Rupees, except share and per share data)

SEGMENT INFORMATION

Business segments are defined as components of an enterprise about which separate financial information is available. This information is reviewed and evaluated regularly by the management, in deciding how to allocate resources and in assessing the performance.

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

- a) Product licenses and related activities ('Products') and
- b) IT solutions and consulting services ('Services')
- c) Knowledge Processing Services ('KPO-Services')

The business segments are the basis on which the Group reports its primary operational information to management. Product licenses and related activities segment deals with banking software products like the FLEXCUBE suite of products, Reveleus, Microbanker and Daybreak which cater to needs of corporate, retail and investment banking as well as treasury operations and data warehousing requirements. The related activities include enhancements, implementation and maintenance activities. Product segment further comprises of casualty insurance carriers which include insurance product and process configuration, policy administration, customer management, billing and claims management. Anti-money laundering and compliance solutions are the new additions to product segment on acquisition of Mantas.

IT solutions and consulting services comprise of bespoke software development, provision of computer software solutions and related consulting services arising from such activities. This segment is further sub-divided in the following sub-segments i.e. Business intelligence, Customer relationship management, Brokerage, e-commerce, Internet services and IT and Business consulting.

KPO - Services comprises of knowledge process outsourcing services to the mortgage banking industry.

The activities of the joint venture are disclosed as a separate segment.

Period ended September 30, 2007

Particulars	Products	Services	KPO - Services	Joint ventures	Corporate	Eliminations	Total
Revenue							
External revenue	6,086,415	4,510,690	262,255	32,009	-	-	10,891,369
Inter-segment revenue				4,145	-	(4,145)	-
Total revenue	6,086,415	4,510,690	262,255	36,154	-	(4,145)	10,891,369
Cost of revenue	(2,782,813)	(3,389,217)	(188,564)	(8,478)	-	-	(6,369,072)
Gross profit	3,303,602	1,121,473	73,691	27,676	-	(4,145)	4,522,297
Selling and marketing expenses	(1,053,508)	(146,370)	(74,856)	(844)	-	-	(1,275,578)
General and administrative expenses	(417,078)	(293,041)	(72,124)	(16,860)	(801,134)	-	(1,600,237)
Depreciation and amortisation	(165,193)	(133,547)	(13,957)	(2,511)	(44,186)	-	(359,394)
Inter segment expense		-	-	(4,145)	-	4,145	-
Income (loss) from operations	1,667,823	548,515	(87,246)	3,316	(845,320)	-	1,287,088
Interest income							237,283
Other expenses, net							(111,865)
Income before provision for taxes							1,412,506
Provision for taxes							(172,428)
Net income for the period before share of loss of associate company							1,240,078
Share of loss of associate company							745
Net income							1,240,823

Period ended September 30, 2006

Particulars	Products	Services	KPO - Services	Joint ventures	Corporate	Eliminations	Total
Revenue							
External revenue	4,517,993	4,299,994	193,591	12,932	-	-	9,024,510
Inter-segment revenue	10,013	-	-	-	-	(10,013)	-
Total revenue	4,528,006	4,299,994	193,591	12,932	-	(10,013)	9,024,510
Cost of revenue	(1,895,681)	(3,121,419)	(102,017)	(5,743)	-	-	(5,124,860)
Gross profit	2,632,325	1,178,575	91,574	7,189	-	(10,013)	3,899,650
Selling and marketing expenses	(992,174)	(168,852)	(44,144)	(826)	-	-	(1,205,996)
General and administrative expenses	(349,335)	(199,708)	(62,941)	3,457	(467,330)	-	(1,075,857)
Depreciation and amortization	(148,066)	(108,436)	(12,856)	(1,881)	(36,874)	-	(308,113)
Inter segment expense	(10,013)	-	-	-	-	10,013	-
Income (loss) from operations	1,132,737	701,579	(28,367)	7,939	(504,204)	-	1,309,684
Interest income							198,350
Other expenses, net							19,886
Income before provision for taxes							1,527,920
Provision for taxes							(247,425)
Net income for the period before share of profit of associate company							1,280,495
Share of profit of associate company							5,758
Net income							1,286,253

Segment revenue and expense:

Revenue is generated through licensing of software products as well as by providing software solutions to the customers including consulting services and knowledge process outsourcing services. The expenses which are not directly attributable to a business segment are shown as corporate expenses.

Segment assets and liabilities:

Segment assets include all operating assets used by a segment and consist principally of debtors, deposits for premises and fixed assets. Segment liabilities primarily includes deferred revenues, finance lease obligation, advance from customer, Accrued employee cost and other current liabilities. While most such assets and liabilities can be directly attributed to individual segments, the carrying amount of certain assets and liabilities used jointly by two or more segments is allocated to segments on a reasonable basis. Assets and liabilities that cannot be allocated between the segments are shown as part of corporate and liabilities.