Annual Report 2006-07

The Power of Thinking

NUCLEUS SOFTWARE

“You ask me if I keep a notebook to record my great ideas. I've only ever had one.”

Albert Einstein

Every successful corporate enterprise has a core strength, an intrinsic cutting edge, that keeps it rising up the value chain and brings it closer to customers. At Nucleus, we believe that strength is the power of thinking.

"An invasion of armies can be resisted, but not an idea whose time has come."

Victor Hugo

Thinking
our way up

"Discovery consists in seeing what everyone else has seen and thinking what no one else has thought."

Albert Szent-Gyorgi

Dear Shareholder,

It gives me immense pleasure and sense of deep satisfaction to share the results of your Company for the financial year 2006-07.

For the first time, in the financial year 2004-05, 19 years after the Nucleus story began, we achieved Rs.100 crore revenue and it has taken us just 2 years to achieve the next Rs.100 crore revenue. Consolidated revenue for the year 2006-07 at Rs.221.19 crore, recorded an increase of 49.40% over revenue of Rs.148.05 crore in the previous year. Total operating expense for the year was Rs.157.91 crore against Rs.102.92 crore in the previous year, representing an increase of 53.43%. Consequently the operating profit for the year was Rs.63.28 crore, 28.61% of revenue, against Rs.45.13 crore, 30.48% of revenue in the previous year. Operating margins showed a fall of 187 basis points with the Company ramping up for future growth. Staff costs at Rs.101.22 crore, 45.76% of revenue increased by 68.01% over Rs.60.25 crore in the previous year, 40.70% of revenue.

Consolidated net profit for the year was Rs.55.15 crore, against Rs.37.08 crore in the previous year, representing an increase of 48.73%. EPS for the year was Rs.34.22 against Rs.23.04 for the previous year.

The Board of Directors had declared an interim dividend of Rs.3.50 per share in March 2007 and the same was paid to all shareholders of the Company on the record date of March 22, 2007. In view of the robust business performance and optimistic future outlook, the Board of Directors has recommended issue of bonus shares in the ratio of 1: 1. i.e one equity share for every share held. The bonus issue is subject to the approval of the shareholders in the forthcoming Annual General Meeting.

The year has been marked by several milestones in line with our IPR led strategy. For the first time IBS publishing of UK ranked us as No.1 worldwide for wins in the Retail Lending Software space. This is the result of our focused investment in products, to stay ahead of the market both functionally and technically and in line with customer needs and expectations. We booked the largest single product order in our history from a leading consumer finance Company in Japan, to implement FinnOne™ and provide related services from India. Our first product implementation in Europe went live in Italy, opening up further opportunities in the geography.

Revenues from the product business at 54% of total revenue crossed the 50% mark for the first time. Revenue from the product business consisting of license, customization, implementation and annual technical support, crossed Rs. 100 crore for the first time this year at Rs.119.76 crore, an increase of 110.73% over Rs.56.83 crore in the previous year. Almost the entire growth in top line was from the Product Business, with 'Projects and Services' revenue at Rs.101.43 crore for the year, growing by 11.19% over Rs. 91.22 crore in the previous year.

Operating cash flow for the year after working capital changes is Rs. 38.73 crore with receivables showing a rise from Rs.23.83 crore in March 2006 to Rs.55.26 crore in March 2007. The Company continues to enjoy high level of liquidity. 'Cash and Bank Balances' and 'Current Investments' were at Rs.81.89 crore as on March 31, 2007 against Rs. 77.48 crore as on March 31, 2006. Income from investments consisting of Capital Gains and Dividends at Rs.3.53 crore increased by 123.42% over Rs.1.58 crore in the previous year with firming of money market rates and our proactive stance to maximize the same without assuming additional risk. We continue to invest conservatively in Liquid Plans and Fixed Maturity plans of Mutual funds.

After the end of the financial year, we have seen a rapid appreciation of the Indian Rupee against the US $ and at Rs.41.18 to the Dollar on the Board meeting date, there is an appreciation of 5.87% in a month. With net foreign exchange inflow of Rs.127.69 crore in the parent Company and the Indian subsidiary, and expenses in Indian rupees, this appreciation has a direct effect on both revenue and profitability and we are consciously working to mitigate the risk by hedges as well as optimizing cost structures over the long run.

We booked 22 new product orders for 74 modules for FinnOne™, our retail loans Suite and our Cash@Will™, cash management product. This booking was our best ever and we added 21 new clients. Our footprint grew in Japan, Africa, Middle East and South Asia. Japan, Europe and North America are the future markets for sustained long term growth and we plan to ramp up our

Banking
on intellectual capital

"We are what we think. All that we are arises with our thoughts. With our thoughts, we make the world."

Gautam Buddha

sales and marketing efforts in these markets in the coming years. We participated in a significant manner at SIBOS 2006 in Sydney and MEFTEC in Bahrain. These banking events enable us to showcase our technology and solutions to a global audience of key decision makers.

We are pleased to inform you that 39 new FinnOne™, 3 new Corporate Customer Acquisition System (CAS) and 3 new Cash@Will™ sites went 'live' during the year. We continue supporting portfolios of more than 10 million contracts at one site along with 7000 concurrent users. The challenge is in meeting the increasing customer expectations of product capability, increasing transaction volumes and time for execution.

On the product development front, we released new and improved versions of our products FinnOne™ Loan Management System (LMS), FinnOne™ Deposits, FinnOne™ Finance Against Security (FAS) and FinnOne™ CAS. Two new significant market segments have been addressed this year by launching new modules. FinnOne™ Forecaster has been introduced to meet the requirements of the potentially strong area of business analytics for customer acquisition.

FinnOne™ today covers business requirements of banks, financial institutions and captive auto finance companies. The FinnOne™ product suite is capable of handling retail and SME businesses, both of which are the key businesses of any banking institution. As part of our technology upgrade strategy, we are migrating our flagship product FinnOne™ LMS to the Java J2E platform. Improved documentation and manuals has been a long attending requirement of our customers and we have successfully launched new editions of manuals for all our products.

Our strategy for future growth is to be a leading global player in our specialty area of retail loan with implementations in all continents and all countries. To meet our strategic goals we are continuing to recruit aggressively, creating additional infrastructure for future requirements. Our second facility with 750+ seats, at the existing Noida campus in the NCR region has become operational and the Board of Directors have given approval for commencing work on phase III, within the campus, which will add another 800 seats. We have opened a branch office in Sharjah, UAE this year to accelerate addressal of business opportunities in the Middle East market.

With ambitious growth and development plans, we have added 464 associates in financial year 2007 against our target of 500 associates, and our total strength has increased from 1068 in March 2006 to 1532 in March 2007. Attracting and retaining talent is one of our biggest challenges and we are laying new focus on the proactive HR function to empower our people to scale new heights of productivity while enjoying world-class facilities.

Your Company has always been at the forefront in adopting best practices in corporate governance and continuously improving our financial reporting standards. As part of our roadmap for business excellence, we have prepared consolidated US GAAP financials for the first time for financial years ended March 31, 2005 and March 31, 2006 and KPMG have completed their audit of the same.

On behalf of the Board, I reiterate our pride in being selected amongst the top 25 companies adopting "Good Corporate Governance Practices" by the Institute of Company Secretaries of India for 2006. Further our Annual Report for the financial year 2005 received 'Merit Award' for "Best Presented Accounts Award" in January 2007 by the South Asian Federation of Accountants in the category of "Communications and Information Technology". Earlier in the year, Nucleus was ranked 13th in Dataquest Top 20 Best Employers Survey 2006, which is a prestigious and comprehensive IT Industry survey conducted amongst 200 IT employers across India.

This year saw many achievements and we are confident that with the determination and strong will of Nucleites, guidance of our Board Members and well-wishers, and with the support of our customers, business associates and shareholders, we will set many new milestones in future years and Nucleus will continue to meet stakeholder expectations.

Vishnu R Dusad
Managing Director

April 30, 2007

Thinking
for our customers

"The vertical thinker says: I know what I am looking for. The lateral thinker says: I am looking but I won't know what I am looking for until I have found it."

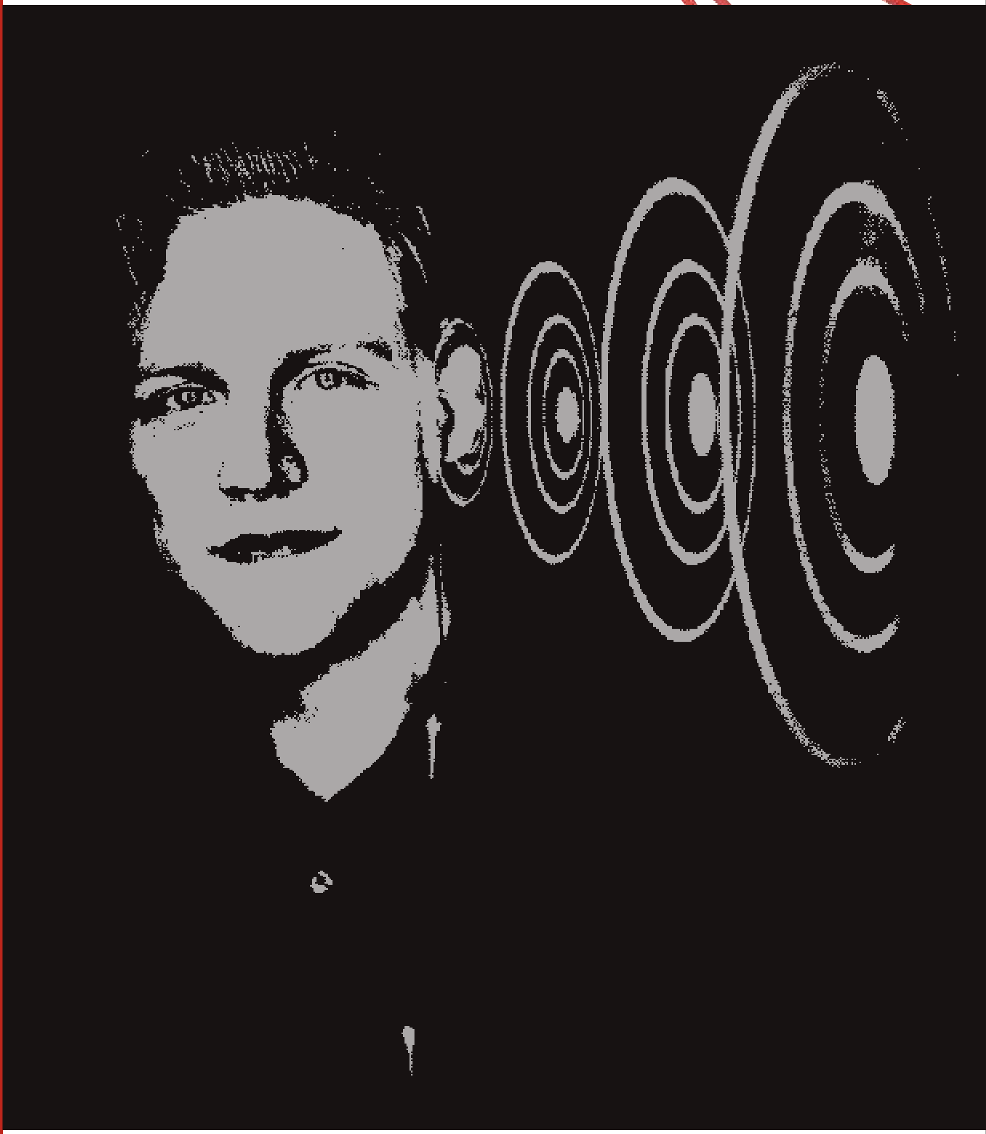
Edward de Bono

The passion to push the frontiers of imagination drives us to not only create cutting-edge products, but to customize them to the depth desired by our customers. With a sharp focus on retail banking and cash management - the backbone of the new economy, we empower our customers to reach their customers in regions, time-frames and ways that optimize their business.

Today, our flagship product FinnOne™ is the World's #1 Highest Selling Lending Software, with a majority of the banks in India and a growing number in over 22 global markets as our customers. And, with the successful launch of FinnOne™ Forecaster, FinnOne™ Risk Manager and FinnOne™ CASCORP (for SME lending), we have expanded our products portfolio to tap the most dynamic and growing sunrise segments in banking and financial services.

Ideas

unlimited...



"If you have an apple and I have an apple and we exchange these apples then you and I will still each have one apple.But if you have an idea and I have an idea and we exchange these ideas, then each of us will have two ideas."

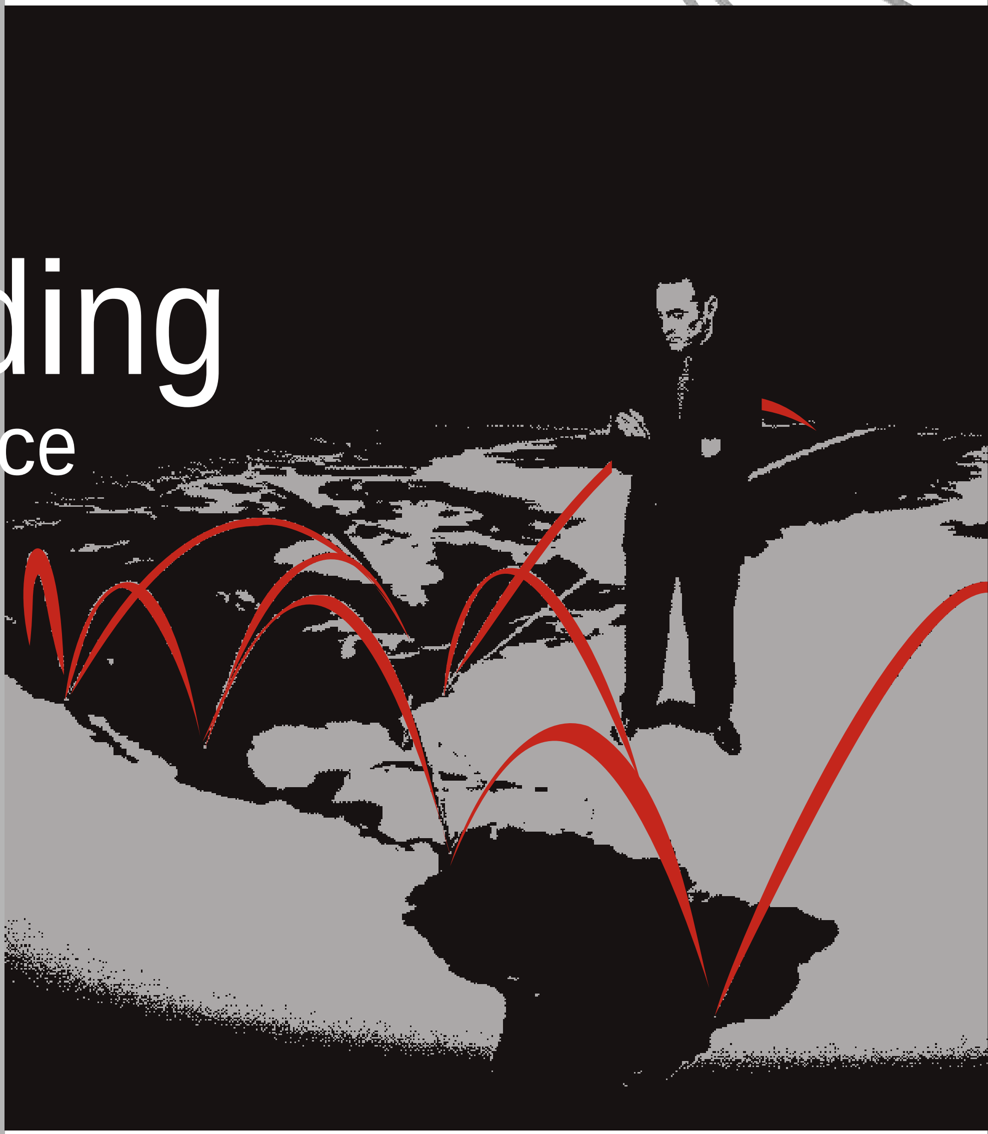
George Bernard Shaw

Our business is about ideas. And ideas are about people. Our vision for employing the best talent and giving our people an enabling, encouraging, empowering work environment has ensured our steady rise up the knowledge curve, in our chosen domain.

We believe complete job satisfaction is not just about what you earn, but also what you learn along the way. Our continuous and incremental investment in skills updation, lateral and vertical competency evaluation and enhancement systems as well as our 'pay for performance' policy both at the Company and individual level give our people just the stimulus they need, to push the envelope with passion and zeal.

We believe our ranking as the 13th best employer in India (Dataquest), as well as our plummeting attrition rate, that compares favourably with the industry average, are direct consequences of this 'recharge and reward' HR policy. Our new Resource Management Group is now busy taking care of resource forecasting & allocation, to ensure optimum utilization of every Nucleite's expertise for timely execution and implementation of the most challenging projects.

Expanding
mindspace



"The illiterate of the 21st century will not be those who cannot read and write, but those who cannot learn, unlearn, and relearn."

George Bernard Shaw

At Nucleus, we have dedicated 20 years of continuous focus to designing what the future should look like for banks and financial institutions. Investing millions in research, to create innovative products and services. Expanding our mindspace, to factor the inevitable dynamics of change into our product line and consequently, into our customers' business models.

Today, we at Nucleus, the "World's No.1 Highest Selling Lending Software"* provider, are busy with over 250 successful implementations across 22 countries. And we are poised to take off to another 100, embracing the needs of this dynamic domain with the flexibility it requires and vision it demands.

Our flagship product FinnOne™ today covers almost 70% of the loans being processed in India and is being selected by leading global financial institutions for their banking solutions. With a strong leadership position in Japan, South East Asia, Middle East, India and Nigeria, we are actively targeting the European market: aggressively focusing on enlarging our global footprint across geographies, while expanding our partnerships and presence in alternate markets to assume leadership.

The year gone by has been very successful for us. Nucleus reinforced its leadership position in the retail banking space with emphatic order wins from banks and financial services across India and rest of the world.

*IBS Publishing, London, 2006

Board of Directors

Lt. Gen. T. P. Singh (Retd)
Chairman

Vishnu R Dusad
CEO & Managing Director

Arun Shekhar Aran
Director

Prithvi Haldea
Director

Suresh Joshi
Director

Sanjiv Sarin
Director

Offices

Registered Office
Nucleus Software Exports Ltd.
33-35 Thyagraj Nagar Mkt, New Delhi - 110003
Tel: + 91-11-24627552 Fax: + 91-11-24620872

Corporate Office
Nucleus Software Exports Ltd.

Company Secretary

Poonam Bhasin

Auditors

BSR & Co.
Chartered Accountants

Bankers

Citibank
HDFC Bank

Accolades

Nucleus Software conferred as Partner of the year 2007- Fastest Growth in ISV by Oracle Corporation

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IBS Publishing, London, ranks Nucleus' flagship product FinnOne™ as the "World's #1 Highest Selling Lending Software" for the year 2006

Nucleus selected amongst the Top 25 companies adopting "Good Corporate Governance Practices" by the Institute of Company Secretaries of India for 2006

Nucleus' Annual Report for the financial year 2005 received 'Merit Award' for "Best Presented Accounts Awards" in January 2007 by the South Asian Federation of Accountants for the year 2005 in the category of "Communication and Information Technology Sector"

Dataquest recognized Nucleus Software as the 13th Best Employer in the "Top 20 Employers in the IT industry - DQ-IDC Survey" (2006)

IBS Publishing, London, ranks Nucleus Software as the "8th Highest Seller in Global Banking Back Office Systems" for the year 2005

Nucleus Software received the award for "Excellence in Financial Reporting" by the Institute of Chartered Accountants of India (ICAI 2005)

Nucleus Software received Asia Pacific Level Technology award from Oracle for developing "Outstanding Oracle Fusion Middleware Solutions" (2005)

IBS Publishing, London, ranks Nucleus Software as the "10th Highest Seller in Global Banking Back Office Systems" for the year 2004

Nucleus Software has been awarded amongst the "Fastest Growing Companies in Top 250 Fastest Growing Technology Companies" in Asia Pacific by Deloitte & Touché Tohmatsu for the third consecutive year (2004)

Nucleus Software received the award for "Outstanding Contribution in Tech Adoption" by Sun Microsystems (2004)

Nucleus Software received the award for "Most Innovative ISV to Build Scalable Solutions on Oracle platform" (2004)

Nucleus Software received the award for "Building World Class Loan Management Solution" by Oracle Corporation (2003)

Nucleus Software features in the fastest growing companies "Top 250 Deloitte Touché Tohmatsu Asia Pacific Technology Fast 500" (2003)

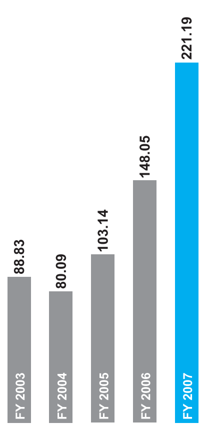
Year at a Glance

Rs. in crore, except per share data

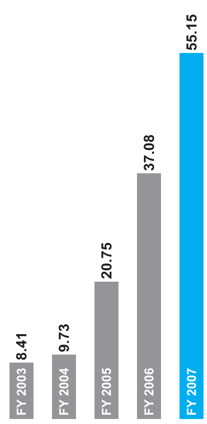
	CONSOLIDATED PERFORMANCE	
For the year ended March 31	**2007**	**2006**
Revenue from Operations	221.19	148.05
Operating Profit (EBITDA)	63.28	45.13
Profit after Tax (PAT)	55.15	37.08
EBITDA as a % of Revenue from Operations	28.61%	30.48%
PAT as a % of Revenue from Operations	24.93%	25.05%
EPS	34.22	23.04
Dividend Per Share	3.50	3.50
Dividend Payout	5.64	5.64
At the end of the Year		
Share Capital	16.16	16.11
Reserves and Surplus	149.03	99.41
Net Worth	165.19	115.51
Total Assets	166.19	115.59
Net Fixed Assets	55.07	33.70
Investments	69.01	61.37
Current Assets	109.70	65.30
Cash and Cash Equivalents	81.90	77.48
Working Capital	42.11	20.50
Market Capitalisation	1,546.38	587.91
No. of Shareholders	7,954	7,528
No. of Shares (Face Value of Rs.10.00)	16,160,312	16,104,812

Notes:

1) Market Capitalisation is calculated by considering the closing market price of the scrip at the close of the year.
2) While calculating the figures of group, the intergroup transactions have been ignored.



Revenue From Operations (Rs. Crore)



Profit After Tax (Rs. Crore)

Year at a Glance

All figures in USD'000, except per share data

	CONSOLIDATED PERFORMANCE	
For the Year Ended March 31	**2007**	**2006**
Revenue from Operations	50,557	33,181
Operating Profit (EBITDA)	14,464	10,114
Profit after Tax	12,605	8,310
EBITDA as a % of Revenue from Operations	28.61%	30.48%
PAT as a % of Revenue from Operations	24.93%	25.05%
EPS	0.78	0.52
Dividend Per Share	0.08	0.08
Dividend Payout	1,289	1,264
At the end of the Year		
Share Capital	3,694	3,610
Reserves and Surplus	34,064	22,279
Net Worth	37,758	25,888
Total Assets	37,986	25,905
Net Fixed Assets	12,587	7,552
Investments	15,774	13,753
Current Assets	25,074	14,634
Cash and Cash Equivalents	18,720	17,365
Working Capital	9,625	4,594
Market Capitalisation	353,458	131,758
US$ Exchange Rate (In Rs.)	43.75	44.62

Notes:

1) Market Capitalisation is calculated by considering the closing market price of the scrip at the close of the year.
2) While calculating the figures of group, intergroup transactions have been ignored.

Directors' Report

To the Members,

We have pleasure in presenting the eighteenth Annual Report together with the Audited Statement of Accounts for the year ended March 31, 2007.

1. FINANCIAL RESULTS - Nucleus Software Exports Ltd.

(Rs. in Crore)

For the Year Ended March 31,	2007	% of Revenue	2006	% of Revenue
Revenue from Operations	**146.53**	**100.00**	**94.37**	**100.00**
Software Development Expenses	73.54	50.19	43.37	45.96
Gross Profit	72.99	49.81	51.00	54.04
Selling and Marketing Expenses	12.07	8.24	7.31	7.75
General and Administration Expenses	11.59	7.91	7.86	8.33
Operating Profit (EBITDA)	**49.33**	**33.67**	**35.83**	**37.97**
Depreciation	5.20	3.55	3.93	4.16
Withholding Tax Charged off	4.66	3.18	3.21	3.40
Operating Profit after Interest, Depreciation and Withholding Taxes	39.46	26.93	28.69	30.40
Other Income	4.67	3.19	2.52	2.67
Profit Before Tax	**44.12**	**30.11**	**31.21**	**33.07**
Provision for Tax				
- Current	0.31	0.21	1.92	2.03
- Fringe Benefit	0.61	0.42	0.43	0.46
- Deferred	0.29	0.20	0.08	0.08
- Earlier year tax	0.01	0.01	(0.15)	(0.16)
Profit After Tax	**42.90**	**29.28**	**28.93**	**30.66**
Dividend	5.64		5.64	
Tax on Dividend	0.79		0.79	
Transferred to General Reserve	10.00		10.00	
Profit retained in Profit and Loss Account	50.22		23.75	
EPS (In Rs. for Equity Shares of par value Rs. 10/- each)				
Basic	**26.62**		**17.97**	
Diluted	**26.33**		**17.93**	

FINANCIAL RESULTS - Consolidated

(Rs. in Crore)

For the Year Ended March 31,	2007	% of Revenue	2006	% of Revenue
Revenue from Operations	**221.19**	**100.00**	**148.05**	**100.00**
Software Development Expenses	125.11	56.56	80.50	54.37
Gross Profit	96.08	43.44	67.55	45.63
Selling and Marketing Expenses	17.93	8.11	11.74	7.93
General and Administration Expenses	14.87	6.72	10.68	7.21
Operating Profit (EBITDA)	**63.28**	**28.61**	**45.13**	**30.48**
Depreciation	6.88	3.11	4.76	3.22
Withholding Tax Charged off	4.68	2.12	3.24	2.19
Operating Profit After Interest, Depreciation and Withholding Taxes	51.72	23.38	37.13	25.08
Other Income	5.62	2.54	3.07	2.07
Profit Before Tax	**57.34**	**25.92**	**40.20**	**27.15**
Provision for Tax				
-Current	0.96	0.43	2.70	1.82
-Fringe benefit	0.61	0.28	0.43	0.29
-Deferred	0.39	0.18	0.14	0.09
-Earlier year tax	0.23	0.10	(0.15)	(0.10)
Profit After Tax	**55.15**	**24.93**	**37.08**	**25.05**
EPS (In Rs. for Equity Shares of par value Rs. 10/- each)				
Basic	**34.22**		**23.04**	
Diluted	**33.85**		**22.98**	

2. RESULTS OF OPERATIONS

a) Nucleus Software Exports Ltd.

The total revenue from operations of your Company for the year increased by 55 % to Rs.146.53 crore from Rs.94.37 crore in the previous year. Total operating expenses for the year were Rs 97.20 crore against Rs.58.53 crore in the previous year, an increase of 66%. Operating profit (EBITDA) increased to Rs.49.33 crore, 34% of revenue, from Rs.35.83 crore, 38% of revenue in the previous year. In absolute terms, the operating profit grew by 38% over the previous year. Though there was a significant increase in revenues, there was a fall in the operating margin percentage due to 92% increase in the personnel cost.

Profit after Tax for the year increased significantly by 48% to Rs.42.90 crore from Rs.28.93 crore in the previous year.

b) Consolidated Operations

Your Company's revenue from operations, on a consolidated basis, increased by 49% to Rs.221.19 crore for the year against Rs.148.05 crore in the previous year. Total operating expenses for the year at Rs.157.91 crore were 53% higher than Rs.102.92 crore in the previous year. The operating profit (EBITDA) increased to Rs.63.28 crore, 29% of revenue, from Rs.45.13 crore, 30% of revenue in the previous year. In absolute terms, the operating profit grew by 40% over the previous year.

Profit after Tax for the year increased by an impressive 48% to Rs.55.15 crore from Rs.37.08 crore in the previous year.

3. DIVIDEND

Your Directors at their meeting held on March 13, 2007 declared an interim dividend of Rs.3.50 per share (35% on par value of Rs. 10). The dividend amount of Rs.5.64 crore was paid in March 2007. This interim dividend payment is placed for the confirmation of the shareholders at the forthcoming Annual General Meeting. This constitutes the entire dividend for the year 2006-07.

A dividend amount of Rs.5.65 crore was paid as final dividend in the previous year.

4. ISSUE OF BONUS SHARES

Your Directors are pleased to recommend an issue of fully paid up bonus shares to the equity shareholders of the Company by capitalising a part of free reserves. The bonus shares proposed to be issued are in the ratio of one equity share for every one equity share held by the shareholders on such record date as may be determined by the Board of Directors for the said purpose. The issue of bonus shares will be subject to the approval of shareholders in the forthcoming Annual General Meeting.

5. INCREASE IN SHARE CAPITAL

The Share Capital of the Company increased from 16,104,812 equity shares of Rs.10 each as on March 31, 2006 to 16,160,312 equity shares of Rs. 10 each as on March 31, 2007, consequent to allotment of 55,500 fully paid equity shares of Rs.10/- each to the employees in pursuance of stock options exercised in July 2006 and March 2007.

Consequently, the paid up Share Capital increased from Rs.16.11 crore as on March 31, 2006 to Rs.16.17 crore as on March 31, 2007 including the amount in share forfeiture account.

To provide for issue of additional shares resulting from the proposed bonus issue, your Directors propose an increase in the Authorised Capital of the Company from Rs.20 crore consisting of 2 crore equity shares of Rs.10 each to Rs.40 crore consisting of 4 crore equity shares of Rs.10 each.

6. REVIEW OF BUSINESS & OUTLOOK

Software industry continues to experience robust growth. Cutting edge technology and increase in use of emerging principles and methodologies have given desired impetus to this industry globally. Several initiatives have been undertaken by the software industry in India to promote indigenously developed intellectual property.

Your Company, since its establishment in 1989, has been providing innovative and pioneering 'Products & Customized Software Solutions' with a focus on the Banking & Financial Services sector and within this has chosen to specialize in the "Retail Loan" segment. Product business continues to lead our growth. For the first time in the history of the Company revenue from Products was in excess of 50% of the total revenue during the year.

Nucleus flagship product FinnOne™ has been adjudged by IBS Publishing as the No. 1 Retail Lending Solution in the global market, for the year 2006. This is the result of your Company's focused investment in products to stay ahead of competition, both functionally and technically, and in line with the customer needs. With more than 250 product installations, your Company has attained significant market acceptance globally.

Your Company's strategy for the future growth is to be a leading player in the specialty area of retail loans with implementations across the globe in all countries. We continue to invest in products, both new and in modifications/ enhancements in the existing range. Scalability of operations and reduction of execution risk while meeting the demands of new customers and new markets, is a great challenge and we are focusing on robust processes to address the same.

During the year, your Company added 21 new clients taking the total client base to 141. In January 2007, your Company had won its biggest ever product order, bigger than the complete consolidated FY 06 revenue of Rs.148 crore. This was when the second largest consumer finance Company in Japan selected the Company's flagship product FinnOne™ for refurbishing their loans, guarantee, and credit card business. This order will be executed over 2 years and is expected to go live some time in 2009. Subsequently, there will be an annual technical support by your Company for another 5 years. Apart from the contribution to revenues and profitability in the future, this order represents a major breakthrough for your Company in the Japanese market. As we implement this contract, we expect our visibility to improve in the second largest economy of the world.

With increased acceptance of our products across the globe, we are confident that we will continue to create shareholder value as well as economic wealth for our customers.

7. NOTABLE ACCOLADES RECEIVED DURING THE YEAR

- The Company's flagship product FinnOne™ was awarded the No. 1 best selling Retail Lending Software by IBS publishing, the UK based financial consultant reporting on banks, their advisors and other financial institutions. The ranking is based on a survey that independently tracks the financial product marketplace.
- The Company was selected amongst the top 25 Companies adopting "Good Corporate Governance Practices" by the Institute of Company Secretaries of India for 2006.
- The Company was ranked 13th best employer by IDC - Dataquest survey (2006)
- The Company's Annual Report for the financial year 2005 received 'Merit Award' for "Best Presented Accounts Award", in January 2007 from the South Asian Federation of Accountants in the Category of 'Communication and Information Technology Sector".

8. SUBSIDIARIES

Your Company has following wholly owned subsidiaries as on March 31, 2007:

Name of Subsidiary	*Incorporated in*
Nucleus Software Solutions Pte. Ltd.	Singapore
Nucleus Software Inc.	USA
Nucleus Software Japan Kabushiki Kaiga	Japan
Nucleus Software (Australia) Pty Ltd.	Australia
Nucleus Software (HK) Ltd.	Hong Kong
VirStra I- Technology Services Ltd.	India
Nucleus Software Netherlands BV	Netherlands
Step Down Subsidiary	
VirStra I- Technology (Singapore) Pte. Ltd.	Singapore

As per Section 212 of the Companies Act, 1956, a Company is required to attach the Directors' Report, Balance Sheet and Profit and Loss Account of all subsidiaries to its Balance Sheet. Your Company has been presenting the audited consolidated accounts in the Annual Report in the past in accordance with Indian GAAP, which give a full and fair presentation of the Company's financials in keeping with global best practices. Accordingly, your Company applied to the Central Government for an exemption from attaching detailed accounts of the subsidiaries. The Government has granted exemption to the Company from Section 212 of the Companies Act, 1956 and accordingly, the financial statements of the subsidiaries are not attached in the Annual Report.

For providing information to Shareholders, the annual accounts of these subsidiary Companies along with related information are available for inspection during business hours at the Company's registered office and at the concerned subsidiary's offices.

9. INFRASTRUCTURE

The construction of Phase 2 facility at our NOIDA, India campus is almost complete and we are inaugurating 750+ seats in June 2007. This facility consisting of basement and eight floors includes a parking area for 125+ two wheelers, a 6,000 square feet cafeteria and food zone for seating 300+ employees, a 1,220 square feet data centre and six floors of seating capacity occupying 6,070 square feet per floor. With this facility and occupation of a 120 seat rented premises in Chennai, our world-wide capacity is in excess of 2,000 seats.

With robust growth in operations, we have decided to commence the third facility, which is expected to be ready in about 12-15 months. The Company is also actively examining the feasibility of purchasing land for future expansion

10. QUALITY PROCESSES

Your Company achieved SW-CMM Level 5 in 2003 based on the Capability Maturity Model (CMM) developed at Carnegie Mellon University's Software Engineering Institute (SEI), USA. This rating recognizes your Company's quality processes and also its ongoing commitment to quality. The subsidiary at Singapore was also assessed at SEI CMM Level 5 in 2004.

While certification establishes standards, your Company continues to implement new tools in the organization, to increase productivity and automate such processes that are most prone to defect injection and leakages. For excellence in project execution, your Company is investing in world-class software using tools as a strategy. This will introduce higher automation in various phases of projects and will result in enhanced quality and a reduced time to market.

11. HUMAN RESOURCE MANAGEMENT

The world today is witnessing a significant growth of the software industry and its enormous business potential going forward. One of the key drivers of this success has been the ready availability of a skilled workforce.

Looking at the business needs and projections, your Company has been consistently recruiting highly skilled personnel. We are also constantly focusing on developing competencies by incorporating objective performance measurement techniques and systems. Skills are mapped and a skill inventory base built up for effective and timely deployment of resources for customer satisfaction. Leadership Development and Career Progressions have also been the focus areas of your Company.

Your Company believes that it is the human resource, driven by values, which makes all the difference. Towards this end, specific programs to ensure regular reaffirmation of personal and organizational values are conducted. Your Company also lays a great emphasis on providing a warm and open environment for employee communication.

Your Company has dedicated training facilities and an exclusive trainers' group consisting of voluntary internal trainers sourced across cross-functional areas who help in nurturing talent. Various HR initiatives such as Competency

Assessment, Competency Mapping, Behavioral Soft Skill Trainings including basic and advanced Tech trainings (technology and product oriented) have been a major focus during the year.

12. ADDITIONAL INFORMATION TO SHAREHOLDERS

Detailed information to the shareholders in the form of "Shareholders' Referencer" is provided elsewhere in the report.

13. SECRETARIAL AUDIT

In order to strengthen the internal process of the secretarial department of your Company, a Secretarial Compliance audit was conducted by a practicing Company Secretary for the year. The Secretarial Compliance report is annexed as Annexure-C.

14. LIQUIDITY AND CASH EQUIVALENTS

Your Company continues to remain debt-free. It has been consistently following a conservative investment policy over the years, maintaining a reasonably high level of cash and cash equivalents which enable the Company to not only eliminate short and medium term liquidity risks but also undertake capital expenditure for scaling up operations at a short notice. This approach leads to a larger shareholder value in the long term though in the short-term, returns may be low.

During the year, internal cash accruals more than adequately covered the working capital requirements, capital expenditure and dividend payments. As of March 31, 2007 the investments in liquid funds stood at Rs.55.07 crore (Rs. 47.42 crore as on March 31,2006) and are detailed in the accounts. Your Company has invested these funds in blue chip liquid mutual funds and fixed maturity plans.

With cash and bank balances, at consolidated level, including fixed deposits with banks at Rs 26.82 crore as on March 31,2007, (Rs.30.05 crore as on March 31, 2006), the total liquid funds with the Company are Rs.81.89 crore as on March 31,2007, (Rs.77.47 crore as on March 31, 2006). The Company has built up reasonable liquidity to meet all its medium term commitments and can easily invest in upgrading and enlarging the infrastructure without any borrowings.

15. FIXED DEPOSITS

Your Company has not accepted any deposits and, as such, no amount of principal or interest was outstanding on the date of the Balance Sheet.

16. AUDITORS

BSR & Co. the Statutory Auditors of the Company, retire at the forthcoming Annual General Meeting and are eligible for re-appointment. The retiring Auditors have furnished a certificate of their eligibility for re-appointment under Section 224(1B) of the Companies Act, 1956 and have indicated their willingness to continue.

17. DIRECTORS

Articles of Association of the Company provide that at least two-thirds of our Directors shall be subject to retirement by rotation. One third of these retiring directors must retire from office at each Annual General Meeting of the shareholders. A retiring Director is eligible for re-election.

Mr. Suresh Joshi and Mr. Prithvi Haldea, Directors of the Company, shall retire at the ensuing Annual General Meeting and, being eligible, offer themselves for re-appointment. The Company has benefited immensely due to active particpation of these Dirctors in the deliberations of the Board.

18. CORPORATE GOVERNANCE

Best practices in Corporate Governance are a way of life at Nucleus. Your Company believes that Corporate Governance is about commitment to values and ethical business conduct. Good Corporate Governance is reflected in fair, transparent and responsible interaction between a Company's management, its Board of Directors, shareholders and other stakeholders.

In addition to being compliant with statutory provisions of Clause 49 of the Listing Agreement, your Company has put in place several non-mandatory recommendations including Training of Board members, "Whistle Blower Policy", "Remuneration Committee" and Shareholder Rights.

We are pleased to state that your Company was shortlisted as one of the Top 25 Companies adopting "Good Corporate Governance Practices" by the Institute of Company Secretaries of India for 2006.

19. EMPLOYEE STOCK OPTION PLAN

Your Company has introduced various Employees Stock Option Plans (ESOP) providing for issue of stock options to independent Directors and employees of the Company that can be converted into Equity Shares after a specified period.

Particulars	1999 Plan	2002 Plan	2005 Plan	2006 Plan
(a) No. of shares arising out of exercise of options	170,000 (Each option gives the right to one Equity Share)	225,000 (Each option gives the right to one Equity Share)	600,000 (Each option gives the right to one Equity Share)	1,000,000 (Each option gives the right to one Equity Share)
(b) Pricing formula	Rs.24/- per Equity Share of Rs.10/- each	75% of the Fair Market Price as on date of grant	100% of the Fair Market Price as on date of grant	100% of the Fair Market Price as on date of grant
(c) Options granted during the year	9,000	145,500	142,000	271,860
(d) Options vested as of March 31,2007	Nil (There are no options vested but not exercised as on March 31,2007)	14,000	Nil (There are no options vested but not exercised as on March 31,2007)	Nil (There are no options vested but not exercised as on March 31,2007)
(e) Options exercised during the year	12,500	43,000	Nil	Nil
(f) Total number of shares arising as a result of exercise of options	12,500	43,000	Nil	Nil
(g) Options forfeited during the year	3,300	6,000	Nil	Nil
(h) Variation of terms of options during the year	Nil	Nil	Nil	Nil
(i) Money realized by exercise of options (in Rs.)	175,000	6,740,920	Nil	Nil
(j) Total number of options in force as on March 31,2007	5,700	159,750	142,000	271,860

(k) Details of options granted during the year ended March 31, 2007 to: Senior managerial personnel of the Company *(As detailed below)				
(ii) any other employee who receives a grant in any one year of option amounting to 5% or more of options granted during that year.	Nil	Nil	Nil	Nil
(iii) identified employees who were granted option, during any one-year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversion) of the Company at the time of grant.	Nil	Nil	Nil	Nil
(l) Weighted average exercise price of options (Rs.)	24.00	288.88	356.48	477.53
(m) Weighted average fair value of the options (Rs.)	169.24	243.96	183.55	203.91

* (k) Details of options granted during the year ended March 31, 2007 to Senior managerial personnel of the Company

S.No.	Name	Designation	ESOP (1999)	ESOP (2002)	ESOP (2005)	ESOP (2006)
1.	Lt. Gen. T P Singh (Retd.)	Independent Director	2,500	2,500		45,000
2.	Arun Shekhar Aran	Independent Director	2,000	3,000		35,000
3.	Prithvi Haldea	Independent Director	1,500	3,500		25,000
4.	Suresh Joshi	Independent Director	1,500	3,500		20,000
5.	Sanjiv Sarin	Independent Director	1,500	3,500		25,000
6.	Ravi Pratap Singh	President & Head (Global Delivery)		18,000		2,660
7.	Pramod Kumar Sanghi	Chief Financial Officer			50,000	
8.	Prakash Pai	Head, Product Management			20,000	
9.	Niraj Vedwa	Head - Global Sales & Mktg.			50,000	
10.	Ravi Verma	Vice President & Global Head-Human Resource				12,200
11.	Manoj Tandon	Vice President, (Corporate Affairs)				10,000
12.	Neeru Bahl	Vice President, and CountryManager (Singapore)		20,000	20,000	
13.	Parminder Bansil	Vice President, and Country Manager (USA)		7,500		7,500
14.	Abhijit Mittra	Vice President		7,500		7,500
15.	Anurag Bhatia	Vice President		7,500		7,500
16.	Inamdar Bhalchandra C.	Vice President				7,500
17.	Kishore Tambe	Vice President		7,500		7,500
18.	M Shankar	Vice President				4,500
19.	Mukta Arora	Vice President				7,500
20.	Rajneesh Kumar Chadha	Vice President				7,500
21.	Sandhya Verma	Vice President				7,500
22.	Sushil Tyagi	Vice President		7,500	2,000	7,500

The Company has used intrinsic value of stock options to determine compensation cost. Had compensation cost for the ESOP been determined in a manner with the fair value approach, the Company's net income and EPS would be impacted as given below:

Net Income	As Reported	Rs.42.90 crore
	Less: Adjusted Amount	Rs.2.83 crore
Adjusted Net Income		Rs.40.07 crore
Basic and Diluted EPS	As Reported	(In Rs.)
	Basic	26.62
	Diluted	26.33
After Adjustment	Basic	24.87
	Diluted	24.60

Your Company has adopted Black Scholes option pricing model to determine the fair value of stock options. The significant assumptions are:

1. Risk free interest rate	8.00%
2. Expected life	1-4 years
3. Expected volatility	42.06% to 149.75%
4. Expected dividend yield %	0.84%
5. Market price, grant wise, plan wise on date of grant:	(In Rs.)
ESOP (1999)	97.70 and 408.45
ESOP (2002)	193.95 to 505.00
ESOP (2005)	357.00 and 320.00
ESOP (2006)	368.00 to 568.00

20. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE 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 Board of Directors) Rules, 1988, are set out in Annexure-A which forms part of this Report.

21. PARTICULARS OF EMPLOYEES

The information required under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, and forming part of the Directors' Report for the year ended March 31, 2007 is annexed as Annexure-B.

22. DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to 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 along with proper explanation relating to material departures;

(ii) the Directors have selected such accounting policies and applied them consistently, except where otherwise stated in the notes on accounts, and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;

(iii) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

(iv) the Directors have prepared the annual accounts on a going concern basis.

23. ACKNOWLEDGMENT

Your Directors would like to place on record their gratitude for the cooperation received from the Government of India, the Customs and Excise Departments, Software Technology Park-NOIDA, Software Technology Park-Chennai, Software Technology Park-Pune and other government agencies.

Your Directors also thank all the clients, vendors, shareholders and bankers for their support to the Company. The Board, in specific, wishes to place on record its sincere appreciation of the contribution made by all the employees towards growth of the Company.

For and on behalf of the Board of Directors

Noida
April 30, 2007

Lt. Gen. T P Singh (Retd.)
Chairman

Annexure-A

The particulars as prescribed under sub-section (1) (e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

A. DETAILS OF CONSERVATION OF ENERGY

The operations of the Company involve low energy consumption. Adequate measures have, however, been taken to conserve energy, including the following:

1. Use of latest technology such as T5 and CFL lights to economize on electricity consumption.
2. Use of eco-friendly gas (FM 200) in our fire suppression system in the data center
3. Use of AC chillers with R134a gas which is eco-friendly.
4. Rain water harvesting
5. Use of AAC blocks in construction for minimizing the load and pressure on air-conditioning.

Your Company is always in search of innovative and efficient energy conservation technologies and applies these prudently.

B. RESEARCH AND DEVELOPMENT

Your Company firmly believes that ongoing research and development is the key to sustained development; and to practice our belief, we continually invest in research and development of new products and services, designs, frameworks, processes and methodologies. This effort creates a strong quality culture and enhances productivity and customer satisfaction.

1. R & D Initiatives at Specific Areas

Your Company lays strong emphasis on R&D and has used it as a driver to move up the value chain. The product development efforts enhance our product capabilities to help the customers meet new business challenges. Your Company is also continuously improving its existing products and adding value to the effectiveness and utility of these products.

Continuous upgradation, both technically and functionally, in our FinnOne™ suite of banking solutions has helped in leveraging available technology and increasing its functional scope. FinnOne™ lending products have been enhanced to meet various regulatory requirements, such as provisioning and service charges, thereby bringing it up to regulatory requirements.

Your Company also deploys substantial resources to quality test its products. A team of expert professionals uses all the modern means to test the products and their functionalities as well as capabilities to support very high volume of business transactions.

2. Benefits of the Above R & D

The extensive research and development initiatives undertaken by your Company has resulted in development of in-house expertise and Intellectual Property. The Company's flagship product FinnOne™ has been adjudged as the No. 1 Retail Lending Solution in the global market by IBS Publishing, for the year 2006. This is the result of our focused investment in products to keep these ahead of competition both functionally and technically and in line with our customer needs. During the year your Company has released new and improved versions of the products FinnOne™ Lending, FinnOne™ Deposits, FinnOne™ Finance Against Security, and FinnOne™ Customer Acquisition Systems.

3. Future Plan of Action

With our business model continuing to yield positive results, your Company is now planning to invest further in product development and add new products to the portfolio. Your Company's flagship product covers all the business requirements of banks, financial institutions, and captive auto finance companies in the area of "Retail Loans". As part of our technology upgrade strategy, we are migrating our flagship product FinnOne™ Lending to the Java J2E platform. A new product release is also scheduled in the next year for another significant product offering Cash@Will™, which focuses on the cash management business. To promote the "India" Brand for Products and adding to the success of the "Software Services" sector from India, your Company will continue investing in R&D and launch Software Products globally.

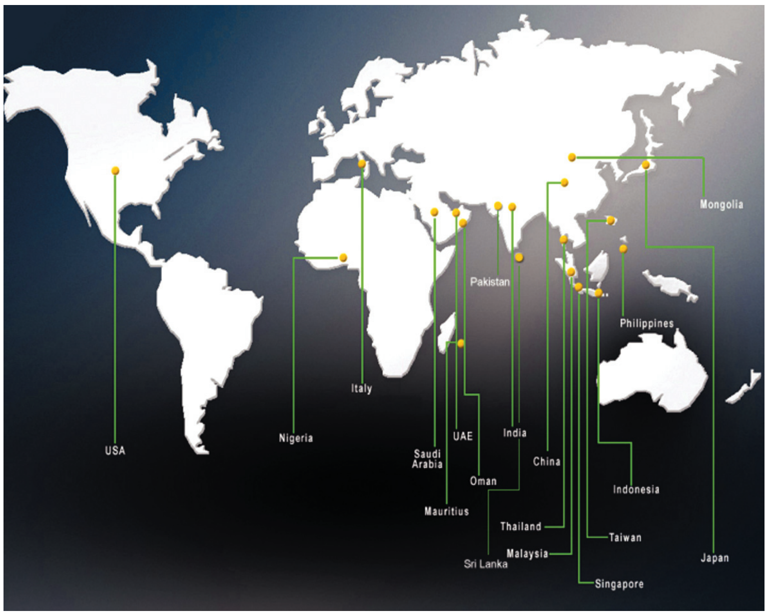
C. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

Efforts Towards Technology Absorption, Adaptation and Innovation

Your Company realizes the importance of innovation and constant improvement in key areas of business. Your Company continued its focus on quality upgradation of software development processes and software product enhancements. This has helped maintain margins despite changes in technology. In order to create a conducive environment which propels adaptation of new ideas, skills and methodologies, your Company has instituted a culture of quality consciousness at grass-root level.

You Company not only encourages innovation, but also recognizes and rewards it suitably. This policy is not restricted to technology, but includes innovation in non-IT processes and HRD.

D. FOREIGN EXCHANGE EARNINGS & OUTGO



Nucleus presence overseas

1. Export Initiatives and Development of New Export Markets

Indian Software Companies continue to be export-oriented, with sales to overseas clients accounting for bulk of the sector turnover. Your Company is recognized as one of the pioneers in software exports in the banking domain. During the year, the gross export was Rs.120.07 crore, which worked out to 83% of the total revenue, against Rs.73.57 crore, 78% of the total revenue in the previous year.

Over the years, software products of your Company have been installed at more than 22 overseas sites and innumerable projects have been executed all over the world. Your Company now has a global presence and continues to prospect for new business opportunities through its own offices, channel partners and participation in events and exhibitions.

2. Foreign Exchange Earned and Used

(Rs. in Crore)

Year Ended March 31,	2007	2006
Foreign exchange earnings	120.07	73.57
Foreign exchange outgo (including capital goods)	20.01	14.26

For and on behalf of the Board of Directors

Noida
April 30, 2007

Lt. Gen. T P Singh (Retd.)
Chairman

Annexure-B Statement under Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975.

S. No.	Name	Designation	Qualification	Age yrs.	Date of Joining	Experience yrs.	Gross Remuneration (Rs.)	Designation-Previous Employment
1	Abhijit Mittra	Vice President	MA,PGDM (Computer Software Application)	43	21-Jul-99	21	4,104,744	Manager - RPG ITOCHU Finance Ltd
2	Anurag Bhatia	Vice President	MCA	41	15-Jan-96	17	2,814,601	System Analyst - TCS Limited
3	Dharamvir Rohilla*	Vice President	M.Sc	53	23-Nov-06	30	933,193	Group Manager - Perot System
4	Inamdar Bhalchandra C.*	Vice President	M.Sc	46	5-Jan-04	22	1,300,039	General Manager (Operations) - Walchand Infotech
5	M Shanker	Vice President	Masters in Computer, B Tech	51	10-Mar-06	28	2,738,621	Operations Director (Head of Central Solutioning, Service Management Consultancy) - XANSA
6	Manoj Tandon	Vice President (Corporate Affairs)	B-Tech, PGDM	47	3-Nov-05	22	2,815,717	Assistant Vice President - Computer Science Corporation
7	Mukta Arora	Vice President	B.Sc, PGDBA	42	5-May-06	20	2,343,701	Head Delivery - Servitium Solutions Pvt. Ltd.
8	Niraj Vedwa	Head-Global Sales & Marketing	PGDSM	41	8-Mar-99	19	5,752,641	National Sales Manager - Modicorp Ltd
9	Parag Bhise	Vice President	MCA	42	3-Oct-89	17	2,767,025	Project Trainee - Cooperative Milk Producers Federation of Patna
10	Piramanayagam T*	Associate Vice President	MDBA	42	4-May-04	17	1,276,036	Senior Consultant - Patni Computers
11	Prakash Pai	Head, Product Management	M.Sc	46	1-Jun-94	23	7,376,428	Chief Officer (EDO) - Bank of India
12	P K Sanghi	Chief Financial Officer	B. Com(H), PGDM	52	15-Apr-02	29	6,264,471	Executive Director (Finance) - Pearl Global Limited
13	Rajneesh K Chadha	Vice President	B.E (Electronics)	42	27-Feb-06	19	2,751,251	Consultant - TCS Limited
14	R P Singh	President and Head (Global Delivery)	B.A (Hons), PG Diploma	46	1-Apr-94	20	8,955,004	President (Technologies) - Nucleus Software Workshop (P) Ltd
15	Ravi Verma	Vice President and Global Head-Human Resource	Masters in Public Administration, PGDPM	48	8-Feb-06	25	4,097,162	Vice President (Human Resources) - Reliance Industries Limited
16	Sandhya Verma	Vice President	M.Sc	48	22-Dec-05	21	2,725,600	Director - Aayam Technologies
17	Sanjeev Kulshrestha	Associate Vice President	MCA, M.Sc	43	7-Feb-96	16	2,547,501	Software Engineer - Information Technologies (INDIA) Ltd
18	Sushil Tyagi	Vice President	MBA	37	12-Mar-01	16	2,787,276	Business Development Manager - Cannon India Ltd
19	Vishnu R Dusad	Managing Director	B. Tech	50	9-Jan-89	26	20,156,447	N.A

* Employed for part of the year

Note :

a) Remuneration comprises salary, allowances and taxable value of perquisites.

b) Mr. R P Singh is the son of Lt. Gen. T P Singh (Retd.), Chairman of the Company.

c) All appointments are contractual in nature.

For and on behalf of the Board of Directors

Noida
April 30, 2007

Lt. Gen. T P Singh (Retd.)
Chairman

Annexure-C

SECRETARIAL COMPLIANCE CERTIFICATE

To,
The Members
NUCLEUS SOFTWARE EXPORTS LIMITED
33-35, THYAGRAJ NAGAR
NEW DELHI - 110 003

I have examined the registers, records, books and papers of Nucleus Software Exports Limited (the Company) as required to be maintained under the Companies Act, 1956, (the Act) and the rules made thereunder and also the provisionscontainedin the Memorandum and Articles of Association of the Company for the financial year ended on 31st March, 2007. In my opinion and to the best of my information and according to the examinations carried out by meand explanations furnished to me by the company, its officers and agents, I certify that in respect of the aforesaid financial year:

1. The Company has kept and maintained all registers i.e. Register of Members, Index of Members, Register of Directors, Manager, Secretaries, Register of Directors shareholding, Register of charges, Register of Loans and Investments, Register of particulars of contracts, Register of Share Transfer and Minutes Book of Director's & Member's, as per the provisions and the rules made thereunder and all entries therein have been duly recorded.

2. The Company has duly filed the forms and returns with the Registrar of Companies i.e. Form no. 2, Form 23(2 nos.), Form no. 23AC, Form no. 20B, Form no. 8 and 13 during the financial year.

3. The Company being a public limited company having its shares listed at National Stock Exchange, Mumbai and Chennai.

4. The Board of Directors duly met ten times on 26-04-06, 27-05-06, 08-07-06, 23-07-06, 19-08-06, 24-09-06, 29-10-06, 21-01-07, 13-03-07 and 30-03-07 in respect of which meetings proper notices were given and the proceedings were properly recorded and signed in the Minutes Book maintained for the purpose.

5. The Company has closed its Register of Members before Annual General Meeting from 1st July, 2006 to 8th July, 2006 and declared record date for interim dividend on 22nd March, 2007 and necessary compliance u/s 154 of the Act has been made.

6. The annual general meeting for the financial year ended on 31st March, 2006 was held on 8th July 2006 after giving due notice to the members of the Company and the resolutions passed thereat were duly recorded in Minutes Book maintained for the purpose.

7. No Extra ordinary meeting was held during the financial year.

8. The Company has not advanced any loan to its Directors and/or persons or firms or companies referred in the section 295 of the Act during the aforesaid financial year.

9. The Company has not entered into any contract under the provisions of section 297 of the Act during the aforesaid financial year.

10. The Company has made necessary entries in the register maintained under section 301(3) of the Act.

11. The Company was not required to obtain necessary approvals from the Board of Directors, members and previous approval of the Central Government pursuant to section 314 of the Act during the aforesaid financial year.

12. Shareholders/Investors Grievance Committee has approved issue of duplicate share certificates for 2,700 equity shares during the aforesaid financial year.

13. The Company has during the aforesaid financial year regarding the following matters:

    (i) delivered the certificates on remat and on allotment of securities and on lodgment thereof for transfer, if required as the company has shares in demat form.

    (ii) deposited the amount of dividend declared in a separate bank account in accordance with the provisions of the Act.

(iii) posted warrants for dividends to all members within a period of 30 days from the date of declaration and transferred the unclaimed/unpaid dividend to Unpaid Dividend Account of the Company.

(iv) not required to transfer the amounts in unpaid dividend account, application money due for refund, matured deposits, matured debentures and the interest accrued thereon which have remained unclaimed or unpaid for a period of seven years to Investor Education and Protection Fund.

(v) duly complied with the requirements of Section 217 of the Act.

14. The Board of Directors of the Company is duly constituted and there was no appointment of Directors, additional Directors, alternate Directors and casual vacancies during the aforesaid financial year.

15. The Company has made re-appointment of Mr. Vishnu R Dusad, Managing Director under the provisions of section 269 read with Schedule XIII to the Act during the year.

16. There was no appointment of sole-selling agents under the provisions of the Act.

17. The Company has obtained approval from the Board of Directors and Department of Company Affairs under Section 212(8) of the Act.

18. The Directors have disclosed their interest in other firms/companies to the Board of Directors pursuant to the provisions of the Act and the rules made thereunder.

19. The Company has issued 55,500 equity shares under ESOP Scheme during the financial year.

20. The Company has not bought back any shares during the financial year.

21. The Company was not required to redeem preference shares/ debentures during the year as no preference shares/ debentures were issued.

22. There was no pending registration of transfer of shares to keep in abeyance rights to dividend, rights shares and bonus shares in compliance with the provisions of the Act.

23. The Company was not required to comply with the provisions of sections 58A and 58AA read with Companies (Acceptance of Deposit) Rules, 1975/ the applicable directions issued by the Reserve Bank of India / any other authority.

24. The Company was not required to pass any resolutions at annual/extra ordinary general meeting under section 293(1)(d) of the Act during the financial year.

25. The Company has made investments and loans in compliance with the provisions of the Companies Act, 1956 and made necessary entries in the Register kept for the purpose.

26. The Company has not altered the provisions of the memorandum with respect to situation of the Company's registered office from one state to another during the year under scrutiny.

27. The Company has not altered the provisions of the memorandum with respect to the objects of the Company during the year under scrutiny.

28. The Company has not altered the provisions of the memorandum with respect to name of the Company during the year under scrutiny.

29. The Company has not altered the provisions of the memorandum with respect to share capital of the Company during the year under scrutiny.

30. The Company has not altered its articles of association during the year under scrutiny.

31. There was no prosecutions initiated against or show cause notices received by the Company for any offences under the Act.

32. The Company has not received any security from its employees during the year under certification.

33. The Company has deposited both employee's and employer's contribution to Provident Fund with prescribed authorities pursuant to section 418 of the Act.

Place : New Delhi
Date : April 30, 2007

SEEMA SHARMA
(C. P. No 4397)

Annexure-D

AUDITOR'S CERTIFICATE

(Under Clause 49 of the Listing Agreement)

To the Members of
Nucleus Software Exports Limited

We have examined the compliance of conditions of Corporate Governance by Nucleus Software Exports Limited ("the Company"), for the year ended on 31 March 2007, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchanges.

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

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

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

For BSR & Co.
Chartered Accountants

Place : Gurgaon
Date : April 30, 2007

Vikram Aggarwal
Partner
Membership No. 089826

CERTIFICATION BY MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER OF THE COMPANY

We, Vishnu R. Dusad, Managing Director and P K Sanghi, Chief Financial Officer, of Nucleus Software Exports Limited ("the Company"), to the best of our knowledge and belief, certify that:

1. We have reviewed the financial statements for the year ended 31 March, 2007 along with its schedules and notes on accounts, as well as the cash flow statements and the Directors' report;

2. These statements do not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, misleading with respect to the statements made;

3. These financial statements, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report, and are in compliance with the existing accounting standards and applicable laws and regulations;

4. Based on our knowledge and information, no transactions entered into by the Company during the year, which are fraudulent, illegal or violative of the Company's code of conduct.

5. We are responsible for establishing and maintaining internal controls for financial reporting and we have evaluated the effectiveness of the internal controls systems of the Company pertaining to financial reporting and have disclosed to the Auditors and the Audit Committee of the Company's Board of Directors, deficiencies in the design or operation of internal controls and steps proposed to be taken to rectify these deficiencies.

6. We have disclosed, based on our most recent evaluation, to the Company's Auditors and the Audit Committee of the Company's Board of Directors:

   a. Significant changes in internal control, if any, as over financial reporting during the year;

   b. There are no significant changes in accounting policies during the year; and

   c. There are no instances of significant fraud of which we have become aware and the involvement, therein, of the management or an employee having significant role in the Company's internal control system over financial reporting.

7. We further declare that all Board Members and senior managerial personnel have affirmed compliance with the code of conduct for the current year.

NOIDA	**Vishnu R Dusad**	**P K Sanghi**
April 30, 2007	**Managing Director**	**Chief Financial Officer**

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

Forming Part of the Financial Statements for the year ended March 31, 2007

Management's Discussion & Analysis of Financial Condition and Results of Operations

A. INDUSTRY STRUCTURE AND DEVELOPMENTS

Over the past decade, the Information Technology (IT) industry has become one of the fastest growing industries in India, propelled by exports. The key segments that have contributed significantly to the industry's exports include - Software and services (IT services) and IT-enabled services (ITES) i.e. business services. Over a period of time, India has established itself as a preferred global sourcing base in these segments and they are expected to continue to fuel growth in the future.

The amazing story of the Indian software industry has spread far and wide. Not only the countries which provide the customer of the industry, namely the developed countries, other countries are equally impressed by the performance of the industry.

The Indian software industry is now waking up to the potential of software product business. This is manifest in the number of such businesses being set up. The heightened activity being witnessed now, coupled with the unique advantages for Indian software product companies, will ensure the success of a large number in the coming years, feel industry watchers. Over the years Indian companies have made a foray into software product development but have been able to capture only a meagre share of the global market for products. Now, as the Indian IT industry matures and there emerges the need to look at innovations to sustain high margin growth, the need to look at product development space more aggressively is being realised.

According to a study by the Indian Institute of Management (IIM), Bangalore, India's product revenue potential is as high as $7 billion by 2010. Products require longer to build and need deeper pockets. For a nascent industry in a developing economy, that has historically spelt higher risks for entrepreneurs, apart from market risks, costs are also involved in patent filing. In middle class India, the appetite for risk is low, but it is gradually changing.

The ecosystem required to make India successful in the software product space is just beginning to happen. Investment needs to be promoted by changing the regulatory framework and offering attractive incentives. Strong domain knowledge and global exposure provides a good stepping stone for Indian IT companies to look at developing software products. This was not being done till now since Indian companies primarily focused on software services due to better risk-reward metrics.

The global software product market unleashes a multitude of opportunities to embark on a new journey with a reinvigorated sense of purpose to be bell weather of the industry. The Indian software and services industry's strong value proposition, low development costs, large development skill pool, mature quality control systems, proven offshore model and growing domain skills continue to hold India in good stead in the product development space.

In products, opportunities are available to Indian players in custom applications, embedded software, development and delivery of specialised components, offshore product development, product acquisition and enhancement and development of shrink-wrapped products. The key drivers for growth of the market has been the changing business environment, competitive pressures and declining margins and profitability of western software companies. This has led to the emergence of India as a destination for R&D outsourcing and product development.

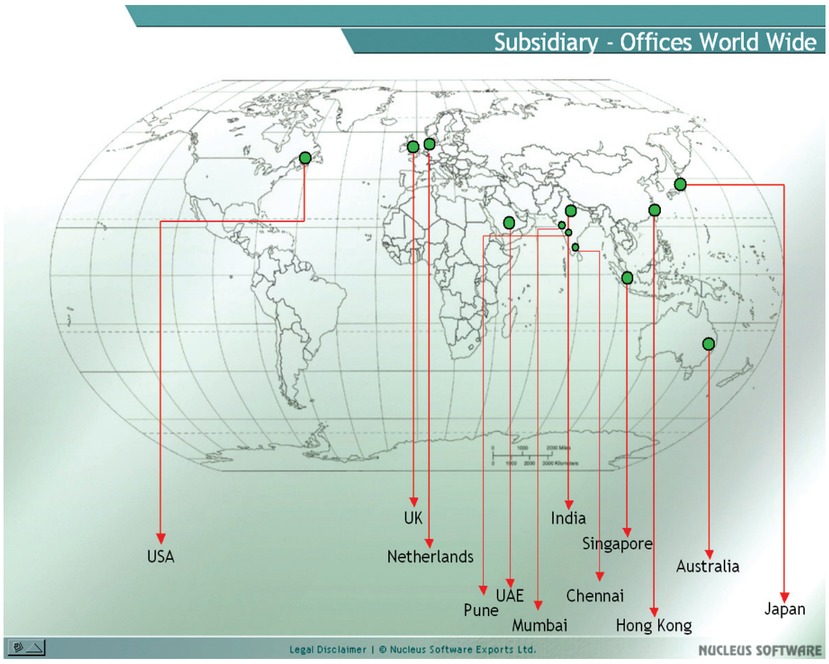
Given the higher capital requirement in the segment vis-à-vis services, several Indian software products companies have been forced to look inward to finance their growth. But this should now change, given the industry wide initiative to enhance the global visibility of the Indian software products sector. Increased availability of capital is expected to enable the sector to realise its immense potential and gain market share to deliver significant growth over the next few years.

B. COMPANY BACKGROUND

The Company was incorporated on January 9, 1989 as Nucleus Software Exports Private Limited (Nucleus) with its registered office at 33-35 Thyagraj Nagar Market, New Delhi-110003.

In August 1995, Nucleus made an Initial Public Offer. The Company is currently listed on National Stock Exchange of India Ltd., Bombay Stock Exchange Ltd. and Madras Stock Exchange Ltd.

The Company's business broadly consists of development and marketing of software products and software services for corporate business entities in the Banking and Financial Services (BFSI) vertical. From a modest beginning with



product development for a leading bank, Nucleus is today a major player in "Banking Products" and is one of the few Indian Companies whose products are installed at multiple locations internationally.

Nucleus is a multi-product, multi-service Company with customers in more than 22 countries. Nucleus has developed solutions for Retail Banking, Corporate Banking, Credit Cards, ATM, FX trading, Credit Appraisal, Cash Management, Trade Finance, Workflow. The Company in its endeavor to serve the customers better has made substantial investments in people, intellectual property and infrastructure.

Over the years Nucleus has gained tremendous experience working closely with IT leaders in the Banking and Financial Services industry, leading to, not only a thorough but also an unmatched insight into the unique needs of the sector.

Headquartered in Delhi, India the Company has following wholly owned Subsidiaries. In addition, there is a step-down subsidiary VirStra I-Technology (Singapore) Pte. Limited., incorporated in Singapore, which is a fully owned Subsidiary of VirStra I-Technology Services Limited.

Date of Incorporation	Name of Subsidiary Company	Location	% of holding
February 25, 1994	Nucleus Software Solutions Pte. Ltd.	Singapore	100%
August 5, 1997	Nucleus Software Inc.	USA	100%
November 2, 2001	Nucleus Software Japan Kabushiki Kaiga	Japan	100%
May 7, 2002	Nucleus Software (Australia) Pty Ltd.	Australia	100%
March 20, 2002	Nucleus Software (HK) Ltd.	Hongkong	100%
May 6, 2004	VirStra-I Technology Services Limited	India	100%
February 3, 2006	Nucleus Software Netherlands B.V.	Netherlands	100%

The Company has branch offices in Chennai and Mumbai in India and in London and Sharjah. These Subsidiaries/ branch offices help the Company in providing front-end support to clients and explore new opportunities.

Over the years Nucleus has gained tremendous experience working closely with IT leaders in the Banking and Financial Services industry, leading to, not only a thorough but also an unmatched insight into the unique needs of the sector.

THE STRATEGY

The Company has been pursuing a consistent Strategy as follows:

- Since IPO in 1995, Nucleus has been developing a suite of **PRODUCTS** for banks and financial companies with the objective of positioning at the higher end of the value chain.
- Build Intellectual Property based solutions which are not a cost arbitrage or a commodity business. The gestation is large and with risk in the initial years but the returns are superior in the long term.
- Invest in people and development for higher returns.
- Start with the home market to build a reference base and then achieve a global presence.

THE RESULT

The above strategy has yielded the following Results:

- Today Nucleus is a leader in Products for the **RETAIL** Loan segment in India and has a Product presence in 22 countries.
- Major Product win in Japan in January 2007.
- Estimated 70% of incremental retail loans in India are booked using FinnOne™, the Nucleus offering.
- Our markets are Japan, South East Asia, India, Middle East and Africa with the first site in Europe live in Italy in FY 2007.
- We are debt free and as of 31 March, 2007, our cash and cash equivalents were 49% of total assets.

Your Company is one of the few Indian IT Companies, which has proven its capability to deliver IT services that satisfy the requirements of international clients who expect the highest quality standards. Your Company has achieved SEI-CMM Level 5 certification, which focuses on defect analysis, cause identification and defect prevention, methods and process to facilitate continuous improvement in software quality and productivity.

Some of the notable accolades won by Nucleus are:

- The Company's flagship product FinnOne™ was globally recognized as the "No. 1 Best Selling Retail Lending Software" by IBS Publishing for the year 2006.
- Nucleus Software was selected as one of the top 25 companies adopting "Good Corporate Governance Practices" by the Institute of Company Secretaries of India for year 2006.
- Nucleus Software conferred as Partner of the Year - 2007, Fastest Growth in ISV by Oracle at India Partner Forum 2007.
- Nucleus Software was ranked 13th in Dataquest Top 20 Best Employers Survey 2006. Survey was conducted by IDC-Dataquest amongst 200 IT employers across India.
- Annual Report for financial year 2005 has received the 'Merit Award' for "Best Presented Accounts Award" by the South Asian Federation of Accountants in January 2007 in the category of 'Communication and Information Technology Sector".
- Received the award for " Excellence in Financial Reporting" by the Institute of Chartered Accountants of India (ICAI) for financial year 2005. Our Annual Report has been adjudged as No. 2 in the category of 'Information Technology, Communication and Entertainment Enterprises' companies.
- The Parent Company Nucleus Software Exports Ltd, and wholly owned Subsidiary Nucleus Software Pte, Singapore have been assessed at SW-CMM Level 5 based on the Capability Maturity Model (CMM) developed by Carnegie Mellon University's Software Engineering Institute.
- Deloitte Touche Tohmatsu has, in 2004 , rated Nucleus for the third consecutive year as one of the fastest growing Companies in its "Deloitte Touche Tohmatsu Asia Pacific Technology Fast 500" program.
- Nasscom ranked Nucleus as one of the Top 5 Indian Product Companies in its annual software and services industry performance report for the financial year 2002.
- Nucleus has received the best Partner award for "Building World Class Loan Management Solution on 9iAS technology" by Oracle Corporation in 2003.

C. COMPANY MANAGEMENT

The Company is managed through a Board of Directors with Mr. Vishnu R Dusad as the Managing Director. All the Directors are eminent individuals who have had successful stint in their careers. The Board of Directors play a pivotal role in framing strategic roadmap, analyzing the business opportunities and the inherent risks involved. The Board is actively involved in the decision making process. As a consequence, the Company's operations have been streamlined and consolidated for profitable and sustainable growth.

The Company, has the concept of Matrix Structure, which puts together the advantages of functional reporting and geographical reporting.

At the Parent Company level, global responsibilities for Software Delivery, Product and Account Management, Sales and Marketing, Finance, Human Resources and Corporate Affairs have been defined to achieve the objectives.

At the senior most level, a 'Management Team' consisting of the CEO and Global Heads for Technology and Delivery, Sales and Marketing, Product Management, Finance, HR, Quality and Corporate Affairs, meet every week to discuss strategy issues and frame policies. Concurrently, a "Management Council" which includes Management Team members and other Vice Presidents of the Company, meets every week to collectively address policy implementation and operations across the Company.

D. OPPORTUNITIES AND THREATS

Over the years, from a beginning as a Software Services Company, Nucleus has transformed into a Software Product Company with more than 50% of revenue derived from the 'Product Business' in FY 07. The journey has been challenging and building 'Intellectual Property' has been a difficult task. Today, with global acceptance by banks of Nucleus products, the FinnOne™ suite for "Retail Loans" and the Cash@Will™ suite for 'Corporate Collections and Payments", the market share and visibility is on an upward trend. With the world economy and cross border trade forecast to grow, increased consumer confidence is leading to explosive growth in retail assets in emerging markets and a steady replacement market in the developed countries. Technology is "Raw Material" for our customers and there is a growing need for "Value" based business solutions delivered in time to meet market needs.

With this increased visibility, the Company faces increased competition in all markets, from local, regional and global players. While economic growth outlook remains positive in most regions of the world, there are always uncertainities, linked to political and market risk. Strategically, our focus is on the "Retail Banking" niche and consequent specialization enables us to exploit our IPR to value.

E. OUTLOOK

The Company continues to be cautiously optimistic about its growth prospects for the current financial year.

F. RISK AND CONCERNS

These have been discussed in detail in the Risk Management chapter elsewhere in the Report.

G. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has well defined roles, responsibilities and authorities for employees at all levels. The Company aims at promoting operational efficiency while emphasizing adherence to policies and processes. The Company has appointed Internal Auditors to check on the validity and correctness of internal reporting, which would in turn validate financial reporting.

The following measures are in place to ensure financial responsibility:

- Any unbudgeted expenses are approved by the Managing Director & CEO.
- All capital expenditure beyond specified limits is approved by the Managing Director.
- Financial reviews of performance are held monthly with focus on revenue, cost of delivery and project execution.
- All Independent Business Units have business targets for each financial year, which are tracked regularly by senior management. Monthly review meetings are held of all key matrices defined in the goals for the financial year.
- To further ensure better Internal Control, the Board empowers the all-independent Audit Committee, with the authority to investigate any matter relating to the internal control system and to review the scope of Internal Audit.

The Company is committed to instill quality at all levels of implementation of projects. Moreover adequacy of internal controls across various processes are continuously monitored to rectify any deficiencies identified from time to time.

The CEO/CFO certification provided elsewhere in the report also places responsibility on the CEO and CFO to continuously ensure adequacy of our internal control systems and procedures.

H. MATERIAL DEVELOPMENTS IN HUMAN RESOURCES

The Indian software industry truly symbolizes India's strength in the knowledge-based economy. Highly skilled human resources coupled with world-class quality have transformed India into a global powerhouse in the Information Technology (IT) Industry.

Human resources are the real capital assets of the Company. This necessitates huge investments in creating and maintaining a conducive working environment. The Company has instituted contemporary HR practices to manage human resource risks arising due to complexities in human behavior.

The Company has laid down the following policies with relation to Human Resources:

(i) Employee Retention

(ii) Employee Grievance Redressal

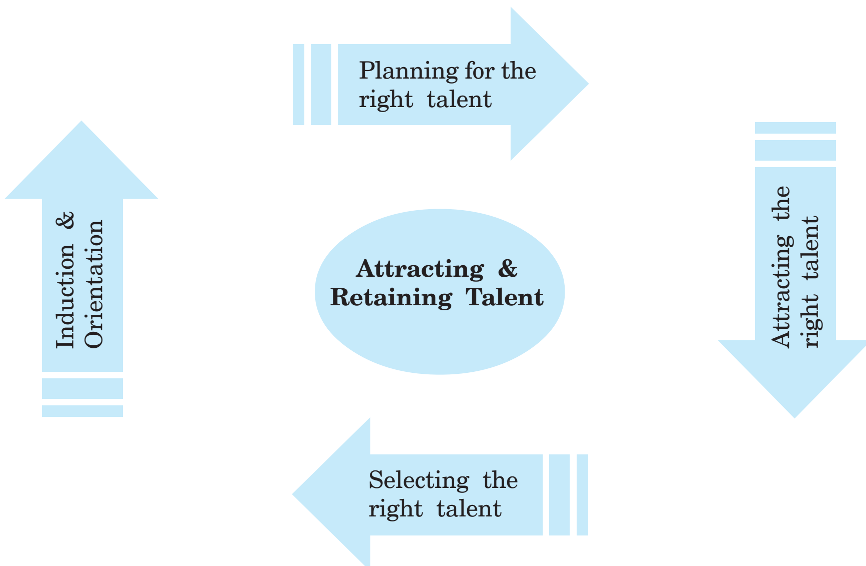
(iii) Employee Succession Planning

(iv) Employee Career Development

(v) Employee Training

Attracting and retaining talent is one of our biggest challenges and we are laying new focus on the proactive HR function to empower our people and scale new heights of productivity while enjoying world-class facilities.

The Company has identified four steps in this regard. Employee Retention Policy envisages various initiatives, which impact in enhancing employee engagement across the organization.



Various initiatives are taken by top management to retain the talent in the organization, which involve

- Defined Reward and Recognition Policy
- Annual Excellence Award
- Open House initiative to discuss any major policy roll-out or to address any organization wide grievances
- Whistle Blower Policy
- Ombudsman Policy
- Annual Nucleus Team Building experiential learning program
- Open Door Policy
- Compensation Rationalization to do compensation catch up with the industry
- Top management Friday Luncheon Program for better interaction with Nucleites
- Migration from manual processes to digitized ones for better organizational efficiency and ease of accessibility to the stakeholders
- Education Assistance Program
- Executive Health Check Program
- Contingency Loan Policy
- Buddy Program

The Company has dedicated training facilities and an exclusive trainers' group to equip employees with the knowledge and skills required for performing their jobs to the best of their abilities and to enable employees develop their full potential in the Company.

The Training needs are analyzed depending on the new skill requirement, enhance existing skills, and address skill gaps in performance appraisal. Thrust is also given in developing functional and domain knowledge base as recommended by the managers for potential leaders. An employee training policy has been formed to streamline the activity.

Nucleus was ranked 13th in Dataquest Top 20 Best Employers Survey 2006. IDC-Dataquest's top 20 Indian IT Best Employers is a prestigious and comprehensive IT Industry survey. It was conducted amongst 200 IT employers across India, and is valued as an essential reference source in the IT Industry. The positive feedback from the employees generated a positive feedback from the Industry.

During the year 464 Nucleus personnel were added, taking the total strength to 1,532 as on March 31, 2007.

I. FINANCIAL CONDITION

RESULTS OF OPERATIONS *(Rs. in Crore)*

For the Year Ended March 31,	2007	% of Revenue	2006	% of Revenue	Growth %
Revenue From Operations	**146.53**	**100.00**	**94.37**	**100.00**	**55.27**
Software Development Expenses	73.54	50.19	43.37	45.96	69.56
Gross Profit	72.99	49.81	51.00	54.04	43.12
Selling and Marketing Expenses	12.07	8.24	7.31	7.75	65.12
General and Administration Expenses	11.59	7.91	7.86	8.33	47.46
Operating Profit (EBITDA)	**49.33**	**33.67**	**35.83**	**37.97**	**37.68**
Depreciation	5.20	3.55	3.93	4.16	32.32
Withholding Taxes Charged off	4.67	3.19	3.21	3.40	45.48
Operating Profit after Interest, Depreciation and Withholding Taxes	39.46	26.93	28.69	30.40	37.54
Other Income	4.66	3.18	2.52	2.67	84.92
Profit before Tax	**44.12**	**30.11**	**31.21**	**33.07**	**41.36**
Provision for Taxation					
— Current	0.31	0.21	1.92	2.03	(83.85)
— Fringe Benefit	0.61	0.42	0.43	0.46	41.86
— Deferred	0.29	0.20	0.08	0.08	262.50
— Earlier year tax	0.01	0.01	(0.15)	(0.16)	106.67
Profit after tax	**42.90**	**29.28**	**28.93**	**30.66**	**48.29**

REVENUE

Revenue of the Company is derived from "Software Products" and "Projects and Services". During the year total revenue was Rs.146.53 crore against Rs.94.37 crore for the previous year representing an increase of 55.27%. The revenue of the Company from its product business constituted 78.08 % of revenue and from projects and professional services constituted 21.92% of revenue during the year.

EXPENDITURE

Software Development Expenses

Software development expenses primarily consist of compensation to our software professionals, expenses on travel to execute work at client site, consultancy charges, software development charges, cost of software purchased for delivery to clients, bandwidth and communication expenses and proportionate infrastructure charges. During the year our software development expenses were Rs.73.54 crore at 50.19% of revenue against Rs.43.37 crore at 45.96% of revenue in the previous year.

In comparison to the previous year, the software development expenses have increased by 69.56%, with employee cost increasing by 103.09%. Communication, Legal and Professional, Power and Fuel, Conveyance, IT expenses and Training and Recruitment Expenses also exhibit a higher increase due to increased infrastructure cost.

(Rs. in Crore)

Year ended March 31,	2007	% of Revenue	2006	% of Revenue	Growth %
Employee Costs	51.22	34.96	25.22	26.73	103.09
Travel Expenses	11.31	7.72	11.00	11.66	2.82
Cost of Software Purchased for Delivery to Clients	1.51	1.03	1.28	1.36	17.97
Communication	1.41	0.96	0.89	0.94	58.43
Power and Fuel	1.68	1.15	0.96	1.02	75.00
Rent, Rates and Taxes	0.34	0.23	0.27	0.29	25.93
Software and Other Development Charges	0.73	0.50	1.07	1.13	(31.78)
Legal and Professional	1.30	0.89	0.45	0.48	188.89
Conveyance	0.79	0.54	0.40	0.42	97.50
IT Expenses	0.39	0.27	0.18	0.19	116.67
Repairs and Maintenance	0.45	0.31	0.37	0.39	21.62
Training and Recruitment	1.83	1.25	0.85	0.90	115.29
Insurance	0.23	0.16	0.13	0.14	76.92
Others	0.35	0.24	0.30	0.32	16.67
Total Software Development Expenses	**73.54**	**50.19**	**43.37**	**45.96**	**69.56**
Revenue	***146.53***	***100.00***	***94.37***	***100.00***	***55.27***

The Gross margin for the current financial year was Rs.72.99 crore at 49.81% of revenue against Rs.51.00 crore at 54.04% of revenue in the previous year, representing an increase of 43.12%.

Selling and Marketing Expenses

Our selling and marketing expenses comprise of compensation of sales and marketing personnel, travel, brand building (advertisement, conference, seminar, etc), communication, training and recruitment and other allocated infrastructure costs. The Company has ambitious plans to increase geographical reach with a mix of direct sales effort and channel partner effort and building a global brand for its products.

(Rs. in Crore)

Year ended March 31,	2007	% of Revenue	2006	% of Revenue	Growth %
Employee Costs	5.01	3.42	3.88	4.11	29.12
Travel Expenses	2.03	1.39	1.42	1.50	42.96
Rent, Rates and Taxes	0.13	0.09	0.14	0.15	(7.14)
Advertisement and Business Promotion	0.78	0.53	0.63	0.67	23.81
Communication	0.08	0.05	0.16	0.17	(50.00)
Conference, Exhibition and Seminar	0.90	0.61	0.16	0.17	462.50
Channel Partner Payments	2.42	1.65	0.29	0.31	734.48
Others	0.72	0.49	0.63	0.67	14.29
Total Selling and Marketing Expenses	**12.07**	**8.24**	**7.31**	**7.75**	**65.12**
Revenue	***146.53***	***100.00***	***94.37***	***100.00***	***55.27***

During the year our selling and marketing expenses were Rs.12.07 crore at 8.24% of revenue against Rs.7.31 crore at 7.75% of revenue in the previous year, representing an increase of 65.12%.

Significant increase in expenses during the year were under the heads Employee costs, Channel Partner Payments.

General and Administrative Expenses

Our general and administrative expenses comprise of compensation to our employees in Corporate Office, Finance, HR, Administration and other general functions; travel, communication, legal and professional charges, repairs and maintenance, insurance, provision for doubtful debts, bad debts and other allocated infrastructure expenses.

During the year, the Company incurred general and administrative expenses of Rs.11.59 crore at 7.91% of revenue against Rs.7.86 crore at 8.33% of revenue in the previous year, representing an increase of 47.46%.

(Rs. in Crore)

Year Ended March 31,	2007	% of Revenue	2006	% of Revenue	Growth %
Employee Costs	6.04	4.12	3.24	3.43	86.42
Travel Expenses	0.19	0.13	0.19	0.20	0.00
Legal and Professional Charges	0.86	0.59	1.38	1.46	(37.68)
Communication	0.15	0.10	0.42	0.45	(64.29)
Provision for Doubtful Debts	2.14	1.46	0.05	0.05	4180.00
Rent, Rates and Taxes	0.39	0.27	0.19	0.20	105.26
Conveyance	0.32	0.22	0.15	0.16	113.33
Printing and Stationery	0.16	0.11	0.16	0.17	0.00
Power and Fuel	0.12	0.08	0.30	0.32	(60.00)
Advertisement	0.10	0.07	0.11	0.12	(9.09)
Others	1.12	0.76	1.67	1.77	(32.93)
Total General and Administrative Expenses	**11.59**	**7.91**	**7.86**	**8.33**	**47.46**
Revenue	***146.53***	***100.00***	***94.37***	***100.00***	***55.27***

Increase in expense is on account of higher employee cost as we are gearing up for future growth and a one time provision of Rs.1.80 crore on account of delayed implementation of our product at one client site.

Operating Profit

During the year our operating income was Rs.49.33 crore, 33.67% of revenue against Rs. 35.83 crore, 37.97% of revenue in the previous year.

Depreciation

Depreciation on fixed assets was Rs 5.20 crore, 3.55% of revenue for the year against Rs. 3.93 crore, 4.16% of revenue in the previous year.

Increase in depreciation charge for the year by Rs.1.27 crore is attributable to increase in following asset heads:

Building Rs.0.08 crore, Computers Rs.0.55 crore, Office and other equipments Rs.0.12 crore, Vehicles Rs.0.07 crore and Software Rs.0.43 crore on respective major additions during the year.

Withholding Taxes

Withholding taxes charged off represent withholding taxes charged to the Profit and Loss Account during the year, of Rs.4.67 crore as against Rs.3.21 crore in the previous year. These relate to taxes withheld by customers/subsidiaries on overseas transactions net of tax credits.

Other Income

Other Income represents income received in the form of dividends from non-trade investments, interest on fixed deposits, capital gains on the sale of current investments, profit on sale of fixed assets and foreign exchange gains.

(Rs. in Crore)

Year ended March 31,	2007	2006
On Investments;		
— Capital Gain	2.33	1.30
— Dividend	0.99	0.27
Interest Income	0.24	0.75
Gain/Loss on foreign exchange fluctuation	0.68	-
Profit on sale of assets	0.02	0.01
Others	0.40	0.19
Total	**4.66**	**2.52**

Other income for the year is Rs.4.66 crore against Rs.2.52 crore for the previous year, representing and increase of Rs.2.54 crore. This increase is attributable to higher income from profit on sale and dividends from mutual funds as a result of higher investments and better returns.

Provision for Income Tax

Our provision for current tax was Rs.0.31 crore (Rs.1.92 crore for the previous year), 0.21% of revenue, deferred tax expense of Rs.0.29 crore (Rs.0.08 crore for the previous year) fringe benefit tax of Rs.0.61 crore (Rs.0.43 crore for the previous year) and earlier year tax of Rs.0.01 crore [Rs. (0.15) crore for the previous year].

Your Company currently enjoys benefits of tax holidays notified by the Government of India for the export of software services from Software Technology Parks. As a result of these benefits the tax liability of the Company in India is significantly low. We expect the tax liability of the Company to increase post the expiry of tax holiday. However, at the same time, taxes withheld in other tax jurisdiction, which are currently debited to the profit and loss account, would be set off against Indian corporate tax in accordance with various Double Tax Agreements.

Net Income

Net Income for the year was Rs.42.90 crore, 29.28% of revenue, representing an increase of 48.29% over net income of Rs.28.93 crore, 30.66% of revenue, during the previous year.

FINANCIALS

Share Capital

Share Capital of the Company consists only of Equity Share Capital.

Share Capital of the Parent Company increased from 16,104,812 Equity Shares of Rs.10/- each as on March 31, 2006 to 16,160,312 Equity Shares of Rs. 10/- each as on March 31, 2007. Consequently the paid up Share Capital increased from Rs.16.11 crore as on March 31, 2006 to Rs.16.16 crore as on March 31, 2007, including the amount in share forfeiture account.

The increase is consequent to:

- Allotment of 55,500 fully paid up Equity Shares of Rs.10/- each to employees in pursuance of stock options exercised in July 2006 and March 2007.

	2007		2006	
	Equity shares (No.)	Rs. Crore	Equity shares (No.)	Rs. Crore
Balance at the beginning of the year	**16,104,812**	**16.11**	**16,090,812**	**16.09**
Shares issued upon conversion of options issued under:				
ESOP 1999	12,500	0.01	14,000	0.01
ESOP 2002	43,000	0.04	-	-
ESOP 2005	-	-	-	-
ESOP 2006*	-	-	NA	NA
Total	55,500	0.06	14,000	0.01
Balance at the end of the year	**16,160,312**	**16.16**	**16,104,812**	**16.11**

* ESOP 2006 was launched in July 2006 after approval from members at the AGM held on July 8, 2006.

Retained Earnings

During the year Company earned net profit of Rs.42.90 crore. The Company has paid interim dividend of Rs.5.64 crore and transferred Rs.10.00 crore to general reserve. During the previous year the Company earned profit of Rs.28.93 crore, distributed dividend of Rs.5.64 crore and transferred Rs.10.00 crore to general reserve. Dividend tax for the year was Rs.0.79 crore (Rs.0.79 crore for the previous year).

Reserves and Surplus

The movement in the components of reserves and surplus is as below:

	Opening Balance as on April 1, 2006	Additions/(Deletions) during the year	Closing Balance as on March 31, 2007
General Reserve	44.15	9.00	53.15
Securities Premium	16.30	1.02	17.32
Capital Reserve	0.15	0.01	0.16
Employee Stock Options (net of deferred employee compensation)	0.21	0.51	0.72
Profit and Loss Account Balance	23.75	26.47	50.22
Total	**84.56**	**37.01**	**121.57**

Effective April 1, 2006, the Company adopted the revised Accounting Standards 15 'Employee Benefits' issued by The Institute of Chartered Accountants of India (ICAI). Pursuant of the adoption, the transitional obligations of the Company amounted to Rs.0.99 crore. As required by the Accounting Standards, this obligation has been recorded with the transfer of Rs.0.99 crore from General Reserves.

Fixed Assets

(Rs. in Crore)

As at March 31,	2007	2006	Inc/Dec %
Gross Block			
Freehold land	0.34	0.34	-
Leasehold land	6.64	6.42	3.43
Building	14.66	11.20	30.89
Office and other equipment	6.38	5.21	22.46
Computers	12.91	9.72	32.82
Vehicles	1.46	1.40	4.29
Furniture and fixtures	3.26	2.58	26.36
Software	8.47	7.36	15.08
Leasehold improvement	0.68	-	100.00
Total	**54.80**	**44.23**	**23.90**
Less: Accumulated Depreciation	21.70	17.14	26.60
Net Block	**33.10**	**27.09**	**22.19**
Add: Capital Work In Progress	13.04	3.51	271.51
Net Fixed Assets	**46.14**	**30.60**	**50.78**

As at March 31, 2007, gross block of fixed assets including investment in technology assets was Rs.54.80 crore (Rs.44.23 crore as on March 31, 2006). The increase in gross block of fixed assets is primarily on account of capitalization of second building in Sector-62, NOIDA

The net fixed assets after depreciation are Rs.33.10 crore as on March 31, 2007 compared to Rs.27.09 crore as on March 31, 2006.

Investments

The investments of the Company in the Equity Share capital of Subsidiaries stood as follows:

(Rs. in Crore)

Name of Subsidiary	Year ended March 31, 2007	Year ended March 31, 2006
Nucleus Software Solutions Pte. Ltd., Singapore	1.63	1.63
Nucleus Software Inc., USA.	1.63	1.63
Nucleus Software Japan Kabushiki Kaiga, Japan	0.41	0.41
Nucleus Software (HK) Ltd., Hongkong	0.06	0.06
Nucleus Software (Australia) Pty. Ltd., Australia	0.98	0.98
VirStra I-Technology Services Ltd, India	1.00	1.00
Nucleus Software Netherlands B.V., Netherlands	0.54	0.54
Step down Subsidiary		
VirStra I- Technology (Singapore) Pte. Ltd, Singapore	0.56	0.27

Other investments of the Company include:

- Rs. 0.50 crore in UTI Fixed maturity Plan-YFMP 06/06-Growth
- Rs. 2.00 crore in Prudential ICICI FMP Series 5- Institutional-Growth
- Rs. 2.50 crore in Prudential ICICI FMP Series 34- Institutional-Growth
- Rs. 0.80 crore in Grindlays Fixed Maturity-16th Plan A-Growth
- Rs. 0.90 crore in Grindlays Fixed Maturity-20th Plan-Growth
- Rs. 2.57 crore in Birla Cash Plus-Institutional Premium-Growth
- Rs. 2.00 crore in Chola FMP-14 Months-Cumulative
- Rs. 1.00 crore in ABN Amro FTP Series 2 Thirteen Month Plan-Growth
- Rs 2.50 crore in ABN Amro FTP Series 5 Fourteen Month Plan-Growth
- Rs. 1.00 crore in HSBC Fixed term Series-4-Growth
- Rs. 2.00 crore in HSBC Fixed term Series-9-Growth
- Rs. 1.50 crore in HSBC Fixed term Series-27-Growth
- Rs. 1.00 crore in Principal Pnb Fixed Maturity Plan-385 Days-Series I Institutional-Growth
- Rs. 2.50 crore in Principal Pnb Fixed Maturity Plan-385 Days-Series 4 Institutional-Growth
- Rs. 1.00 crore in HDFC FMP 13M March 2006(1)- Institutional Plan-Growth
- Rs. 1.00 crore in HDFC FMP 13M June 2006(1)- Institutional Plan-Growth
- Rs. 1.25 crore in HDFC FMP 13M July 2006(1)- Institutional Plan-Growth
- Rs. 4.00 crore in LICMF Liquid Fund-Growth
- Rs. 5.00 crore in Prudential ICICI Super Institutional Plan-Growth
- Rs. 2.00 crore in Kotak Liquid-Institutional Plus Plan-Growth
- Rs. 1.50 crore in Reliance Fixed Horizon QFMP series V-Dividend
- Rs. 1.50 crore in Reliance Fixed Horizon Fund III- Annual Plan series I-Institutional Plan-Growth
- Rs. 1.50 crore in Reliance Fixed Horizon Fund III- Annual Plan series III-Institutional Plan-Growth
- Rs. 2.50 crore in Kotak FMP 13 M series 2-Institutional-Plan-Growth
- Rs. 1.25 crore in Kotak FMP series 26-Growth
- Rs. 2.50 crore in DWS fixed term fund series 24-Institutional Plan-Growth
- Rs. 1.53 crore in UTI Fixed maturity plan half yearly series HFMP/1206/I Dividend plan-Reinvestment

Other Long Term Investments

Other Long term investment comprise of:

a) Investment in 10,040,000 Equity Shares of face value of Rs.10 each in GMAC Financial Services India Limited made by the Company (together with its nominees), representing 25.10 % of the total Equity Share capital of the said Company.

GMAC Financial Services India Limited is a subsidiary of General Motors Acceptance Corporation (GMAC), a Company incorporated in United States of America. The Company has entered into a shareholder agreement with GMAC whereby under the terms of the agreement, the Company has an option to exit the investment in favour of GMAC or a designee of GMAC. Similarly GMAC has the option to ask the Company to divest the shareholding in favour of GMAC or a designee of GMAC.

b) Investment in 25,000 Equity Shares of face value of Rs.100/- each in Ujjivan Financial Services Private Ltd.

Ujjivan Financial Services Private Ltd., has been promoted in the area of micro finance by a group of experienced professional with banking and technology background.

Current Investments and Bank Balances

Our capital requirements are completely financed by internal accruals. Your Company continues to remain debt-free and we believe that cash generated from operations and reserves and surplus are sufficient to meet our obligations and requirements towards capital expenditure and working capital requirements.

Management's Discussion & Analysis

As of March 31, 2007 the cash and bank balances stood at Rs.13.43 crore (Rs.21.31 crore on March 31, 2006) and current investments in Liquid Schemes and Fixed Maturity Plans of mutual funds were Rs.49.30 crore (Rs.47.43 crore on March 31, 2006). As a part of its financial policies, the Company believes in maintaining high level of liquidity as it provides immense support against contingencies and uncertainities.

Our net cash flow from operating activities was Rs.20.57 crore for the financial year compared to Rs.23.65 crore in the previous year. Despite higher profitability, operating cash flow has fallen due to increase in receivables and other working capital components by Rs.26.19 crore.

To summarise the Company's liquidity position, given below are few ratios:

As at March 31,	**2007**	**2006**
Operating cash flow as % of revenue	14.04%	25.06%
Days of sale receivable	94	41
Cash and bank balances as % of assets	9.70%	21.15%
Cash and bank balances as % of revenue	9.17%	22.58%
Current investments as % of assets	35.59%	47.08%
Current investments as % of revenue	33.64%	50.26%

Trade Receivables

Our trade receivables (net of provision) as on March 31, 2007 were Rs.37.69 crore against Rs. 10.51 crore on March 31, 2006. In the opinion of management all the trade receivables are recoverable.

(Rs. in Crore)

As at March 31,	**2007**	**2006**
Due from		
- Subsidiaries	10.87	4.62
- Others	26.82	5.89
Total	**37.69**	**10.51**

The age profile of the debtors (net of provision) is given below:

As at March 31,	**2007**	**2006**
Less than 6 months	97.87%	97.00%
More than 6 months	2.13%	3.00%
Days of sales receivables (DSR)	94	41

There has been an increase in DSR in the last quarter of the year and management is making all efforts to reduce the same.

Loans and Advances

Advances recoverable in cash or in kind or for value to be received are primarily towards amounts paid in advance for value and services to be received in future, and staff advances.

The amount is Rs.2.23 crore as on March 31,2007 (Rs.0.93 crore as on March 31,2006.)

(Rs. in Crore)

As at March 31,	2007	2006
Advances recoverable in cash or in kind or for value to be received	2.23	0.93
Loans and advances to subsidiaries	1.28	1.32
Security deposits	0.84	0.30
Advance income tax	0.82	-
Prepaid expenses	2.08	0.58
Total	**7.25**	**3.13**

Loans and Advances to Subsidiaries include:

(a) Amounts receivable/reimbursable on account of expenses incurred on their behalf is worth Rs.0.99 crore as on March 31, 2007 (Rs.0.24 crore as on March 31, 2006).

(b) Loan of US $ 64,500 equivalent to Rs.0.28 crore, is outstanding on March 31, 2007 from the wholly owned Subsidiary, Nucleus Software Inc. The total loan disbursed in installments in financial year 2003-04 was US $ 157,500, at an interest rate of 3% over LIBOR, with a repayment schedule of 5 equal installments starting from financial year 2004-05. The subsidiary has repaid US $ 93,000.

Advances recoverable in cash or kind have increased by Rs.1.30 crore over last year due to a Rs.0.70 crore effect of reinstatement of foreign currency forward contracts/options, increase in advances for travel and other operational advances.

Security deposits have increased with advances for additional/new premises in Chennai and Mumbai.

Prepaid expenses have increased with a Rs.1.48 crore component on account of Lease Rent paid in advance for our Noida campus land, being charged to expense over ten more years.

Current Liabilities

Sundry Creditors represent amounts payable for the supply of goods and services.

The total amount of Sundry Creditors as on March 31, 2007 is Rs.15.07 crore (Rs.8.24 crore as on March 31,2006). The increase in Sundry Creditors is primarily on account of increase in liabilities related to staff, suppliers and specially for capital work in progress at the campus in NOIDA.

Withholding tax payable represents the amount of withholding taxes to be deducted/deductible by the overseas clients/ Subsidiaries on income billed to them by the Parent Company. The total amount of withholding tax liability as on March 31,2007 is Rs.0.94 crore (Rs.0.80 crore as on March 31,2006).

Advances from customers as on March 31, 2007 is Rs.27.32 crore (Rs.19.99 crore as on March 31,2006). These consist of advance payments received from customers and "Unearned Revenue". Unearned Revenue is defined as client billing for which related costs have not incurred or product license delivery is at later date.

The amount of Unclaimed Dividend as on March 31, 2007 is Rs.0.34 crore (Rs.0.07 crore as on March 31, 2006).

Other liabilities represent amounts accrued for Statutory dues for the taxes deducted at source by the Company, staff provident fund, employee state insurance liabilities, sales tax, etc. The total amount of other liabilities as on March 31,2007 is Rs.1.31 crore (Rs.1.02 crore as on March 31,2006).

Provisions

Provisions as on March 31, 2007 are Rs.4.61 crore (Rs.8.37 crore as on March 31, 2006).

The break-up of provision at the year-end is given below:

(Rs. in Crore)

As at March 31,	2007	2006
Gratuity	2.04	1.09
Leave encashment	2.56	0.7
Taxation (Net of advance tax)	-	0.13
Fringe benefit tax	0.01	0.02
Dividend	-	5.64
Dividend Tax	-	0.79
Total	**4.61**	**8.37**

Gratuity and leave encashment provisions are higher due to adoption of revised Accounting Standard 15 on employee benefits. The Company has declared and paid the interim dividend during the year and no liability exists at the end of the year on this accounts.

AUDITORS' REPORT

For the Financial Statements for the year ended March 31, 2007

Auditors' Report

To the Members of
Nucleus Software Exports Ltd.

We have audited the attached Balance Sheet of Nucleus Software Exports Ltd. ('the Company') as at 31 March 2007, the Profit and Loss Account and Cash Flow Statement of the Company 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 ('the Order') 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.

1. Further to our comments in the Annexure referred to 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 purposes of our audit;
   - (b) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
   - (c) the Balance Sheet, the Profit and Loss Account and the 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 the Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956, to the extent applicable;
   - (e) on the basis of written representations received from the Directors, as on 31 March 2007, and taken on record by the Board of Directors, we report that none of the Directors of the Company is disqualified as on 31 March 2007 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956; and
   - (f) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
     - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2007;
     - (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
     - (iii) in the case of Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

For BSR & Co.
Chartered Accountants

Sd/-
Vikram Aggarwal
Partner
Membership No. 089826

Gurgaon
April 30, 2007

Annexure to the Auditors' Report

(Referred to in our report of even date)

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

(b) The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified in a phased manner over a period of three years. In accordance with this programme, management has during the year physically verified computers at its facility in Noida. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. As informed to us, no material discrepancies were noticed on such verification.

(c) Fixed assets disposed off during the year were not substantial, and therefore, do not affect the going concern assumption.

(ii) The Company is a service company, primarily rendering software services. Accordingly it does not hold any physical inventories. Thus, the provisions of paragraph 4(ii) of the Order are not applicable to the Company.

(iii) (a) The Company has granted loans to two companies covered in the register maintained under section 301 of the Companies Act, 1956, which are its wholly owned subsidiaries. The maximum amount outstanding during the year was Rs. 11,239,475 and the year-end balance of such loans was Rs. 2,821,875.

(b) In our opinion, the rate of interest and other terms and conditions on which loans have been granted to companies listed in the register maintained under section 301 of the Companies Act, 1956 are not, prima facie, prejudicial to the interest of the Company.

(c) In the case of loans granted to companies listed in the register maintained under section 301 of the Companies Act, 1956, the borrowers have been regular in repaying the principal amounts and interest as stipulated in the terms of the agreement.

(d) There is no overdue amount in excess of Rs. 100,000 in respect of loans granted to any of the companies, listed in the register maintained under section 301 of the Companies Act, 1956.

(e) The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.

(iv) In our opinion and according to the information and explanations given to us and having regard to the explanation that services rendered are for the specialised requirements of the buyers and suitable alternative sources are not available to obtain comparable quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of fixed assets and sale of services. The activities of the Company do not involve purchase of inventory and sale of goods. We have not observed any major weakness in the internal control system during the course of the audit.

(v) (a) In our opinion and according to the information and explanation given to us, the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that section.

(b) In our opinion, and having regard to our comments in paragraph (iv) above and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rs. 5 lakh during the period, in respect of each party, have been made for specialised requirements of the buyers and for which suitable alternative quotations are not available. However, on the basis of information and explanations provided, the same appear reasonable.

(vi) The Company has not accepted any deposits from the public.

(vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

(viii) The Central Government has not prescribed the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956 in respect of services rendered by the Company.

(ix) (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/ accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Income tax, Sales tax, Wealth tax, Service tax, Customs duty and any other material statutory dues have generally been regularly deposited during the year by the Company with the appropriate authorities. As explained to us, the Company did not have any dues on account of Investor Education and Protection Fund. As explained to us, the provisions of Employees' State Insurance and Excise duty are not applicable to the Company.

There were no dues on account of cess under Section 441A of the Companies Act, 1956 since the date from which the aforesaid section comes into force has not yet been notified by the Central Government.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Income tax, Sales tax, Wealth tax, Service tax, Customs duty and other material statutory dues were in arrears as at 31 March 2007 for a period of more than six months from the date they became payable.

(b) According to the information and explanations given to us, there are no dues of Income tax, Sales tax, Wealth tax, Service tax, and Customs duty which have not been deposited with the appropriate authorities on account of any dispute. As explained to us, the provisions of Excise duty are not applicable to the Company.

(x) The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the immediately preceding financial year.

(xi) The Company did not have any outstanding dues to any financial institution, banks or debentureholders during the year.

(xii) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society. Accordingly, the provisions of paragraph 4 (xiii) of the Order are not applicable to the Company.

(xiv) According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.

(xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.

(xvi) The Company did not have any term loans outstanding during the year.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we are of the opinion that funds raised on short-term basis have not been used for long-term investment.

(xviii) The Company has not made any preferential allotment of shares to companies, firms or parties covered in the register maintained under section 301 of the Companies Act, 1956.

(xix) The Company did not have any outstanding debentures during the year.

(xx) The Company has not raised any money by public issues.

(xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For BSR & Co.
Chartered Accountants

Sd/-
Vikram Aggarwal
Partner
Membership No. 089826

Gurgaon
April 30, 2007

Balance Sheet as at 31 March 2007

All amounts in Rupees

Particulars	Schedule	As At 31 March 2007	As At 31 March 2006
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	161,618,120	161,063,120
Advance pursuant to stock option schemes		7,213,100	757,500
Reserves & Surplus	2	1,215,697,193	845,613,357
TOTAL		1,384,528,413	1,007,433,977
Deferred tax liability (refer note 3, schedule 16)		521,206	—
		1,385,049,619	1,007,433,977
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	3	548,039,427	442,357,760
Less: Accumulated Depreciation		(217,038,659)	(171,405,059)
Net block		331,000,768	270,952,701
Add : Capital Work in Progress (including capital advances)		130,458,253	35,070,281
		461,459,021	306,022,982
Investments	4	694,816,097	676,148,738
Deferred Tax Asset		-	1,339,922
(Refer note 3, Schedule 16)			
Current assets, loans and advances			
Sundry Debtors	5	376,936,553	105,093,296
Cash & Bank Balances	6	134,345,157	213,088,500
Loans & Advances	7	72,482,533	31,305,677
Other Current Assets	8	155,274,431	71,558,325
		739,038,674	421,045,798
Less: Current Liabilities & Provisions			
Current Liabilities	9	(464,168,330)	(313,471,499)
Provisions	10	(46,095,843)	(83,651,964)
		(510,264,173)	(397,123,463)
Net Current Assets		228,774,501	23,922,335
TOTAL		1,385,049,619	1,007,433,977
Significant accounting policies and notes to the accounts	16		

The schedules referred to above form an integral part of the Financial Statements

As per our report of even date

For BSR & Co.
Chartered Accountants

For and on behalf of the Board of Directors

Vikram Aggarwal
Partner
Membership No.: 089826

Lt. Gen. T P Singh (Retd.)
Chairman

Vishnu R Dusad
Managing Director

Gurgaon
April 30, 2007

NOIDA (U.P.)
April 30, 2007

P K Sanghi
Chief Financial Officer

Poonam Bhasin
Company Secretary

Profit and Loss Account for the year ended 31 March 2007

All amounts in Rupees

Particulars	Schedule	For the year ended 31 March 2007	For the year ended 31 March 2006
Sales and Services	11	1,465,305,488	943,678,136
Software Development Expenses	12	735,379,305	433,747,478
Gross profit		729,926,183	509,930,658
Selling and Marketing Expenses	13	120,702,002	73,072,349
General and Administration Expenses	14	115,938,659	78,565,977
Operating Profit Before Depreciation and Withholding Tax		493,285,522	358,292,332
Depreciation	3	51,981,831	39,292,691
Withholding Taxes Charged Off		46,749,630	32,114,267
Operating Profit After Depreciation and Withholding Tax		394,554,061	286,885,374
Other Income	15	46,617,209	25,255,015
Profit before Taxation		441,171,270	312,140,389
Provision for Tax - current income tax		3,000,000	19,200,000
- fringe benefit tax		6,124,139	4,271,465
- deferred tax charge/(credit) (refer Note 3, schedule 16)		2,879,983	859,078
- income tax for earlier years		86,355	(1,521,305)
Provision for Wealth Tax		63,952	51,402
Profit after Taxation		429,016,841	289,279,749
Profit Available for Appropriation			
Profit for the year		429,016,841	289,279,749
Add: Balance Brought Forward		237,546,836	112,539,379
Total Amount Available for appropriation		666,563,677	401,819,128
Final Dividend		-	56,366,842
Interim Dividend		56,407,092	-
Corporate Dividend Tax		7,911,095	7,905,450
Transferred to General Reserve		100,000,000	100,000,000
Balance Carried Forward to the Balance Sheet		502,245,490	237,546,836
Earnings Per Equity Share (par value Rs. 10 each) (Refer note 15, Schedule 16)			
Basic		26.62	17.97
Diluted		26.33	17.93
Number of Shares used in Computing Earnings Per Equity Share			
Basic		16,113,654	16,097,694
Diluted		16,293,013	16,137,555
Significant accounting policies and notes to the accounts	16		

The schedules referred to above from an integral part of the Financial Statements.

As per our report of even date

For BSR & Co.
Chartered Accountants

For and on behalf of the Board of Directors

Vikram Aggarwal
Partner
Membership No.: 089826

Lt. Gen. T P Singh (Retd.)
Chairman

Vishnu R Dusad
Managing Director

Gurgaon
April 30, 2007

NOIDA (U.P.)
April 30, 2007

P K Sanghi
Chief Financial Officer

Poonam Bhasin
Company Secretary

Statement of Cash Flows for the Year ended 31 March 2007

All amounts in Rupees

Particulars	For the year ended 31 March 2007	For the year ended 31 March 2006
A. Cash flow from operating activities		
Net profit before tax	441,171,270	312,140,389
Adjustment for:		
Depreciation	51,981,831	39,292,691
Exchange difference on translation of foreign currency accounts	(3,712,223)	(4,764,732)
Dividend received from non trade investments	(9,914,653)	(2,653,306)
Interest on fixed deposits and loan to subsidiaries	(2,417,759)	(7,457,597)
Profit on sale of investments	(23,269,833)	(12,981,491)
Amortisation of employees stock compensation expenses	8,377,407	1,972,818
Profit on sale of fixed assets	(196,292)	(45,470)
Loss on assets discarded	-	154,659
Bad debts written off	-	1,523,236
Advances and other current assets written off	290,466	5,904,441
Provision for doubtful debts / advances / other current assets	21,435,709	(991,223)
Operating profit before working capital changes	483,745,923	332,094,415
Decrease / (increase) in debtors	(297,043,297)	22,780,957
Decrease / (increase) in loans and advances	(26,392,638)	(1,369,851)
Decrease / (increase) in other current assets	(89,210,619)	(50,674,732)
Decrease) / increase in current liabilities and provisions	150,757,433	(48,722,293)
	221,856,802	254,108,496
Income tax paid	(9,935,113)	(13,552,386)
Fringe benefit tax paid	(6,224,213)	(4,101,391)
Net cash from operating activities (A)	**205,697,476**	**236,454,719**
B. Cash flow from investing activities		
Purchase of fixed assets/capital work in progress	(193,376,191)	(69,972,264)
Sale of fixed assets	2,206,704	593,771
Purchase of current investments (net)	4,602,474	(111,068,315)
Investment in subsidiaries	-	(5,365,000)
Purchase of other long term investments	-	(2,500,000)
Loan and advances to subsidiaries (net)	2,157,763	14,291,354
Interest on fixed deposits and loan to subsidiaries	5,365,347	7,306,115
Income tax paid	(2,688,257)	(4,813,374)
Dividend received from non trade investments	9,914,653	2,653,306
Net cash used in investing activities (B)	**(171,817,507)**	**(168,874,407)**
C. Cash flow from financing activities		
Dividend paid (including corporate dividend tax thereon)	(126,144,669)	(45,596,142)
Advance pursuant to employee stock option scheme	13,999,520	788,500
Net cash used in financing activities (C)	(112,145,149)	(44,807,642)
Net (decrease) / increase in cash and cash equivalents (A+B+C)	(78,265,180)	22,772,670
Opening cash and cash equivalents	213,088,500	190,561,641
Exchange difference on translation of foreign currency bank accounts	(478,163)	(245,811)
Closing cash and cash equivalents*	**134,345,157**	**213,088,500**

* include fixed deposits amounting to Rs.9,654,311 (Rs.9,149,266) under lien with bank on account of guarantees issued on behalf of the Company

Notes:

1. The above cash flow statement has been prepared in accordance with the 'Indirect method' as set out in the Accounting Standard - 3 on 'Cash Flow Statements' issued by the Institute of Chartered Accountants of India.
2. Cash and cash equivalents consist of cash in hand and balances with scheduled banks / non-scheduled banks.

As per our report of even date

For BSR & Co.
Chartered Accountants

For and on behalf of the Board of Directors

Vikram Aggarwal
Partner
Membership No.: 089826

Lt. Gen. T P Singh (Retd.)
Chairman

Vishnu R Dusad
Managing Director

Gurgaon
April 30, 2007

NOIDA (U.P.)
April 30, 2007

P K Sanghi
Chief Financial Officer

Poonam Bhasin
Company Secretary

Schedules to the Financial Statements

All amounts in Rupees

	As at 31 March 2007	As at 31 March 2006
SCHEDULE—1		
SHARE CAPITAL		
Authorised Capital		
20,000,000 (20,000,000) equity shares of Rs. 10 each	200,000,000	200,000,000
Issued, subscribed and paid up		
Issued		
16,163,112 (16,107,612) equity shares of Rs. 10 each	161,631,120	161,076,120
Subscribed and paid up		
16,160,312 (16,104,812) equity shares of Rs. 10 each, fully paid up	161,603,120	161,048,120
Of the above:		
8,045,406 equity shares of Rs. 10 each have been issued as bonus shares by capitalisation of securities premium account in the year ended 31 March 2005		
2,637,050 equity shares of Rs. 10 each have been issued as bonus shares by capitalisation of general reserve and securities premium account in the year ended 31 March 2002		
1,452,270 equity shares of Rs. 10 each have been issued as bonus shares by capitalisation of general reserve in the year ended 31 March 1995		
Add: 2,800 (2,800) forfeited equity shares pending for reissue	15,000	15,000
	161,618,120	161,063,120
SCHEDULE—2		
RESERVES AND SURPLUS		
General reserve		
Balance as at 1 April	441,454,695	341,454,695
Add: Transferred from Profit and Loss Account	100,000,000	100,000,000
Less: Gratuity and leave encashment transitional liability (refer note 8 of schedule 16)	9,981,145	-
	531,473,550	441,454,695
Securities premium account		
Balance as at 1 April	162,978,709	161,702,709
Add : On conversion of stock options issued to employees	10,220,800	1,276,000
	173,199,509	162,978,709
Capital reserve account		
Balance as at 1 April	1,500,030	1,480,030
Add: Amount forfeited against employees stock option plan	73,000	20,000
	1,573,030	1,500,030
Employee stock options		
Balance as at 1 April	4,394,168	2,304,350
Add: Options granted during the period / year	19,906,600	3,288,888
Less: Reversal on forfeiture of stock options granted	1,761,600	119,070
Less: Transferred to securities premium account on exercise of stock options	3,304,880	1,080,000
	19,234,288	4,394,168
Less: Deferred employee compensation	(12,028,674)	(2,261,081)
	7,205,614	2,133,087
Profit and Loss Account		
Balance as at 1 April	237,546,836	112,539,379
Add: Profit for the year	429,016,841	289,279,749
Less: Transferred to general reserve	100,000,000	100,000,000
Less: Final dividend	-	56,366,842
Less: Interim dividend	56,407,092	-
Less: Corporate dividend tax	7,911,095	7,905,450
	502,245,490	237,546,836
	1,215,697,193	845,613,357

Schedules forming part of the financial statements

SCHEDULE—3
FIXED ASSETS

All amounts in Rupees

Particulars	GROSS BLOCK				ACCUMULATED DEPRECIATION				NET BLOCK	
	As at 1 April, 2006	Additions	Deductions/ Adjustments	As at 31 March, 2007	As at 1 April, 2006	Depreciation for the period	Deduction/ Adjustments	As at 31 March, 2007	As at 31 March, 2007	As at 31 March, 2006
Freehold land	3,360,720	—	—	3,360,720	—	—	—	—	3,360,720	3,360,720
Leasehold land	64,195,000	2,200,000	—	66,395,000	2,891,645	731,915	—	3,623,560	62,771,440	61,303,355
Building	111,957,797	36,349,017	(1,721,932)	146,584,882	7,403,417	4,630,245	—	12,033,662	134,551,220	104,554,380
Office and other equipment	52,118,619	11,680,082	(10,202)	63,788,499	23,639,888	10,853,828	—	34,493,716	29,294,783	28,478,731
Computers	97,242,539	35,827,037	(3,926,836)	129,142,740	54,692,697	20,493,264	(3,767,533)	71,418,428	57,724,312	42,549,842
Vehicles	14,030,801	3,312,282	(2,699,673)	14,643,410	6,135,695	2,584,424	(2,580,698)	6,139,421	8,503,989	7,895,106
Furniture and fixtures	25,817,902	6,824,916	—	32,642,818	17,401,654	3,747,987	—	21,149,641	11,493,177	8,416,248
Software	73,634,382	11,024,037	—	84,658,419	59,240,063	8,881,558	—	68,121,621	16,536,798	14,394,319
Leasehold improvement	—	6,822,939	—	6,822,939	—	58,610	—	58,610	6,764,329	—
Total	442,357,760	114,040,310	(8,358,643)	548,039,427	171,405,059	51,981,831	(6,348,231)	217,038,659	331,000,768	270,952,701
Previous year	402,276,461	46,308,096	(6,226,797)	442,357,760	137,636,205	39,292,691	(5,523,837)	171,405,059	270,952,701	—

All amounts in Rupees

	As at 31 March 2007	As at 31 March 2006
SCHEDULE—4		
INVESTMENTS		
Long term investments		
Equity shares - Non trade and unquoted		
10,040,000 (10,040,000) equity shares of Rs 10 each, fully paid up, in GMAC Financial Services India Limited [Of the above, 80,000 (80,000) equity shares are held by nominees on behalf of the Company]	136,882,640	136,882,640
25,000 (25,000) equity shares of Rs 10 each, fully paid up, in Ujjivan Financial Services Pvt. Ltd.	2,500,000	2,500,000
	139,382,640	139,382,640
Equity shares in wholly owned subsidiaries - Non-trade and unquoted		
625,000 (625,000) equity shares of SGD 1 each, fully paid up, in Nucleus Software Solutions Pte. Ltd., Singapore, a wholly owned subsidiary	16,319,950	16,319,950
1,000,000 (1,000,000) equity shares of USD 0.35 each, fully paid up, in Nucleus Software Inc., USA, a wholly owned subsidiary	16,293,150	16,293,150
200 (200) equity shares of JPY 50,000 each, fully paid up, in Nucleus Software Japan Kabushiki Kaiga, Japan, a wholly owned subsidiary	4,092,262	4,092,262
316,000 (316,000) equity shares of Aus $ 1 each, fully paid up, in Nucleus Software (Australia) Pty. Ltd., Australia, a wholly owned subsidiary	9,790,955	9,790,955
100,000 (100,000) equity shares of HK $ 1 each, fully paid up, in Nucleus Software (HK) Ltd., Hong Kong, a wholly owned subsidiary	619,885	619,885
1,000,000 (1,000,000) equity shares of Rs 10 each, fully paid up, in Virstra i-Technology Services Limited, India, a wholly owned subsidiary of the above, 6 (6) equity shares are held by nominees on behalf of the Company]	10,000,000	10,000,000
1,000 (1,000) equity shares of Euro 100 each, fully paid up, in Nucleus Software Netherlands B.V., Netherlands, a wholly owned subsidiary	5,365,000	5,365,000
	62,481,202	62,481,202
Current investments		
Investments in bonds and mutual funds - Non trade and unquoted		
Nil (3,659,812) units of face value of Rs. 10 each of HDFC Cash management Fund-Saving Plan-Growth management Fund-Saving Plan-Growth	-	50,742,894
Nil (62,196) units of face value of Rs. 10 each of Deutsche Insta Cash Plus Fund-Institutional Plan-Growth	-	650,000
Nil (1,000,000) units of face value of Rs. 10 each of UTI Fixed Maturity Plan-YFMP 07/05-Growth	-	10,000,000
Nil (2,000,000) units of face value of Rs. 10 each of UTI Fixed Maturity Plan-YFMP 09/05-Growth	-	20,000,000
500,000 (Nil) units of face value of Rs. 10 each of UTI Fixed Maturity Plan-YFMP 06/06-Growth	5,000,000	-
2,000,000 (2,000,000) units of face value of Rs. 10 each of Prudential ICICI FMP Series 5-Institutional-Growth	20,000,000	20,000,000
2,500,000 (Nil) units of face value of Rs. 10 each of Prudential ICICI FMP Series 34-Institutional-Growth	25,000,000	-

Schedules forming part of the financial statements

All amounts in Rupees

	As at 31 March 2007	As at 31 March 2006
Nil (1,000,000) units of face value of Rs. 10 each of Reliance Fixed Maturity Fund-SeriesII-Annual Plan-I-Growth	-	10,000,000
Nil (2,413,992) units of face value of Rs. 10 each of DSP Merrill Lynch Liquidity Fund- Growth	-	40,000,000
Nil (2,985,857) units of face value of Rs. 10 each of SBI Magnum Institutional Income Fund-Saving-Growth	-	32,000,000
Nil (1,229,594) units of face value of Rs. 10 each of Reliance Liquid Fund-Treasury Plan-Institutional -Growth	-	20,000,000
Nil (2,972,613) units of face value of Rs. 10 each of ABN Amro Cash Fund-Institutional-Growth	-	31,000,000
Nil (1,419,231) units of face value of Rs. 10 each of ING Vysya Liquid Fund Institutional-Growth	-	15,000,000
Nil (26,544) units of face value of Rs. 1000 each of UTI Liquid Cash Plan Institutional-Growth	-	29,895,490
Nil (1,187,620) units of face value of Rs. 10 each of Prudential ICICI Institutional Liquid Plan-Growth	-	20,000,000
Nil (881,780) units of face value of Rs. 10 each of Birla Sun Life Cash manager-Institutional Plan-Growth	-	10,000,000
Nil (750,000) units of face value of Rs. 10 each of Magnum Debt Fund Series-13 Months (Oct 05)-Growth	-	7,500,000
800,000 (800,000) units of face value of Rs. 10 each of Grindlays Fixed Maturity-16th Plan A-Growth	8,000,000	8,000,000
900,000 (900,000) units of face value of Rs. 10 each of Grindlays Fixed Maturity-20th Plan -Growth	9,000,000	9,000,000
Nil (5,136,964) units of face value of Rs. 10 each of LICMF Liquid Fund-Dividend	-	56,179,497
2,297,827 (2,224,796) units of face value of Rs, 10 each of Birla Cash Plus-Institutional Premium-Growth	25,682,000	24,317,015
2,000,000 (2,000,000) units of face value of Rs. 10 each of Chola FMP-14 Months-Cumulative	20,000,000	20,000,000
1,000,000 (1,000,000) units of face value of Rs. 10 each of ABN Amro FTP Series 2 Thirteen Month Plan-Growth	10,000,000	10,000,000
2,500,000 (Nil) units of face value of Rs. 10 each of ABN Amro FTP Series 5 Forteen Month Plan-Growth	25,000,000	-
1,000,000 (1,000,000) units of face value of Rs. 10 each of HSBC Fixed term Series-4-Growth	10,000,000	10,000,000
2,000,000 (Nil) units of face value of Rs. 10 each of HSBC Fixed term Series-9-Growth	20,000,000	-
1,500,000 (Nil) units of face value of Rs. 10 each of HSBC Fixed term Series-27-Growth	15,000,000	-
1,000,000 (1,000,000) units of face value of Rs. 10 each of Principal Pnb Fixed Maturity Plan-385 Days-Series I Institutional-Growth	10,000,000	10,000,000
2,500,000 (Nil) units of face value of Rs. 10 each of Principal Pnb Fixed Maturity Plan-385 Days-Series 4 Institutional-Growth	25,000,000	-
1,000,000 (1,000,000) units of face value of Rs. 10 each of HDFC FMP 13M March 2006(1)- Institutional Plan-Growth	10,000,000	10,000,000

All amounts in Rupees

	As at 31 March 2007	As at 31 March 2006
1,000,000 (Nil) units of face value of Rs. 10 each of HDFC FMP 13M June 2006(1)- Institutional Plan-Growth	10,000,000	-
1,250,000 (Nil) units of face value of Rs. 10 each of HDFC FMP 13M July 2006(1)- Institutional Plan-Growth	12,500,000	-
3,117,013 (Nil) units of face value of Rs. 10 each of LICMF Liquid Fund-Growth	40,000,000	-
4,826,534(Nil) units of face value of Rs. 10 each of Prudential ICICI Super Institutional Plan-Growth	50,000,000	-
1,398,093 (Nil) units of face value of Rs. 10 each of Kotak Liquid-Institutional Plus Plan -Growth	20,000,000	-
1,500,000 (Nil) units of face value of Rs 10 each of Reliance fixed horizon QFMP series V-Dividend	15,000,000	-
1,500,000 (Nil) units of face value of Rs 10 each of Reliance fixed horizon fund III-annual plan series I-institutional plan-Growth	15,000,000	-
1,500,000 (Nil) units of face value of Rs 10 each of Reliance fixed horizon fund III-annual plan series III-institutional plan-Growth	15,000,000	-
2,500,000 (Nil) units of face value of Rs 10 each of Kotak FMP 13M series 2-institutional-plan-Growth	25,000,000	-
1,250,000 (Nil) units of face value of Rs 10 each of Kotak FMP series 26-Growth	12,500,000	-
2,500,000 (Nil) units of face value of Rs 10 each of DWS fixed term fund series 24-Institutional plan-Growth	25,000,000	-
1,527,025 (Nil) units of face value of Rs 10 each of UTI Fixed maturity plan half yearly series HFMP/1206/I Dividend plan-Reinvestment	15,270,255	-
	492,952,255	**474,284,896**
	694,816,097	**676,148,738**

Notes:

1. Net asset value (NAV) of current investments Rs. 512,682,896 (Rs 487,926,419) as at 31 March 2007.
2. Refer note 7, schedule 16 for details of investments purchased and sold during the year ended 31 March 2007.

Schedules forming part of the financial statements

All amounts in Rupees

	As at 31 March 2007	As at 31 March 2006
SCHEDULE—5		
SUNDRY DEBTORS (UNSECURED)		
Debts outstanding for a period exceeding six months		
— Considered good	8,012,776	3,149,136
— Considered doubtful	9,682,471	18,879,154
	17,695,247	22,028,290
Less: Provision for doubtful debts	(9,682,471)	(18,879,154)
	8,012,776	3,149,136
Other debts (considered good)*	368,923,777	101,944,160
	376,936,553	105,093,296

* includes debt amounting to Rs.9,773,891 (Rs.252,594) from Nucleus Software Inc., USA, Rs.55,137,972 (Rs.36,655,150) from Nucleus Software Japan kabushiki Kaiga and Rs.43,832,933 (Rs.9,284,883) from Nucleus Software Solutions, Singapore, being companies under the same management within the meaning of section 370 (1B) of the Companies Act 1956.

	As at 31 March 2007	As at 31 March 2006
SCHEDULE—6		
CASH AND BANK BALANCES		
Cash in hand [including cheques in hand Rs. 708,663 (Rs. 1,989,242)]	1,002,545	2,311,320
Balances with scheduled banks:		
—in current accounts	114,501,219	21,798,971
—in fixed deposit accounts*	9,654,311	184,301,711
Balance with non scheduled bank:		
—in current account (Citibank, United Kingdom)	829,963	660,698
[Maximum amount outstanding during the year Rs.1,106,298 (Rs.1,108,854)]		
Remittance in transit	8,357,119	4,015,800
	134,345,157	213,088,500

*include fixed deposits amounting to Rs.9,654,311 (Rs.9,149,266) under lien with bank on account of guarantees issued on behalf of the Company

	As at 31 March 2007	As at 31 March 2006
SCHEDULE—7		
LOANS AND ADVANCES		
(Unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received	22,303,998	9,281,723
Loans and advances to subsidiaries*	12,758,902	13,175,644
Security deposits	8,448,926	2,980,534
Advance income tax [net of provision Rs.29,446,234 (Nil)]	8,217,888	-
Prepaid expenses	20,752,819	5,867,776
	72,482,533	31,305,677

* includes loan amounting to Nil (Rs.5,516,000) to Nucleus Software Solutions Pte. Ltd. Singapore [maximum amount outstanding during the year Rs.5,824,000 (5,516,000)] and Rs.2,821,875 (Rs.5,242,850) to Nucleus Software Inc., USA, [maximum amount outstanding during the year Rs.5,415,575 (5,298,075)], being companies under the same management within the meaning of section 370 (1B) of the Companies Act 1956.

All amounts in Rupees

	As at 31 March 2007	As at 31 March 2006
SCHEDULE—8		
OTHER CURRENT ASSETS		
Service income accrued but not due	154,380,718	67,712,705
Interest accrued but not due	893,713	3,845,620
	155,274,431	71,558,325

	As at 31 March 2007	As at 31 March 2006
SCHEDULE—9		
CURRENT LIABILITIES		
Sundry creditors *	150,692,621	82,349,937
Withholding tax	9,434,496	8,036,409
Due to subsidiaries	14,243,095	12,253,033
Advances from customers	273,215,853	199,904,318
Unclaimed dividends	3,435,287	708,613
Other liabilities	13,146,978	10,219,189
	464,168,330	313,471,499

* The Company has no outstanding amounts payable to small-scale industrial undertakings.

	As at 31 March 2007	As at 31 March 2006
SCHEDULE—10		
PROVISIONS		
Gratuity	20,377,128	10,885,152
Leave encashment	25,648,715	7,069,271
Income tax [Net of advance tax Rs. Nil (Rs..28,774,091)]	-	1,255,175
Fringe benefit tax [Net of advance fringe benefit tax Rs.10,325,604 (Rs.4,101,391)	70,000	170,074
Dividend	-	56,366,842
Corporate dividend tax	-	7,905,450
	46,095,843	83,651,964

Schedules forming part of the financial statements

All amounts in Rupees

	For the year ended 31 March 2007	For the year ended 31 March 2006
SCHEDULE—11		
SALES AND SERVICES		
Software development services and products		
— Domestic	254,784,000	207,937,981
— Overseas	1,207,019,288	735,740,155
Consultancy services	3,502,200	-
	1,465,305,488	943,678,136

	For the year ended 31 March 2007	For the year ended 31 March 2006
SCHEDULE—12		
SOFTWARE DEVELOPMENT EXPENSES		
Salaries and allowances	463,012,124	223,649,420
Contribution to provident and other funds	24,774,730	11,974,371
"Directors' remuneration (including stock compensation expenses “Rs.1,396,831 (Nil)	9,719,409	7,002,000
Employee's stock compensation expenses	4,307,968	1,729,294
Staff welfare	10,361,647	7,858,245
Conveyance	7,950,453	4,006,269
Communication	14,145,662	8,893,719
Rent	3,422,394	2,743,719
Legal and professional	13,038,471	4,499,590
Repair and maintenance		
— Buildings	278,462	430,541
— Others	4,268,879	3,285,474
Training and recruitment	18,319,019	8,497,777
Printing and stationery	713,520	315,629
Insurance	2,322,658	1,349,112
Software and other development charges	7,288,344	10,685,838
Cost of software purchased for delivery to clients	15,113,102	12,766,339
Travelling	113,069,711	110,033,698
Power and fuel	16,788,645	9,628,878
Conference, exhibition and seminar	61,348	-
Information technology expenses	3,942,861	1,794,624
Miscellaneous expenses	2,479,898	2,602,941
	735,379,305	433,747,478

All amounts in Rupees

	For the year ended 31 March 2007	For the year ended 31 March 2006
SCHEDULE—13		
SELLING AND MARKETING EXPENSES		
Salaries and allowances	37,262,729	29,100,756
Contribution to provident and other funds	1,870,399	1,365,794
"Directors' remuneration (including stock compensation expenses "Rs.1,396,831 (Nil)	9,719,409	7,002,000
Employee's stock compensation expenses	251,224	145,736
Staff welfare	978,984	1,233,502
Conveyance	2,149,413	1,089,742
Communication	807,280	1,624,105
Rent	1,294,020	1,354,761
Legal and professional	1,049,284	746,551
Repair and maintenance		
— Buildings	23,876	43,054
— Others	369,596	328,547
Training and recruitment	783,167	717,917
Printing and stationery	1,318,845	285,885
Insurance	118,610	125,517
Travelling	20,282,614	14,202,603
Advertisement and business promotion	7,835,392	6,261,146
Power and fuel	913,302	998,473
Conference, exhibition and seminar	8,987,645	1,589,902
Information technology expenses	177,405	144,029
Commission to channel partners	24,188,634	2,853,673
Market survey expenses	-	1,394,695
Miscellaneous expenses	320,174	463,961
	120,702,002	73,072,349

Schedules forming part of the financial statements

All amounts in Rupees

	For the year ended 31 March 2007	For the year ended 31 March 2006
SCHEDULE—14		
GENERAL AND ADMINISTRATION EXPENSES		
Salaries and allowances	49,440,441	25,581,060
Contribution to provident and other funds	2,881,983	1,532,069
"Directors' remuneration (including stock compensation expenses "Rs.698,414 (Nil)"	6,204,705	3,846,000
Employee's stock compensation expenses	326,139	97,788
Staff welfare	1,524,886	1,349,137
Conveyance	3,168,617	1,508,263
Communication	1,456,765	4,181,573
Rent	642,941	223,500
Rates and taxes	3,259,295	1,718,991
Legal and professional	8,615,483	13,759,580
Repair and maintenance		
— Buildings	71,483	150,689
— Others	1,119,215	1,149,913
Training and recruitment	984,536	924,886
Printing and stationery	1,568,079	1,618,650
Loss on discarded assets	-	154,659
Insurance	193,393	315,934
Bank charges	1,776,281	1,618,598
Travelling	1,886,000	1,900,349
Advertisement	1,015,557	1,097,331
Power and fuel	1,211,226	2,987,602
Conference, exhibition and seminar	443,880	426,060
Information technology expenses	320,847	170,812
Advances and other current assets written off	290,466	5,904,441
Provision for doubtful debts /advances / other current assets *	21,435,709	532,013
Miscellaneous expenses	6,100,732	5,816,079
	115,938,659	78,565,977

*Net of bad debts written off Rs 681,995 (Nil; 12,546,037; 1,523,236)

	For the year ended 31 March 2007	For the year ended 31 March 2006
SCHEDULE—15		
OTHER INCOME		
Dividend received from non-trade investments	9,914,653	2,653,306
Gain on foreign exchange fluctuation (net)	6,797,263	40,151
Interest on fixed deposits and loans to subsidiaries [gross of tax deducted at source Rs.913,379 (Rs 1,399,539)	2,417,759	7,457,597
Profit on sale of fixed assets (net)	196,292	45,470
Profit on sale of investments	23,269,833	12,981,491
Miscellaneous income	4,021,409	2,077,000
	46,617,209	25,255,015

SCHEDULE 16:
SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

1. Company Overview

Nucleus Software Exports Ltd. ('Nucleus' or 'the Company') was incorporated on 9 January 1989 in India as a private limited company. It was subsequently converted into a public limited company on 10 October 1994. The Company made an initial public offer in August 1995. As at 31 March 2007, the Company is listed on three stock exchanges in India namely National Stock Exchange, Bombay Stock Exchange and Madras Stock Exchange. The Company has wholly owned subsidiaries in Singapore, USA, Japan, Australia, Hong-Kong, Netherlands and India. The Company's business consists of software product development and marketing and providing support services mainly for corporate business entities in the banking and financial services sector.

2. Significant accounting policies

(i) Basis of preparation

The financial statements are prepared under the historical cost convention, in accordance with the Indian Generally Accepted Accounting Principles ("GAAP") and mandatory accounting standards issued by the Institute of Chartered Accountants of India ("ICAI"), the provisions of the Companies Act, 1956 and guidelines issued by the Securities and Exchange Board of India ("SEBI"). All income and expenditure having a material bearing on the financial statements are recognised on accrual basis. Accounting policies have been consistently applied except where a newly issued accounting standard if initially adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use. Management evaluates all recently issued or revised accounting standards on an ongoing basis.

(ii) Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Examples of such estimates include estimates of expected contract costs to be incurred to complete contracts, provision for doubtful debts, future obligations under employee retirement benefit plans and estimated useful life of fixed assets. Actual results could differ from these estimates. Any changes in estimates are adjusted prospectively.

Management periodically assesses using external and internal sources whether there is an indication that an asset may be impaired. Impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the asset and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the asset's net sales price or present value as determined above. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortization, if no impairment loss had been recognized.

Contingencies are recorded when it is probable that a liability will be incurred, and the amount can be reasonably estimated.

(iii) Revenue recognition

Revenue from software development services comprises income from time and material and fixed price contracts. Revenue from time and material basis is recognised as the services are rendered. Revenue from fixed price contracts and sale of license and related customisation and implementation is recognised in accordance with the percentage completion method. Provision for estimated losses, if any, on uncompleted contracts are recorded in the period in which such losses become certain based on the current estimates.

Revenue from annual technical service contracts is recognised on a pro rata basis over the period in which such services are rendered.

Service income accrued but not due represents revenue recognised on contracts to be billed in the subsequent period, in accordance with terms of the contract.

Profit on sale of investments is recorded on transfer of title from the Company and is determined as the difference between the sales price and the then carrying value of the investment. Interest on the deployment of surplus funds is recognised using the time-proportion method, based on interest rates implicit in the transaction. Dividend income is recognised when the right to receive the same is established.

(iv) Expenditure

The cost of software purchased for use in software development and services is charged to cost of revenues in the year of acquisition. Post sales customer support costs are estimated by the management, determined on the basis of past experience. Expenses are accounted for on accrual basis and provisions are made for all known losses and liabilities.

(v) Fixed assets

Fixed assets are stated at the cost of acquisition including incidental costs related to acquisition and installation. Fixed assets under construction, advances paid towards acquisition of fixed assets and cost of assets not put to use before the period/year end, are disclosed as capital work-in-progress.

(vi) Depreciation

Depreciation on fixed assets, except leasehold land and leasehold improvements, is provided on the straight-line method based on useful lives of respective assets as estimated by the management. Leasehold land is amortised over the period of lease. The leasehold improvements are amortised over the remaining period of lease or the useful lives of assets, whichever is shorter. Depreciation is charged on a pro-rata basis for assets purchased / sold during the period/year. Assets costing less than Rs. 5,000 are fully depreciated in the period / year of purchase.

The management's estimates of the useful lives of the various fixed assets are as follows:

Asset category	*Useful life (in years)*
Building	30
Office and other equipment	5
Computers	4
Vehicles	5
Furniture and fixtures	5
Software	3
Temporary wooden structures (included in furniture and fixtures)	1

(vii) Investments

Investments are classified into long term and current investments based on the intent of management at the time of acquisition. Long-term investments including investment in subsidiaries are stated at cost and provision is made to recognise any decline, other than temporary, in the value of such investments. Current investments are stated at the lower of cost and the fair value.

(viii) Research and development

Revenue expenditure incurred on research and development is expensed as incurred. Capital expenditure incurred on research and development is depreciated over the estimated useful lives of the related assets.

(ix) Foreign exchange transactions

Foreign exchange transactions are recorded at the exchange rates prevailing at the date of transaction. Realised gains and losses on foreign exchange transactions during the period, other than those relating to fixed assets purchased from a country outside India are recognised in the profit and loss account. Foreign currency assets and liabilities are translated at period-end rates and resultant gains/losses on foreign exchange translations, other than those relating to fixed assets purchased from a country outside India are recognised in the profit and loss account. Gains/ losses on the settlement and translation of foreign exchange liabilities incurred to purchase fixed assets from a country outside India are adjusted in the carrying cost of such fixed assets.

In the case of forward contracts:

a) the premium or discount on all such contracts arising at the inception of each contract is amortised as income or expense over the life of the contract.

b) the exchange difference is calculated as the difference between the foreign currency amount of the contract translated at the exchange rate at the reporting date, or the settlement date where the transaction is settled during the reporting period, and the corresponding foreign currency amount translated at the later of the date of inception of the forward exchange contract and the last reporting date. Such exchange differences are recognised in the profit and loss account in the reporting period in which the exchange rates change.

c) any profit or loss arising on the cancellation or renewal of such contracts is recognised as income or as expense for the period.

(x) Employee stock option based compensation

The excess of market price of underlying equity shares as of the date of the grant of options over the exercise price of the options given to employees under the employee stock option plan is recognised as deferred stock compensation cost and amortised over the vesting period, on a straight line basis.

(xi) Retirement benefits

Retirement benefits to employees comprise gratuity, leave encashment and payments to provident fund. Contributions to provident fund are deposited with the appropriate government authorities and are charged to Profit and Loss Account as and when they become payable.

Provision for gratuity and leave encashment is made on the basis of actuarial valuation.

(xii) Operating leases

Lease payments under operating lease are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

(xiii) Earnings per share

Basic earning per share is computed using the weighted average number of equity shares outstanding during the period/year. Diluted earnings per share is computed using the weighted average number of equity and dilutive equity equivalent shares outstanding during the period/year-end, except where the results would be anti-dilutive.

(xiv) Taxation

Income taxes are computed using the tax effect accounting method, where taxes are accrued in the same period the related revenue and expenses arise. A provision is made for income tax based on the tax liability computed after considering tax allowances and exemptions. The differences that result between the profit offered for income taxes and the profit as per the financial statements are identified and thereafter a deferred tax asset or deferred tax liability is recorded for timing differences, namely the differences that originate in one accounting period and reverse in another, based on the tax effect of the aggregate amount being considered. The tax effect is calculated on the accumulated timing differences at the end of an accounting period based on prevailing enacted or substantially enacted regulations. Where there is unabsorbed depreciation or carry forward losses, deferred tax assets are recognised only to the extent there is virtual certainty of realisation of such assets. In other situations, deferred tax assets are recognised only to the extent there is reasonable certainty of realisation in future. Such assets are reviewed at each balance sheet date and written down or written up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realized. Deferred tax assets or liabilities arising due to timing differences, originating during the tax holiday period and reversing after the tax holiday period are recognised in the period in which the timing difference originate.

3. Deferred tax asset/(liability)

Components of net deferred tax asset/(liability):

	As at 31 March 2007 (Rupees)	As at 31 March 2006 (Rupees)
Deferred tax asset		
Provision for doubtful debts	668,865	786,249
Provision for retirement benefits	5,362,242	2,574,378
	6,031,107	**3,360,627**
Deferred tax liability		
Fixed assets	(6,552,313)	(2,020,705)
Net deferred tax asset/(liability)	**(521,206)**	**1,339,922**

4. Forward contracts

Exchange gain in respect of forward exchange contracts to be recognised in the Profit and Loss account of the subsequent accounting period is Rs.1,320,463 (Rs.999,672). As at 31 March 2007, the Company has outstanding forward contracts for USD 1,750,000 (USD 2,550,000).

Exchange gain in respect of derivative option contracts to be recognised in the Profit and Loss Account of the subsequent accounting period is Rs.5,436,250 (Rs.Nil). As at 31 March 2007, the Company has outstanding derivative option contracts for USD 4,950,000 (USD Nil).

5. Employees Stock Option Plan ("ESOP")

The Securities and Exchange Board of India ('SEBI') has issued the (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 which is effective for all stock option schemes established after 19 June 1999. In accordance with these Guidelines, the excess of the market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the option, including up-front payments, if any is to be recognised and amortised on a straight-line basis over the vesting period, ranging from eighteen to thirty six months.

The Company currently has four ESOP schemes, ESOP scheme-1999 (instituted in 2000), ESOP scheme- 2002 (instituted in 2002), ESOP scheme-2005 (instituted in 2005) and ESOP scheme-2006 (instituted in 2006). These schemes were duly approved by the Board of Directors and Shareholders in their respective meetings. The 1999 scheme provides for the issue of 170,000 equity shares, 2002 scheme for 225,000 equity shares, 2005 scheme for 600,000 equity shares and 2006 scheme for 1,000,000 equity shares to eligible employees. These schemes are administered by a Compensation Committee comprising of four members, the majority of whom are independent directors.

Details of options granted/exercised and forfeited are as follows:

1999 Stock Option Scheme

	Year ended 31 March 2007	Year ended 31 March 2006
Options outstanding at the beginning of the year	12,500	27,500
Options granted	9,000	-
Options forfeited	(3,300)	(1000)
Options exercised	(12.500)	(14,000)
	5,700	**12,500**

	Year ended 31 March 2007	Year ended 31 March 2006
2002 Stock Option Scheme		
Options outstanding at the beginning of the year	63,250	5,000
Options granted	145,500	59,250
Options forfeited	(6,000)	(1,000)
Options exercised	(43,000)	-
	159,750	**63,250**
2005 Stock Option Scheme		
Options outstanding at the beginning of the year	-	-
Options granted	142,000	-
Options forfeited	-	-
Options exercised	-	-
	142,000	**-**
2006 Stock Option Scheme		
Options outstanding at the beginning of the year	-	-
Options granted	271,860	-
Options forfeited	-	-
Options exercised	-	-
	271,860	**-**

The movement in deferred employee compensation expense during the year is as follows:

	Year ended 31 March 2007 (Rupees)	Year ended 31 March 2006 (Rupees)
Balance brought forward	2,261,081	1,064,081
Add: Recognised during the year	19,906,600	3,288,888
Less: Amortisation expense	8,377,407	1,972,818
Less: Reversal due to forfeiture	1,761,600	119,070
Balance carried forward	**12,028,674**	**2,261,081**

6.(a) Managerial Remuneration*

	Year ended 31 March 2007 (Rupees)	Year ended 31 March 2006 (Rupees)
A. Managing Director		
Salary and perquisites	3,120,000	2,160,000
Contribution to provident and other funds	198,000	144,000
Commission	16,838,447	12,596,000
	20,156,447	**14,900,000**
B. Non Executive Directors		
Stock base compensation	3,492,076	-
Commission	650,000	2,950,000
Sitting Fees	1,345,000	345,000
	5,487,076	**3,295,000**

* Does not include expense towards retirement benefits since the same is based on actuarial valuations carried out for the Company as a whole.

6.(b) Computation of managerial remuneration under section 198 of the Companies Act, 1956 and commission payable to non-executive directors

			Year ended 31 March 2007 (Rupees)	Year ended 31 March 2006 (Rupees)
Profit after taxation			429,016,841	289,279,749
Add:	(i)	Remuneration paid to the directors	24,298,523	17,850,000
	(ii)	Depreciation as per accounts	51,981,831	39,292,691
	(iii)	Provision for doubtful debts/advances/ other current assets (net)	21,435,709	(991,223)
	(iv)	Tax for the year	12,154,429	22,860,640
	(v)	Directors' sitting fees	1,345,000	345,000
Less:	(i)	Profit on sale of investments	23,269,833	12,981,491
	(ii)	Depreciation as per section 350	51,981,831	39,292,691
	(iii)	Loss on fixed assets sold/discarded as per section 350 (net)	-	-
Net profit for the purpose of managerial remuneration			464,980,669	316,362,675
Commission paid / payable to Managing Director [maximum 5% being Rs.21,933,050 (Rs.14,922,762)]			16,838,447	12,596,000
Commission payable to non-wholetime directors [maximum 1% being Rs.4,386,610 (Rs.2,984,552)]			650,000	2,950,000

7. Details of investments purchased and sold during the year ended 31 March 2007

Name of the investment	Face value Amount (Rupees)	Purchased during the year Quantity	Purchased during the year Amount (Rupees)	Sold during the year Quantity	Sold during the year Amount (Rupees)
Kotak K Liquid-Inst.Prem-(Dividend)	10	8,947,007	109,404,902	8,947,007	109,404,902
Prudential ICICI-IP-(Dividend)	10	1,689,862	20,025,200	1,689,862	20,025,200
ING Vysya Liquid-(Dividend)	10	201,148	2,013,556	201,148	2,013,556
Principal Liquid-(Dividend)	10	2,002,712	20,031,522	2,002,712	20,031,522
LIC Liquid Fund-(Dividend)	10	7,432,246	81,442,162	7,432,246	81,606,799
Sundaram Quarterly-FMP-(Dividend)	10	2,543,960	25,439,600	2,543,960	25,439,600
HSBC Cash Fund-IP-(Dividend)	10	6,903,484	69,073,495	6,903,484	69,050,023
Tata liquidity management Fund-(Dividend)	10	59,925	60,060,647	59,925	60,060,647
UTI Liquid Cash Plan-IP-(Dividend)	1000	135,825	138,466,033	135,825	138,466,033
HSBC Liquid Plus-Inst plus-(Dividend)	10	5,019,248	50,221,673	5,019,248	50,247,733
Birla Cash Plus-IP-(Dividend)	10	8,717,835	112,458,101	8,717,835	112,458,101
HDFC Liquid-(Dividend)	10	2,458,660	25,073,905	2,458,660	25,073,905
Principal Quarterly FMP-(Dividend)	10	2,000,000	20,000,000	2,000,000	20,000,000
Standard Chartered Quarterly FMP-(Dividend)	10	4,000,000	40,000,000	4,000,000	40,001,200

UTI-Quarterly-FMP-(Dividend)	10	2,539,019	25,390,191	2,539,019	25,399,331
DWS Fixed Term Plan-(Dividend)	10	2,500,000	25,000,000	2,500,000	25,000,000
ABN Amro-Quarterly-FMP-(Dividend)	10	9,638,417	96,384,169	9,638,417	96,384,169
HDFC Cash Management-Saving Plan-(Dividend)	10	3,765,060	37,726,591	3,765,060	37,720,688
Prudential-ICICI-Super-IP-(Dividend)	10	3,518,211	35,184,111	3,518,211	35,201,811

8. Employee Benefit Obligations

Effective 1 April 2006, the Company adopted revised Accounting Standard 15 on Employee Benefits. Pursuant to the adoption, the transitional obligations of the Company amounted to Rs.9,981,145 (net of deferred tax amounting to Rs.1,018,855). As required by the standard, the obligation has been recorded with the transfer of Rs.9,981,145 from general reserve.

The following table set out the status of the gratuity plan as required under the aforesaid standard:

Reconciliation of opening and closing balances of the present value of the defined benefit obligation:

Particulars	**As at 31 March 2007 (Rupees)**
Obligation at period beginning	12,890,710
Current service cost	3,023,103
Interest cost	862,875
Actuarial losses / (gain)	5,651,252
Benefits paid	(2,050,812)
Obligation at period end	20,377,128

Change in plan assets

Plan Assets at period beginning, at fair value	-
Expected return on plan assets	-
Actuarial gains / (losses)	-
Contributions by employer	2,050,812
Benefits paid	(2,050,812)
Plan assets at period end, at fair value	-

The Scheme does not have any assets as at the valuation date to meet the gratuity liability.

Gratuity cost for the period:	**As at 31 March 2007 (Rupees)**
Current service cost	3,023,103
Interest on defined benefit obligation	862,875
Expected return on plan assets	-
Net actuarial losses / (gains) recognized in the year	5,651,252
Past service cost	-
Total	9,537,230

Assumptions	**As at 31 March 2007**
Discount rate	8% p.a.
Expected rate of return on plan assets	-
Salary escalation rate	5.0% p.a.

a) Discount rate:
The discount rate is based on the prevailing market yields of Indian government securities as at the balance sheet date for the estimated term of the obligations.

b) Salary escalation rate:
The estimates of future salary increases considered takes into account the inflation, seniority, promotion and other relevant factors discount rate.

9. Segment reporting - Basis of preparation

(i) Segment accounting policies

The Segment reporting policy complies with the accounting policies adopted for preparation and presentation of financial statements of the Company and is in conformity with Accounting Standard-17 on "Segment Reporting", issued by the ICAI. The segmentation is based on the Geographies (reportable primary segment) in which Company operates and internal reporting systems. The secondary segmentation is based on the nature and type of services rendered.

(ii) Composition of reportable segments

The Company operates in four main geographical segments: India, Far East, Singapore and Europe.

Income and direct expenses in relation to segments are categorised based on items that are individually identifiable to that segment, while the remainder of the costs are categorised in relation to the associated turnover and/or number of employees. Certain expenses such as depreciation, which form a significant component of total expenses, are not specifically allocable to specific segments as the underlying services are used interchangeably. The Company believes that it is not practical to provide segment disclosures relating to those costs and expenses, and accordingly these expenses are separately disclosed as "unallocated" and directly charged against total income.

Segment assets and liabilities represent the net assets put up and liabilities of that segment. All the fixed assets of the Company are located in India. These have not been identified to any of the reportable segments, as these are used interchangeably between segments. Other items which are not directly attributable to any particular segment and which cannot be reasonably allocated to various segments are consolidated under "Unallocated" head.

a) Information in respect of primary segment

The profit and loss for reportable primary segment is set out below:

For the year ended 31 March 2007

(Amounts in Rupees)

Description	India	Far East	Singapore	Europe	USA	Others	Total
Revenue from external customers	254,783,999	481,373,097	132,092,576	137,387,530	46,678,869	412,989,417	1,465,305,488
Expenses	250,514,629	305,337,321	70,687,528	73,791,663	25,557,518	222,579,575	948,468,235
Segment result	4,269,370	176,035,776	61,405,048	63,595,867	21,121,350	190,409,842	516,837,253
Unallocated corporate expenditure							122,283,192
Operating profit before taxation							394,554,061
Other income							46,617,209
Profit before tax							441,171,270
Provision for taxation							
- current income tax							3,000,000
- fringe benefit tax							6,124,139
- deferred tax							2,879,983
- income tax for earlier years							86,355
Provision for wealth tax							63,952
Net profit after taxation							**429,016,841**

Schedules to the Financial Statements

For the year ended 31 March 2006

(Amounts in Rupees)

Description	India	Far East	Singapore	Europe	USA	Others	Total
Revenue from external customers	207,937,981	162,033,377	241,720,772	160,024,871	1,072,920	170,888,215	943,678,136
Expenses	158,655,612	115,679,509	124,453,558	82,940,282	536,677	88,026,238	570,291,876
Segment result	49,282,369	46,353,868	117,267,214	77,084,589	536,243	82,861,977	373,386,260
Unallocated corporate expenditure							86,500,886
Operating profit before taxation							286,885,374
Other income							25,255,015
Profit before tax							312,140,389
Provision for taxation							
- current income tax							19,200,000
- fringe benefit tax							4,271,465
- deferred tax							859,078
- income tax for earlier years							(1,521,305)
Provision for wealth tax							51,402
Net profit after taxation							**289,279,749**

Assets and liabilities of reportable primary segment are as follows:

As at 31 March 2007

(Amounts in Rupees)

Description	India	Far East	Singapore	Europe	USA	Others	Total
Segment assets	84,522,577	182,454,257	63,495,771	193,346	14,356,692	199,053,440	544,076,083
Unallocated corporate assets							1,351,237,709
Total assets							**1,895,313,792**
Segment liabilities	52,401,988	182,969,784	16,924,961	136,428,141	3,247,217	43,333,493	435,305,584
Unallocated corporate liabilities							75,479,795
Total liabilities							**510,785,379**
Capital employed							**1,384,528,413**

As at 31 March 2006

(Amounts in Rupees)

Description	India	Far East	Singapore	Europe	USA	Others	Total
Segment assets	44,122,673	42,889,359	21,454,760	-	6,541,261	70,973,592	185,981,645
Unallocated corporate assets							1,218,575,795
Total assets							**1,404,557,440**
Segment liabilities	28,156,325	29,987,860	13,263,307	175,917,033	538,695	36,103,431	283,966,651
Unallocated corporate liabilities							113,156,812
Total liabilities							**397,123,463**
Capital employed							**1,007,433,977**

A listing of capital expenditure, depreciation and other non-cash expenditure of the reportable primary segment are set out below:

For the year ended 31 March 2007

(Amounts in Rupees)

Description	India	Far East	Singapore	Europe	USA	Others	Total
Capital expenditure (unallocated)							209,428,282
Total capital expenditure							**209,428,282**
Depreciation expenditure (unallocated)							51,981,831
Total depreciation							**51,981,831**
Segment non-cash expense other than depreciation	2,518,160	2,270,237	3,027,822	755,930	1,382,795	20,147,588	30,102,532
Total non cash expenditure other than depreciation	**2,518,160**	**2,270,237**	**3,027,822**	**755,930**	**1,382,795**	**20,147,588**	**30,102,532**

For the year ended 31 March 2006

(Amounts in Rupees)

Description	India	Far East	Singapore	Europe	USA	Others	Total
Capital expenditure (unallocated)							79,361,014
Total capital expenditure							**79,361,014**
Depreciation expenditure (unallocated)							39,292,691
Total depreciation							**39,292,691**
Segment non-cash expense other than depreciation	798,647	372,501	310,743	52,807	1,805	6,872,770	8,409,273
Total non cash expenditure other than depreciation	**798,647**	**372,501**	**310,743**	**52,807**	**1,805**	**6,872,770**	**8,409,273**

b) Information in respect of secondary segment

i) Information for business segments

For the year ended 31 March 2007

(Amounts in Rupees)

Description	Products	Software projects and services	Total
Revenue	1,144,158,717	321,146,771	1,465,305,488
Carrying amount of segment assets	386,857,981	144,459,290	531,317,271

For the year ended 31 March 2006

(Amounts in Rupees)

Description	Products	Software projects and services	Total
Revenue	489,621,207	454,056,929	943,678,136
Carrying amount of segment assets	110,100,660	61,836,341	172,806,001

As mentioned earlier, all the fixed assets of the Company are located in India. These have not been identified to any of the reportable segments, as these are used interchangeably between segments. Further, information related to carrying amount of assets by location of assets, to the extent possible, has been provided in primary segmentation.

10. Related party disclosures

a) *List of related parties*

Parties where control exists:

Wholly owned subsidiary companies

—Nucleus Software Solutions Pte Ltd, Singapore
—Nucleus Software Japan Kabushiki Kaiga, Japan
—Nucleus Software Inc., USA
—Nucleus Software (H.K) Ltd., Hong Kong
—Nucleus Software (Australia) Pty Ltd., Australia
—VirStra i-Technology Services Limited, India
—Nucleus Software Netherlands B.V., Netherlands

Other subsidiary company (wholly owned subsidiary of Virstra i Technology Services Limited)

—Virstra i-Technology (Singapore) Pte. Ltd.

Other related parties with whom transactions have taken place during the year:

Key managerial personnel:

—Vishnu R Dusad (Managing Director)

b) *Transactions with related parties*

		Year ended 31 March 2007 (Rupees)	Year ended 31 March 2006 (Rupees)
i.	**Software development services and products**		
	Wholly owned subsidiary companies	424,487,023	453,282,354
ii.	**Other income**		
	Wholly owned subsidiary company	2,968,730	1,554,585
iii.	**Managerial remuneration**		
	Key managerial personnel	20,156,447	14,900,000
iv.	**Reimbursement of expenses**		
	From wholly owned subsidiary companies	23,962,711	14,286,881
	To wholly owned subsidiary companies	26,975,552	27,587,652
v.	**Commission paid**		
	To wholly owned subsidiary company	781,918	653,775
vi.	**Interest received**		
	From wholly owned subsidiary companies	441,060	628,348
vii.	**Loans and advances**		
	Given to wholly owned subsidiary company	—	8,800,000
	Repaid by wholly owned subsidiary company	8,290,620	8,800,000
viii.	**Investments made**		
	Nucleus Software Netherlands B.V	—	5,365,000

	As at 31 March 2007 (Rupees)	As at 31 March 2006 (Rupees)
Outstanding balances at year end		
Loans and advances		
To wholly owned subsidiaries	12,758,902	13,175,644
Debtors		
Wholly owned subsidiaries	108,744,796	46,192,627
Service income accrued but not due		
Wholly owned subsidiary Company	7,669,406	6,234,209
Interest income accrued but not due		
Wholly owned subsidiary Company	249,389	684,405
Sundry creditors		
Due to wholly owned subsidiaries	14,243,095	12,253,033
Advances from wholly owned subsidiaries	120,930,844	—

	Year ended 31 March 2007 (Rupees)	Year ended 31 March 2006 (Rupees)
11. Legal and professional includes payment to auditors		
Audit fees (includes service tax)	1,643,602	1,661,333
Other services (includes service tax)	454,532	264,480
Out of pocket expenses	195,240	123,530
Total	**2,293,374**	**2,049,343**
12. CIF value of imports		
Capital goods	56,834,204	24,206,256
Total	**56,834,204**	**24,206,256**
13. Expenditure in foreign currency		
Travelling	101,862,483	101,474,758
Professional charges	808,164	1,948,035
Others	40,634,705	14,971,587
Total	**143,305,352**	**118,394,380**
14. Earnings in foreign currency		
Income from software development services and products	1,207,019,288	735,740,155
Interest	448,326	630,694
Total	**1,207,467,614**	**736,370,849**

	Year ended 31 March 2007 (Rupees)	Year ended 31 March 2006 (Rupees)
15. Dividend remitted in foreign currency		
Amount remitted (net of tax)		
Interim dividend (2007)	-	-
Final dividend (2006)	-*	-*
Final dividend (2005)	-*	-*
Number of shares held by non-resident shareholders		
Interim dividend (2007)	252,020	-
Final dividend (2006)	786,111	-
Final dividend (2005)	-	303,884
Number of non-resident shareholders		
Interim dividend (2007)	178	-
Final dividend (2006)	175	-
Final dividend (2005)	-	61

*Dividend was remitted in Indian Rupees

16. Earnings per share

	Year ended 31 March 2007 (Rupees)	Year ended 31 March 2006 (Rupees)
Profit after taxation available to equity shareholders (Rupees)	429,016,841	289,279,749
Weighted average number of equity shares used in calculating basic earnings per share	16,113,654	16,097,694
Add: Effect of dilutive issue of shares	179,359	39,861
Weighted average number of equity shares used in calculating diluted earnings per share	16,293,013	16,137,555
Basic earnings per share (Rupees)	26.62	17.97
Diluted earnings per share (Rupees)	26.33	17.93

17. Capital commitments and contingent liabilities

a. Estimated amount of contracts remaining to be executed on capital account and not provided for in the books of account (net of advances) Rs.56,579,872 (previous year Rs.12,281,986).

b. Claim against the Company not acknowledged as debt Rs.324,000 (previous year Rs.324,000).

18. Operating lease

During the current year, the Company has acquired office premises under a non-cancellable operating lease. Operating lease rentals paid during the year is Rs.1,224,157 (Rs.Nil). The future minimum lease expense in respect of such leases is as follows:

	As at 31 March 2007 (Rupees)
Not later than 1 year	7,102,920
Later than 1 year but not later than 5 years	5,209,325
Later than 5 years	-
Total	**12,312,245**

19. The following are the aggregate amounts incurred on certain specific expenses that are required to be disclosed under Schedule VI to the Companies Act, 1956:

	Year ended 31 March 2007	Year ended 31 March 2006
Salaries and allowances	549,715,294	278,331,236
Contribution to provident and other funds	29,527,112	14,872,234
Directors' remuneration	25,643,523	17,850,000
Employee's stock compensation expenses	4,885,331	1,972,818
Staff welfare	12,865,517	10,440,884
Training and recruitment	20,086,722	10,140,580
Software and other development charges	7,288,344	10,685,838
Cost of software purchased for delivery to clients	15,113,102	12,766,339
Travelling	135,238,325	126,136,650
Conveyance	13,268,483	6,604,274
Communication	16,409,707	14,699,397
Rent, rates and taxes	8,618,650	6,040,971
Legal and professional	22,703,238	19,005,721
Power and fuel	18,913,173	13,614,953
Repair and maintenance		
— Building	373,821	624,284
— Others	5,757,690	4,763,934
Advertisement and business promotion	8,850,949	7,358,477
Conference, exhibition and seminar	9,492,873	2,015,962
IT expenses	4,441,113	2,109,465
Bad debts/advances/other current assets written off	290,466	7,427,677
Commission to channel partners	24,188,634	2,853,673
Provision for doubtful debts/advances/other current assets written off	21,435,709	(991,223)
Printing and stationery	3,600,444	2,220,164
Loss on discarded assets	-	154,659
Insurance	2,634,661	1,790,563
Bank charges	1,776,281	1,618,598
Marketing survey	-	1,394,695
Miscellaneous expenses	8,900,804	8,882,981
Total	**972,019,966**	**585,385,804**

20. The Company has established a comprehensive system of maintenance of information and documents as required by the transfer pricing legislation under sections 92-92F of the Income Tax Act, 1961. Since the law requires existence of such information and documentation to be contemporaneous in nature. The Company is in the process of updating the documentation for the international transactions entered into with associated enterprises during the financial year and expects such records to be in existence latest by October 2007 as required under law. The management is of the opinion that its international transactions are at arm's length so that the aforesaid legislation will not have any impact on the financial statements, particularly on the amount of tax expense and that of provision for taxation.

21. Previous year figures have been regrouped/reclassified wherever necessary to make them comparable with the current year figures.

For and on behalf of the Board of Directors

Lt. Gen T P Singh (Retd.)
Chairman

Vishnu R Dusad
Managing Director

NOIDA (U.P.)
April 30, 2007

P K Sanghi
Chief Financial Officer

Poonam Bhasin
Company Secretary

Balance Sheet Abstract

Information pursuant to Part IV of Schedule VI of the Companies Act, 1956
Balance Sheet Abstract and Company's General Business Profile

I.	**Registration Details**	
	Registration No.	55-34594
	State Code No.	55
	Balance Sheet Date	31 March 2007
II.	**Capital raised during the year (Rupees in thousands)**	
	Public issue	Nil
	Right issue	Nil
	Bonus issue	Nil
	Private placement	555
III.	**Position of mobilisation and deployment of funds (Rupees in thousands)**	
	Total liabilities	1,895,314
	Total assets	1,895,314
	Sources of funds : (Rupees in thousands)	
	Paid-up capital*	168,831
	Reserve and surplus	1,215,697
	Secured loans	Nil
	Unsecured loans	Nil
	** includes Rs.7213 thousands in respect of advance pursuant to stock option scheme	
	Application of funds : (Rupees in thousands)	
	Net fixed assets	461,459**
	Investments	694,816
	Net current assets	228,774
	Miscellaneous expenditure	Nil
	Accumulated losses	Nil
	** includes Rs.130,458 thousands in respect of capital work-in-progress (including capital advances)	
IV.	**Performance of Company (Rupees in thousands except earnings per share)**	
	Turnover (including other income)	1,511,922
	Total expenditure	1,070,751
	Profit before tax	441,171
	Profit after tax	429,017
	Earning per share (in Rupees)	26.62 (Basic)
		26.33 (Diluted)
	Dividend rate %	35
V.	**Generic name of Principal Products/Services of Company (as per monetary terms)**	
	Item code no.	N.A.
	Product description	Software services
	Item code no.	N.A.
	Product description	Software products
	Item code no.	N.A.
	Product description	Software solutions and systems integration

For and on behalf of the Board of Directors

Lt. Gen. T P Singh (Retd.)
Chairman

Vishnu R Dusad
Managing Director

NOIDA (U.P.)
April 30, 2007

P K Sanghi
Chief Financial Officer

Poonam Bhasin
Company Secretary

Statement pursuant to Section 212 of the Companies Act 1956 relating to Subsidiary Company

Subsidiary	Nucleus Software Solutions Pte Ltd	Nucleus Software Inc	Nucleus Software Japan Kabushiki Kaiga	Nucleus Software (Australia) Pty Ltd	Nucleus Software (HK) Ltd	Nucleus Software Netherlands B.V	Virstra I-Technology Services Ltd.	Virstra I-Technology (Singapore) Pte Lltd (step down) subsidiary commany)
Financial Year of the Subsidiary Company ended on	March 31, 2007	March 31, 2007	March 31, 2007	March 31, 2007	March 31, 2007	March 31, 2007	March 31, 2007	March 31, 2007
No. of shares in the Subsidairy Company	625,000 shares of S$1 each	100,000 shares of US$0.35 each fully paid up	200 shares of 50,000 Yen each fully paid up	316,000 shares of Australian $1 each fully paid up	100,000 Shares of Hongkong $1 1 each fully paid up	1000 Shares of Euro 100 each fully paid up	1,000,000 Shares of Rs. 10 each fully paid up	200,000 Shares of SG $ 1 each fully paid up
Percentage of holding (Equity)	100%	100%	100%	100%	100%	100%	100%	100%
Percentage of holding (Preference)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
The net aggregate of profit/losses of the Subsidiary Company for its Financial Year so far as they concern the members of the Holding Company								
a) Dealt with in the Accounts for the period ended 31.3.2007	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
b) Not dealt with in the Accounts for the period ended 31.3.07	Singapore $469,736 (Equivalent to Rs.13,603,555)	US $ (68,289) (Equivalent to Rs.2,987,644)	Yen 13,464,840 (Equivalent to Rs.5,007,574)	Australian $(55,894) (Equivalent to Rs.1,978,089)	HK $ (20,000) (Equivalent to Rs.111,400)	Euro (5,420) (Equivalent to Rs.316,149)	Rs. 106,321,145	SG $ (54,193) (Equivalent to Rs.1,569,429)
The net aggregate of profit/losses of the Subsidiary Company for its previous Financial Year since it became a subsidiary so far as they concern the members of the Holding Company								
a) Dealt with in the Accounts for the period ended 31.3.07	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
b) Not dealt with in the Accounts for the period ended 31.3.07	Singapore $2,978,660 (Equivalent to Rs.86,261,993)	US $ (131,256) (Equivalent to Rs.5,742,450)	Yen 6,629,032 (Equivalent to Rs.2,465,337)	Australian $ (244,862) (Equivalent to Rs.8,665,666)	HK $ (76,501) (Equivalent to Rs.426,110)	Euro (16,947) (Equivalent to Rs.988,518)	Rs.75,542,049	SG $ (4,441) (Equivalent to Rs.128,611)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF CONSOLIDATED OPERATIONS OF NUCLEUS SOFTWARE EXPORTS LTD. AND SUBSIDIARY COMPANIES

Forming Part of the Consolidated Financial Statements for the year ended March 31, 2007

Management's Discussion and Analysis of Financial Condition and Results of Consolidated Operations of Nucleus Software Exports Ltd. and Subsidiary Companies

The financial statements have been prepared under the historical cost convention in compliance with the requirements of the Companies Act, 1956, the Generally Accepted Accounting Principles (GAAP) in India and mandatory accounting standards issued by the Institute of Chartered Accountants of India ("ICAI"). All income and expenditure having a material bearing on the financial statements are recognized on accrual basis. The consolidated financial statements have been prepared in accordance with the principles and procedures for the preparation and presentation as laid under Accounting Standard 21 on "Consolidated Financial Statements" issued by the ICAI.

Management discussion and analysis of financial condition and results of operations include forward-looking statements based on certain assumptions and expectations of future events. The Company cannot assure that these assumptions and expectations are accurate. Although the management has considered future risks as part of the discussions, future uncertainties are not limited to the management perceptions.

OVERVIEW

The Company was incorporated on January 9, 1989 as **Nucleus Software Exports Private Limited (Nucleus)** with its registered office at 33-35 Thyagraj Nagar Market, New Delhi-110003.

In August 1995, Nucleus made an Initial Public Offer and is currently listed on National Stock Exchange of India Ltd., Bombay Stock Exchange Ltd. and Madras Stock Exchange Ltd.

Over the last eighteen years Nucleus has built a distinguished reputation of providing innovative and comprehensive software solutions and products in the BFSI Vertical. The geographical spectrum of 141 clients is spread over 22 countries. Multi-product, multi-service, multi-currency and multi-lingual implementation has led to worldwide acceptability and customer satisfaction. Nucleus operates through integrated and well-networked subsidiaries in Singapore, Japan, USA, Australia, Hongkong, Netherlands and India and a branch office in UK and UAE. Since 1995, the Company has deliberately chosen to develop software products and invested heavily in creation of intellectual property. The product offerings have been well received and Nucleus has carved out a special niche in Products for Retail Lending Solutions and Cash management.

COMPANY STRENGTHS

The Company's business broadly consists of Development and Marketing of Software Products and Software Services for business entities in the Banking and Financial Services (BFSI) vertical. From a modest beginning with product development for a leading bank, Nucleus is today a major player in the "Banking Products" industry and is one of the few Indian Companies whose products are installed at multiple locations internationally.

Our every move is guided by a single-minded focus on becoming a leading IT solutions provider in the Banking and Financial Services industry. It is this dream that steered our organization in 1996 towards creating products that redefine quality and efficiency, highly appreciating the value of a delighted customer. Today a comprehensive suite of products provides solutions to the banking business.

Deep functionality combined with latest technology and our domain expertise enables us to position the Company globally as a "Product Company".

Nucleus' success is based on a simple foundation of delivering quality services, reliable solutions, long-term partnerships, and a price / value structure. The Company, in its pursuit of excellence, has been felicitated for being a pioneer in the BFSI vertical.

Some of the notable accolades won by Nucleus are:

- The Company's flagship product FinnOne™ was globally recognized as the "No. 1 Best Selling Retail Lending Software" by IBS Publishing for the year 2006.
- Nucleus Software was selected as one of the top 25 companies adopting "Good Corporate Governance Practices" by the Institute of Company Secretaries of India for year 2006.

- Nucleus Software conferred as Partner of the Year - 2007, Fastest Growth in ISV by Oracle at India Partner Forum 2007.
- Nucleus Software was ranked 13th in Dataquest Top 20 Best Employers Survey 2006. Survey was conducted by IDC-Dataquest amongst 200 IT employers across India.
- Annual Report for financial year 2005 has received the 'Merit Award' for "Best Presented Accounts Award" by the South Asian Federation of Accountants in January 2007 in the category of 'Communication and Information Technology Sector".
- Received the award for "Excellence in Financial Reporting" by the Institute of Chartered Accountants of India (ICAI) for financial year 2005. Our Annual Report has been adjudged as No. 2 in the category of 'Information Technology, Communication and Entertainment Enterprises' companies.
- The Parent Company Nucleus Software Exports Ltd, and wholly owned Subsidiary Nucleus Software Pte, Singapore have been assessed at SW-CMM Level 5 based on the Capability Maturity Model (CMM) developed by Carnegie Mellon University's Software Engineering Institute.
- Deloitte Touche Tohmatsu has, in 2004, rated Nucleus for the third consecutive year as one of the fastest growing Companies in its "Deloitte Touche Tohmatsu Asia Pacific Technology Fast 500" program.
- Nasscom ranked Nucleus as one of the Top 5 Indian Product Companies in its annual software and services industry performance report for the financial year 2002.
- Nucleus has received the best Partner award for "Building World Class Loan Management Solution on 9iAS technology" by Oracle Corporation in 2003.

A brief on the functionality of our products is given below:

FinnOne™, the flagship product of Nucleus, is an integrated suite of applications designed to support the business offerings of Banks and Financial Services companies. FinnOne™ provides solutions for both the asset as well as the liability side of the business, core financial accounting and customer service. FinnOne™ caters to the business needs of banks, financial institutions, captive auto finance companies and retail businesses. FinnOne™ was globally ranked as the "No. 1 Best Selling Retail Lending Software" by IBS Publishing in 2006.

FinnOne™ suite of products includes:

- **Customer Acquisition :** FinnOne™ CAS focuses on the customer acquisition and application processing functionality of retail loans business. FinnOne™ CAS is powered by powerful workflow management engine, policy and scoring engine and underwriter and decision making tools. Interfaces to credit bureaus, dedupe engines to run against negative and positive customers and prospects help in managing the risk in a retail loans origination business. A variety of tools such as online calculators, activity schedulers, mailers and contact activity planners help in improving the efficiency of the acquisition process.

- **Loan Management System :** FinnOne™ LMS focuses on the loan servicing aspects of retail loans business. The system supports the servicing of a wide range of loan products like Auto Loans, Housing Loans, Consumer Loans and Commercial Vehicle Financing. The system supports the financial institution in billing, accrual, rescheduling, termination, accounting and provisioning processes. FinnOne™ LMS is also the backbone of all customer servicing activities with respect to loans.

- **Collections :** The FinnOne™ Collection System focuses on the tracking and management of delinquent customers. The system helps to queue up cases based on client risk profiles and then allocates the cases to collectors based on user-defined logic. It builds customer delinquency history and also aids in building of the negative databases. Collectors are provided with periodical work-list and contact recording facilities.

- **Finance Against Securities :** FinnOne™ FAS enables businesses in offering line based or loan based products. The objective of the FAS product is to value the collateral security provided by the customer in order to determine the credit lines or loans to be offered. FAS helps the customer in lending against any of the collaterals like equity, mutual funds or bonds.

- **General Ledger :** FinnOne™ General Ledger is a double entry accounting system that comprehensively manages accounting procedures including those specific to the financial services industry. Besides Chart of Account maintenance, Balance Sheet and P& L Statement generation, it has a number of innovative features like soft closing of periods, allocation of cost centers over profit centers, budgets, profitability analysis, bank reconciliation etc.

- **LiquiDeposits :** The FinnOne™ LiquiDeposit system caters to the requirements of the liability business of a financial institution. The system while meeting the vanilla requirements of a typical term deposit system has advance features like floating rate deposits. The system also facilitates in offering unitized and sweep deposit schemes. The system facilitates Term Deposits, Recurring Deposits, Variable Deposits and Cash Certificates businesses.

- **Forecaster :** The FinnOne™ Forecaster system is a data-mining tool that involves access to and manipulation of business data available with the organization. It is used to identify patterns and relationships between data and do a case-based reasoning. Based on this, it creates models that can be used to visualize the situation and hence make informed decisions and do predictive analysis.

- **FinnOne™ Risk Manager - Operational Risk Product***
  FinnOne™ Risk Manager - Operational Risk is a complete and integrated solution that will enable banks to effectively achieve Basel II compliance towards Operational Risk. It enables the banks to meet the requirements of minimum capital requirements of the accord. It allows for the identification, collection, measurement and management of qualitative and quantitative operational risk. The solution provides business managers with actionable intelligence from loss data by providing various modeling tools for assessing operational risk capital. It enables identifying of key risk factors, which can be used to provide early warnings and measure effectiveness of control mechanisms. It helps stem the 'Value Leakage' caused because of operational risk incidents by ensuring management visibility, than just achieving Basel II compliance.

- **FinnOne™ Risk Manager - Market Risk Product***
  FinnOne™ Risk Manager - Market Risk is an integrated solution that captures trading book data and computes market risk charges using the approaches suggested by BASEL II accord. It seamlessly integrates with bank's existing trading systems and help them achieve Basel II compliance. It is a risk management solution that enables banks to measure, control and manage market risk across multiple asset classes and risk factors, supported by a complete range of advanced risk analytics.

- **Bank O Net :** An Internet Banking solution, BankONet, provides bank with the cutting edge advantage by servicing its customer online. This solution serves both retail & corporate customers and is a one-stop e banking channel.

- **Cash@Will™ :** Cash@Will™ is a complete suite providing comprehensive web enabled cash management solutions and services. Cash@Will's functional modules include - Collections, Payments and Liquidity Management. The product is divided into two broad categories - on site bank operations and web driven customer operations. By seamlessly supporting multi-bank, multi-currency, multi-lingual transactions, it ensures smooth flow of information and cash.

* *Under Development*

GROUP STRUCTURE

Nucleus' operations are managed through Parent Company based in India and well-networked Subsidiaries in Japan, Singapore, USA, Hong Kong, Australia, Netherlands and India. In addition to the Subsidiaries, the Company has branch offices in Mumbai, Chennai, UK and UAE. All major software development takes place in development centers in India and Singapore, Subsidiary Companies and the branch office in UK, Mumbai and UAE provide an effective front-end for customer acquisition and servicing.

The Company has introduced a Matrix organizational structure, which combines the benefit of both functional and geographical reporting.

Global responsibilities for Software Delivery, Product and Account Management, Sales and Marketing, Finance, Human Resources and Corporate Affairs have been defined at the Parent Company level in India to achieve the objectives.

The current management structure enables:

— Alignment of products and services with customer expectation
— Responding and adapting quickly and flexibly to external and internal changes and innovations
— Synergy of efforts through streamlining of processes
— Establishment of directions and guiding performance
— Risks and rewards based on achievements of predefined targets

Management's Discussion and Analysis

FINANCIAL CONDITION

RESULTS OF OPERATIONS

(Rs. in Crore)

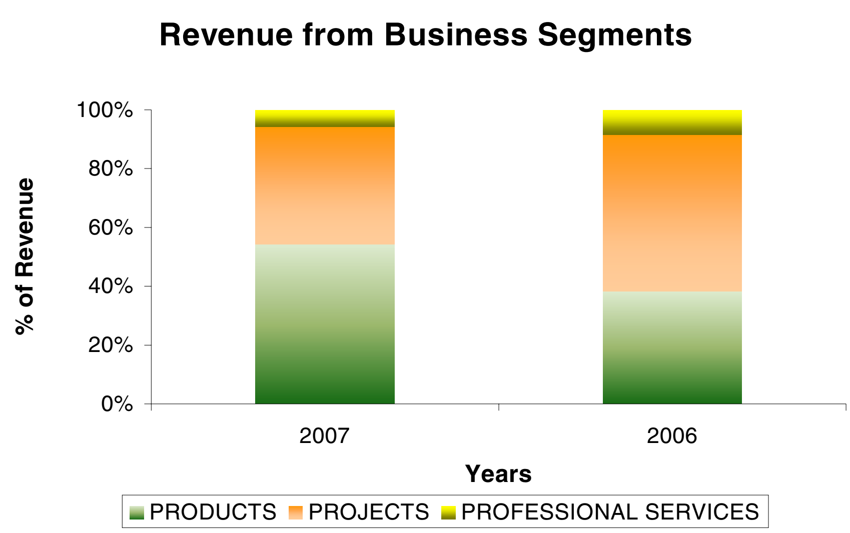
For the Year Ended March 31,	*2007*	*% of Revenue*	*2006*	*% of Revenue*	*Growth %*
Revenue from Operations	**221.19**	**100.00**	**148.05**	**100.00**	**49.40**
Software Development Expenses	125.11	56.56	80.50	54.37	55.42
Gross Profit	96.08	43.44	67.55	45.63	42.23
Selling and Marketing Expenses	17.93	8.11	11.74	7.93	52.73
General and Administration Expenses	14.87	6.72	10.68	7.21	39.23
Operating Profit (EBITDA)	**63.28**	**28.61**	**45.13**	**30.48**	**40.21**
Depreciation	6.88	3.11	4.76	3.22	44.54
Withholding Taxes Charged off	4.68	2.12	3.24	2.19	44.44
Operating Profit after Interest, Depreciation and Withholding Taxes	51.72	23.38	37.13	25.08	39.29
Other Income	5.62	2.54	3.07	2.07	83.06
Profit before Tax	**57.34**	**25.92**	**40.20**	**27.15**	**42.63**
Provision for Taxation					
— Current	0.96	0.43	2.70	1.82	(64.44)
— Fringe Benefit	0.61	0.28	0.43	0.29	41.86
— Deferred	0.39	0.18	0.14	0.09	178.57
— Earlier year tax	0.23	0.10	(0.15)	(0.10)	253.33
Profit after Tax	**55.15**	**24.93**	**37.08**	**25.05**	**48.73**

REVENUE

Revenue of the Company is derived from "Software Products" and "Projects and Services".

During the year the total revenue was Rs.221.19 crore against Rs.148.05 crore for the previous year representing an increase of 49.40%.

We derive our revenue from 3 major business segments:
- Products
- Projects and
- Professional Services



Products

Product revenue arising from Products and related services comprises of license fees, revenue from customization and implementation of products and postproduction technical support. Revenue from the product business crossed 50% of the total revenue for the first time this year.

Product revenue was Rs.119.76 crore during the year constituting 54.14% of the total revenue against Rs.56.83 crore, 38.39% of total revenue, in the previous year.

Revenue from the product business crossed 50% of the total revenue for the first time.

Projects

Software services rendered by the Company, classified under this segment, typically consist of development of software to meet specific customer requirements, data migration services and production support. We execute Projects for large Banks on an Application Development and Maintenance (ADM) model with IPR held by client.

Revenue from software projects segment during the year was Rs.88.55 crore constituting 40.03% of the total revenue against Rs.78.65 crore, 53.12% of total revenue, in the previous year.

Professional Services

Software services classified under this segment consist of traditional software services and are generally onsite. Revenue from the software services segment during the year was Rs.12.88 crore constituting 5.82% of the total revenue against Rs.12.57 crore, 8.49% of total revenue in the previous year.

EXPENDITURE

Software Development Expenses

Software development expenses primarily consist of compensation to our software professionals, expenses on travel to execute work at client site, direct consultancy charges, cost of software purchased for delivery to clients, bandwidth and communication expense and proportionate infrastructure charges. During the year our software development expenses were Rs.125.11 crore, 56.56% of revenue against Rs.80.50 crore, 54.37% of revenue in the previous financial year.

Overall these expenses have increased by 55.42% over the previous year with employee costs increasing by 72.65%. Communication, Legal and Professional, Power and Fuel, Conveyance, IT expenses and Training and Recruitment expenses also exhibit an increase due to higher infrastructure costs.

(Rs. in Crore)

Year Ended March 31,	***2007***	***% of Revenue***	***2006***	***% of Revenue***	***Growth %***
Employee Costs	84.77	38.32	49.10	33.16	72.65
Travel Expenses	15.28	6.91	13.82	9.33	10.56
Rent	2.35	1.06	1.87	1.26	25.67
Cost of Software Purchased for Delivery to Clients	1.51	0.68	1.28	0.86	17.97
Communication	2.03	0.92	1.30	0.88	56.15
Consultancy Charges	9.64	4.36	7.58	5.12	27.18
Power and Fuel	2.06	0.93	1.08	0.73	90.74
Software and Other Development Charges	0.73	0.33	1.07	0.72	(31.78)
Legal and Professional	1.34	0.61	0.52	0.35	157.69
Conveyance	0.96	0.43	0.50	0.34	92.00
IT Expenses	0.48	0.22	0.26	0.18	84.62
Repairs and Maintenance	0.55	0.25	0.44	0.30	25.00
Training and Recruitment	2.23	1.01	0.92	0.62	142.39
Insurance	0.42	0.19	0.28	0.19	50.00
Others	0.76	0.34	0.48	0.32	58.33
Total Software Development Expenses	**125.11**	**56.56**	**80.50**	**54.37**	**55.42**
Revenue	***221.19***	***100.00***	***148.05***	***100.00***	***49.40***

Consequently Gross Margin for the current financial year was Rs.96.08 crore at 43.44% of revenue against Rs.67.55 crore, 45.63% of revenue in the previous year, representing an increase of 42.23%.

Selling and Marketing Expenses

Our selling and marketing expenses comprise of compensation of sales and marketing personnel, travel, brand building (advertisement, conference, seminar, etc), communication, training and recruitment and other allocated infrastructure costs. The Company has ambitious plans to increase geographical reach with a mix of direct sales effort and channel partner effort along with building a global brand for its products.

During the year selling and marketing expenses were Rs.17.93 crore at 8.11% of revenue against Rs.11.74 crore at 7.93% of revenue in the previous year representing an increase of 52.73%.

Significant increase in expenses during the year includes Rs.0.93 crore on conference, exhibition and seminar and Channel Partner payments of Rs.2.35 crore.

(Rs. in Crore)

Year Ended March 31,	*2007*	*% of Revenue*	*2006*	*% of Revenue*	*Growth %*
Employee Costs	9.02	4.08	7.01	4.73	28.67
Travel Expenses	2.75	1.24	1.85	1.25	48.65
Rent	0.57	0.26	0.56	0.38	1.79
Advertisement and Business Promotion	0.86	0.39	0.67	0.45	28.36
Communication	0.42	0.19	0.43	0.29	-2.33
Conference, Exhibition and Seminar	0.93	0.42	0.21	0.14	342.86
Channel Partner Payments	2.35	1.06	0.22	0.15	968.18
Others	1.03	0.47	0.79	0.53	28.75
Total Selling and Marketing Expenses	**17.93**	**8.11**	**11.74**	**7.93**	**52.73**
Revenue	***221.19***	***100.00***	***148.05***	***100.00***	***49.40***

General and Administrative Expenses

Our general and administrative expenses comprise compensation to our employees in Corporate Office, Finance, HR, Administration and other general functions; travel, communication, legal and professional charges, repairs and maintenance, insurance, provision for doubtful debts, bad debts and other allocated infrastructure expenses.

During the year our general and administrative expenses were Rs.14.87 crore at 6.72% of revenue against Rs.10.68 crore at 7.21% of revenue in the previous year, representing an increase of 39.23%.

Employee costs have increased by 79.04% over the previous year, as we have geared up for future growth. Provision for Doubtful Debts at Rs.2.27 crore for the year has increased multifold over Rs.0.10 crore for the previous year as in the last quarter, we have made a specific provision of Rs.1.80 crore on account of delayed implementation of our product at one client site.

(Rs. in Crore)

Year Ended March 31,	*2007*	*% of Revenue*	*2006*	*% of Revenue*	*Growth %*
Employee Costs	7.43	3.36	4.15	2.80	79.04
Travel Expenses	0.23	0.10	0.22	0.15	4.55
Legal and Professional	1.44	0.65	1.98	1.34	(27.27)
Communication	0.26	0.12	0.50	0.34	(48.00)
Rent, Rates and Taxes	0.56	0.25	0.31	0.21	80.65
Loss/(Gain) on Foreign Exchange Fluctuation on Consolidation	—	—	0.23	0.16	—
Provision for Doubtful Debts/Advances/ Other Current Assets written off	2.27	1.03	0.10	0.07	2170.00
Printing and Stationery	0.27	0.12	0.20	0.14	35.00
Conveyance	0.34	0.15	0.18	0.12	88.89
Power and Fuel	0.13	0.06	0.31	0.21	(58.06)
Bad Debts	0.16	0.07	0.59	0.40	(72.88)
Advertisement	0.10	0.05	0.11	0.07	(9.09)
Bank Charges	0.29	0.13	0.24	0.16	20.83
Consultancy Charges	0.11	0.05	0.55	0.37	(80.00)
Others	1.28	0.58	1.01	0.69	25.49
Total General and Administrative Expenses	**14.87**	**6.72**	**10.68**	**7.21**	**39.23**
Revenue	***221.19***	***100***	***148.05***	***100.00***	***49.40***

Operating Profit

During the year our operating income was Rs.63.28 crore, 28.61% of revenue against Rs.45.13 crore, 30.48% of revenue in the previous year.

Depreciation

Depreciation on fixed assets was Rs.6.88 crore, 3.11% of revenue for the year against Rs.4.76 crore, 3.22% of revenue in the previous year. Increase in depreciation charge for the year by Rs.2.12 crore is attributable to increase in depreciation in following asset heads :

Building Rs.0.08 crore, Computers 0.84 crore, Office and other equipments Rs.0.40 crore, Vehicles Rs.0.08 crore and Software Rs.0.72 crore on respective major additions during the year.

Withholding Taxes

Withholding taxes charged off represent withholding taxes charged to Profit and Loss Account during the year, of Rs.4.68 crore against Rs.3.24 crore in the previous year. These relate to taxes withheld by customers/subsidiaries on overseas transactions.

Other Income

Other Income primarily consists of interest and dividend income, capital gains on sale of current investments, profit on sale of fixed assets and foreign exchange gains.

(Rs. in Crore)

For the year ended March 31,	*2007*	*2006*
On investments:		
— Capital Gain	2.33	1.30
— Dividend	1.20	0.28
Interest Income	0.23	0.71
Gain/(Loss) on foreign exchange fluctuation	0.29	—
Forex Gain/(Loss) on consolidation	0.10	—
Others	1.47	0.78
Total	**5.62**	**3.07**

Other income for the year was Rs.5.62 crore against Rs.3.07 crore in the previous year, representing an increase of Rs.2.55 crore. This increase is attributable to higher income from profit on sale and dividends from mutual funds as a result of higher investments and better returns.

Provision for Income Tax

Income taxes represent the provision for corporate & income taxes in various countries where the Company and Subsidiaries operate. In estimating these taxes, adjustments are made for deferred tax assets and liabilities.

Our provision for current tax was Rs.0.96 crore (Rs.2.70 crore in the previous year), 0.43% of revenue, Fringe benefit tax of Rs.0.61 crore (Rs.0.43 crore for the previous year), deferred tax expense of Rs.0.39 crore (Rs.0.14 crore for the previous year) and earlier year tax of Rs.0.23 crore [Rs. (0.15) crore for the previous year].

Your Company currently enjoys benefits of tax holidays notified by the Government of India for the export of software services from Software Technology Parks. As a result of these benefits the tax liability of the Company in India is significantly low. We expect the tax liability of the Company to increase post the expiry of tax holiday. However, at the same time, taxes withheld in other tax jurisdiction, which are currently debited to the profit and loss account, would be set off against Indian corporate tax in accordance with various Double Tax Agreements.

Net Income

Net income for the year was Rs.55.15 crore, 24.93% of revenue, representing an increase of 48.73% over net income of Rs.37.08 crore, 25.05% of revenue, during the previous year.

FINANCIALS

Share Capital

Share Capital of the Company consists only of Equity Share Capital.

Share Capital of the Parent Company increased from 16,104,812 Equity Shares of Rs.10/- each as on March 31, 2006 to 16,160,312 Equity Shares of Rs.10/- each as on March 31, 2007. Consequently the paid up Share Capital increased from Rs.16.11 crore as on March 31, 2006 to Rs.16.16 crore as on March 31, 2007, including the amount in share forfeiture account.

The increase is consequent to:

— Allotment of 55,500 fully paid up Equity Shares of Rs.10/- each to employees in pursuance of stock options exercised in July 2006 and March 2007

	2007		2006	
	Equity shares (No.)	*Rs. Crore*	*Equity shares (No.)*	*Rs. Crore*
Balance at the beginning of the year	**16,104,812**	**16.11**	**16,090,812**	**16.09**
Shares issued upon conversion of options issued under :				
ESOP 1999	12,500	0.01	14,000	0.01
ESOP 2002	43,000	0.04	—	—
ESOP 2005	—	—	—	—
ESOP 2006*	—	—	NA	NA
Total	55,500	0.06	14,000	0.01
Balance at the end of the year	**16,160,312**	**16.16**	**16,104,812**	**16.11**

** ESOP 2006 was launched in July 2006 after approval from members at the AGM held on July 8, 2006.*

Subsidiaries

Paid-up Share Capital of the Subsidiaries as on March 31, 2007 is given below. As 100% of Share Capital of the Subsidiaries is held by Nucleus Software Exports Limited and nominees, on consolidation of accounts, these amounts are contra with investments in Subsidiaries amount in the accounts of the Parent Company.

Name of Subsidiary Company	*Currency*	*As at March 31, 2007*		*As at March 31, 2006*	
		In foreign Currency	*Eqv. Rupees (in crore)*	*In foreign Currency*	*Eqv. Rupees (in crore)*
Nucleus Software Solutions Pte. Ltd., Singapore. 625,000 equity shares of S$ 1 each	SGD	625,000	1.63	625,000	1.63
Nucleus Software Inc., USA. 1,000,000 equity shares of US$ 0.35 cents each	USD	350,000	1.63	350,000	1.63
Nucleus Software Japan Kabushiki Kaiga, Japan. 200 equity shares of JPY 50,000 each	JPY	10,000,000	0.41	10,000,000	0.41
Nucleus Software (HK) Ltd., Hong Kong. 100,000 equity shares of HK$ 1 each	HKD	100,000	0.06	100,000	0.06
Nucleus Software (Australia) Pty Ltd., Australia. 316,000 equity shares of Aus $ 1 each	Aus $	316,000	0.98	316,000	0.98
VirStra I-Technology Services Ltd., India. 1,000,000 equity shares of Rs. 10 each	INR	—	1.00	—	1.00
Nucleus Software Netherlands BV, Netherlands. 1000 equity shares of EURO 100 each	Euro	100,000	0.54	100,000	0.54

Step down Subsidiary of Nucleus Software Exports Ltd.					
VirStra (Singapore) Pte Ltd., Singapore 200,000 (100,000) equity shares of S$ 1 each	SGD	200,000	0.56	100,000	0.27

The profits/losses of the Subsidiary Companies are fully reflected in consolidated accounts of the Company and Subsidiaries.

Reserves and Surplus

The movement in the components of reserves and surplus is as below:

(Rs. in Crore)

Particulars	*Opening Balance as on April 1, 2006*	*Additions/(Deletions) during the year*	*Closing Balance as on March 31, 2007*
General Reserve	44.15	8.86	53.01
Securities Premium	16.30	1.02	17.32
Capital Reserve	0.15	0.01	0.16
Employee Stock Options (net of deferred employee compensation)	0.21	0.51	0.72
Foreign Currency Translation Reserve	0.43	0.51	0.94
Profit and Loss Account Balance	38.17	38.71	76.88
Total	**99.41**	**49.62**	**149.03**

Effective April 1, 2006, the Company adopted the revised Accounting Standards 15 'Employee Benefits' issued by The Institute of Chartered Accountants of India (ICAI). Pursuant to the adoption, the transitional obligations of the Company and Indian Subsidiary amounted to Rs.1.14 crore. As required by the Accounting Standards, this obligation has been recorded with the transfer of Rs.1.14 crore from General Reserves.

Fixed Assets

(Rs. in Crore)

As at March 31,	*2007*	*2006*	*Inc/Dec %*
Gross Block			
Freehold land	0.34	0.34	—
Leasehold land	6.64	6.42	3.43
Building	14.66	11.20	30.89
Office and other equipment	8.73	6.43	35.77
Computers	17.98	13.32	34.98
Vehicles	1.55	1.49	4.03
Furniture and fixtures	3.84	3.13	22.68
Software	9.56	7.81	22.41
Leasehold improvement	5.24	—	100.00
Total	**68.54**	**50.14**	**36.70**
Less: accumulated depreciation	26.56	20.19	31.55
Net Block	**41.98**	**29.95**	**40.17**
Add: Capital Work In Progress	13.08	3.75	248.80
Net Fixed Assets	**55.06**	**33.70**	**63.38**

As at March 31, 2007, gross block of fixed assets including investment in technology assets was Rs.68.54 crore (Rs.50.14 crore as on March 31, 2006). Increase in Gross Block is on account of overall increase in various asset heads as mentioned above.

The second building at our existing campus was commissioned during the year, along with new leasehold premises at Chennai and Singapore were put to operation. Large investments amounting to Rs.6.40 crore were made in technology assets during the year.

The net fixed assets after depreciation are Rs.41.98 crore as on March 31, 2007 compared to Rs.29.95 crore as on March 31, 2006.

Other Long-Term Investment

Other long term investment comprise of :

a) Investment in 10,040,000 Equity Shares of face value of Rs.10 each in GMAC Financial Services Limited made by the Company (together with its nominees). This investment represents 25.1% of the total Equity share capital of the said Company.

   GMAC Financial Services India Limited is a subsidiary of General Motors Acceptance Corporation (GMAC), a company incorporated in United States of America. The Company has entered into a shareholder agreement with GMAC whereby under the terms of the agreement, the Company has an option to exit the investment in favour of GMAC or a designee of GMAC.

b) Investment in 25,000 Equity Shares of face value of Rs.100/- each in Ujjivan Financial Services Private Ltd.

   Ujjivan Financial Services Private Ltd., has been promoted in the area of micro finance by a group of experienced professionals with banking and technology background.

Current Investments and Bank Balances

Our capital requirements are completely financed by internal accruals. Your Company continues to remain debt-free and we believe that cash generated from operations and reserves and surplus are sufficient to meet our obligations and requirements towards capital expenditure and working capital requirements.

As of March 31, 2007 the cash and bank balances stood at Rs.26.83 crore (Rs.30.06 crore on March 31, 2006) and current investments in Liquid Schemes and Fixed Maturity Plans of mutual funds were Rs.55.07 crore (Rs.47.43 crore on March 31, 2006). As a part of its financial policies, the Company believes in maintaining high level of liquidity as it provides immense support against contingencies and uncertainties.

Our net cash flow from operating activities was Rs.38.73 crore for the financial year as compared to Rs.28.09 crore in the previous year. Operating cash flow is today considered a better measure of operations of the Company than the net profits as it measures the cash generated by the operations and our performance on this criteria is satisfactory.

To summarise the Company's liquidity position, given below are few ratios based on consolidated figures:

As at March 31,	*2007*	*2006*
Operating cash flow as % of revenue	17.51%	18.97%
Days of sale receivable	91	59
Cash and bank balances as % of assets	16.14%	26.00%
Cash and bank balances as % of revenue	12.13%	20.30%
Current investments as % of assets	33.14%	41.03%
Current investments as % of revenue	24.90%	32.04%

Trade Receivables

Our trade receivables (net of provision) as on March 31, 2007 were Rs.55.26 crore against Rs.23.83 crore on March 31, 2006. In the opinion of management all the trade receivables are recoverable.

The age profile of the debtors (net of provision) is given below:

As at March 31,	***2007***	***2006***
Less than 6 months	97.60%	97.22%
More than 6 months	2.40%	2.78%
Days of sales receivables (DSR)	91	59

There has been an increase in the DSR in the last quarter of the year and management is making all efforts to reduce the same.

Loans and Advances

The amount is Rs.9.46 crore as on March 31, 2007 (Rs.3.78 crore as on March 31, 2006).

(Rs. in Crore)

As at March 31,	***2007***	***2006***
Advances recoverable in cash or in kind or for value to be received	3.63	1.57
Security deposits	2.60	1.20
Advance income tax	0.59	—
Prepaid expenses	2.64	1.01
Total	**9.46**	**3.78**

The Parent Company has following loans outstanding from the Subsidiaries. These loans do not appear in the consolidated accounts, as they are contra in the consolidation.

(a) Loan of US$ 64,500 equivalent to Rs.0.28 crore, is outstanding on March 31, 2007 from the wholly owned Subsidiary, Nucleus Software Inc. The total loan disbursed in installments in financial year 2003-04 was US $ 157,500, at an interest rate of 3% over LIBOR, with a repayment schedule of 5 equal installments starting from financial year 2004-05. The subsidiary has repaid US$ 93,000.

Advances recoverable in cash or kind have increased by Rs.2.06 crore over last year due to a Rs.0.70 crore effect of reinstatement of foreign currency forward contracts/options, increase in advances for travel and other operational advances.

Security deposits have increased with advances for additional/new premises in Singapore, Chennai and Mumbai.

Prepaid expenses have increased with a Rs.1.48 crore component on account of Lease Rent paid in advance for our Noida campus land, being charged to expense over ten more years.

Current Liabilities

Sundry Creditors represent amount payable for the supply of goods and services.

The total amount of Sundry Creditors as on March 31, 2007 is Rs.19.00 crore (Rs.11.24 crore as on March 31, 2006). The increase is on account of increase in liabilities related to staff, suppliers and specially for capital work in progress at the campus in NOIDA.

Other liabilities represent amounts accrued for statutory dues related to taxes and staff benefits etc. The total amount of other liabilities as on March 31, 2007 is Rs.3.80 crore (Rs.2.21 crore as on March 31, 2006).

Withholding tax payable represents the amount of withholding taxes to be deducted/deductible by overseas clients/ Subsidiaries on income billed to them by the Parent Company. The total amount of withholding tax liability as on March 31, 2007 is Rs.1.45 crore (Rs.0.80 crore as on March 31, 2006).

The amount of Unclaimed Dividend as on March 31, 2007 is Rs.0.34 crore (Rs.0.07 crore as on March 31, 2006).

Advances from customers as on March 31, 2007 is Rs.37.93 crore (Rs.20.93 crore as on March 31, 2006). These consist of advance payments received from customers and "Unearned Revenue"; Unearned Revenue is defined as client billing for which related costs have not been incurred or product license delivery is at later date.

Provisions

(Rs. in Crore)

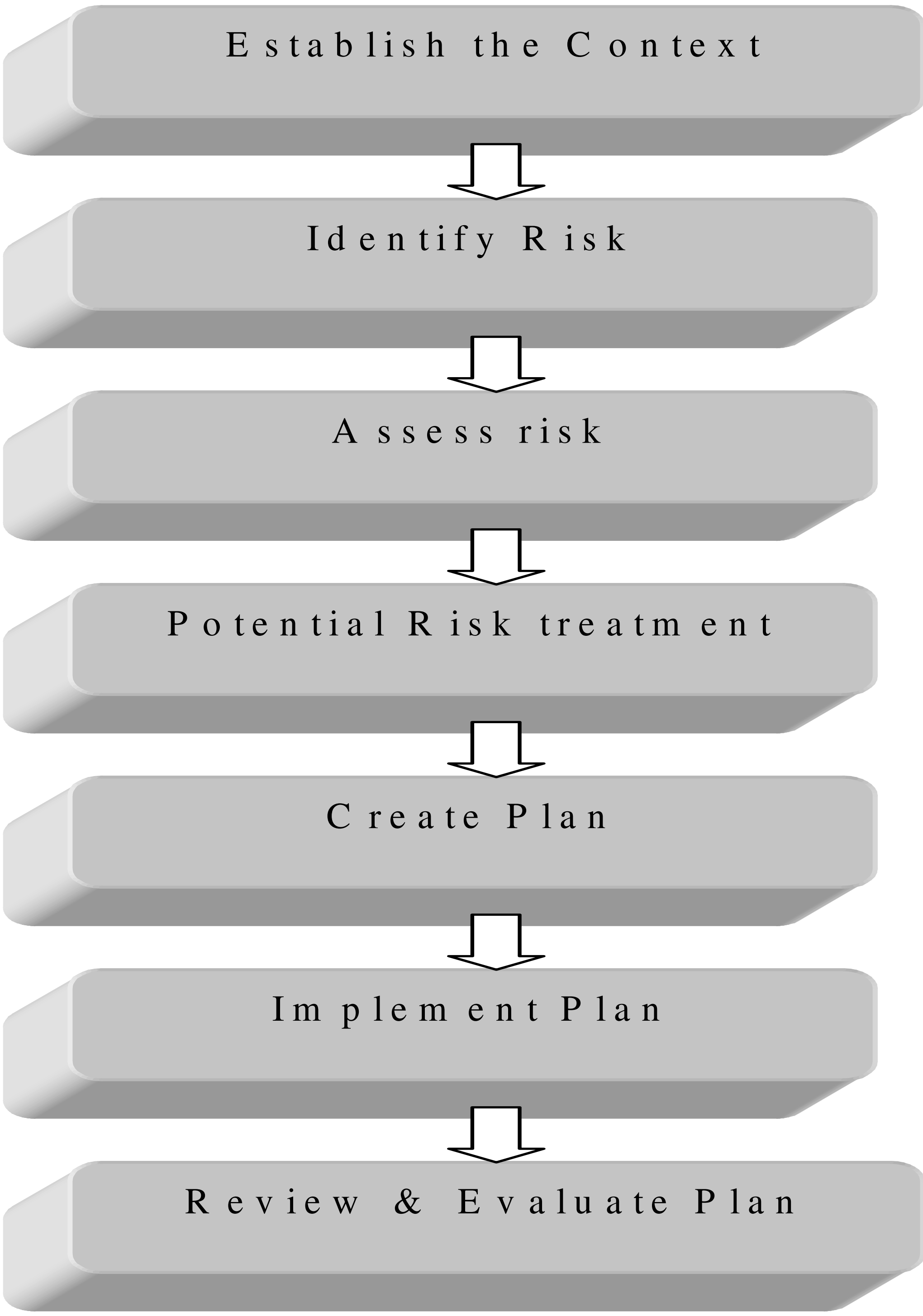
As at March 31,	*2007*	*2006*
Gratuity	2.15	1.19
Leave Encashment	2.92	0.97
Income Tax	—	0.80
Fringe Benefit Tax	0.01	0.01
Dividend	—	5.64
Corporate Dividend Tax	—	0.79
Total	**5.08**	**9.40**

Gratuity and leave encashment provisions are higher due to adoption of revised Accounting Standard 15 on employee benefits. The Company has declared and paid the interim dividend during the year and no liability exists at the end of the year on this account.

Risk Management Report

Risk Management is the process of measuring, assessing risk and developing strategies to manage it. Strategies include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk and accepting some or all of the consequences of a particular risk. Traditional risk management focuses on risks stemming from physical or legal causes (e.g. natural disasters or fires, accidents, death and lawsuits). Financial risk management, on the other hand, focuses on risks that can be managed using traded financial instruments.

Steps in Risk Management



Your Company operates in an environment, which has risks particular to the industry and certain generic risks. **The risks encountered by your Company can be classified under following heads:**

- Revenue Concentration
- Exchange Rate
- Product Obsolescence
- Intellectual Property Rights
- Legal and Statutory Compliances
- Financial Reporting Risk
- Internal Processes
- Business Continuity and Security
- Human Resource Management
- Investment Mix

1. Revenue Concentration

a. ***Client concentration:-*** The Company is offering products and services to large international clients in the banking space. With increasing penetration of accounts and value added services for existing customers, revenues from individual clients become large. As per table given below, during the year, we derived 63% of our revenues from the top 5 clients against 73% of revenues from the top 5 clients in the previous year. Increased revenue from individual clients have an advantage of lower marketing costs, predictability of revenue, easier resource planning and focused relationships, which deliver customer satisfaction. At the same time, we are exposed to risks of the client reducing IT expenditure, reducing man month rates, reducing the size of engagement due to external factors etc. These advantages and risks have to be balanced and we believe the solution is to increase the number of large clients, as business with existing clients is the backbone of our platform for providing complete product and services solutions.

We continuously monitor the health of our major accounts to monitor this risk and are committed to reduce the revenue from top 5 clients to 40% of the total revenue in the medium term. The Company is continuously increasing its investment in marketing and brand building in other developed countries to sign new clients.

The following table provides historical data on client concentration (based on Indian GAAP)

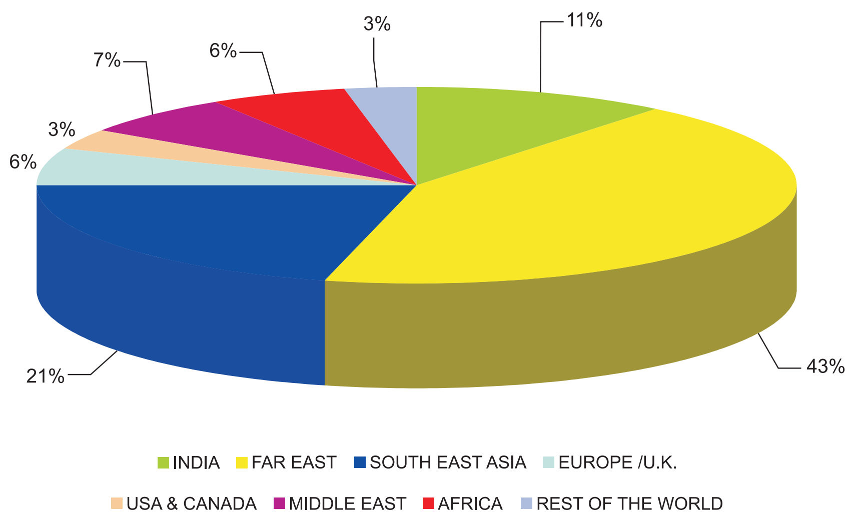
Year ended March 31,	*2007*	*2006*
Active clients	141	120
Clients added during the year	21	24
% of Revenue from the top-five clients	63%	73%
Clients accounting for > 10% of revenues	2	3

b. ***Geographic concentration:*** Geographical risk is attributable to all the factors, which are peculiar or sensitive to a region. Concentration of revenue from any country exposes us to the risks specific to its economic condition, global trade policies, local laws, and political environment. More than 75% of our revenue is from India, South East Asia and the Far East. Far East alone accounts for 43% of revenue. This increases the susceptibility of revenue to events that take place in these geographies. Besides political risk, there are other risks of changes in taxation policy, regulations regarding deputation of skilled manpower, civil unrest, epidemics and Wars.

The geographical segmentation of revenue is given below: (based on Indian GAAP)

	Year Ended March 31,	
Geographic Area	***2007***	***2006***
India	10.76%	9.98%
Far East	43.18%	43.05%
South East Asia	21.00%	26.11%
Europe/UK	6.28%	11.10%
USA & Canada	3.09%	4.49%
Middle East	6.92%	4.36%
Africa	5.62%	0.41%
Rest of the World	3.15%	0.49%

Geographical Distribution of Revenue for 2007



Success in different geographies is a function of :

- Maturity of the Banking and Financial Industry
- GDP of the country / region
- Our marketing and sales effort
- Adaptability of our Product Offerings
- Growth of retail assets
- The pace of change in "Replacement" of expensive legacy systems.

In the BFSI segment, and more pertinently in the Product space, geographic concentration arises during the initial years as the reference base grows and gives confidence to new customers in our Product offerings.

We mitigate this risk by investing in new markets. In FY 07, Africa and Middle East have grown to 12.53% of revenue against 4.76% of revenue in the previous year.

With our first product implementation in Europe going live in Italy in April 2006, we expect revenue from Europe to increase in future years. As the Company's products find greater acceptance, we are confident that this risk will not be a constraint in the future.

c. Political Risk: Our subsidiaries are located in seven countries (Singapore, USA, Japan, Australia, Hong Kong, India and Netherlands). Political activities in these countries also effect our operations and revenues. At the same time, such diversification strategy is also a de-risking mechanism to protect the Company from the political climate of any one country.

Our major operations are in India. Political environment in India has the greatest impact on our revenues. For the past few years India has witnessed a coalition government at the center. Withdrawal of support by any one or two parties can lead to political instability. However, all parties have recognized that India's world-class education system and low cost structure has given it a competitive advantage in software exports. We believe that all Indian Governments will continue to create a conducive environment for growth of high technology focused Companies, which includes the Software sector.

d. Industry concentration: The Company operates in the "Banking and Financial Services" space and offers Products and Services to large Banks and Financial Institutions. This is an Industry concentration with attendant risk of our performance being linked to the health of the financial system and the banking sector worldwide.

While acknowledging this risk, we currently continue to focus on this sector and are confident that our "Value" based solutions will find greater market success. It is our estimate that today our solutions service less than 0.25% of global retail assets and this risk would be meaningful at a much higher market penetration and share.

2. Exchange Rate

The operating currency of the Parent Company is Indian Rupees. Majority of Company's expense (excluding expenses by Nucleus Software Solutions Pte. Ltd., Singapore and our Japan and USA Subsidiaries) are also incurred in rupees, however 90% of the Company's revenue are in foreign currency. With revenues being earned in foreign currency, and costs being in Indian rupees, adverse fluctuations of exchange rate could impact the profitability of the business.

There is a US $ to INR fluctuation and simultaneously a cross currency exposure for other currencies. The exchange rate between rupee and dollar has been changing substantially, and your Company faces the risks associated with exchange rate fluctuations, wherein the appreciation of the rupee against foreign currency adversely impacts its profitability and operating results and vice versa.

This risk is selectively hedged by following a policy of covering our Receivables through a mixture of "Forward Contracts" and "Options". The use of these foreign exchange forward contracts reduces the risk or cost to the Company. The Company does not use foreign exchange forward contracts for trading or speculation purposes.

There is a reporting mechanism wherein every quarter, the success/shortfalls of the hedging strategy are reported to the Audit Committee and the policy is fine-tuned.

3. Product Obsolescence

The products developed by the Company are highly technology driven and therefore require significant investments in up gradation.

As in other technology driven Companies, we continuously run the risk of our products becoming obsolete in terms of delay in compatibility with new technologies and platforms.

To mitigate the risk; we focus on development of new products, conversion to new technologies through a 'R&D' effort under our Product Management Group. We publish and follow a detailed Product Road map for both technology and functionality.

4. Intellectual Property Rights

Protection of Intellectual Property Rights (IPR) is extremely important in the IT industry. This is particularly so for your Company, which operates in the products market and makes significant investments in the creation of Intellectual Property in the form of product source codes. Inadequate mechanisms to monitor access to intellectual property could lead to unauthorised misappropriation or duplication of critical IPR, thereby impacting the competitive position of the Company.
The Company is using a combination of trademarks, confidentiality procedures and contractual provisions to protect our Intellectual Property (IP). As a policy, the Company develops its own IP at its own cost using own resources.

The Company has filed for trademark registration in 19 countries and is actively engaged in seeking maximum legal protection for the Intellectual Property.

5. Legal and Statutory Compliances

Your Company is incorporated in India, has Subsidiaries in Japan, Singapore, USA, Hong Kong, Australia and Netherlands and caters to customers in twenty-two countries. Each of these subsidiaries operates in a different legal environment and has to comply with the laws, statutes and regulations of that particular country.

Lack of awareness of these laws leading to inadequate compliance would expose the business to the risk of penal action by the local Governments and adverse impact on the brand and reputation of the Company.
Further in the course of the business, your Company enters into contracts with clients, business partners, vendors, employees etc. Inadequate processes to vet the legal terms and conditions contained in these contracts could expose the Company to unintended consequences, while, inadequate mechanisms to comply with the terms of the contracts may result in the Company facing litigation.

Before a product is launched in a new country/location, we carry out a detailed market study which includes acquiring knowledge of local laws, practices and prevalent customs.

In order to mitigate contract risks, your Company vets all legal contracts centrally and apart from developing in house expertise, takes external advice. The Company has appointed consultants to ensure compliance with the laws of the jurisdiction where we have operations. Regulatory compliances are monitored closely at country level and at the Corporate office in India. Checklists are used extensively to monitor statutory compliances. The Company has also taken insurance to cover possible liabilities arising out of non-performance of contracts.

6. Financial Reporting Risk

Your Company prepares financial statements in conformity with Indian GAAP. This requires estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the financial reporting period. These estimates and assumptions are made based on judgments, which carry inherent reporting risks.

The Audit Committee members periodically review financial and risk management framework and minimization procedures.

The Audit Committee is independent and empowered by the Board with the authority to investigate any matter relating to internal control systems and to review the scope of Internal Audit. The Audit Committee provides various suggestions during its discussion with Management and Internal Auditors.

The Audit Committee encourages the Auditors to have open and frank discussions on their judgements about the quality, not just the acceptability of the Company's accounting principles as applied in its financial reporting, including such issues as the clarity of the Company's financial disclosures and degree of aggressiveness or conservatism of the Company's accounting principles. The Committee regularly discusses with the Auditors the accounting policy and principles followed by the Company.

Accounting Manual is augmented every quarter to incorporate statutory changes and suggestions of Internal Auditors.

7. Internal Processes

Absence of well-defined and scalable processes and procedures can have a serious impact on execution of projects and smooth flow of work. The Company is fully aware, that any gap in execution of project not only leads to delays but also adversely affects our long-term relations with the customers.

Your Company is committed to instill quality at all levels of implementation of projects. Moreover adequacy of internal controls across various processes is continuously monitored to rectify any deficiencies identified from time to time.

The Parent Company in NOIDA, Chennai branch office and Subsidiary in Singapore have been successfully assessed at SW-CMM Level 5 based on the Capability Maturity Model (CMM) developed by Carnegie Mellon University's Software Engineering Institute.

We continue implementing new tools in the organization to automate various Processes to reduce defects and increase productivity. High End Integrated Enterprise Management tools have been implemented to ensure seamless integration of distributed teams.

8. Business Continuity and Security

Operating disruptions can occur with or without warning. The Business Continuity plan is required to ensure the maintenance or recovery of operations, including service delivery to the customers, when confronted with adverse events such as natural disasters, technological failures, human error and to avoid any financial losses and/or adverse impact on the strategic plans and reputation.

A comprehensive Business Continuity plan has been put in place and the Company has set up/is in the process of setting up Disaster Recovery Sites.

The Company is continuously investing in operational security of its operations. Strict procedures are in place to control the level of access to server rooms and other sensitive areas. Access to the premises is controlled through Biometric access control systems and proximity cards. The Company has invested significantly in a state of the art network infrastructure for managing its operations and for establishing high-speed links to overseas destinations.

The Company has initiated the exercise for assessment and certification under BS7799 security standard and the gap analysis & Risk Assessment has already been completed.

9. Human Resource Management

The ability to deliver value to clients depends largely on our ability to motivate, train and retain the right talent. One of the major risks is availability of skilled manpower in the cutting edge technology/domain in which we operate. The gap between demand & supply is constantly widening and can impact execution of various projects leading to adverse impact on Nucleus brand and profitability. Being in a knowledge led industry, constant up gradation of skills/ knowledge of existing human resources is another challenge.

Human resources are the real capital assets of the Company. This necessitates huge investments in creating and maintaining a conducive working environment. The Company has instituted contemporary HR practices to manage human resources risks.

The Company has laid down the following policies with relation to Human Resources:

(i) Employee Retention

(ii) Employee Grievance Redressal

(iii) Employee Succession Planning

(iv) Employee Career Development

(v) Employee Training

Attracting and retaining talent is one of our biggest challenges and we are constantly focusing at the HR function to empower our people to scale new heights of productivity while enjoying world-class facilities.

Your Company has dedicated training facilities and an exclusive trainers' group consisting of voluntary internal trainers sourced across cross-functional areas who help in nurturing talent. Various HR initiatives such as Competency Assessment, Competency Mapping, Behavioral Soft Skill trainings including basic and advanced Tech trainings (technology and product oriented) have been the major focus during the year.

10. Investment Mix

Shareholder value is created when the Company invests shareholder funds in a manner that its investments earn a rate of return, which is higher than the Cost of Capital. Conversely, any investment that earns a rate of return lower than the Cost of Capital lead to shareholder value destruction. At the same time a mix of investments has to be maintained by a Company, with some low earning assets, which are highly liquid in nature to ensure continuity of operations and prevent liquidity crunch in case of a downturn. Inadequate management of the investment mix of the Company could lead to either Shareholder Value destruction or a high exposure to the risk of liquidity crunch.

The Company has been consistently following a conservative investment policy maintaining a reasonably high level of cash and cash equivalents which enable the Company to not only eliminate short and medium term liquidity risks but also scale up operations at a short notice.

Such Policies provide larger shareholder value in long term, though short-term returns may be low.

AUDITORS' REPORT

For the Consolidated Financial Statements for the year ended March 31, 2007

AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF NUCLEUS SOFTWARE EXPORTS LTD. ON THE CONSOLIDATED FINANCIAL STATEMENTS OF NUCLEUS SOFTWARE EXPORTS LTD. AND SUBSIDIARIES

We have audited the attached consolidated Balance Sheet of Nucleus Software Exports Ltd. ("the Company") and its subsidiaries, as described in summary of significant accounting policies to the consolidated financial statements as at 31 March 2007, the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year ended on that date, annexed thereto. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 whether the consolidated 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.

The financial statements of Nucleus Software Inc., United States of America, Nucleus Software (Australia) Pty. Ltd., Australia and Nucleus Software (HK) Ltd., Hong-Kong, whose financial statements reflect total assets of Rs.43,480,727 as at 31 March 2007, total revenues of Rs.116,107,259 and total cash flows amounting to Rs.18,322,014 for the year then ended have been audited by other auditors. The audit reports for the above mentioned entities have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of those subsidiaries, is based solely upon the report of the other auditors.

We report that the consolidated financial statements have been prepared by the Company's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of the Company and its subsidiaries included in the consolidated financial statements.

On the basis of the information and explanation given to us, and on consideration of the separate audit reports on individual audited financial statements of the Company and its subsidiaries, in our opinion, the consolidated financial statements give a true and fair view in conformity with accounting principles generally accepted in India:

(i) in the case of the Consolidated Balance Sheet, of the consolidated state of affairs of the Company and its subsidiaries as at 31 March 2007;

(ii) in the case of the Consolidated Profit and Loss Account, of the consolidated results of operations of the Company and its subsidiaries for the year ended on that date; and

(iii) in the case of the Consolidated Cash Flow Statement, of the consolidated cash flows of the Company and its subsidiaries for the year ended on that date.

For BSR & Co.
Chartered Accountants

Sd/-
Vikram Aggarwal
Partner
Membership No. 089826

Gurgaon
April 30, 2007

Consolidated Balance Sheet as at 31 March 2007

(All amounts in Rupees)

Particulars	Schedule	As At 31 March 2007	As At 31 March 2006
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	161,618,120	161,063,120
Advance pursuant to Stock Option Schemes		7,213,100	757,500
Reserves & Surplus	2	1,490,312,656	994,061,141
		1,659,143,876	1,155,881,761
Deferred Tax Liability (refer note2, schedule 16)		2,759,300	—
TOTAL		1,661,903,176	1,155,881,761
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	3	685,421,855	501,422,509
Less: Accumulated Depreciation		(265,565,579)	(201,902,924)
Net Block		419,856,276	299,519,585
Add : Capital Work in Progress (including capital advances)		130,833,322	37,487,576
		550,689,598	337,007,161
Investments	4	690,092,446	613,667,536
Deferred Tax Asset (Refer note 2, Schedule 16)		—	234,543
Current Assets, Loans & Advances			
Sundry Debtors	5	552,623,005	238,307,655
Cash & Bank Balances	6	268,251,436	300,525,040
Loans & Advances	7	94,579,553	37,771,624
Other Current Assets	8	181,563,104	76,360,903
		1,097,017,098	652,965,222
Less: Current Liabilities & Provisions			
Current Liabilities	9	(625,138,250)	(353,968,289)
Provisions	10	(50,757,716)	(94,024,412)
		(675,895,966)	(447,992,701)
Net Current Assets		421,121,132	204,972,521
TOTAL		1,661,903,176	1,155,881,761

Significant accounting policies and notes to the accounts 16

The schedules referred to above form an integral part of the financial statements.

As per our report of even date

For BSR & Co.
Chartered Accountants

Vikram Aggarwal
Partner
Membership No. 089826

Gurgaon
April 30, 2007

For and on behalf of the Board of Directors

Lt. Gen. T P Singh (Retd.)
Chairman

Vishnu R Dusad
Managing Director

NOIDA (U.P.)
April 30, 2007

P K Sanghi
Chief Financial Officer

Poonam Bhasin
Company Secretary

Consolidated Profit and Loss Account for the year ended 31 March 2007

(All amounts in Rupees)

Particulars	Schedule	For the year ended 31 March 2007	For the year ended 31 March 2006
Sales and Services	11	2,211,873,274	1,480,518,319
Software Development Expenses	12	1,251,060,641	805,005,109
Gross profit		960,812,633	675,513,210
Selling and Marketing Expenses	13	179,296,675	117,459,678
General and Administration Expenses	14	148,724,677	106,761,548
Operating Profit Before Depreciation and Withholding Tax		632,791,281	451,291,984
Depreciation	3	68,768,476	47,589,862
Withholding Taxes Charged Off		46,806,861	32,376,266
Operating Profit After Depreciation and Withholding Tax		517,215,944	371,325,856
Other Income	15	56,211,717	30,666,043
Profit before Taxation		573,427,661	401,991,899
Provision for Income Tax - current income tax		9,513,304	26,920,302
- fringe benefit tax		6,124,139	4,271,465
- deferred tax charge (refer note 2, schedule 16)		3,955,757	1,433,780
- income tax for earlier year		2,298,081	(1,521,305)
Provision for Wealth Tax		63,952	51,402
Profit after Taxation		551,472,428	370,836,255
Profit Available for Appropriation			
Profit for the year		551,472,428	370,836,255
Add: Balance Brought Forward		381,673,741	175,109,778
Total Amount Available for Appropriation		933,146,169	545,946,033
Final Dividend		—	56,366,842
Interim Dividend		56,407,092	—
Corporate Dividend Tax		7,911,095	7,905,450
Transferred to General Reserve		100,000,000	100,000,000
Balance Carried Forward to the Balance Sheet		768,827,982	381,673,741
Earnings Per Share (equity shares, par value Rs.10 each) (refer Note 10, Schedule 16)			
Basic		34.22	23.04
Diluted		33.85	22.98
Number of Shares used in Computing Earnings Per Equity Share			
Basic		16,113,654	16,097,694
Diluted		16,293,013	16,137,555
Significant accounting policies and notes to the accounts	16		

The schedules referred to above from an integral part of the financial statements.

As per our report of even date

For BSR & Co.
Chartered Accountants

Vikram Aggarwal
Partner
Membership No. 089826

Gurgaon
April 30, 2007

For and on behalf of the Board of Directors

Lt. Gen. T P Singh (Retd.)
Chairman

Vishnu R Dusad
Managing Director

NOIDA (U.P.)
April 30, 2007

P K Sanghi
Chief Financial Officer

Poonam Bhasin
Company Secretary

Consolidated Cash Flow Statement for the year ended 31 March 2007

(All amounts in Rupees)

Particulars	For the year ended 31 March 2007	For the year ended 31 March 2006
A. Cash flow from operating activities		
Net profit before tax	573,427,661	401,991,899
Adjustment for:		
Depreciation	68,768,476	47,589,862
Exchange difference on translation of foreign currency accounts	6,968,086	1,953,614
Dividend received from non trade investments	(11,991,342)	(2,717,457)
Interest on fixed deposits	(2,348,378)	(7,112,658)
Profit on sale of investments	(23,269,833)	(12,981,491)
Amortisation of employees compensation expenses	8,377,407	1,972,818
Profit on sale of fixed assets (net)	(196,292)	(45,470)
Loss on assets discarded	-	154,659
Advances and other current assets written off	290,466	5,904,441
Provision for doubtful debts / advances	23,926,167	1,048,742
Operating profit before working capital changes	643,952,419	437,758,959
Decrease / (increase) in debtors	(349,207,855)	(46,539,022)
Decrease / (increase) in loans and advances	(43,915,179)	(1,352,486)
Decrease / (increase) in other current assets	(107,556,158)	(55,203,069)
(Decrease) / increase in current liabilities	273,351,066	(29,655,908)
	416,624,292	305,008,474
Direct taxes paid	(23,102,889)	(20,014,124)
Fringe benefit tax paid	(6,224,213)	(4,101,391)
Net cash from operating activities (A)	**387,297,189**	**280,892,959**
B. Cash flow from investing activities		
Purchase of fixed assets/capital work in progress	(268,554,816)	(91,469,344)
Sale of fixed assets	2,206,704	593,771
Sale / (Purchase) of current investments (net)	(53,155,077)	(111,068,315)
Purchase of long term investment	-	(2,500,000)
Interest on fixed deposits	4,411,869	7,318,182
Tax paid	(2,688,257)	(4,813,374)
Dividend received from non trade investments	11,991,342	2,717,457
Net cash used in investing activities (B)	**(305,788,235)**	**(199,221,623)**
C. Cash flow from financing activities		
Dividend paid (including corporate dividend tax thereon)	(126,144,669)	(45,596,142)
Advance pursuant to employee stock option scheme	13,999,520	788,500
Net cash used in financing activities (C)	(112,145,149)	(44,807,642)
Net (decrease) / increase in cash and cash equivalents	(30,636,194)	36,863,694
Opening cash and cash equivalents	300,525,040	266,461,406
Effect of exchange rate change	(1,637,410)	(2,800,060)
Closing cash and cash equivalents*	268,251,436	300,525,040

*include fixed deposits amounting to Rs. 9,954,311 (Rs. 9,149,266) under lien with bank on account of guarantees issued on behalf of the Company

Notes:

1. The above cash flow statement has been prepared in accordance with the 'Indirect method' as set out in the Accounting Standard - 3 on 'Cash Flow Statements' issued by the Institute of Chartered Accountants of India.
2. Cash and cash equivalents consist of cash on hand and balances with scheduled banks / non-scheduled banks.

As per our report of even date

For BSR & Co.
Chartered Accountants

For and on behalf of the Board of Directors

Vikram Aggarwal
Partner
Membership No.: 089826

Lt. Gen. T P Singh (Retd.)
Chairman

Vishnu R Dusad
Managing Director

Gurgaon
April 30, 2007

NOIDA (U.P.)
April 30, 2007

P K Sanghi
Chief Financial Officer

Poonam Bhasin
Company Secretary

(All amounts in Rupees)

	As at 31 March 2007	As at 31 March 2006
SCHEDULE—1		
SHARE CAPITAL		
Authorised Capital		
20,000,000 (20,000,000) equity shares of Rs. 10 each	200,000,000	200,000,000
Issued, subscribed and paid up		
Issued		
16,163,112 (16,107,612) equity shares of Rs. 10 each	161,631,120	161,076,120
Subscribed and paid up		
16,160,312 (16,104,812) equity shares of Rs. 10 each, fully paid up	161,603,120	161,048,120
Of the above: 8,045,406 equity shares of Rs. 10 each have been issued as bonus shares by capitalisation of securities premium account in the year ended 31 March 2005		
2,637,050 equity shares of Rs. 10 each have been issued as bonus shares by capitalisation of general reserve and securities premium account in the year ended 31 March 2002		
1,452,270 equity shares of Rs. 10 each have been issued as bonus shares by capitalisation of general reserve in the year ended 31 March 1995		
Add: 2,800 (2,800) forfeited equity shares pending for reissue	15,000	15,000
	161,618,120	161,063,120
SCHEDULE—2		
RESERVES AND SURPLUS		
General reserve		
Balance as at 1 April	441,454,695	341,454,695
Add: Transferred from Profit and Loss Account	100,000,000	100,000,000
Less: Gratuity and leave encashment transitional liability (refer note 7, schedule 16)	11,395,593	—
	530,059,102	441,454,695
Securities premium account		
Balance as at 1 April	162,978,709	161,702,709
Add : On conversion of stock options issued to employees	10,220,800	1,276,000
	173,199,509	162,978,709
Capital reserve account		
Balance as at 1 April	1,500,030	1,480,030
Add: Amount forfeited against employees stock option plan	73,000	20,000
	1,573,030	1,500,030
Employee stock options		
Balance as at 1 April	4,394,168	2,304,350
Add: Options granted during the year	19,906,600	3,288,888
Less: Reversal on forfeiture of stock options granted	1,761,600	119,070
Less: Transferred to securities premium on exercise of stock options	3,304,880	1,080,000
	19,234,288	4,394,168
Less: Deferred employee compensation	(12,028,674)	(2,261,081)
	7,205,614	2,133,087
Foreign currency translation reserve		
Balance as at 1 April	4,320,879	549,462
Add: Addition during the year	5,126,540	3,771,417
	9,447,419	4,320,879
Profit and Loss Account		
Balance as at 1 April	381,673,741	175,109,778
Add: Profit for the year	551,472,428	370,836,255
Less: Transferred to general reserve	100,000,000	100,000,000
Less: Final dividend	-	56,366,842
Less: Interim dividend	56,407,092	-
Less: Dividend tax	7,911,095	7,905,450
	768,827,982	381,673,741
	1,490,312,656	994,061,141

SCHEDULE—3
FIXED ASSETS

All amounts in Rupees

Particulars	GROSS BLOCK				ACCUMULATED DEPRECIATION				NET BLOCK	
	As at 1 April, 2006	Additions	Deductions/ Adjustments*	As at 31 March, 2007	As at 1 April, 2006	Depreciation for the year	Deduction/ Adjustments*	As at 31 March, 2007	As at 31 March, 2007	As at 31 March, 2006
Freehold land	3,360,720	—	—	3,360,720	—	—	—	—	3,360,720	3,360,720
Leasehold land	64,195,000	2,200,000	—	66,395,000	2,891,645	731,915	—	3,623,560	62,771,440	61,303,355
Building	111,957,797	36,349,017	(1,721,932)	146,584,882	7,403,417	4,630,245	—	12,033,662	134,551,220	104,554,380
Office and other equipment	64,292,585	68,368,599	262,737	132,923,921	28,908,087	15,096,483	221,372	44,225,942	88,697,979	35,384,498
Computers	133,295,929	47,789,232	(1,290,809)	179,794,352	74,041,539	29,366,254	(2,343,519)	101,064,274	78,730,078	59,254,390
Vehicles	14,876,717	3,312,282	(2,699,673)	15,489,326	6,180,192	2,753,607	(2,580,698)	6,353,101	9,136,225	8,696,525
Furniture and fixtures	31,323,889	6,889,242	235,231	38,448,362	22,341,862	4,169,986	216,360	26,728,208	11,720,154	8,982,027
Software	78,119,872	19,013,998	(1,531,517)	95,602,353	60,136,182	11,961,376	(619,336)	71,478,222	24,124,131	17,983,690
Leasehold improvement	—	6,822,939	—	6,822,939	—	58,610	—	58,610	6,764,329	—
Current year	501,422,509	190,745,309	(6,745,963)	685,421,855	201,902,924	68,768,476	(5,105,821)	265,565,579	419,856,276	299,519,585
Previous year	436,241,317	70,448,691	(5,267,499)	501,422,509	158,912,213	47,589,862	(4,599,151)	201,902,924	299,519,585	—

* includes the effect of translation in respect of assets held by foreign subsidiaries which are considered as non-integral to the operations of the company in terms of Accounting Standard 11 (revised 2003) issued by the Institute of Chartered Accountants of India.

(All amounts in Rupees)

	As at 31 March 2007	As at 31 March 2006
SCHEDULE—4		
INVESTMENTS		
Long term investments		
Equity shares - Non Trade and unquoted		
10,040,000 (10,040,000) equity shares of Rs 10 each, fully paid up, in GMAC Financial Services India Limited [Of the above, 80,000 (80,000) equity shares are held by nominees on behalf of the Company]	136,882,640	136,882,640
25,000 (25,000) equity shares of Rs 10 each, fully paid up, in Ujjivan Financial Services Private Limited	2,500,000	2,500,000
	139,382,640	139,382,640
Current investments		
Investments in bonds and mutual funds - Non trade and unquoted		
Nil (3,659,812) units of face value of Rs. 10 each of HDFC Cash management Fund-Saving Plan-Growth	-	50,742,894
Nil (62,196) units of face value of Rs. 10 each of Deutsche Insta Cash Plus Fund-Institutional Plan-Growth	-	650,000
Nil (1,000,000) units of face value of Rs. 10 each of UTI Fixed Maturity Plan-YFMP 07/05-Growth	-	10,000,000
Nil (2,000,000) units of face value of Rs. 10 each of UTI Fixed Maturity Plan-YFMP 09/05-Growth	-	20,000,000
500,000 (Nil) units of face value of Rs. 10 each of UTI Fixed Maturity Plan-YFMP 06/06-Growth	5,000,000	-
2,000,000 (2,000,000) units of face value of Rs. 10 each of Prudential ICICI FMP Series 5-Institutional-Growth	20,000,000	20,000,000
2,500,000 (Nil) units of face value of Rs. 10 each of Prudential ICICI FMP Series 34-Institutional-Growth	25,000,000	-
Nil (1,000,000) units of face value of Rs. 10 each of Reliance Fixed Maturity Fund-SeriesII-Annual Plan-I-Growth	-	10,000,000
Nil (2,413,992) units of face value of Rs. 10 each of DSP Merrill Lynch Liquidity Fund- Growth	-	40,000,000
Nil (2,985,857) units of face value of Rs. 10 each of SBI Magnum Institutional Income Fund-Saving-Growth	-	32,000,000
Nil (1,229,594) units of face value of Rs. 10 each of Reliance Liquid Fund-Treasury Plan-Institutional -Growth	-	20,000,000
Nil (2,972,613) units of face value of Rs. 10 each of ABN Amro Cash Fund-Institutional-Growth	-	31,000,000
Nil (1,419,231) units of face value of Rs. 10 each of ING Vysya Liquid Fund Institutional-Growth	-	15,000,000
Nil (26,544) units of face value of Rs. 1000 each of UTI Liquid Cash Plan Institutional-Growth	-	29,895,490
Nil (1,187,620) units of face value of Rs. 10 each of Prudential ICICI Institutional Liquid Plan-Growth	-	20,000,000
Nil (881,780) units of face value of Rs. 10 each of Birla Sun Life Cash manager-Institutional Plan-Growth	-	10,000,000
Nil (750,000) units of face value of Rs. 10 each of Magnum Debt Fund Series-13 Months (Oct 05)-Growth	-	7,500,000
800,000 (800,000) units of face value of Rs. 10 each of Grindlays Fixed Maturity-16th Plan A-Growth	8,000,000	8,000,000
900,000 (900,000) units of face value of Rs. 10 each of Grindlays Fixed Maturity-20th Plan -Growth	9,000,000	9,000,000
Nil (5,136,964) units of face value of Rs. 10 each of LICMF Liquid Fund-Dividend	-	56,179,497

Schedules to the Consolidated Financial Statements

(All amounts in Rupees)

	As at 31 March 2007	As at 31 March 2006
2,297,827 (2,224,796) units of face value of Rs, 10 each of Birla Cash Plus-Institutional Premium-Growth	25,682,000	24,317,015
2,000,000 (2,000,000) units of face value of Rs. 10 each of Chola FMP-14 Months-Cumulative	20,000,000	20,000,000
1,000,000 (1,000,000) units of face value of Rs. 10 each of ABN Amro FTP Series 2 Thirteen Month Plan-Growth	10,000,000	10,000,000
2,500,000 (Nil) units of face value of Rs. 10 each of ABN Amro FTP Series 5 Forteen Month Plan-Growth	25,000,000	-
1,000,000 (1,000,000) units of face value of Rs. 10 each of HSBC Fixed term Series-4-Growth	10,000,000	10,000,000
2,000,000 (Nil) units of face value of Rs. 10 each of HSBC Fixed term Series-9-Growth	20,000,000	-
1,500,000 (Nil) units of face value of Rs. 10 each of HSBC Fixed term Series-27-Growth	15,000,000	-
1,000,000 (1,000,000) units of face value of Rs. 10 each of Principal Pnb Fixed Maturity Plan-385 Days-Series I Institutional-Growth	10,000,000	10,000,000
2,500,000 (Nil) units of face value of Rs. 10 each of Principal Pnb Fixed Maturity Plan-385 Days-Series 4 Institutional-Growth	25,000,000	-
1,000,000 (1,000,000) units of face value of Rs. 10 each of HDFC FMP 13M March 2006(1)- Institutional Plan-Growth	10,000,000	10,000,000
1,000,000 (Nil) units of face value of Rs. 10 each of HDFC FMP 13M June 2006(1)- Institutional Plan-Growth	10,000,000	-
1,250,000 (Nil) units of face value of Rs. 10 each of HDFC FMP 13M July 2006(1)- Institutional Plan-Growth	12,500,000	-
3,117,013 (Nil) units of face value of Rs. 10 each of LICMF Liquid Fund-Growth	40,000,000	-
4,826,534(Nil) units of face value of Rs. 10 each of Prudential ICICI Super Institutional Plan-Growth	50,000,000	-
1,398,093 (Nil) units of face value of Rs. 10 each of Kotak Liquid- Institutional Plus Plan -Growth	20,000,000	-
1,500,000 (Nil) units of face value of Rs 10 each of Reliance fixed horizon QFMP series V-Dividend	15,000,000	-
1,500,000 (Nil) units of face value of Rs 10 each of Reliance fixed horizon fund III-annual plan series I-institutional plan-Growth	15,000,000	-
1,500,000 (Nil) units of face value of Rs 10 each of Reliance fixed horizon fund III-annual plan series III-institutional plan-Growth	15,000,000	-
2,500,000 (Nil) units of face value of Rs 10 each of Kotak FMP 13M series 2-institutional-plan-Growth	25,000,000	-
1,250,000 (Nil) units of face value of Rs 10 each of Kotak FMP series 26-Growth	12,500,000	-
2,500,000 (Nil) units of face value of Rs 10 each of DWS fixed term fund series 24-Institutional plan-Growth	25,000,000	-
1,527,025 (Nil) units of face value of Rs 10 each of UTI Fixed maturity plan halfyearly series HFMP/1206/I Dividend plan-Reinvestment	15,270,255	-
56,666 (Nil) units of face value of Rs. 1000 each of UTI Liquid Cash Plan Institutional-Dividend	57,757,551	-
	550,709,806	474,284,896
	690,092,446	613,667,536

Notes:
1. Net asset value (NAV) of current investments Rs.570,440,447 (Rs.487,926,419) as at 31 March 2007.
2. Refer note 6, schedule 16 for details of investments purchased and sold during the year ended 31 March 2007.

(All amounts in Rupees)

	As at 31 March 2007	As at 31 March 2006
SCHEDULE—5		
SUNDRY DEBTORS (UNSECURED)		
Debts outstanding for a period exceeding six months		
— Considered good	13,258,993	6,616,259
— Considered doubtful	12,101,592	18,879,154
	25,360,585	25,495,413
Less: Provision for doubtful debts	(12,101,592)	(18,879,154)
	13,258,993	6,616,259
Other debts (considered good)	539,364,012	231,691,396
	552,623,005	238,307,655
SCHEDULE—6		
CASH AND BANK BALANCES		
Cash in hand [including cheques in hand Rs. 708,663 (Rs. 1,989,242)]	1,154,079	2,437,320
Balances with scheduled banks:		
- in current accounts	127,488,074	25,840,473
- in fixed deposit accounts	9,954,311	184,601,711
Balance with non scheduled bank**:		
- in current account		
Citibank-U.K.	829,963	660,698
Citibank-Singapore	5,055,139	30,097,582
Korea Exchange Bank	986,567	—
PNC Bank-USA	29,524,134	9,223,524
Bank of Tokyo Mitshubishi -Japan	69,980,699	7,887,730
Shinsei Bank - Japan	6,597,533	25,523,372
Citibank -Hong Kong	36,201	113,426
ANZ Bank - Australia	421,318	2,324,245
Citibank -Singapore	3,295,569	2,668,889
Citibank -Netherlands	4,553,035	5,113,900
- in fixed deposit accounts		
ANZ Bank - Australia	17,695	16,370
Remittance in transit	8,357,119	4,015,800
	268,251,436	300,525,040
*Maximum amount oustanding during the year		
- in current accounts		
Citibank-U.K	1,106,298	1,108,854
Citibank-Singapore	107,845,585	184,640,471
Korea Exchange Bank	2,479,211	1,134,766
PNC Bank-USA	60,293,084	10,069,279
Bank of Tokyo Mitshubishi -Japan	242,091,011	22,951,303
Shinsei Bank - Japan	76,775,795	74,278,607
Citibank -Hong Kong	110,837	227,426
ANZ Bank - Australia	3,206,069	3,686,318
Citibank -Netherlands	5,644,536	5,405,000
- in fixed deposit accounts		
ANZ Bank - Australia	17,695	16,370

**include fixed deposits amounting to Rs.9,954,311 (Rs.9,149,266) under lien with bank on account of guarantees issued on behalf of the Company

	As at 31 March 2007	As at 31 March 2006
SCHEDULE—7		
LOANS AND ADVANCES		
(Unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received	36,322,488	15,697,583
Security deposits	25,958,119	11,981,413
Advance income tax [net of provision Rs 33,872,189 (Nil)]	5,915,350	—
Prepaid expenses	26,383,596	10,092,628
	94,579,553	37,771,624

(All amounts in Rupees)

	As at 31 March 2007	As at 31 March 2006
SCHEDULE—8		
OTHER CURRENT ASSETS		
Service income accrued but not due	180,448,534	73,182,842
Interest accrued but not due	1,114,570	3,178,061
	181,563,104	76,360,903
SCHEDULE—9		
CURRENT LIABILITIES		
Sundry creditors*	189,934,510	112,388,248
Withholding tax	14,506,608	8,036,409
Advances from customers	379,251,212	209,334,416
Unclaimed dividend	3,435,287	708,613
Other liabilities	38,010,633	22,145,251
Book overdraft	—	1,355,352
	625,138,250	353,968,289

* There are no amounts payable to small scale industrial undertakings.

	As at 31 March 2007	As at 31 March 2006
SCHEDULE—10		
PROVISIONS		
Gratuity	21,484,480	11,916,390
Leave encashment	29,203,236	9,665,197
Taxation [Net of advance tax Rs.Nil (Rs.33,740,974)]	—	8,000,459
Fringe benefit tax [Net of advance fringe benefit tax Rs.10,325,604 (Rs.4,101,391)	70,000	170,074
Dividend	—	56,366,842
Corporate dividend tax	—	7,905,450
	50,757,716	94,024,412

(All amounts in Rupees)

	For the year ended 31 March 2007	For the year ended 31 March 2006
SCHEDULE—11		
SALES AND SERVICES		
Software development services and products	2,211,873,274	1,480,518,319
	2,211,873,274	1,480,518,319

	For the year ended 31 March 2007	For the year ended 31 March 2006
SCHEDULE—12		
SOFTWARE DEVELOPMENT EXPENSES		
Salaries and allowances	781,373,427	451,743,901
Contribution to provident and other funds	37,253,342	19,708,798
"Directors' remuneration (including stock compensation expenses “Rs. 1,396,831 (Nil))"	9,719,409	7,002,000
Employee's stock compensation expenses	4,307,968	1,729,294
Staff welfare	15,051,676	10,783,643
Conveyance	9,584,535	4,969,918
Communication	20,349,920	12,965,736
Rent	23,538,515	18,712,769
Legal and professional	13,446,553	5,167,147
Repair and maintenance		
— Building	278,462	430,541
— Others	5,183,433	3,966,013
Training and recruitment	22,301,956	9,228,744
Printing and stationery	896,922	665,737
Insurance	4,160,895	2,835,733
Software and other development charges	7,288,344	10,685,838
Cost of software purchased for delivery to clients	15,113,102	12,766,339
Travelling	152,784,806	138,248,071
Advertisement	286,551	119,103
Consultancy charges	96,375,920	75,770,762
Power and fuel	20,624,344	10,819,578
Conference, exhibition and seminar	68,808	42,608
IT expenses	4,780,679	2,551,406
Miscellaneous expenses	6,291,074	4,091,430
	1,251,060,641	805,005,109

(All amounts in Rupees)

	For the year ended 31 March 2007	For the year ended 31 March 2006
SCHEDULE—13		
SELLING AND MARKETING EXPENSES		
Salaries and allowances	74,308,780	58,031,823
Contribution to provident and other funds	2,223,522	1,505,187
"Directors' remuneration (including stock compensation expenses "Rs. 1,396,831(Nil))"	9,719,409	7,002,000
Employee's stock compensation expenses	251,224	145,736
Staff welfare	3,720,708	3,375,188
Conveyance	2,926,184	1,496,451
Communication	4,189,225	4,298,435
Rent	5,660,474	5,574,553
Legal and professional	2,483,651	841,593
Repair and maintenance		
— Building	23,876	43,054
— Others	428,836	429,809
Training and recruitment	783,167	799,964
Printing and stationery	1,339,987	316,084
Insurance	270,791	471,600
Travelling	27,525,959	18,546,937
Advertisement and business promotion	8,621,639	6,733,436
Power and fuel	1,013,741	1,089,999
Conference, exhibition and seminar	9,306,035	2,089,126
IT expenses	223,736	194,868
Commission to channel partners	23,490,758	2,244,218
Marketing survey expenses	—	1,394,695
Miscellaneous expenses	784,973	834,922
	179,296,675	117,459,678

(All amounts in Rupees)

	For the year ended 31 March 2007	For the year ended 31 March 2006
SCHEDULE—14 **GENERAL AND ADMINISTRATION EXPENSES**		
Salaries and allowances	61,895,521	33,580,992
Contribution to provident and other funds	3,189,825	1,747,297
"Directors' remuneration (including stock compensation expenses “Rs. 698,414 (Nil))"	6,986,895	4,378,600
Employee's stock compensation expenses	326,139	97,788
Staff welfare	1,877,771	1,648,521
Conveyance	3,401,882	1,768,599
Communication	2,581,450	4,975,480
Rent,	1,725,296	1,179,963
Rates and Taxes	3,880,990	1,959,065
Legal and professional	14,409,847	19,764,897
Repair and maintenance		
— Building	71,483	150,689
— Others	1,911,295	1,176,218
Training and recruitment	1,575,706	1,492,717
Printing and stationery	2,723,162	2,030,928
Loss on discarded assets	—	154,659
Insurance	774,941	382,686
Bank charges	2,942,801	2,359,486
Travelling	2,344,825	2,154,349
Advertisement	1,018,417	1,099,085
Consultancy charges	1,119,459	5,471,502
Power and fuel	1,287,652	3,067,042
Conference, exhibition and seminar	444,346	428,723
IT expenses	367,178	239,814
Advances/ other current assets written off	290,466	5,904,441
Provision for doubtful debts, advances and other current assets	23,926,167	1,048,742
Loss on foreign exchange fluctuation on consolidation (net)	—	2,347,288
Miscellaneous expenses	7,651,163	6,151,977
	148,724,677	106,761,548
SCHEDULE—15 **OTHER INCOME**		
Dividend received from non-trade investments	11,991,342	2,717,457
Gain on foreign exchange fluctuation (net)	2,904,414	—
Interest on fixed deposit [Gross of tax deducted at source Rs.913,379 (Rs.1,399,539)]	2,348,378	7,112,658
Profit on sale of investments	23,269,833	12,981,491
Profit on sale of fixed assets (net)	196,292	45,470
Miscellaneous income	14,520,673	7,808,967
Gain on foreign exchange fluctuation on consolidation (net)	980,785	—
	56,211,717	30,666,043

SCHEDULE 16:
SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

1. Significant accounting policies

(i) Basis of preparation

The consolidated financial statements are prepared under the historical cost convention, in accordance with the Indian Generally Accepted Accounting Principles ("GAAP") and mandatory accounting standards issued by the Institute of Chartered Accountants of India ("ICAI"), the provisions of the Companies Act, 1956 and guidelines issued by the Securities and Exchange Board of India ("SEBI"). All income and expenditure having a material bearing on the consolidated financial statements are recognised on accrual basis. Accounting policies have been consistently applied except where a newly issued accounting standard if initially adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use. Management evaluates all recently issued or revised accounting standards on an ongoing basis.

(ii) Principles of consolidation

These consolidated financial statements relate to Nucleus Software Exports Ltd., the parent company and its subsidiaries (hereinafter collectively referred as "the Group"), which are as follows:

Name of the Company	*Country of incorporation*
Nucleus Software Solutions Pte. Ltd.	Singapore
Nucleus Software Inc.	United States of America
Nucleus Software Japan Kabushiki Kaiga	Japan
Nucleus Software (Australia) Pty. Ltd.	Australia
Nucleus Software (HK) Ltd.	Hong Kong
VirStra i - Technology Services Limited	India
VirStra i - Technology (Singapore) Pte. Ltd.	Singapore
Nucleus Software Netherlands B.V.	Netherlands

The consolidated financial statements have been prepared in accordance with the principles and procedures for the preparation and presentation as laid down under Accounting Standard 21 on "Consolidated Financial Statements" issued by the ICAI.

The financial statements of the parent company and its subsidiaries have been combined on a line by line basis by adding together the book values of all items of assets, liabilities, incomes and expenses after eliminating inter company balances/transactions and resulting unrealised profits in full. Unrealised losses resulting from inter company transactions have also been eliminated except to the extent that the recoverable value of related assets is lower than their cost to the Group. The amount shown in respect of reserves comprise the amount of relevant reserves as per the balance sheet of the parent company and its share in the post acquisition increase in the relevant reserves of the subsidiaries.

The consolidated financial statements are prepared, to the extent possible, in the same format as that adopted by the parent company for its separate financial statements.

The consolidated financial statements are prepared using uniform accounting policies for the transaction and other events in similar circumstances, except as disclosed otherwise.

(iii) Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Examples of such estimates include estimates of expected contract costs to be incurred to complete contracts, provision for doubtful debts, future obligations under employee retirement benefit plans and estimated useful life of fixed assets. Actual results could differ from these estimates. Any changes in estimates are adjusted prospectively.

Management periodically assesses using external and internal sources whether there is an indication that an asset may be impaired. An impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the asset and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the asset's net sales price or present value as determined above. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortization, if no impairment loss had been recognized.

Contingencies are recorded when it is probable that a liability will be incurred, and the amount can be reasonably estimated.

(iv) Foreign exchange transactions and translation of financial statements of foreign subsidiaries

Foreign exchange transactions are recorded at the exchange rates prevailing at the date of transaction. Realised gains and losses on foreign exchange transactions during the year, other than those relating to acquisition of fixed assets from a country outside India, are recognised in the profit and loss account. Foreign currency assets and liabilities are translated at year-end rates and resultant gains/losses on foreign exchange translations, other than those relating to acquisition of fixed assets from a country outside India, are recognised in the profit and loss account. Gains/ losses on the settlement and translation of foreign exchange liabilities incurred to acquire fixed assets from a country outside India are adjusted in the carrying cost of such fixed assets.

In the case of forward contracts:

a) the premium or discount on all such contracts arising at the inception of each contract is amortised as income or expense over the life of the contract.

b) the exchange difference is calculated as the difference between the foreign currency amount of the contract translated at the exchange rate at the reporting date, or the settlement date where the transaction is settled during the reporting period, and the corresponding foreign currency amount translated at the later of the date of inception of the forward exchange contract and the last reporting date. Such exchange differences are recognised in the profit and loss account in the reporting period in which the exchange rates change.

c) any profit or loss arising on the cancellation or renewal of forward contracts is recognized as income or expense for the period.

The financial statements of the foreign subsidiaries being integral operations are translated into Indian rupees as follows:

a) Income and expense items are translated at the weighted average exchange rates.

b) Monetary assets and liabilities denominated in foreign currencies as the balance sheet date are translated at the exchange rates on that date.

c) Non-monetary items which are carried in terms of historical cost denominated in foreign currency are reported using the exchange rate at the date of transaction.

d) All resulting exchange differences are recognised in the profit and loss account of the reporting period.

e) Contingent liabilities are translated at the closing rate.

The financial statements of the foreign subsidiaries being non-integral operations are translated into Indian rupees as follows:

a) Income and expense items are translated at the weighted average exchange rates.

b) Assets and liabilities, both monetary and non-monetary are translated at the closing rate.

c) All resulting exchange differences are accumulated in a foreign currency translation reserve which is reflected under reserves and surplus.

d) Contingent liabilities are translated at the closing rate.

(v) Revenue recognition

Revenue from software development services comprises income from time and material and fixed price contracts. Revenue from time and material basis is recognised as the services are rendered. Revenue from fixed price contracts and sale of license and related customisation and implementation is recognised in accordance with the percentage completion method. Provision for estimated losses, if any, on uncompleted contracts are recorded in the period in which such losses become certain based on the current estimates.

Revenue from annual technical service contracts is recognised on a pro rata basis over the period in which such services are rendered.

Service income accrued but not due represents revenue recognised on contracts to be billed in the subsequent period, in accordance with terms of the contract.

Profit on sale of investments is recorded on transfer of title from the Company and is determined as the difference between the sales price and the then carrying value of the investment. Interest on the deployment of surplus funds is recognised using the time-proportion method, based on interest rates implicit in the transaction. Dividend income is recognised when the right to receive the same is established.

(vi) Expenditure

The cost of software purchased for use in software development and services is charged to cost of revenues in the year of acquisition. Post sales customer support costs are estimated by the management, determined on the basis of past experience. Expenses are accounted for on accrual basis and provisions are made for all known losses and liabilities.

(vii) Fixed assets

Fixed assets are stated at the cost of acquisition including incidental costs related to acquisition and installation. Fixed assets under construction, advances paid towards acquisition of fixed assets and cost of assets not put to use before the year end, are disclosed as capital work-in-progress.

(viii) Depreciation

Depreciation on fixed assets, except leasehold land and leasehold improvement, is provided on the straight-line method based on useful lives of respective assets as estimated by the management. Leasehold land is amortised over the period of lease. The leasehold improvements are amortised over the remaining period of lease or the useful lives of assets, whichever is shorter. Depreciation is charged on a pro-rata basis for assets purchased/sold during the year. Assets costing less than Rs. 5,000 are fully depreciated in the year of purchase. The management's estimates of the useful lives of the various fixed assets are as follows:

Asset category	*Useful life (in years)*
Building	30
Office and other equipment	5
Computers	3-5
Vehicles	5
Furniture and fixtures	5-7
Software	3
Temporary wooden structures (included in furniture and fixtures)	1

(ix) Investments

Investments are classified into long term and current investments based on the intent of management at the time of acquisition. Long-term investments are stated at cost and provision is made to recognise any decline, other than temporary, in the value of such investments. Current investments are stated at the lower of cost and the fair value.

(x) Research and development

Revenue expenditure incurred on research and development is expensed as incurred. Capital expenditure incurred on research and development is depreciated over the estimated useful lives of the related assets.

(xi) Retirements benefits

India

The Company's contribution to provident fund is deposited with the appropriate authorities and charged to the profit and loss account. Provision for gratuity and leave encashment is made on the basis of actuarial valuation at the year-end and charged off to the profit and loss account.

Singapore

The Company's contribution to central provident fund is deposited with the appropriate authorities and charged to the profit and loss account. Provision for leave encashment is made on a full liability basis and charged off to the profit and loss account.

United States of America

The Company's social security contributions are charged to the profit and loss account.

Australia

The Company's contributions to superannuation are charged to the profit and loss account.

(xii) Employee stock option based compensation

The excess of market price of underlying equity shares as of the date of the grant of options over the exercise price of the options given to employees under the employee stock option plan is recognised as deferred stock compensation cost and amortised over the vesting period, on a straight line basis.

(xiii) Earnings per share

Basic earning per share is computed using the weighted average number of equity shares outstanding during the year. Diluted earnings per share is computed using the weighted average number of equity and dilutive equity equivalent shares outstanding during the year end, except where the results would be anti-dilutive.

(xiv) Operating leases

Lease payments under operating lease are recognised as an expense in the profit and loss account on a straight line basis over the lease term.

(xv) Taxation

Income taxes are computed using the tax effect accounting method, where taxes are accrued in the same period the related revenue and expenses arise. A provision is made for income tax annually based on the tax liability computed after considering tax allowances and exemptions. The differences that result between the profit offered for income taxes and the profit as per the financial statements are identified and thereafter a deferred tax asset or deferred tax liability is recorded for timing differences, namely the differences that originate in one accounting period and reverse in another, based on the tax effect of the aggregate amount being considered. The tax effect is calculated on the accumulated timing differences at the end of an accounting period based on prevailing enacted regulations. Where there is unabsorbed depreciation or carry forward losses, deferred tax assets are recognised only to the extent there is virtual certainty of realisation of such assets. In other situations, deferred tax assets are recognised only to the extent there is reasonable certainty of realisation in future. Such assets are reviewed at each balance sheet date and are written down or written up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised. Deferred tax assets or liabilities arising due to timing differences, originating during the tax holiday period and reversing after the tax holiday period are recognized in the period in which the timing difference originate.

2. Deferred tax assets/(liability)

Components of net deferred tax asset / (liability):

	As at 31 March 2007 (Rupees)	As at 31 March 2006 (Rupees)
Deferred tax asset		
Provision for doubtful debts	668,866	786,249
Provision for retirement benefits	5,600,119	2,933,718
	6,268,985	**3,719,967**
Deferred tax liability		
Fixed assets	(9,028,285)	(3,485,424)
Net deferred tax asset/(liability)	**(2,759,300)**	**234,543**

3. Forward contracts

Exchange gain in respect of forward exchange contracts to be recognised in the profit and loss account of the subsequent accounting period is Rs.1,320,463 (Rs.999,672). As at 31 March 2007, the Company has outstanding forward contracts for USD 1,750,000 (USD 2,550,000).

Exchange gain in respect of derivative option contracts to be recognised in the Profit and Loss Account of the subsequent accounting period is Rs.5,436,250 (Rs. Nil). As at 31 March 2007, the Company has outstanding derivative option contracts for USD 4,950,000 (USD Nil).

4. Employees Stock Option Plan ("ESOP")

The Securities and Exchange Board of India ('SEBI') has issued the (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 which is effective for all stock option schemes established after 19 June 1999. In accordance with these Guidelines, the excess of the market price of the underlying equity shares as of the date of the grant of the options over the exercise price of the option, including up-front payments, if any is to be recognised and amortised on a straight-line basis over the vesting period, ranging from eighteen to thirty six months.

The Company currently has four ESOP schemes, ESOP scheme-1999 (instituted in 2000), ESOP scheme- 2002 (instituted in 2002), ESOP scheme-2005 (instituted in 2005) and ESOP scheme-2006 (instituted in 2006). These schemes were duly approved by the Board of Directors and Shareholders in their respective meetings. The 1999 scheme provides for the issue of 170,000 equity shares, 2002 scheme for 225,000 equity shares, 2005 scheme for 600,000 equity shares and 2006 scheme for 1,000,000 equity shares to eligible employees. These schemes are administered by a Compensation Committee comprising of four members, the majority of whom are independent directors.

Details of options granted/exercised and forfeited are as follows:

1999 Stock Option Scheme

	Year ended 31 March 2007	**Year ended 31 March 2006**
Options outstanding at the beginning of the year	12,500	27,500
Options granted	9,000	-
Options forfeited	(3,300)	(1,000)
Options exercised	(12.500)	(14,000)
	5,700	**12,500**

2002 Stock Option Scheme

Options outstanding at the beginning of the year	63,250	5,000
Options granted	145,500	59,250
Options forfeited	(6,000)	(1,000)
Options exercised	(43,000)	-
	159,750	**63,250**

2005 Stock Option Scheme

Options outstanding at the beginning of the year	-	-
Options granted	142,000	-
Options forfeited	-	-
Options exercised	-	-
	142,000	**-**

2006 Stock Option Scheme

	Year ended 31 March 2007	Year ended 31 March 2006
Options outstanding at the beginning of the year	-	-
Options granted	271,860	-
Options forfeited	-	-
Options exercised	-	-
	271,860	**-**

The movement in deferred stock compensation expense during the year ended is as follows:

	Year ended 31 March 2007 (Rupees)	Year ended 31 March 2006 (Rupees)
Balance brought forward	2,261,081	1,064,081
Add: Recognised during the year	19,906,600	3,288,888
Less: Amortisation expense	8,377,407	1,972,818
Less: Reversal due to forfeiture	1,761,600	119,070
Balance carried forward	12,028,674	2,261,081

5. Managerial remuneration*

	Year ended 31 March 2007 (Rupees)	Year ended 31 March 2006 (Rupees)
A. Whole time directors		
Salary and perquisites	3,902,190	2,692,600
Contribution to provident and other funds	198,000	144,000
Commission	16,838,447	12,596,000
	20,938,637	**15,432,600**
B. Non executive directors		
Stock base compensation	3,492,076	-
Commission	650,000	2,900,000
Sitting fees	1,345,000	345,000
	5,487,076	**3,295,000**

*Does not include expense towards retirement benefits since the same is based on actuarial valuations carried out for the Group as a whole.

6. Details of investments purchased/sold during the year

Name of the investment	Face value Amount (Rupees)	Purchased during the year Quantity	Purchased during the year Amount (Rupees)	Sold during the year Quantity	Sold during the year Amount (Rupees)
Kotak K Liquid-Inst. Prem-(Dividend)	10	8,947,007	109,404,902	8,947,007	109,404,902
Prudential ICICI-IP-(Dividend)	10	1,689,862	20,025,200	1,689,862	20,025,200
ING Vysya Liquid-(Dividend)	10	201,148	2,013,556	201,148	2,013,556
Principal Liquid-(Dividend)	10	2,002,712	20,031,522	2,002,712	20,031,522
LIC Liquid Fund-(Dividend)	10	7,432,246	81,442,162	7,432,246	81,606,799
Sundaram Quarterly-FMP-(Dividend)	10	2,543,960	25,439,600	2,543,960	25,439,600
HSBC Cash Fund-IP-(Dividend)	10	6,903,484	69,073,495	6,903,484	69,050,023
Tata liquidity management Fund-(Dividend)	10	59,925	60,060,647	59,925	60,060,647
UTI Liquid Cash Plan-IP-(Dividend)	1000	135,825	138,466,033	135,825	138,466,033
HSBC Liquid Plus-Inst plus-(Dividend)	10	5,019,248	50,221,673	5,019,248	50,247,733
Birla Cash Plus-IP-(Dividend)	10	8,717,835	112,458,101	8,717,835	112,458,101
HDFC Liquid-(Dividend)	10	2,458,660	25,073,905	2,458,660	25,073,905
Principal Quarterly FMP-(Dividend)	10	2,000,000	20,000,000	2,000,000	20,000,000
Standard Chartered Quarterly FMP-(Dividend)	10	4,000,000	40,000,000	4,000,000	40,001,200
UTI-Quarterly-FMP-(Dividend)	10	2,539,019	25,390,191	2,539,019	25,399,331
DWS Fixed Term Plan-(Dividend)	10	2,500,000	25,000,000	2,500,000	25,000,000
ABN Amro-Quarterly-FMP-(Dividend)	10	9,638,417	96,384,169	9,638,417	96,384,169
HDFC Cash Management-Saving Plan-(Dividend)	10	3,765,060	37,726,591	3,765,060	37,720,688
Prudential-ICICI-Super-IP-(Dividend)	10	3,518,211	35,184,111	3,518,211	35,201,811
LIC Liquid Fund-Dividend Option	10	9,526,696	104,587,348	9,526,696	104,587,348
UTI Liquid Cash Plan Institutional (Dividend)	1,000	38,747	39,500,000	38,747	39,500,000
Standard Chartered Fixed Maturity Plan	10	1,300,000	13,000,000	1,300,000	13,000,000

7. Employee Benefit Obligations

Effective 1 April 2006, the Company adopted revised Accounting Standard 15 on Employee Benefits. Pursuant to the adoption, the transitional obligations of the Company amounted to Rs.11,395,593 (net of deferred tax amounting to Rs.1,018,855). As required by the standard, the obligation has been recorded with the transfer of Rs.11,395,593 from general reserve.

The following table set out the status of the gratuity plan as required under the aforesaid standard:

Reconciliation of opening and closing balances of the present value of the defined benefit obligation:

Particulars	**As at 31 March 2007 (Rupees)**
Obligation at period beginning	13,637,209
Current service cost	3,630,890
Interest cost	918,705
Actuarial losses / (gain)	5,348,488
Benefits paid	(2,050,812)
Obligation at period end	21,484,480
Change in plan assets	
Plan Assets at period beginning, at fair value	-
Expected return on plan assets	-
Actuarial gains / (losses)	-
Contributions by employer	2,050,812
Benefits paid	(2,050,812)
Plan assets at period end, at fair value	-

The Scheme does not have any assets as at the valuation date to meet the gratuity liability.

Gratuity cost for the period:	**As at 31 March 2007 (Rupees)**
Current service cost	3,630,890
Interest on defined benefit obligation	918,705
Expected return on plan assets	-
Net actuarial losses / (gains) recognized in the year	5,348,488
Past service cost	-
Total	9,898,083

Assumptions	**As at 31 March 2007**
Discount rate	8% p.a.
Expected rate of return on plan assets	-
Salary escalation rate	5.0% p.a.

a) Discount rate:
The discount rate is based on the prevailing market yields of Indian government securities as at the balance sheet date for the estimated term of the obligations.

b) Salary escalation rate:
The estimates of future salary increases considered takes into account the inflation, seniority, promotion and other relevant factors discount rate.

8. Segment reporting - Basis of preparation

(i) Segment accounting policies
The Segment reporting policy complies with the accounting policies adopted for preparation and presentation of financial statements of the Group and is in conformity with Accounting Standard-17 on "Segment Reporting", issued by the ICAI. The primary segmentation is based on the Geographies in which the Group operates and internal reporting systems. The secondary segmentation is based on the nature and type of services rendered.

(ii) Composition of reportable segments

The Group operates in four main geographical segments: India, Far East, Singapore and Europe.

Income and direct expenses in relation to segments are categorised based on items that are individually identifiable to that segment, while the remainder of the costs are categorised in relation to the associated turnover and/or number of employees. Certain expenses such as depreciation, which form a significant component of total expenses, are not specifically allocable to specific segments as the underlying services are used interchangeably. The Company believes that it is not practicable to provide segment disclosures relating to those costs and expenses, and accordingly these expenses are separately disclosed as "unallocated" and directly charged against total income.

Segment assets and liabilities represent the net assets put up and liabilities of that segment. Most of the fixed assets of the Group are located in India. These have not been identified to any of the reportable segments, as these are used interchangeably between segments. Other items which are not directly attributable to any particular segment and which cannot be reasonably allocated to various segments are consolidated under "Unallocated" head.

a) Information in respect of primary segment

The profit and loss for reportable primary segment is set out below:

For the year ended 31 March 2007

(Amounts in Rupees)

Description	**India**	**Far East**	**Singapore**	**Europe**	**Others**	**Total**
Revenue from external customers	238,069,638	955,237,240	337,198,644	138,747,642	542,620,110	2,211,873,274
Expenses	250,514,629	574,092,427	324,548,981	75,227,174	333,116,370	1,557,499,581
Segment result	(12,444,991)	381,144,813	12,649,663	63,520,468	209,503,740	654,373,693
Unallocated corporate expenditure						137,157,749
Operating profit before taxation						517,215,945
Other income						56,211,717
Profit before tax						573,427,661
Provision for taxation						
- current tax						9,513,304
- fringe benefit tax						6,124,139
- deferred tax charge						3,955,757
- income tax for earlier years						2,298,081
Provision for wealth tax						63,952
Net profit after taxation						**551,472,428**

For the year ended 31 March 2006

(Amounts in Rupees)

Description	**India**	**Far East**	**Singapore**	**Europe**	**Others**	**Total**
Revenue from external customers	147,937,981	637,333,579	298,273,399	160,024,872	236,948,488	1,480,518,319
Expenses	158,655,612	366,212,052	248,152,058	82,940,282	153,711,132	1,009,671,136
Segment result	(10,717,631)	271,121,527	50,121,341	77,084,590	83,237,356	470,847,183
Unallocated corporate expenditure						99,521,327
Operating profit before taxation						371,325,856
Other income						30,666,043
Profit before tax						401,991,899
Provision for taxation						
- current tax						26,920,302
- fringe benefit tax						4,271,465
- deferred tax charge						1,433,780
- income tax for earlier years						(1,521,305)
Provision for wealth tax						51,402
Net profit after taxation						**370,836,255**

Assets and liabilities of reportable primary segment are as follows:

As at 31 March 2007

(Amounts in Rupees)

Description	India	Far East	Singapore	Europe	Others	Total
Segment assets	109,552,983	445,258,137	99,022,175	4,832,689	243,637,911	902,303,895
Unallocated corporate assets						1,435,495,247
Total assets						**2,337,799,142**
Segment liabilities	72,681,680	279,939,561	50,406,052	136,539,178	61,370,906	600,937,377
Unallocated corporate liabilities						77,717,889
Total liabilities						**678,655,266**
Capital employed						**1,659,143,876**

As at 31 March 2006

(Amounts in Rupees)

Description	India	Far East	Singapore	Europe	Others	Total
Segment assets	54,899,648	155,618,080	95,927,589	5,156,586	106,983,571	418,585,474
Unallocated corporate assets						1,185,288,988
Total assets						**1,603,874,462**
Segment liabilities	35,082,802	25,488,915	28,780,966	171,564,037	37,350,693	298,267,413
Unallocated corporate liabilities						149,725,288
Total liabilities						**447,992,701**
Capital employed						**1,155,881,761**

A listing of capital expenditure, depreciation and other non-cash expenditure of the reportable primary segment are set out below:

For the year ended 31 March 2007

(Amounts in Rupees)

Description	India	Far East	Singapore	Europe	Others	Total
Capital expenditure	-	113,501	60,172,340	-	-	60,285,841
Capital expenditure (unallocated)						223,805,214
Total capital expenditure						**284,091,055**
Depreciation expenditure	-	9,560,867	7,225,778	-	-	16,786,645
Depreciation expenditure (unallocated)						51,981,831
Total Depreciation						**68,768,476**
Total depreciation						**-**
Segment non-cash expense other than depreciation	2,518,160	2,270,237	3,027,822	755,930	1,382,795	9,954,944
Total non cash expenditure other than depreciation	**2,518,160**	**2,270,237**	**3,027,822**	**755,930**	**1,382,795**	**9,954,944**

For the year ended 31 March 2006

(Amounts in Rupees)

Description	India	Far East	Singapore	Europe	Others	Total
Capital expenditure	-	116,101	6,789,968	-	-	6,906,069
Capital expenditure (unallocated)						94,483,357
Total capital expenditure						**101,389,426**
Depreciation expenditure	-	4,359,270	3,897,466	-	40,435	8,297,171
Depreciation expenditure (unallocated)						39,292,691
Total Depreciation						**47,589,862**
Segment non-cash expense other than depreciation	798,647	372,501	310,743	52,807	6,874,575	8,409,273
Total non cash expenditure other than depreciation	**798,647**	**372,501**	**310,743**	**52,807**	**6,874,575**	**8,409,273**

b) Information in respect of secondary segment

For the year ended 31 March 2007

(Amounts in Rupees)

Description	Products	Software projects and services	Total
Revenue	1,197,639,995	1,014,233,279	2,211,873,274
Carrying amount of segment assets	414,397,783	318,673,757	733,071,540

For the year ended 31 March 2006

(Amounts in Rupees)

Description	Products	Software projects and services	Total
Revenue	568,314,009	912,204,310	1,480,518,319
Carrying amount of segment assets	129,688,486	181,802,011	311,490,497

As mentioned earlier, most of the fixed assets of the Group located in India have not been identified to any of the reportable segments, as these are used interchangeably between segments. Further, information related to carrying amount of assets by location of assets, to the extent possible, has been provided in primary segmentation.

8. Related party disclosures

a) *List of related parties*

Related parties with whom transactions have taken place during the year:

Key managerial personnel:

- Vishnu R Dusad (Managing Director, parent company) *b) Transactions with related parties*

	Year ended 31 March 2007 (Rupees)	Year ended 31 March 2006 (Rupees)
Managerial remuneration		
Key managerial personnel	20,938,637	15,432,600

9. Legal and professional includes payment to auditors

	Year ended 31 March 2007 (Rupees)	Year ended 31 March 2006 (Rupees)
Audit fees (includes service tax)	3,939,982	3,032,546
Other services	1,472,596	347,130
Out of pocket expenses	223,808	133,530
	5,636,386	**3,513,206**

10. Earnings per share

	Year ended 31 March 2007 (Rupees)	Year ended 31 March 2006 (Rupees)
Profit after taxation available to equity shareholders (Rupees)	551,472,429	370,836,255
Weighted average number of equity shares used in calculating basic earnings per share	16,113,654	16,097,694
Add: Effect of dilutive issue of shares	179,359	39,861
Weighted average number of equity shares used in calculating diluted earnings per share	16,293,013	16,137,555
Basic earnings per share (Rupees)	34.22	23.04
Diluted earnings per share (Rupees)	33.85	22.98

11. Capital commitments and contingent liabilities

a. Estimated amount of contracts remaining to be executed on capital account and not provided for in the books of account (net of advances) Rs.56,614,289 (Rs.12,778,901).

b. Claim against the Group not acknowledged as debt Rs.324,000 (Rs.324,000).

12. During the current year, the Company has acquired office premises under a non-cancellable operating lease. The future minimum lease expense in respect of such leases is as follows:

	As at 31 March 2007 (Rupees)	As at 31 March 2006 (Rupees)
Not later than one year	23,952,347	5,169,420
Later than one year but not later than 5 years	14,400,037	11,200,410
Later than 5 years	-	-
	38,352,384	**16,369,830**

13. The following are the aggregate amounts incurred on certain specific expenses that are required to be disclosed under Schedule VI to the Companies Act, 1956:

	Year ended 31 March 2007 (Rupees)	Year ended 31 March 2006 (Rupees)
Salaries and allowances	917,577,728	543,356,717
Contribution to provident and other funds	42,666,689	22,961,282
Directors' remuneration	26,425,713	18,382,600
Employee's stock compensation expenses	4,885,331	1,972,818
Staff welfare	20,650,154	15,807,351
Training and recruitment	24,660,829	11,521,426
Software and other development charges	7,288,344	10,685,838
Cost of software purchased for delivery to clients	15,113,102	12,766,339
Travelling	182,655,590	158,949,357
Conveyance	15,912,602	8,234,969
Communication	27,120,595	22,239,651
Rent, rates and taxes	34,805,275	27,426,350
Legal and professional	30,340,051	25,773,638
Consultancy charges	97,495,379	81,242,264
Power and fuel	22,925,737	14,976,619
Repair and maintenance		
— Building	373,821	624,284
— Others	7,523,564	5,572,040
Advertisement and business promotion	9,926,608	7,951,624
Conference, exhibition and seminar	9,819,190	2,560,457
IT Expenses	5,371,593	2,986,089
Bad debts/ advances/ other current assets written off	18,552,266	7,944,406
Provision for doubtful debts	5,664,367	(991,223)
Commission to channel partners	23,490,758	2,244,218
Printing and stationery	4,960,071	3,012,749
Loss on discarded assets	-	154,659
Insurance	5,206,626	3,690,019
Bank charges	2,942,801	2,359,486
Marketing survey expenses	-	1,394,695
Loss on foreign exchange fluctuation on consolidation	-	2,347,288
Miscellaneous expenses	14,727,208	11,078,326
Total	**1,579,081,992**	**1,029,226,336**

14. Previous year figures have been regrouped/reclassified wherever necessary to make them comparable with the current year figures.

For and on behalf of the Board of Directors

Lt. Gen T P Singh (Retd.)
Chairman

Vishnu R Dusad
Managing Director

NOIDA (U.P.)
April 30, 2007

P K Sanghi
Chief Financial Officer

Poonam Bhasin
Company Secretary

Statement of Subsidiary in Pursuance of Approval under Section 212 (8) of the Companies Act, 1956

Name of Subsidiary:	Nucleus Software Solutions Pte. Ltd.
Date of Incorporation	February 25, 1994
Business Address	300 Tampines Ave 5, #05-05 Tampines Junction Singapore-529653
Directors	Vishnu R Dusad, Kapil Gupta
Auditors	KPMG

Financial Data

At the End of the Year	*March 31, 2007*		*March 31, 2006*	
	S $	*INR*	*S $*	*INR*
Share Capital	625,000	18,100,000	625,000	17,237,500
Reserves	3,680,710	106,593,362	3,017,791	83,230,676
Total Assets	10,634,174	307,965,679	7,716,108	212,810,259
Total Liabilities	6,328,464	183,272,317	4,073,317	112,342,083
Investments	—	—	—	—
For the Year Ended				
Turnover	26,545,661	768,762,343	27,453,338	757,163,062
Profit Before Taxation	639,530	18,520,789	1,320,008	36,405,821
Provision for Taxation	169,794	4,917,234	324,310	8,944,470
Profit After Taxation	469,736	13,603,555	995,698	27,461,351
Proposed Dividend	—	—	—	—

Note: Above figures in INR have been calculated at 1 S$ = Rs.28.96 and 1 S$ = Rs.27.58 for the years ended March 31, 2007 and March 31, 2006 respectively.

Note:
In terms of approval granted by the Central Government under Section 212(8) of Companies Act 1956, a copy of the Balance Sheet, Profit & Loss Account, Report of the Board of Directors and the Report of the Auditors of the subsidiary companies have not been attached with the Annual Report of the Company. The Company will make available these documents and the related details upon request by any investor of the Company.

Statement under Section 212 (8)

Statement of Subsidiary in Pursuance of Approval under Section 212 (8) of the Companies Act, 1956

Name of Subsidiary:	Nucleus Software Inc. USA
Date of Incorporation	August 5, 1997
Business Address	197 Route 18 South Suit 3000 East Brunswick, NJ 08816-1440 USA
Directors	Vishnu R Dusad
Auditors	Jignesh N. Thakkar

Financial Data

At the End of the Year	*March 31, 2007*		*March 31, 2006*	
	US $	*INR*	*US $*	*INR*
Share Capital	350,000	15,312,500	350,000	15,617,000
Reserves	199,545	8,730,094	(131,256)	(5,856,643)
Total Assets	981,225	42,928,594	791,648	35,323,334
Total Liabilities	830,770	36,346,187	572,904	25,562,976
Investments	—	—	—	—
For the Year Ended				
Turnover	2,319,252	101,467,275	1,570,335	70,068,348
Profit Before Taxation	(63,189)	(2,764,519)	115,509	5,154,012
Provision for Taxation	5,100	223,125	5,093	227,250
Profit After Taxation	(68,289)	(2,987,644)	110,415	4,926,717
Proposed Dividend	—	—	—	—

Note: Above figures in INR have been calculated at 1 US $= Rs.43.75 and 1US $= Rs. 44.62 for the years ended March 31, 2007 and March 31, 2006 respectively.

Note:
In terms of approval granted by the Central Government under Section 212(8) of Companies Act 1956, a copy of the balance Sheet, Profit & Loss Account, Report of the Board of Directors and the Report of the Auditors of the subsidiary companies have not been attached with the Annual Report of the Company. The Company will make available these document and the related details upon request by any investor of the Company.

Statement of Subsidiary in Pursuance of Approval under Section 212 (8) of the Companies Act, 1956

Name of Subsidiary:	Nucleus Software Japan Kabushiki Kaiga
Date of Incorporation	November 2, 2001
Business Address	2F KY Building 3-16-14 Roppongi Minato-ku Tokyo 106-0032
Directors	Vishnu R Dusad, R. P. Singh, P K Sanghi, Parminder Bansil, Niraj Vedwa
Auditors	Jignesh N. Thakkar

Financial Data

At the End of the Year	*March 31, 2007*		*March 31, 2006*	
	JPY $	*INR*	*JPY $*	*INR*
Share Capital	10,000,000	3,719,000	10,000,000	3,793,000
Reserves	20,093,872	7,472,911	6,629,032	2,514,392
Total Assets	979,045,085	364,106,867	276,036,624	104,700,691
Total Liabilities	948,951,213	352,914,956	259,407,592	98,393,300
Investments	—	—	—	—
For the Year Ended				
Turnover	1,144,616,932	425,683,037	1,053,558,389	399,614,697
Profit Before Taxation	18,830,040	7,002,892	9,174,627	3,479,936
Provision for Taxation	5,365,200	1,995,318	4,000,000	1,517,200
Profit After Taxation	13,464,840	5,007,574	5,174,627	1,962,736
Proposed Dividend	—	—	—	—

Note: Above figures in INR have been calculated at 1 JPY= Rs. 0.3719 and 1JPY= Rs.0.3793 for the years ended March 31, 2007 and March 31, 2006 respectively

Note:
In terms of approval granted by the Central Government under Section 212(8) of Companies Act 1956, a copy of the balance Sheet, Profit & Loss Account, Report of the Board of Directors and the Report of the Auditors of the subsidiary companies have not been attached with the Annual Report of the Company. The Company will make available these document and the related details upon request by any investor of the Company.

Statement under Section 212 (8)

Statement of Subsidiary in Pursuance of Approval under Section 212 (8) of the Companies Act, 1956

Name of Subsidiary:	Nucleus Software (Australia) Pty Limited
Date of Incorporation	May 7, 2002
Business Address	Level -57 MLC Centre 19-29, Martin Place New South Wales 2000 Australia
Directors	Vishnu R. Dusad B.Muralidharan
Auditors	Suhrid R. Sheth

Financial Data

At the End of the Year	*March 31, 2007*		*March 31, 2006*	
	AUS $	*INR*	*AUS $*	*INR*
Share Capital	316,000	11,183,240	316,000	10,345,840
Reserves	(300,756)	(10,643,755)	(244,861)	(8,016,749)
Total Assets	19,146	677,577	72,489	2,373,290
Total Liabilities	3,902	138,092	1,350	44,199
Investments	—	—	—	—
For the Year Ended				
Turnover	—	—	—	—
Profit Before Taxation	(55,462)	(1,962,800)	(36,975)	(1,210,562)
Provision for Taxation	432	15,288	—	—
Profit After Taxation	(55,894)	(1,978,089)	(36,975)	(1,210,562)
Proposed Dividend	—	—	—	—

Note: Above figures in INR have been calculated at 1 Aus$= Rs.35.39 and 1 Aus$= Rs.32.74 for the years ended March 31, 2007 and March 31, 2006 respectively

Note:
In terms of approval granted by the Central Government under Section 212(8) of Companies Act 1956, a copy of the balance Sheet, Profit & Loss Account, Report of the Board of Directors and the Report of the Auditors of the subsidiary companies have not been attached with the Annual Report of the Company. The Company will make available these document and the related details upon request by any investor of the Company.

Statement of Subsidiary in Pursuance of Approval under Section 212 (8) of the Companies Act, 1956

Name of Subsidiary:	Nucleus Software (HK) Limited
Date of Incorporation	March 20, 2002
Business Address	Suite-B, 5F Wing Hing Comm. Building 139 Wing Lok Street Sheung Wan Hong Kong
Directors	Vishnu R. Dusad Ravi Pratap Singh
Auditors	NG & Chow

Financial Data

At the End of the Year	*March 31, 2007*		*March 31, 2006*	
	HK $	*INR*	*HK $*	*INR*
Share Capital	100,000	557,000	100,000	570,000
Reserves	(96,501)	(537,511)	(76,501)	(436,056)
Total Assets	13,099	72,961	26,499	151,046
Total Liabilities	9,600	53,472	3,000	17,100
Investments	—	—	—	—
For the Year Ended				
Turnover	—	—	—	—
Profit Before Taxation	(20,000)	(111,400)	(20,000)	(114000.00)
Provision for Taxation	—	—	—	—
Profit After Taxation	(20,000)	(111,400)	(20,000)	(114000.00)
Proposed Dividend	—	—	—	—

Note: Above figures in INR have been calculated at 1 HK $= Rs.5.57 for the year ended March 31, 2007 and 1 HK $ = Rs.5.70 for the year ended March 31, 2006.

Note:
In terms of approval granted by the Central Government under Section 212(8) of Companies Act 1956, a copy of the balance Sheet, Profit & Loss Account, Report of the Board of Directors and the Report of the Auditors of the subsidiary companies have not been attached with the Annual Report of the Company. The Company will make available these document and the related details upon request by any investor of the Company.

Statement under Section 212 (8)

Statement of Subsidiary in Pursuance of Approval under Section 212 (8) of the Companies Act, 1956

Name of Subsidiary:	VirStra I-Technology Services Limited
Date of Incorporation	May 7, 2004
Business Address	6th Floor, Marisoft-I, Marigold Premises Vadagon Sheri Kalyani Nagar Pune-411014
Directors	Vishnu R. Dusad Sanjiv Sarin Ravi Pratap Singh P.K. Sanghi
Auditors	BSR & Co.

Financial Data

At the End of the Year	*March 31, 2007* INR	*March 31, 2006* INR
Share Capital	10,000,000	10,000,000
Reserves	180,448,745	75,542,048
Total Assets	211,464,938	105,222,989
Total Liabilities	21,016,193	19,680,940
Investments	63,326,807	2,667,246
For the Year Ended		
Turnover	237,283,731	182,478,090
Profit Before Taxation	106,685,810	48,994,460
Provision for Taxation	364,665	5,983
Profit After Taxation	106,321,145	48,988,477
Proposed Dividend	—	—

Note:
In terms of approval granted by the Central Government under Section 212(8) of Companies Act 1956, a copy of the balance Sheet, Profit & Loss Account, Report of the Board of Directors and the Report of the Auditors of the subsidiary companies have not been attached with the Annual Report of the Company. The Company will make available these document and the related details upon request by any investor of the Company.

Statement of Subsidiary in Pursuance of Approval under Section 212 (8) of the Companies Act, 1956

Name of Subsidiary:	Nucleus Software Netherlands B.V.
Date of Incorporation	February 2, 2006
Business Address	Amsteldijk 166, 1079 LH Amsterdam The Netherlands
Directors	Vishnu R. Dusad
Auditors	BSR & Co.

Financial Data

At the End of the Year	*March 31, 2007*		*March 31, 2006*	
	EURO	*INR*	*EURO*	*INR*
Share Capital	100,000	5,833,000	100,000	5,405,000
Reserves	(22,367)	(1,304,667)	(16,947)	(915,986)
Total Assets	79,536	4,639,335	95,404	5,156,587
Total Liabilities	1,904	111,060	12,351	667,572
Investments	—	—	—	—
For the Year Ended				
Turnover	—	—	—	—
Profit Before Taxation	(5,420)	(316,149)	(16,947)	(915,986)
Provision for Taxation	—	—	—	—
Profit After Taxation	(5,420)	(316,149)	(16,947)	(915,986)
Proposed Dividend	—	—	—	—

Note: Above figures in INR have been calculated at 1 Euro = Rs. 58.33 for the year ended March 31, 2007 and 1 Euro = Rs.54.05 for the year ended March 31, 2006.

Note:
In terms of approval granted by the Central Government under Section 212(8) of Companies Act 1956, a copy of the balance Sheet, Profit & Loss Account, Report of the Board of Directors and the Report of the Auditors of the subsidiary companies have not been attached with the Annual Report of the Company. The Company will make available these document and the related details upon request by any investor of the Company.

Statement under Section 212 (8)

Statement of Subsidiary in Pursuance of Approval under Section 212 (8) of the Companies Act, 1956

Name of Subsidiary:	VirStra I-Technology (Singapore) Pte Limited (Step down Subsidiary of Nucleus Software Exports Limited)
Date of Incorporation	December 17, 2004
Business Address	300 Tampines Ave 5 #05-05 Tampines Junction Singapore-529653
Directors	Vishnu R. Dusad Kapil Gupta
Auditors	KPMG

Financial Data

At the End of the Year	*March 31, 2007*		*March 31, 2006*	
	S $	*INR*	*S $*	*INR*
Share Capital	200,000	5,792,000	100,000	2,758,000
Reserves	(58,634)	(1,698,041)	(4,441)	(122,483)
Total Assets	1,811,178	52,451,715	96,769	2,668,889
Total Liabilities	1,669,812	48,357,756	1,210	33,372
Investments	—	—	—	—
For the Year Ended				
Turnover	—	—	—	—
Profit Before Taxation	(54,193)	(1,569,429)	(2,241)	(61,807)
Provision for Taxation	—	—	—	—
Profit After Taxation	(54,193)	(1,569,429)	(2,241)	(61,807)
Proposed Dividend	—	—	—	—

Note: Above figures in INR have been calculated at 1 S $= Rs.28.96 and 1 S $= Rs.27.58 for the years ended March 31, 2007 and March 31, 2006 respectively

Note:
In terms of approval granted by the Central Government under Section 212(8) of Companies Act 1956, a copy of the balance Sheet, Profit & Loss Account, Report of the Board of Directors and the Report of the Auditors of the subsidiary companies have not been attached with the Annual Report of the Company. The Company will make available these document and the related details upon request by any investor of the Company.

REPORT ON CORPORATE GOVERNANCE

Report on Corporate Governance

Company's Philosophy on Code of Governance

Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders.

Corporate Governance represents the value framework, the ethical framework and the moral framework under which business decisions are taken. In other words, when investments take place across national borders, investors want to be sure that not only is their capital handled effectively and adds to the creation of wealth, but the business decisions are also taken in a manner which is not illegal or involving moral hazard.

In order to promote and raise the standards of Corporate Governance, the Securities and Exchange Board of India (SEBI) introduced a Code of Corporate Governance for implementation by Listed Companies. The recommendations of SEBI suggested suitable amendments to the Listing Agreement to improve the standards of Corporate Governance in the Listed Companies, and are divided into mandatory and non-mandatory recommendations. The revised Clause 49 of the Listing Agreement has been made effective from January 1, 2006. We confirm that your Company is fully compliant with the statutory provisions of Corporate Governance.

We, at Nucleus, have identified three major Corporate Governance tenets for practicing in the Company:-

1) Continuous commitment of the management to principles of integrity and transparency in business operations
2) Accountability
3) Safeguarding the interests of the stakeholders in the organization.

The Company's Corporate Governance for the management is based on following principles:

- The challenge of implementation is for each Company to find the path and solutions that fit its circumstances;
- The Company must have strong and active internal standards
- Achieving market credibility is key
- Good Corporate Governance is a journey, not a destination and
- Improving governance yields positive returns

Corporate Governance philosophy at Nucleus is to comply with not only the statutory requirements, but also voluntarily formulate and adhere to a set of strong Corporate Governance practices. We believe that sound Corporate Governance is critical to enhance and retain investor trust. The responsibility for putting the recommendations into practice lies directly with the Board of Directors and the Management of the Company. The Company's goal is to find proactive and productive ways of keeping its stakeholders i.e. Investors, Customers and Associates informed, while fulfilling the role of a responsible corporate committed to best practices.

Good Corporate Governance encourages organisations where sustainability of society, economy and environment is ensured. When an organisation performs well everyone associated with the organisation grows. Investors get good dividends and capital appreciation, employees get salary hikes, lenders and suppliers get timely payment, customers get good products at lower prices, society gets improved quality of life and government gets increased taxes which in turn are invested in socio-economic development and security.

A. Board of Directors

1. Composition of the Board of Directors as on March 31, 2007

The Board of the Company consists of six members with over fifty- percent of the Board comprising of Non-Executive Directors. Non-Executive Directors with their diverse knowledge, experience and expertise provide valuable contribution in the deliberations and decisions of the Board.

Name of Director	Position
Lt. Gen. T P Singh (Retd.)	Chairman, Non-Executive Non-Independent Director
Vishnu R Dusad	Managing Director, Promoter
Arun Shekhar Aran	Independent Non-Executive Director
Prithvi Haldea	Independent Non-Executive Director
Suresh Joshi	Independent Non-Executive Director
Sanjiv Sarin	Independent Non-Executive Director

Although, the level of knowledge, integrity and independence necessary to carry out the functions of a Director are difficult to summarize, the essential characteristics of the members of the Board include the attributes of asking hard questions, working well with others, having industry awareness, providing valuable inputs, availability when needed, being alert and inquisitive, making long range planning contribution among others.

By self evaluation of performance, the Board can recognize its achievements and reach consensus on areas needing empowerment. Discussing the results of a self-assessment at a retreat can assist in developing a long-range plan. Process for evaluating performance of Board Members in the Company is given elsewhere in the report.

For selection of Independent Directors, definition of Independence as per Clause 49 is just a starting point for Nucleus. For Nucleus, the quality of the Independent Directors is a far greater criterion. Some of the qualities we look at are:

- Well Educated
- Reputation of Character and Integrity
- Specialist/Experts in Functional Areas
- General Management Exposure and Experience
- Industry Awareness
- Global Awareness
- Entrepreneurial Experience

All our Independent Directors meet some or all of these criteria as is evident from the profile of Directors.

DIRECTORS' PROFILE

Lt. Gen. T. P. Singh (Retd.) - Chairman

Lt. Gen. T. P. Singh joined the Board of Directors of the Company in December 1994 and was unanimously appointed Chairman of the Board in December 1996.

Lt. Gen. T. P. Singh retired from the Army in 1993 after completing 39 years of commissioned service.

In the HRD field, he has handled large number of officers and men including civilians of all grades. He established himself as an expert in formulation of training policies and in their implementation during various tenures as an Instructor including one as Commandant of the School of Artillery, an institute awarding a recognized degree of M Tech.

In the organizational field, he has proven himself by being awarded the Ati Vashist Seva Medal for work involved in framing the future structure of the Indian Artillery. Later he was awarded the Param Vashist Seva Medal for his contribution as a senior member of the Experts Committee set up to recommend structural reorganisation, and management process streamlining for the Indian Army.

The General worked on the Investment Committee of the Army Group Insurance Scheme where investments worth crores were processed. This involved incisive knowledge of industrial environment and long-term trends.

As the Chairman, he has contributed immensely in guiding the Company on the path of success and transforming it into a world-class, next generation organization.

He has played a pivotal role in framing strategic roadmap for Nucleus and analyzing the business opportunities available.

Vishnu R. Dusad - Managing Director

Mr. Vishnu R. Dusad is one of the founders of Nucleus Software Exports Ltd. and has served as a Director since the inception of the Company. Mr. Dusad completed his Bachelors Degree in Technology from the Indian Institute of Technology (IIT), Delhi and has been associated with the development of the software industry in India since 1983 as an entrepreneur. He was appointed Managing Director of the Company in January 1997. Mr. Dusad has enriched Nucleus with his technology background and 21 years of valuable professional experience in the exciting space of Information Technology Solutions for the BFSI sector. He has a deep commitment to making a difference in the lives of fellow Nucleites, and through Nucleus, to the world around. His success in concluding business deals for implementing Nucleus Products globally owes much to a deep sensitivity to cross-cultural nuances. His experience encompasses areas of software development, creation of strategic alliances, business development, and strategic planning.

Mr. Dusad attributes the success of Nucleus to teamwork, entrepreneurial skills and the ability to leverage opportunities in the marketplace.

Arun Shekhar Aran - Director

Mr. Arun Shekhar Aran is a successful first generation entrepreneur with 24 years of experience in IT industry. Having completed B. Tech from IIT, Delhi and MBA from IIM, Ahmedabad he started his career with Asian Paints in 1982.

In 1989, he joined Nucleus Software Group as a partner where he played a key role in leading the team in the development of the first ever credit card system in India for Citibank. Mr. Arun Shekhar Aran joined the Board of Directors of the Company in March 1996.

In 1994, Mr. Shekhar promoted the Mumbai based software Company, Nucsoft Ltd., and is presently the CEO.

Prithvi Haldea - Director

Mr. Prithvi Haldea did his MBA from Birla Institute of Technology & Science, Pilani in 1971. Over the next 18 years, he worked at senior positions in the corporate sector in the areas of exports, consulting and advertising. During the late 70s and early 80s, he was also associated with the information industry and, among various activities, worked as a consultant with The World Bank and the U.S Department of Commerce. In 1989, Mr. Haldea set up PRIME Database. PRIME is the country's first and still the only database on the primary capital market. It has a large subscriber base, and is widely reported by the media.

Mr. Haldea is presently a member, among others, of Primary Market Advisory Committee of SEBI, SEBI Committee on Disclosures & Accounting Standards, Listing Advisory Committee of NSE, Listing Committee of BSE, Index Committee of BSE and Delisting Committee of DSE. He is on the Board of Directors of UTI Asset Management Co. Pvt. Ltd. Mr. Haldea is also the Co-Chairman of the ASSOCHAM's Capital Market Committee and a member of CII's Capital Market Committee. In the past, Mr. Haldea has served as a member of Central Listing Authority, Finance Minister's High Level Expert Committee on Corporate Bonds and Securitisation, Secondary Market Advisory Committee of SEBI and SEBI's Committee for Review of MAPIN. He is a visiting faculty at several institutions, and has presented scores of papers at various conferences in India and abroad.

As an investor protection activist, Mr. Haldea regularly raises issues with regulators and in the media. He has also launched three unique websites: www.watchoutinvestors.com, aggregating information on economic defaulters which now lists over 80,000 cases, www.primedirectors.com, a databank of professionals for listed Companies to select independent Directors, now hosting profiles of over 17,000 professionals and www.directorsdatabase.com, covering names and profiles of Directors of Companies listed at BSE.

Mr. Prithvi Haldea joined the Board of Directors of Nucleus Software Exports Ltd. in June 2001.

Suresh Joshi - Director

Mr. Suresh Joshi, graduate in Science has been associated with Nucleus since early 1989. His association began with developing modules for Credit Card System. He joined the Board of Directors of the Company in December 1994. He has a long career in Information Technology, including stints with IBM in India. He has completed many consulting assignments in India and abroad in-

- Financial Systems design and implementation
- Strengthening systems and procedures
- Software Quality Assurance.

Currently Mr. Suresh Joshi is Chairman of Softenger (India) Pvt. Ltd. Softenger provides services in management of IT infrastructure at several locations in India and abroad.

Sanjiv Sarin - Director

Mr. Sanjiv Sarin is a postgraduate from IIT Delhi with an MBA from XLRI, Jamshedpur. He is currently working as Managing Director of Medison Medical Systems India Pvt. Ltd. Earlier he was posted in Singapore as Regional Manager (Asia), with Medison Co. Ltd, a Korean Multinational. Mr. Sarin joined the Board of Directors of the Company in June 2001.

Mr. Sanjiv Sarin has more than 25 years of experience in various areas of management including marketing, team building, and organization development and managing new projects.

2. Responsibilities of the Chairman and the Managing Director

The Company has a Non-Executive Chairman. The Chairman along with other Directors contributes in defining future growth strategy and monitors the actual performance with the growth plans. The Managing Director is responsible for day-to-day operations of the Company. He is responsible for the corporate strategy and also implementation of the plans for the future growth of the Company. They are assisted by a senior management team, which is responsible for the achievements of annual targets of revenue, profitability, customer satisfaction, quality, productivity, employee retention and other related areas.

The Managing Director has responsibility for all aspects of executive management and is accountable to the Board for the performance of the Company and implementation of the policies laid down by the Board.

With a view to institutionalize all corporate affairs and set up systems and procedures for advance planning for matters requiring discussion/decision by the Board, the Company has defined guidelines for the meetings of the Board. These guidelines seek to systemize the decision making process at the meetings of the Board in an informed and efficient manner.

3. Membership Term

In accordance with the requirements of The Companies Act 1956, at least two-third of Directors shall be subject to retirement by rotation. One third of these retiring Directors shall retire every year and the Company may reappoint them with the approval of the shareholders. The Managing Director is appointed by the shareholders for a maximum period of 5 years at one time and is eligible for re-appointment upon the completion of the term.

Mr. Vishnu R Dusad, Managing Director of the Company was re-appointed as Managing Director w.e.f January 1, 2007 for a period of 5 years. His present term expires on December 31, 2011.

4. Board of Directors Compensation

Compensation of the Managing Director has been approved by the shareholders. Non-Executive Directors are being paid an amount not exceeding one percent of the net profits of the Company, in terms of section 309 (4) of the Companies Act, 1956, as approved by the shareholders at the Annual General Meeting held on July 8, 2005.

Directors other than the Promoter Director are eligible to receive options under the various ESOP schemes launched by the Company from time to time. ESOP compensation expense also forms a part of their compensation and the total remuneration is subject to the ceiling above.

5. The following table gives details of compensation paid /payable to the Directors for the period April 2006 to March 2007.

(Amount in Rs.)

Name	*Position*	*Fixed Salary*	*Commission*	*ESOP Compensation Expense*	*Sitting Fees*	*Total Compensation*
Lt. Gen T P Singh (Retd.)	Chairman, Non-Executive Non-Independent Director	Nil	130,000	786,837	320,000	1,236,837
Vishnu R Dusad	Managing Director, Promoter	3,318,000	16,838,447	Nil	Nil	20,156,447
Arun Shekhar Aran	Independent Non-Executive Director	Nil	130,000	727,455	190,000	1,047,455
Prithvi Haldea	Independent Non-Executive Director	Nil	130,000	659,262	220,000	1,009,262
Suresh Joshi	Independent Non-Executive Director	Nil	130,000	659,262	145,000	934,262
Sanjiv Sarin	Independent Non-Executive Director	Nil	130,000	659,262	440,000	1,229,262
Total		3,318,000	17,488,447	3,492,078	1,315,000	25,613,525

6. Detail of Equity Shares and Stock Options held by Non-Executive Directors as on March 31, 2007

Name	*Position*	*Equity Shares (Nos.)*	*Total Stock Options (Nos.)*
Lt. Gen T P Singh (Retd.)	Chairman, Non-Executive Non-Independent Director	3,000	49,075
Arun Shekhar Aran	Independent Non-Executive Director	83,192	39,275
Prithvi Haldea	Independent Non-Executive Director	Nil	29,450
Suresh Joshi	Independent Non-Executive Director	4,800	24,450
Sanjiv Sarin	Independent Non-Executive Director	4,200	29,450

Name	**ESOP 1999**				**ESOP 2002**				**ESOP 2006**			
	No. of Stock Options	Grant Price (Rs)	Grant Date	Expiry Date	No. of Stock Options	Grant Price (Rs)	Grant Date	Expiry Date	No. of Stock Options	Grant Price (Rs)	Grant Date	Expiry Date
Lt. Gen T P Singh (Retd.)	1,575	24.00	1-5-06	1-5-09	2,500	307.00	1-5-06	1-5-09	45,000	455.00	21-10-06	21-10-09
Arun Shekhar Aran	1,275	24.00	1-5-06	1-5-09	3,000	307.00	1-5-06	1-5-09	35,000	455.00	21-10-06	21-10-09
Prithvi Haldea	950	24.00	1-5-06	1-5-09	3,500	307.00	1-5-06	1-5-09	25,000	455.00	21-10-06	21-10-09
Suresh Joshi	950	24.00	1-5-06	1-5-09	3,500	307.00	1-5-06	1-5-09	20,000	455.00	21-10-06	21-10-09
Sanjiv Sarin	950	24.00	1-5-06	1-5-09	3,500	307.00	1-5-06	1-5-09	25,000	455.00	21-10-06	21-10-09

The options under ESOP 1999 and ESOP 2002 were granted at discount while options under ESOP 2006 were granted at fair market value. The options granted above shall vest over a period of one year from the date of grant.

7. **Memberships of Other Boards**

The number of other Directorships and Chairmanship/Memberships of Committees held by each of the Director is given as under:

Name of Director	*Position*	*Relationship with Other Directors*	*Directorships Held of Other Companies*	*Committee Membership**	*Chairperson in Committees**
Lt. Gen T P Singh (Retd.)	Chairman, Non-Executive Non-Independent Director	None	Nil	1	1
Vishnu R Dusad	Managing Director, Promoter	None	10	1	Nil
Arun Shekhar Aran	Independent Non-Executive Director	None	1	1	1
Prithvi Haldea	Chairman, Non-Executive Non-Independent Director	None	6	1	Nil
Suresh Joshi	Independent Non-Executive Director	None	1	1	Nil
Sanjiv Sarin	Independent Non-Executive Director	None	2	2	Nil

* In accordance with Clause 49 of the Listing Agreement, Membership/Chairmanships of only the Audit Committee and Shareholders/Investors' Grievance Committee of all Public Limited Companies including Nucleus Software Exports Ltd. is considered.

B. Board Meetings

1. Scheduling and selection of agenda items for Board of Directors meetings.
   - A minimum of four Board Meetings are held in each year. These are scheduled in advance for the entire year and are held after the end of each financial quarter. This schedule of the Board Meetings is published in the Annual Report. Additional Board Meetings are convened by giving appropriate notice. For any business exigencies or urgency of matters, resolutions are passed by circulation.
   - Committees of the Board meet whenever required, for transacting business.
   - The meetings of the Board of Directors are usually held at the Company's corporate office at A 39, Sector 62, NOIDA 201307.
   - The Company Secretary drafts the agenda for each meeting, in consultation with the members of the Board of Directors and the senior management of the Company. Every Board member is requested to suggest modifications / changes in the agenda items.

- **Number of Board Meetings Held and Attendance During 2006-07.**

Ten Board Meetings were held during the year 2006-07, as against the minimum requirement of four meetings. The dates on which the meetings were held are; April 26, 2006, May 27, 2006, July 8, 2006, July 23, 2006, August 19, 2006, September 24, 2006, October 19, 2006, January 21, 2007, March 13, 2007 and March 30, 2007. The Board has met at least once in every three months and the maximum time gap between any two meetings was not more than four months.

Name	*No. of Board Meetings held*	*No. of Board Meetings attended*	*Attended last AGM*
Lt. Gen T P Singh (Retd.)	10	10	Yes
Vishnu R Dusad	10	10	Yes
Arun Shekhar Aran	10	8	Yes
Prithvi Haldea	10	9	Yes
Suresh Joshi	10	5	No
Sanjiv Sarin	10	10	Yes

2. Availability of Information to the Board of Directors

(1) There is a process of providing complete information to the Board Members with the agenda for the meeting. During meetings senior management is invited to present the plans and achievements of their respective areas of responsibility. The Board is given presentations covering major business segments and operations of the Company, before taking on record the financial results of the Company.

The information placed before the Board includes:

- Annual operating plans and budgets and any updates.
- Capital budgets and any updates.
- Quarterly results for the Company and its operating divisions or business segments.
- Minutes of meetings of Audit Committee and other Committees of the Board.
- The information on recruitment and remuneration of senior officers just below the Board level
- Materially important show cause, demand, prosecution notices and penalty notices, if any.
- Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems, if any.
- Any materially relevant default in financial obligations to and by the Company or substantial non-payment for goods sold by the Company.
- Any issue that involves possible public or product liability claims of substantial nature, including any judgment or order which, may have passed strictures on the conduct of the Company or taken on adverse view regarding another enterprise that can have negative implications on the Company.
- Transactions that involve substantial payment towards goodwill, brand equity or intellectual property
- Any significant development in human resources/industrial relations front .
- Sale of material nature, of investments and assets, which are not in the normal course of business
- Quarterly details of foreign exchange exposure and the steps taken by the management to limit the risks of adverse exchange rate movement, if material.
- Non-compliance of any regulatory, statutory or listing requirements and shareholders service such as non-payment of dividend, delay in share transfer etc.
- Quarterly details of investments by the Company in liquid mutual funds and bank deposits and returns thereon.

3. Recording Minutes of Proceedings at Board Meetings

The Company Secretary records the minutes of the proceedings of each Board meeting. Draft minutes are circulated to all the members of the Board for their comments. The finalized minutes of proceedings of a meeting are entered in the Minutes Book within 30 days from the conclusion of that meeting.

4. All follow up items are recorded separately and action taken is reported in future meetings.

An "Action Taken Report" is placed for all action points raised in the meetings, in all subsequent meetings.

The above processes have helped the Board to achieve:

- better understanding of what it means to be an effective Board
- clarification of what the members expect from each other and themselves
- improved communications among members and between the Board and the Managing Director
- identification of problems, potential issues, and areas to improve
- opportunity to discuss and solve problems that may hurt Board performance.
- identification of strategies to enhance Board performance
- renewed dedication to the Board
- Board goals and objectives for the coming year

Strengths are celebrated. Areas of improvement are explored to identify the dynamics that contribute to any problems or weaknesses. Strategies to address the issues may include Board retreats or workshops on a specific topic, study sessions and reading in areas where knowledge is needed, and clarification of Board expectations.

C. Audit Committee

The Audit Committee was formed in August 2001, in compliance of Section 292 A of the Companies Act, 1956 and the Listing Agreement with the Stock Exchanges, with qualified members of the Board of Directors of the Company. The Company Secretary acts as the secretary to the committee. The Audit Committee plays a key role in assisting the Board to fulfill its Corporate Governance and oversight responsibilities in relation to a Company's financial reporting, internal control systems, risk management systems and the internal and external audit functions. One of the core principles of an effective Audit Committee is that committee members are independent of the Company.

The Audit Committee has met 7 times during the year 2006-07.

The Audit Committee has adopted the following charter for its efficient functioning:

CHARTER OF AUDIT COMMITTEE

1. Scope of Work

1. Review and recommend to the Directors the Independent Auditors to be selected to audit financial statements of the Company.
2. Provide an open avenue of communication between the Independent Auditors, Internal Auditors and the Board of Directors.
3. Review and update the Committee's charter annually.
4. To meet at least four times per year or more frequently as circumstances require.
5. Review with the Independent Auditors, the Company's Internal Auditor and Financial Personnel:
   a) The adequacy and effectiveness of the accounting and financial controls of the Company.
   b) Related findings and recommendations of the Independent Auditor and Internal Auditor together with management 's responses.
6. Consider and review with management, Internal Auditor and Independent Auditor
   a) Significant findings during the year, including the status of previous audit recommendations.
   b) Any difficulties encountered in the course of audit work including any restrictions on the scope of activities or access to required information and
   c) Any changes required in the planned scope of the internal audit plan.
7. Prepare a letter for inclusion in the Annual Report that describes the Committee's composition and responsibilities, and how they were discharged.
8. The Chairman to be present at AGM to answer shareholders queries.
9. Review legal and regulatory matters that may have a material impact on the financial statements, related Company's compliance policies, and programs and reports received from regulators.
10. Report Committee actions to the Board of Directors with such recommendations, as the Committee may deem appropriate.
11. The Committee shall perform such other functions as assigned by law, the Company's charter or bylaws, or the Board of Directors and shall mandatorily perform following functions as assigned by Clause 49 of the Listing Agreement:
    - Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
    - Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
    - Approval of payment to statutory auditors for any other services rendered by the statutory auditors.

- Reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to:
  a. Matters required to be included in the Directors' Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956
  b. Changes, if any, in accounting policies and practices and reasons for the same
  c. Major accounting entries involving estimates based on the exercise of judgment by management
  d. Significant adjustments made in the financial statements arising out of audit findings
  e. Compliance with listing and other legal requirements relating to financial statements
  f. Disclosure of any related party transactions
  g. Qualifications in the draft audit report.
- Reviewing, with the management, the quarterly financial statements before submission to the Board for approval
- Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
- Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- Discussion with internal auditors any significant findings and follow up there on.
- Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
- Discussion with statutory auditors about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
- To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
- To review the functioning of the Whistle Blower mechanism, in case the same exists.
- Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.
- Management Discussion and Analysis of financial condition and results of operations.
- Statement of significant related party transactions (as defined by the audit committee), submitted by management.
- Management letters of internal control weaknesses issued by the Statutory Auditors.
- Internal audit reports relating to internal control weaknesses.
- The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee.

2. Review of Auditors

The Audit Committee shall:

a) Recommend to the Board of Directors the independent Auditors to be appointed and approve the compensation of the Independent Auditors.

b) Confirm and assure the independence of the Independent Auditors and the objectivity of the Internal Auditor.

c) Require and encourage the Independent Auditors to have open and frank discussions on their judgments about the quality, not just the acceptability of the Company's accounting principles as applied in its financial reporting, including such issues as the clarity of the Company's financial disclosures and degree of aggressiveness or conservatism of the Company's accounting principles.

3. Composition of the Audit Committee

It is mandatory that:

- The Audit Committee shall comprise of three or more Directors, all being Non-Executive Directors, with majority of them being independent.
- Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.
- All members of the Committee shall have a working familiarity with basic finance and accounting practices, and at least one member of the Committee shall have accounting or related financial management expertise.

The composition of Audit Committee as on March 31, 2007 and the details of the meetings are as follows:

Name of the Member	*Position*	*No. of Meetings held*	*No. of Meetings Attended*
Arun Shekhar Aran	Independent Non-Executive Director - Chairman of the Committee	7	7
Prithvi Haldea	Independent Non-Executive Director	7	7
Suresh Joshi	Independent Non-Executive Director	7	7
Sanjiv Sarin	Independent Non-Executive Director	7	6

Audit Committee Report for the Year Ended March 31, 2007

Each member of the Committee is an Independent Director according to Clause 49 of the Listing Agreement

The Audit Committee is independent and empowered by the Board with the authority to investigate any matter relating to the internal control system and to review the scope of Internal Audit. The Internal Auditors of the Company are in the best position to evaluate and report on the adequacy and effectiveness of the internal controls. Keeping in view the need for the Internal Auditors' independence, the Audit Committee has created a formal mechanism to facilitate regular discussions with the Internal Auditors at the end of each quarter. The Committee has recommended the continuance of the Internal Audit function.

The Statutory Auditors are responsible for performing an independent audit of the Company's financial statements in accordance with the Generally Accepted Auditing Standards and for issuing a report thereon. The Committee's responsibility is to review the adequacy of internal audit function The Committee is also responsible to oversee the processes related to financial reporting and information dissemination, in order to ensure that the financial statements are true, correct, sufficient and credible. The Committee also reviews the quarterly, half yearly and the annual financial statements before they are submitted to Board and ensures compliance of internal control systems. In addition, the Committee recommends to the Board the appointment of the Company's Internal and Statutory Auditors.

The Committee has also reviewed that the internal controls are put in place to ensure that the accounts of the Company are properly maintained and that the accounting transactions are in accordance with prevailing laws and regulations. In conducting such reviews, the Committee found no material discrepancy or weakness in the internal control systems of the Company.

The Committee also reviewed the financial and risk management framework in accordance with revised Clause 49 of the Listing agreement. The Committee has regularly discussed with the Auditors the accounting policy and principles followed by the Company. Relying on the review and discussions conducted with the management and the Independent Auditors, the Audit Committee believes that the Company is following prudent and conservative accounting practices and financial statements are fairly presented in conformity with Generally Accepted Accounting Principles in all material aspects.

Moreover, the Committee considered whether any non-audit services provided by the auditors firm could impair the auditors' independence, and concluded that there were no such services provided. The Committee has recommended to the Board the appointment of BSR & Co., Chartered Accountants, as the Statutory Auditors of the Company for the financial year ending March 31, 2008 and that the necessary resolutions for appointing them as Auditors be placed before the shareholders.

Sd/-
Arun Shekhar Aran

D. Remuneration Committee

The Remuneration Committee recommends the remuneration payable to Directors based on their contribution to the growth and development of the Company.

The composition of Remuneration Committee as on March 31, 2007 and the details of the meetings are as follows:

Name of the Member	*Position*	*No. of Meetings held*	*No. of Meetings Attended*
Lt. Gen. T. P. Singh (Retd.)	Chairman, Non-Executive Non-Independent Director-Chairman of the Committee	2	2
Suresh Joshi	Independent Non-Executive Director	2	Nil
Sanjiv Sarin	Independent Non-Executive Director	2	2

The Remuneration Committee comprises of three Directors, all of whom are Non-Executive Directors. The Chairman of the Committee Lt. Gen. T. P. Singh (Retd.) was present at the last Annual General Meeting held on July 8, 2006.

The remuneration structure of the Managing Director comprises of salary, commission, perquisites and allowances, contribution to provident fund and gratuity.

Non-Executive Directors are being paid an amount not exceeding one percent of the net profits of the Company, in terms of section 309 (4) of the Companies Act, 1956, as approved by the shareholders at the Annual General Meeting held on July 8, 2005.

The Remuneration Committee at its meeting held on April 26, 2006, had recommended the remuneration payable to Mr. Vishnu R Dusad in accordance with his proposed re-appointment as Managing Director of the Company for a further period of 5 years with effect from January 1, 2007. The same was approved by the shareholders at the Annual General Meeting held on July 8, 2006.

Details of remuneration paid/payable to all Directors have already been provided under "Composition of Directors" detailed in this report.

E. Shareholders/Investor Grievance Committee

The Shareholders/Investor Grievance Committee is empowered to consider and approve the transfer, transmission, transposition, issue of duplicate certificates etc. of the Company and to redress shareholders complaints like transfer of shares, non-receipt of balance sheet, non-receipt of dividend warrants, etc. The status on complaints and share transfers is reported to the Board.

The composition of Shareholders/Investor Grievance Committee as on March 31, 2007 and the details of the meetings are as follows:

Name of the Member	*Position*	*No. of Meetings held*	*No. of Meetings Attended*
Lt. Gen. T. P. Singh (Retd.)	Chairman, Non-Executive Non-Independent Director-Chairman of the Committee	9	5
Vishnu R Dusad	Managing Director and Promoter	9	9
Sanjiv Sarin	Independent Non-Executive Director	9	4

Note: Ms. Poonam Bhasin, Company Secretary is the Compliance Officer.

The Company's Registrar and Share Transfer Agent are M/s. Karvy Computer Share Private Limited, Plot No. 17-24, Vithal Rao Nagar, Madhapur, Hyderabad 500081.

Details of investor complaints resolved during the year 2006-07 are as follows:

Nature of complaints received	*No. of complaints received during the year*	*No. of complaints resolved during the year*	*No. of complaints pending at the end of the year*
Revalidation of Dividend Warrants	27	27	0
Issue of Duplicate Share Certificates	3	3	0
Request for Stop Transfer	1	1	0
Non Receipt of Share Certificate	8	8	0
Demat Queries	0	0	0

F. Corporate Governance Committee

The Company has formed a Corporate Governance Committee to continuously implement and promote the highest standards of Corporate Governance.

The composition of Corporate Governance Committee as on March 31, 2007 and the details of the meetings are as follows:

Name of the Member	*Position*	*No. of Meetings held*	*No. of Meetings Attended*
Lt. Gen. T. P. Singh (Retd.)	Chairman, Non-Executive Non-Independent Director- Chairman of the Committee	1	1
Vishnu R Dusad	Managing Director and Promoter	1	1
Sanjiv Sarin	Independent Non-Executive Director	1	1

The Committee continuously reviews the Corporate Governance initiatives of the Company and advises on following the best practices in the Company.

The Corporate Governance Committee in accordance with Clause 49 of Listing Agreement recommended a Code of Conduct for all Board members and senior management of the Company, which was subsequently approved by Board Members. The Code of Conduct is also posted on the website of the Company. All Board members and senior management personnel have affirmed compliance with the code for the year. The Annual Report contains a declaration to this effect signed by the Managing Director.

G. Compensation Committee

The remuneration policy of the Company is to pay compensation and benefits along with the stock options to motivate and retain the employees of the Company. The Compensation Committee is responsible for administering the stock option plans, including review and grant of options to eligible employees under the plans.

The composition of Compensation Committee as on March 31, 2007 and the details of the meetings are as follows:

Name of the Member	*Position*	*No. of Meetings held*	*No. of Meetings Attended*
Lt. Gen. T. P. Singh (Retd.)	Chairman, Non-Executive Non-Independent Director- Chairman of the Committee	12	5
Vishnu R Dusad	Managing Director and Promoter	12	12
Arun Shekhar Aran	Independent Non-Executive Director	12	Nil
Suresh Joshi	Independent Non-Executive Director	12	Nil
Sanjiv Sarin	Independent Non-Executive Director	12	9

H. General Body Meetings

Particular of Annual General Meetings (AGM) held during the three previous years

Meeting Date Time Venue		**15th AGM July 8, 2004 10.00 a.m FICCI Auditorium New Delhi**		**16th AGM July 8, 2005 10.00 a.m FICCI Auditorium New Delhi**		**17th AGM July 8, 2006 10.00 a.m FICCI Auditorium New Delhi**
S.No	**Type**	**Resolution passed**	**Type**	**Resolution passed**	**Type**	**Resolution passed**
1.	O	Adoption of Annual Accounts for the year ended (31/03/2004)	O	Adoption of Annual Accounts for the year ended (31/03/2005)	O	Adoption of Annual Accounts for the year ended (31/03/2006)
2.	O	Reappointment of Mr. Suresh Joshi and Mr. Prithvi Haldea as Directors	O	Reappointment of Mr. Arun Shekhar Aran as Director	O	Reappointment of Lt. Gen T P Singh (Retd.) and Mr. Sanjiv Sarin as Directors
3.	O	Appointment of M/s Bharat S Raut & Co. as the Statutory Auditors.	O	Appointment of M/s Bharat S Raut & Co. as the Statutory Auditors.	O	Appointment of M/s BSR & Co. as the Statutory Auditors.
4.	O	Declaration of Dividend	O	Declaration of Dividend	O	Declaration of Dividend
5.	S	Amendments in ESOP (1999) and ESOP (2002)	S	Payment of 1% commission to Non-Executive Directors of the Company.	S	Reappointment of Mr. Vishnu R Dusad a Managing Director of the Company with effect from January 1, 2007
6.	S	Issue of Bonus Shares in the ratio of 1:1 by capitalization of General Reserve and Share Premium account	S	Approval of ESOP Scheme 2005 to offer and allot 600,000 equity shares.	S	Approval of ESOP Scheme 2006 to offer and allot 1,000,000 equity shares.
7.			S	Grant options to any identified employee of the subsidiaries under ESOP Scheme 2005.	S	Grant options to any identified employee of the subsidiaries under ESOP Scheme 2006.
8			S	Approval u/s. 163 to keep register of members, returns etc at the office of RCMC Share Registry Pvt. Ltd.	S	Approval u/s. 163 to keep register of members, returns etc at the office of Karvy Computershare Pvt. Ltd.
9					S	Modification in ESOP 2002

Type: O=Ordinary Resolution S=Special Resolution

During the year ended March 31, 2007, no ordinary or special resolutions were passed through a postal ballot.

H. Disclosures

— Disclosures on materially significant related party transactions i.e. transactions of the Company of material nature, with its promoters, the Directors or the management, their Subsidiaries or relatives etc. that may have potential conflict with the interests of Company at large.

Details of transactions with the relatives of any Director:

Name	*Designation*	*Relationship*	*Gross Remuneration Paid for the Year Ended March 31, 2007*
R P Singh	President	Son of Chairman	Rs.8,955,004

Remuneration paid to Directors is disclosed earlier in this Report.

Transactions with Related parties have been disclosed under note 10 of schedule 16, which forms part of the financial statements.

The above transactions do not have any potential conflict with the interests of the Company at large.

— Details of non-compliance by the Company, penalties, strictures imposed on the Company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the year.

NIL

I. Means of Communication

The Company forwards audited quarterly results in the form of a Quarterly Report to the shareholders since December 1999. These reports contain audited financials of the parent Company along with the Auditors Report thereon, Unaudited consolidated financials of the Company and subsidiaries and a detailed analysis of results under "Managements' Discussion and Analysis".

Quarterly results are published in "The Economic Times" and "Navbharat Times" and/or "Business Standard". The results are also displayed on the Company's website-"www.nucleussoftware.com" immediately after adoption of the same by the Board of Directors. The important events as well as official news releases of the Company are also updated on the Company's website regularly.

Earnings conference calls are conducted on the day of announcement of quarterly/annual results wherein the management updates investor community on the progress made by the Company and answers their queries. The Audio as well as the transcript of the call is put up on the website www.nucleussoftware.com, soon after the call for investors' information.

The Company has also posted information relating to its financial results on Electronic Data Information Filing and Retrieval System (EDIFAR) at www.edifar.com as required by "The Bombay Stock Exchange Ltd."

J. Investor Education

Investors are provided with timely information on all Company related matters including recruitment/appointment and remuneration of Executive Directors, share transfers, advantages of dematerlisation etc.

In the Annual Report a chapter named "Shareholders' Referencer" and in the Quarterly Report a chapter named "Additional information to Shareholders" is included which answers substantially all the expected queries of investors about the Company, its history, its promoters, the public issue, employees, share transfers, dematerliasation etc. All such material information is also available on the website.

It is our constant endeavor to offer better and prompt services to our shareholders and in an effort to achieve this objective, a Shareholder Satisfaction Survey was conducted to assess the level of satisfaction among Nucleus shareholders and identify areas of strengths and weakness of Nucleus perceived by the shareholders.

K. Details of non-compliance

There has been no non-compliance of any legal requirements nor have there been any strictures imposed by any stock exchange, SEBI, on any matter relating to the capital market for the last year.

L. Indian Non-Listed Subsidiary Company

a) Mr. Sanjiv Sarin, Independent Director on the Board of Directors of the Company is also a Director on the Board of Directors of VirStra I-Technology Services Ltd.- non-listed Indian subsidiary Company.

b) The Audit Committee of the Company reviews the financial statements, in particular, the investments made by the above named unlisted subsidiary Company.

c) The minutes of the Board meetings of the above named unlisted subsidiary Company are placed at the Board meeting of the Company.

M. General Shareholder Information

● Date of incorporation	9th January, 1989
● Registered Office	33-35, Thyagraj Nagar Market New Delhi-110003 India
● Corporate Office	A-39, Sector 62 NOIDA-201307 India
● Date and time of Annual General Meeting	July 6, 2007 at 3.00 p.m
● Venue of Annual General Meeting	FICCI Auditorium, Federation House New Delhi-110001 India
● Financial Calendar (tentative and subject to change)	
Financial reporting for the first quarter ending June 30, 2007.	between 20th to 31st of July 2007
Financial reporting for the second quarter ending September 30, 2007.	between 20th to 31st of October 2007
Financial reporting for the third quarter ending December 31, 2007.	between 20thto 31st of January 2008
Financial results for the year ending March 31, 2008.	between 21st to 30th of April 2008
● Annual General Meeting for the year ending March 31, 2007.	July 6, 2007
Date of Book Closure for AGM	June 30, 2007 to July 6, 2007 (both days inclusive)
Annual General Meeting for the year ending March 31, 2008.	July 2008.
● Record Date for Interim Dividend Payment	March 22, 2007
● Listing on Stock Exchanges	Nucleus shares are listed at The National Stock Exchange of India Ltd. w.e.f. December 19, 2002 Bombay Stock Exchange Ltd. w.e.f November 6, 1995 The Madras Stock Exchange Limited w.e.f November 2, 1995

The annual fees for 2006-2007 have been paid to all the Stock Exchanges where the shares of the Company are listed.

- Scrip code (BSE) 531209
  (NSE) NUCLEUS
- International Securities Identification Number (ISIN code-NSDL and CDSL) INE096B01018
- Market Price data on NSE & BSE for the financial year 2006-07

	BSE			*NSE*		
Month	*High (Rs.)*	*Low (Rs.)*	*Total Volume*	*High (Rs.)*	*Low (Rs.)*	*Total Volume*
April-06	439.95	345.00	296,100	437.50	346.00	661,013
May-06	430.00	304.10	147,420	430.00	293.10	369,598
June-06	326.50	245.00	183,705	330.00	330.00	343,122
July-06	388.00	295.05	98,220	383.00	295.00	212,187
August-06	414.00	340.00	128,121	411.00	351.10	315,240
September-06	467.00	379.95	190,635	468.00	324.70	363,072
October-06	499.00	421.20	136,145	499.00	435.15	277,664
November-06	575.50	470.00	350,731	576.00	470.00	716,930
December-06	748.80	496.05	529,462	749.00	490.00	1120,152
January-07	924.90	642.00	1096,573	925.00	655.00	2560,264
February-07	1198.75	860.00	684,103	1200.95	861.00	1,732,527
March-07	1078.00	870.00	231,674	1070.00	875.00	439,357
Total Shares traded during the year			4,072,889			91,112,126

- Registrars of Company

  Karvy Computer Share Private Limited
  Plot No. 17-24, Vithal Rao Nagar,
  Madhapur, Hyderabad 500081.
  Tel: 040-23420815-28
  Fax: 040- 23420814/23420857
  Email: mailmanager@karvy.com

- The equity shares of the Company are traded in "Group B-1" category at the Stock Exchange, Mumbai.
- The equity shares of the Company is a constituent of the Mid Cap Index at BSE.

Share Transfer System

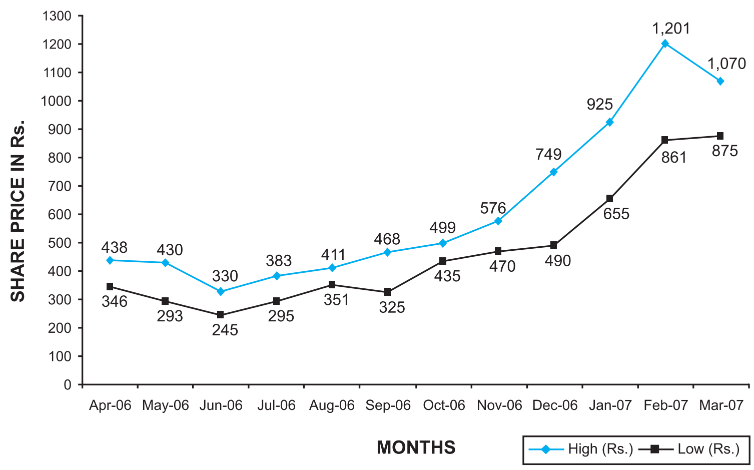
The Company's shares are currently traded in dematerialised form; transfers are processed and approved in the electronic form by NSDL/CDSL through their Depository Participants.

The Shareholders/Investor Grievance Committee is authorised to approve transfer of shares, which are received in physical form, and the said Committee approves transfer of shares on a fortnightly basis.

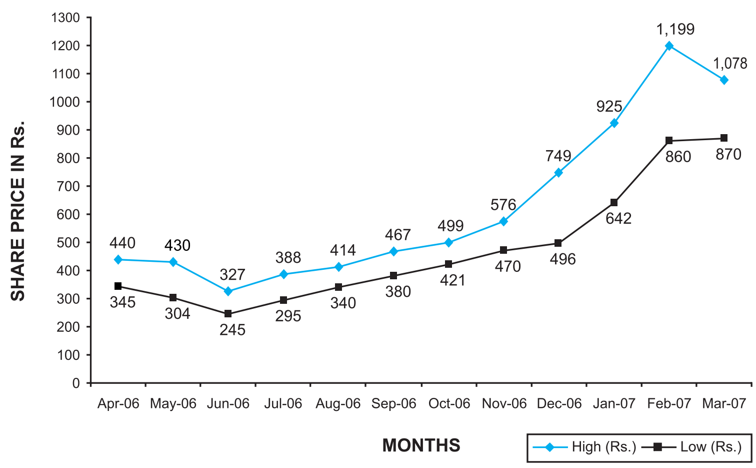
All requests for dematerialisation of shares are processed and confirmation is given to the respective Depositories i.e. National Securities Depository Ltd. (NSDL) and Central Depository Services Ltd. (CDSL) within 15 days.

The Company has De-materialised 15,101,291 shares (93.45% of the paid up share capital) as at March 31, 2007.

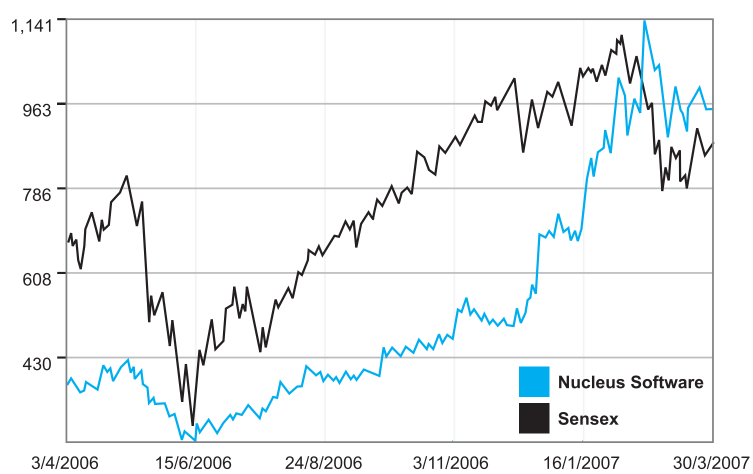
The Company obtains from a Company Secretary in practice half -yearly certificate of compliance with the share transfer formalities as required under Clause 47 (c) of the Listing Agreement and files a copy of the certificate with the Stock Exchanges.



Nucleus Share Price - High, Low On NSE



Nucleus Share Price - High, Low On BSE



Performance of Nucleus Shares at BSE vis-a-vis BSE Sensex

Shareholding Pattern of the Company as on 31 March 2007

Category Code	Category of Shareholders	Number of Shareholders	Total number of Shares	Total Shareholding as a Percentage of total number of Shares
(A)	**Shareholding of Promoter and Promotor Group**			
(I)	**Indian**			
(a)	Individuals/Hindu Undivided Family	8	3,661,769	22.66
(b)	Central Government/State Government(s)	-	-	-
(c)	Bodies Corporate	4	5,998,941	37.12
(d)	Financial Institutions/Banks	-	-	-
(e)	Any Other - Persons Acting in Concert	-	-	-
	Sub-Total (A) (I)	**12**	**9,660,710**	**59.78**
(II)	**Foreign**			
(a)	Individual (Non-Resident individuals/Foreign Individuals)	-	-	-
(b)	Bodies Corporate	-	-	-
(c)	Institutions	-	-	-
(d)	Any Other (specify)	-	-	-
	Sub-Total (A) (II)	**-**	**-**	**-**
Total sharing of Promoter and Promoter Group (A) = (A) (I) + (A) (II)		**12**	**9,660,710**	**59.78**
(B)	**Public Shareholding**			
(I)	**Institutions**			
(a)	Mutual Funds (UTI)	13	1,308,436	8.10
(b)	Financial Institutions / Banks	-	-	-
(c)	Central Government/State Government(s)	-	-	-
(d)	Venture Capital Funds	-	-	-
(e)	Insurance Companies	-	-	-
(f)	Foreign Institutional Investors	10	805,067	4.98
(g)	Foreign Venture Capital Investors	-	-	-
(h)	Any Other	-	-	-
	Sub Total (B) (I)	**23**	**2,113,503**	**13.08**
(II)	**Non-Institutions**			
(a)	**Bodies Corporate**	**410**	**1,084,623**	**6.71**
(b)	**Individuals**			
	1. Individual shareholders holding nominal share capital upto Rs.1 Lakh	7,242	1,840,695	11.39
	2. Individual shareholders holding nominal share capital in excess of Rs.1 Lakh	38	1,199,112	7.42
(c)	**Any Other-**			
	(i) Non resident Indians	182	254,376	1.57
	(ii) Trusts	2	145	-
	(iii) Foreign Nationals	-	-	-
	(iv) Cleaning Members	45	7,148	0.04
	Sub - Total (B) (II)	**7,915**	**4,386,099**	**27.14**
Total Public Shareholding (B) = (B) (I) + (B) (II)		**7,942**	**6,499,602**	**40.22**
TOTAL (A) + (B)		**7,954**	**16,160,312**	**100.00**
(C) Shares held by Custodians and against which Depository Receipts have been issued (C)				
GRAND TOTAL (A+B+C)		**7,954**	**16,160,312**	**100.00**

- Distribution of Shareholding as on March 31,2007

No. of equity shares held	As on March 31, 2007				As on March 31, 2006			
	No. of Share-holders	% of Share-holders	No. of Shares	% of Share holding	No. of Share-holders	% of Share-holders	No. of Shares	% of Share holding
1-100	5,093	64.03	185,208	1.15	4,136	54.94	204,501	1.27
101-200	886	11.14	154,068	0.95	1,055	14.01	189,202	1.17
201-500	1,069	13.44	367,548	2.27	1,289	17.12	448,857	2.79
501-1000	386	4.85	298,601	1.85	502	6.67	387,462	2.41
1001-5000	379	4.76	862,685	5.34	416	5.53	938,602	5.83
5001-10000	58	0.74	421,428	2.61	53	0.71	385,362	2.39
10001 and above	83	1.04	13,870,774	85.83	77	1.02	13,550,826	84.14
Total	**7,954**	**100.00**	**16,160,312**	**100.00**	**7,528**	**100.00**	**16,090,812**	**100.00**

The Company has not issued any GDRs/ADRs. The Company has granted options to employees under ESOP (1999), ESOP (2002), ESOP (2005) and ESOP (2006). The options if exercised at the end of the vesting period shall be converted into equity shares.

- **Locations**

Nucleus services its clients through a network of international offices. At the year-end Nucleus had wholly owned subsidiaries in Singapore, U.S.A, Japan, Hong Kong, Australia, India, Netherlands and branch offices in London and Sharjah.

Nucleus operates state-of-the-art Software Development Centers at NOIDA (U.P) and Chennai under the Software Technology Park scheme of the Government of India.

A Subsidiary, VirStra-I Technology Services Limited operates a Development Centre at Pune under the Software Technology Park scheme of the Government of India.

INDIA

Nucleus Software Exports Ltd.
Registered Office
33-35, Thyagraj Nagar Mkt.
New Delhi-110003
India

Corporate Office
A-39 Sector 62
NOIDA-201307
India

Branch Offices:
Wellington Business Park
405-408,4th Floor
Near S.M Centre
Marol Naka
Andheri Kurla Road
Andheri (East)
Mumbai-400059

SUBSIDIARIES

Nucleus Software Solutions Pte. Ltd.
300, Tampines Avenue-5
#05-05, Tampines Junction
Singapore-529653

Nucleus Software Japan K.K
2F KY Building, 3-16-14 Roppongi
Minato-ku
Tokyo 106-0032
Japan

Nucleus Software Inc.
197 Route 18 South
Suite 3000
East Brunswick,
NJ 08816-1440
USA

No. 40, 2nd Main Road
Ambattur Industrial Estate,
Chennai-600058
India

Nucleus Software Exports Ltd.
29th Floor
1 Canada Square
Canary Wharf
London
E14 5DY, UK

Nucleus Software Exports Ltd.
Executive Suite
P.O Box 120783
Sharjah,
U.A.E

Nucleus Software (Australia) Pty. Ltd.
Level-57
MLC Center
19-29, Martin Place
New South Wales 2000,
Australia

Nucleus Software (HK) Ltd.
Suite B, 5/F, Wing HingComm
Building, 139 Wing Lok Street
Sheung Wan,
Hong Kong

Nucleus Software Netherlands B.V.
Amsteldijk 166
1079 LH Amsterdams
Netherlands

VirStra-I Technology Services Limited
Marisoft 1, 6th Floor
Marigold Premises
Vadgaonsheri
Pune-411014

STEP-DOWN SUBSIDIARY

VirStra I Technology (Singapore) Pte Ltd
300, Tampines Avenue-5
#05-05, Tampines Junction
Singapore-529653

- **Investor Correspondence may be addressed to:**

  The Company Secretary
  Nucleus Software Exports Ltd.
  33-35, Thyagraj Nagar Market
  New Delhi-110003.
  India
  Tel: ++91-(120)-2404050 Fax: ++91-(120)-2403972
  Email: investorrelations@nucleussoftware.com

- **Other General Shareholder Information**

The other mandatory as also various additional information of interest to investors is voluntarily furnished in a separate section "Shareholders' Referencer" elsewhere in this Report.

Compliance with Non-Mandatory Requirements of Clause 49 of the Listing Agreement

Clause 49 of the Listing Agreement mandates us to obtain a certificate from either the auditors or practicing company secretaries regarding compliance of conditions of Corporate Governance as stipulated in the Clause and annex the certificate with the Directors' report, which is sent annually to all our shareholders. We have obtained a certificate to this effect and the same is given as an annexure to the Directors' report.

The Clause further states that the non-mandatory requirements may be implemented as per our discretion. We comply with the following non-mandatory requirements:

A. Remuneration Committee

We have instituted a Remuneration Committee, which recommends the remuneration payable to Directors based on their contribution to the growth and development of the Company. A detailed note on it has been provided under 'Remuneration Committee' in the report.

B. Shareholder Rights

The Clause states that a half-yearly declaration of financial performance including summary of the significant events in the last six months, may be sent to each household of shareholders.

We communicate with investors regularly through e-mail, telephone and face-to-face meetings in investor conferences or company visits. We also leverage Internet in communicating with our investor base.

The announcement of Quarterly/Annual results is followed by earnings conference calls and press conferences. Transcripts of the earnings calls are posted on our website www.nucleussoftware.com

Highlights of the results are also available on the Company website with a comparison with previous period.

C. Training of Board Members

The Management gives various presentations to Directors giving an overview of latest happenings in the corporate world. They are apprised of their role, responsibilities and liabilities.

The Directors have attended training programmes conducted by reputed institutions:

- Corporate Governance Orientation Programme for Company Directors conducted by Centre for Corporate Governance and Citizenship, Indian Institute of Management, Bangalore.

  The programme provided an appreciation of what makes effective Board members, their roles and responsibilities, especially in the context of the regulatory environment, stakeholder objectives as well as social responsibilities.

- Program on "Corporate Governance and Ethical Decision Making" conducted by Dun & Bradstreet.

  The seminar helped in a better understanding of not only the legal/regulatory requirements, but also several operational and ethical issues, with live examples, critical especially for Independent Directors.

- Training programme on "Governing the corporation: Global Perspectives in the Indian context", conducted by Wharton School, University of Pennsylvania And Egon Zehnder International.

  The program was designed to bring home dynamics of an effective board, roles and responsibilities of the members within the regulatory framework.

Mechanism for Evaluating Non-Executive Board Members

With clear guidelines on the expectation of duties, and effective redressal processes, Directors of our Company maintain a high level of accountability. In addition, there is also sufficient disclosure and transparency in the Company operations to enable shareholders to monitor the performance of the Directors and Management.

The Non-Executive Directors regularly hold executive sessions during each Board meeting without the Managing Director. These sessions allow Non-Executive/Independent Directors to discuss the effectiveness of Management, the quality of Board meetings and other issues or concerns. Open communication further ensures effectiveness and accessibility to every Board member. Boards' willingness to engage in self-assessment is a model for the rest. It indicates that Board members take their responsibilities very seriously. Their interest in self-improvement sets a tone for others in the Company to engage in ongoing review of their tasks.

Besides these the Company is developing a peer-evaluation process for assessment of the performance of Non-Executive /Independent Directors.

Whistle-Blower Policy

Nucleus is committed to conduct its business in accordance with the applicable laws, rules and regulations, and with highest standards of business ethics. Nucleus does not tolerate any malpractice, impropriety, abuse or wrongdoing. The Company wishes that Nucleites too participate in this process and has instituted a Whistler Blower Policy, a mechanism for employees to report concerns about unethical behavior, actual or suspected fraud, or violation of our code of conduct or ethics policy. The Whistle Blower Policy provides the opportunity to every Nucleite to raise his or her concern, by name or on an anonymous basis on alleged breaches of internal or external regulations or other irregularities. We further affirm that during the financial year 2006-07, no employee has been denied access to the Audit Committee.

SHAREHOLDERS' REFERENCER

Shareholders' Referencer

1. Historical Perspective

— Nucleus was incorporated on January 9, 1989 in the state of Delhi, India.

— The Company's Registered Office is situated at 33-35, Thyagraj Nagar Market, New Delhi-110003, India and Corporate office at A-39, Sector 62, NOIDA, UP-201307, India.

— The Company made an IPO in August 1995. 1,168,900 equity shares, face value Rs.10/-each, were issued to Indian public at a premium of Rs.40/- per share and 532,500 equity shares, face value Rs.10/-each, were issued to Non Resident Indians at a premium of Rs.50/- per share.

— History of Bonus issues at Nucleus is as under:

Allotment Date	*Ratio*	*No. of Shares*
September 24, 1994	60:1	876,000
December 27, 1994	57:100	576,270
October 22, 2001	1:2	2,637,050
August 10, 2004	1:1	8,045,406

The Board of Directors at their meeting held on April 30, 2007 have recommended issue of Bonus Shares in the ratio of 1:1, i.e. one equity share for every one equity share held.

The Bonus issue is subject to approval of the Members at the Annual General Meeting.

— Preferential Issue - The Company had allotted 1,875,500 equity shares of Rs.10/- each on preferential basis to the promoter/associates and permanent employees of the Company at a price of Rs.103.15/- per share inclusive of share premium on June 22, 2001.

2. Share Related Data

— The Shares of Nucleus are listed at The National Stock Exchange of India Limited, The Bombay Stock Exchange Limited and Madras Stock Exchange Limited.

— Scrip Code of Nucleus on NSE is NUCLEUS and on BSE is 531209. The Company's share is a constituent of the Mid Cap Index at BSE. The Company's shares are traded in "Group B-1" category at the Bombay Stock Exchange Ltd.

— International Securities Identification Number (ISIN code-NSDL and CDSL) is INE096B01018.

— Face value of the Company's equity shares is Rs.10.

— Shares of the Company are compulsorily traded in demat form.

— 93.45 % of the Company's equity shares are in demat form.

— The Company had 7,954 shareholders as on March 31, 2007.

— The Company has not issued any GDRs/ADRs. The Company has granted options to employees under ESOP (1999), ESOP (2002), ESOP (2005) and ESOP (2006) scheme. The options if exercised at the end of the vesting period shall be converted into equity shares. The number of options due for vesting under various plans as on March 31, 2007 are:

ESOP (1999)	-	5,700
ESOP (2002)	-	159,750
ESOP (2005)	-	1,42,000
ESOP (2006)	-	271,860

— The Company's Registrar and Share Transfer Agent is M/s. Karvy Computer Share Private Limited, Plot No. 17-24, Vithal Rao Nagar, Madhapur, Hyderabad 500081.

— Interim Dividend @ 35% (Rs.3.50 per share) was declared and paid in March 2007. This constitutes the entire Dividend for the year 2006-07. The dividend declared and paid in the previous financial years is given below:

Financial Year	*Dividend (%)*	*Dividend Per Share in Rs.*	*Dividend Pay Out in Rs. Crore*
2005-06	35%	3.50	5.64
2004-05	25%	2.50	4.02*
2003-04	25%	2.50	2.01
2002-03	20%	2.00	1.58
2001-02	20%	2.00	1.58
2000-01	20%	2.00	0.68

The Board had not recommended any dividend prior to financial year 2000-2001.

* The dividend payout in 2004-05 was on the enhanced capital consequent to 1:1 Bonus issue made during the year.

3. Stock Market Data

i. Bombay Stock Exchange Ltd.

Monthly open, close, high and low quotations and volume of the Company's shares traded at Bombay Stock Exchange Ltd. during the year 2006-2007:

BSE					
Month	*Open (Rs.)*	*High (Rs.)*	*Low (Rs.)*	*Close (Rs.)*	*Total Shares Traded*
April-06	365.00	439.95	345.00	407.80	296,100
May-06	405.00	430.00	304.10	317.30	147,420
June-06	321.50	326.50	245.00	303.75	183,705
July-06	300.00	388.00	295.05	379.05	98,220
August-06	395.00	414.00	340.00	379.80	128,121
September-06	380.00	467.00	379.95	449.90	190,635
October-06	441.10	499.00	421.20	467.85	136,145
November-06	470.00	575.50	470.00	503.70	350,731
December-06	505.00	748.80	496.05	684.20	529,462
January-07	650.05	924.90	642.00	907.75	1,096,573
February-07	914.00	1,198.75	860.00	1,029.20	684,103
March-07	977.75	1,078.00	870.00	955.95	231,674
Total Shares traded during the year					**4,072,889**

ii. National Stock Exchange of India Ltd.

Monthly open, close, high and low quotations and volume of the Company's shares traded at National Stock Exchange of India Ltd. during the year 2006-2007:

NSE					
Month	***Open (Rs.)***	***High (Rs.)***	***Low (Rs.)***	***Close (Rs.)***	***Total Shares Traded***
April-06	369.30	437.50	346.00	408.45	661,013
May-06	400.00	430.00	293.10	314.50	369,598
June-06	330.00	330.00	245.25	302.70	343,122
July-06	310.50	383.00	295.00	378.05	212,187
August-06	382.00	411.00	351.10	381.90	315,240
September-06	384.90	468.00	324.70	448.45	363,072
October-06	436.50	499.00	435.15	466.90	277,664
November-06	470.00	576.00	470.00	504.70	716,930
December-06	495.00	749.00	490.00	682.35	1,120,152
January-07	690.00	925.00	655.00	908.00	2,560,264
February-07	916.80	1200.95	861.00	1031.50	1,732,527
March-07	1001.35	1070.00	875.00	956.90	439,357
Total Shares traded during the year					**9,111,126**

Note: 1. The highest share price of the Nucleus scrip at Bombay Stock Exchange Ltd. was Rs.1,198.75 in February 2007 and the lowest share price was Rs.245.00 in June 2006.

2. The highest share price of the Nucleus scrip at National Stock Exchange was Rs.1,200.95 in February 2007 and the lowest share price was Rs.245.20 in June 2006.

iii. Quarterly high -low price history of the Company's share for the year 2006-07.

	BSE		NSE	
	High (Rs.)	***Low (Rs.)***	***High (Rs.)***	***Low (Rs.)***
During Quarter ended				
June 30, 2006	439.95	245.00	437.50	245.25
September 30, 2006	465.95	295.05	468.00	295.00
December 31, 2006	748.80	421.20	749.00	436.50
March 31, 2007	1,198.75	642.00	1,200.95	655.00

4. Financial Reporting to the Shareholders

i. The Company issues Quarterly Reports and the same are mailed to the shareholders. The Quarterly Reports are also available online on Company's website at: www.nucleussoftware.com

ii. The Company issues Annual Report at the end of each financial year and the same is mailed to the shareholders. The Annual Reports are also available online on Company's website at: www.nucleussoftware.com

iii. The Company holds Earnings Conference Call at the end of each quarter to report the progress made during the period. The transcript of all the Earnings Conference Calls till date are available online on Company's website at : www.nucleussoftware.com

5. Investors' Services

i. Details of request/complaints received during the year

Sl. No.	*Nature of Request*	*Received*	*Attended*	*Pending*
1	Revalidation of Dividend Warrants	27	27	0
2	Issue of Duplicate Share Certificates	3	3	0
3	Request for Stop Transfer	1	1	0
4	Non Receipt of Share Certificate	8	8	0
5	Demat Queries	0	0	0

The Company has attended to most of the investors' grievances/correspondence within a period of 15 days from the date of receipt of the same, during the year 2006-07.

ii. Registrars of Company

Share Transfers in physical form and other communication regarding share certificates, dividends, de-materialization of physical shares and change of address may be addressed to the Registrars of the Company at the following address :

M/s Karvy Computershare Pvt. Ltd.
Plot No. 17-24, Vithal Rao Nagar,
Madhapur, Hyderabad 500081.

iii. Share Transfer System

The Company's shares are currently traded in dematerialised form, transfers are processed and approved in the electronic form by NSDL/CDSL through their Depository Participants.

The Shareholders/Investor Grievance Committee is authorised to approve transfer of shares, which are received in physical form, and the said Committee approves transfer of shares on a fortnightly basis.

All requests for dematerialisation of shares are processed and confirmation is given to the respective Depositories i.e. National Securities Depository Ltd. (NSDL) and Central Depository Services Ltd. (CDSL) within 15 days.

The Company has De-materialised 15,101,291 shares (93.45% of the paid up share capital) as at March 31, 2007.

The Company obtains from a Company Secretary in practice half -yearly certificate of compliance with the share transfer formalities as required under Clause 47 (c) of the Listing Agreement and files a copy of the certificate with the Stock Exchanges.

iv. Legal Proceedings

There are three legal proceedings pending against the Company Court with two of them relating to termination of employment and one relating to stamp duty.

6. Shareholding Data

i. *Distribution of Shareholding*

	As at March 31, 2007				*As at March 31, 2006*			
No. of Equity Shares held	*No. of share-holders*	*% of share-holders*	*No. of shares*	*% of share holding*	*No. of share-holders*	*% of share-holders*	*No. of shares*	*% of share holding*
1-100	5,093	64.03	185,208	1.15	4,136	54.94	204,501	1.27
101-200	886	11.14	154,068	0.95	1,055	14.01	189,202	1.17
201-500	1,069	13.44	367,548	2.27	1,289	17.12	448,857	2.79
501-1000	386	4.85	298,601	1.85	502	6.67	387,462	2.41
1001-5000	379	4.76	862,685	5.34	416	5.53	938,602	5.83
5001-10000	58	0.74	421,428	2.61	53	0.71	385,362	2.39
10001 and above	83	1.04	13,870,774	85.83	77	1.02	13,550,826	84.14
Total	**7,954**	**100.00**	**16,160,312**	**100.00**	**7,528**	**100.00**	**16,104,812**	**100.00**

The Company has allotted 55,500 fully paid up Equity Shares to employees during the year in pursuance of stock options exercised by them.

Consequently, the total Equity Shares increased from 16,104,812 as on March 31, 2006 to 16,160,312 as on March 31, 2007.

ii. *Categories of Shareholders*

	As at March 31, 2007			*As at March 31, 2006*		
Category	*No. of share-holders*	*Voting Strength (%)*	*No. of shares held*	*No. of share-holders*	*Voting Strength (%)*	*No. of shares held*
Individuals	7,280	23.52	3,800,777	6,967	23.67	3,811,788
Companies	459	41.99	6,784,712	377	45.45	7,319,668
OCBs and NRIs	182	1.57	254,376	157	1.48	238,304
FII's	10	4.98	805,067	6	2.83	455,745
Directors/relatives	10	19.84	3,206,944	11	20.00	3,220,634
Mutual Funds	13	8.10	1,308,436	10	6.56	1,058,673
Total	**7,954**	**100.00**	**16,160,312**	**7,528**	**100.00**	**16,104,812**

iii. *Shares under Lock-in*

There are no shares under Lock in as on March 31, 2007.

7. Board Practices

Directors and their Term of office

Name	*Expiration of current Term of office*	*Term of office*
Lt. Gen. T P Singh (Retd.)		Retirement by rotation
Vishnu R Dusad	December 31, 2011	Five years
Arun Shekhar Aran		Retirement by rotation
Prithvi Haldea		Retirement by rotation
Suresh Joshi		Retirement by rotation
Sanjiv Sarin		Retirement by rotation

The Indian Companies Act, 1956 mandates that not less than two thirds of the members of the Board of Directors should retire by rotation, of which one third of such members should retire every year, and qualifies the retiring members for re-appointment.

8. Directors, Senior Management and Employees of the Company

The Directors of the Company and executive officers including of Subsidiaries, their respective ages as on Balance Sheet Date and their respective positions with the Company are as follows:

i. *Management Structure*

Name	*Age*	*Position*
Lt.Gen.T.P.Singh (Retd.)	71	Chairman
Vishnu R Dusad	50	Managing Director
Arun Shekhar Aran	48	Non Executive Director
Prithvi Haldea	56	Non Executive Director
Suresh Joshi	67	Non Executive Director
Sanjiv Sarin	48	Non Executive Director
R P Singh	46	President and Head, Global Delivery
Prakash Pai	47	Head, Product Management
P K Sanghi	52	Chief Financial Officer
Niraj Vedwa	40	Head-Global Sales & Marketing
Ravi Verma	47	Vice President, Global Head HR
Manoj Tandon	46	Vice President, Corporate Affairs
Dr. Asha Goyal	61	Vice President
Neeru Bahl	40	Vice President & Country Manager (Singapore)
Parminder Bansil	38	Vice President and Country Manager (USA)
Abhijit Mittra	43	Vice President
Anurag Bhatia	41	Vice President
Dharam Vir Rohilla	53	Vice President
Inamdar Bhalchandra C	46	Vice President
Kishore Tambe	42	Vice President
M Shankar	51	Vice President
Mukta Arora	42	Vice President
Nitin Goyal	41	Vice President
Parag Bhise	41	Vice President
Rajneesh Kumar Chadha	42	Vice President
Sandhya Verma	48	Vice President
Sushil Tyagi	37	Vice President
Anurag Mantri	38	Associate Vice President
Kamal Nayyar	35	Associate Vice President
Mahesh Balaram Agrawal	53	Associate Vice President
Pinakin Girdharlal Pujara	47	Associate Vice President
Piramanayagam T	42	Associate Vice President
Prema Rajaraman	39	Associate Vice President
Rajagopalan Venkatraman	36	Associate Vice President
Rajesh Garg	36	Associate Vice President
Sanjeev Kulshreshtha	43	Associate Vice President
Sridhar Pandurangiha	37	Associate Vice President
Sundeep Kalra	40	Associate Vice President

ii. Employee Structure

1. Employee strength globally including employees of subsidiaries.

As at March 31,	**2007**		**2006**	
- Technical Staff	1,305	85.18%	887	83.05%
- Non-Technical Staff including Business Development Group	227	14.82%	181	16.95%
Gender classification of employees is:				
- Male	1,166	76.11%	840	78.65%
- Female	366	23.89%	228	21.35%
Total	**1,532**	**100.00%**	**1,068**	**100.00%**

2. The age profile of employees

As at March 31,	**2007**		**2006**	
Between 20 and 25 years	431	28.13%	230	21.54%
Between 26 and 30 years	618	40.34%	474	44.38%
Between 31 and 40 years	420	27.41%	316	29.59%
Between 41 and 50 years	50	3.26%	38	3.55%
Between 51 and 60 years	13	0.86%	10	0.94%
Total	**1,532**	**100.00%**	**1,068**	**100.00%**

9. Financial Calendar for the year 2007-08

(tentative and subject to change)

i. Financial reporting

Financial reporting for the first quarter ending June 30, 2007.	between 20th to 31st of July 2007
Financial reporting for the second quarter ending September 30, 2007.	between 20th to 31st of October, 2007
Financial reporting for the third quarter ending December 31, 2007.	between 20th to 31st of January, 2008.
Financial results for the year ending March 31, 2008.	between 21st to 30th of April, 2008.

ii. Annual General Meeting

Annual General Meeting for the year ending March 31, 2007.	July 6, 2007,
Date of Book Closure for AGM	June 30, 2007 to July 6, 2007 (both days inclusive)
Annual General Meeting for the year ending March 31, 2008.	July 2008.

iii. Dividend

Record Date for Interm Dividend	March 22, 2007

***iv.* The fiscal year of Nucleus is from April 1 to March 31.**

10. Shareholder Satisfaction Survey

It is our constant endeavor to offer better and prompt services to our shareholders and in an effort to achieve this objective, a Shareholder Satisfaction Survey was conducted to assess the level of satisfaction among Nucleus shareholders and identify areas of strengths and weakness of Nucleus perceived by the shareholders.

A 'Shareholder Satisfaction Form' comprising of 24 different questions was mailed to 7,315 shareholders, in January 2006.

The response gathered last year, has motivated us to present to you the feedback form again this year. The form is enclosed with this Report for your feedback. You may also fill the feedback form online on the Company's website www.nucleussoftware.com under the "Investors section".

11. Frequently Asked Questions

i. Dividend

What is the ECS facility and how does it work?

Reserve Bank of India's Electronic Clearance Service (ECS) Facility provides investors an option to collect dividend / interest directly through their bank accounts rather than receiving the same through post. Under this option, investor's bank account is directly credited and an advice thereof is issued by the Company after the transaction is effected. The concerned bank branch credits investor's account and indicate the credit entry as "ECS" in his / her pass book / statement of account. If any investor maintains more than one bank account, payment can be received at any one of his / her accounts as per the preference of the investor. The investor does not have to open a new bank account for the purpose.

What are the benefits of ECS facility?

Some of the major benefits of ECS Facility are: a. Prompt credit to the bank account of the investor through electronic clearing at no extra cost. b. Exposure to delays / loss in postal service avoided. c. As there can be no loss in transit of warrants, issue of duplicate warrants is avoided. d. Fraudulent encashment of warrants is avoided.

How to avail ECS facility?

Investors holding shares in physical form may send their ECS Mandate Form, duly filled in, to the Company's R&T Agent. However, if shares are held in dematerialised form, ECS mandate has to be sent to the concerned Depository Participant (DP) directly, in the format prescribed by the DP.

Can one opt out ECS facility?

ECS would be an additional mode of payment. Investors would have the right to opt out from this mode of payment by giving an advance notice of four weeks either to the Company's R&T Agent or to the concerned DP, as the case may be.

What should one do in case he does not receive dividend?

Shareholders may write to the Company's R&T Agent furnishing the particulars of the dividend not received and quoting the folio number/client ID particulars (in case of dematerialized shares). The R&T Agent shall check the records and issue duplicate dividend warrant if the dividend remains unpaid in the records of the Company after expiry of the validity period of the warrant. The Company would request the concerned shareholders to execute an indemnity before issuing the duplicate warrant. If the validity period of the lost dividend warrant has not expired, shareholders will have to wait till the expiry date since duplicate warrant cannot be issued during the validity of the original warrant. On expiry of the validity period, if the dividend warrant is still shown as unpaid in records of the Company, duplicate warrant will be issued. However, duplicate warrants will not be issued against those shares wherein a 'stop transfer indicator' has been instituted either by virtue of a complaint or by law, unless the procedure for releasing the same has been completed. No duplicate warrant will be issued in respect of dividends, which have remained unpaid / unclaimed for a period of seven years in the unpaid dividend account of the Company as they are required to be transferred to the Investor Education and Protection Fund (IEPF) constituted by the Central Government.

Why should one wait till the expiry of the validity period of the original warrant?

Since the dividend warrants are payable at par at several centers across the country, banks do not accept stop payment' instructions. Hence, shareholders have to wait till the expiry of the validity of the original warrant. *What is the procedure for revalidation of dividend warrants?*

Shareholders who have not encashed their dividend warrants within the validity period may send their request of revalidation to the Company's R&T Agent enclosing the said dividend warrants. The Company's R&T Agent will after due verification of the records, issue a revalidated dividend warrant. The revalidated warrant will be valid for a period of 3 months from the date of such warrant.

How to get dividend by direct electronic deposit to bank account?

While opening accounts with Depository Participants (DPs), shareholders are required to give details of their Bank Accounts, which will be used by the Company for direct credit of the dividend to the respective accounts. However, members who wish to receive dividend in an Account other than the one specified while opening the Depository Account may notify their DPs about any change in Bank account details. Members are requested to furnish complete details of their bank accounts including MICR codes of their banks to their DPs.

ii. Dematerialization

What is De-materialisation of shares?

Dematerialisation (Demat) is the process by which securities held in physical form evidencing the holding of securities by any person are cancelled and destroyed and the ownership thereof is entered into and retained in a fungible form on a depository by way of electronic balances. Demat facilitates paperless trading whereby securities transactions are executed electronically reducing / mitigating possibility of loss of related documents and / or fraudulent transactions. Trading in demat form is regulated by the Depositories Act, 1996 and is monitored by the Securities and Exchange Board of India (SEBI). The two depositories presently functioning in India are National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL).

Can shareholding be partly De-materialised?

Yes, the shareholding can be De-materialised either fully or partly as desired. However, the shares can be traded only in demat form.

Can shares be pledged for a loan when the shares are De-materialised?

Yes, you can pledge your shareholding in the electronic form in favour of the lending institution by applying to your DP in the prescribed form. After repayment of the loan, which is secured by the pledge, you can request for redemption of the pledge, by applying to your DP.

What are the benefits of De-materialising the Share Certificate?

As already stated, when the shares are bought through the Depository System, the shares are credited to your account with the DP. Thus, you are relieved of problems like bad delivery, fake certificates, shares under litigation, signature difference of transferor(s), etc. Besides, there is no need to fill a transfer form for transfer of shares and affix share transfer stamps. There will, however, be a nominal fee to be paid to the DP. There is saving in time and cost on account of elimination of posting of certificates. Above all, the threat of loss of certificates or fraudulent interception of certificates in transit, which has been causing lot of anxiety to the investor community in recent times, stands eliminated.

What is the procedure for Re-materialisation of Shares?

Shareholder should submit duly filled in Rematerialisation Request Form (RRF) to the concerned DP. He intimates the relevant Depository of the request through the system.

Can one get his original Share Certificate?

No, as the share certificates on De-materialisation are cancelled you will not receive the same share certificate on Re-materialisation. The shares represented by De-materialised share certificates are fungible and, therefore, certificate numbers and distinctive numbers become irrelevant.

How does the Company pay dividend on shares De-materialised?

The dividend warrants in respect of all shares, whether held in electronic form or by way of share certificates, are sent by the Company directly to the shareholders whose names are on the Company's register of members or in the electronic form under the depository system on the designated date to be notified by the Company. While opening Accounts with Depository Participants (DPs), shareholders are required to give details of their bank Accounts, which will be used by the Company for direct credit of the dividend to the respective accounts.

Why cannot the Company take on record bank details in case of dematerialized shares?

As per the Depository Regulations, the Company is obliged to pay dividend on dematerialised shares as per the details furnished by the concerned DP. The Company cannot make any change in such records received from the Depository.

How are transactions effected through the Depository?

After you open an account with a DP, you can buy or sell shares in the electronic form without share certificate or transfer forms, provided the seller/buyer also holds shares in the electronic form.

You can sell the shares in the depository mode through any share broker. All you need to do is to provide him the details of your account with the DP, with a delivery instruction to debit your share account with the number of shares sold by you. When you buy shares in the depository mode, you must, similarly, inform the broker about your depository account details so that the shares bought would be credited to your account with the DP.

iii. Transfer / Transmission / duplicate Certificates etc.

How to get shares registered in favour of transferee(s)?

Transferee(s) need to send share certificate(s) alongwith share transfer deed, duly filled in, executed and affixed with share transfer stamps, to the Company's R&T Agent. The statutory time limit for processing the transfer is one month.

What is the procedure for getting shares in the name of surviving shareholder(s), in the event of death of one shareholder?

The surviving shareholder(s) will have to submit a request letter supported by an attested copy of the Death Certificate of the deceased shareholder and accompanied by the relevant share certificate(s). The Company's R&T Agent on receipt of the said documents and after due scrutiny will delete the name of deceased shareholder from its records and return the share certificate(s) to the surviving shareholder(s) with necessary endorsement.

In case of a deceased shareholder who held shares in his / her own name (single) and had left a Will, how do the legal heir(s) get the shares transmitted in their name(s)?

The legal heir(s) will have to get the Will probated by the Court of competent jurisdiction and then send to the Company's R&T Agent a copy of the probated copy of the Will, alongwith relevant details of the shares, the relevant share certificate(s) in Original and transmission form for transmission of the shares in his / their name(s).

How can the change in order of names (i.e. transposition) be effected?

Share certificates alongwith a request letter duly signed by all the joint holders may be sent to the Company's R&T Agent for change in order of names, known as 'transposition'. Transposition can be done only for the entire holdings under a folio and therefore, requests for transposition of part holding cannot be accepted by the Company / R&T Agent.

What is the procedure for obtaining duplicate share certificate(s) in case of loss / misplacement of original share certificate(s)?

Shareholders who have lost / misplaced share certificate(s) should inform the Company's R&T Agent, immediately about loss of share certificate(s) quoting their folio number and details of share certificate(s), if available. The R&T Agent shall immediately mark a 'stop transfer' on the folio to prevent any further transfer of shares covered by the lost share certificate(s). It is recommended that the shareholders should lodge a FIR with the police regarding loss of share certificate(s). They should send their request for duplicate shares to the Company's R&T Agent. Documents required to be submitted alongwith the application include Indemnity Bond, Surety Form, Copy of FIR, Memorandum of Association and Certified Copy of Board Resolution (in case of companies).

What is the procedure for splitting of a share certificate into smaller lots?

Shareholders may write to the Company's R&T Agent enclosing the relevant share certificate for splitting into smaller lots. The share certificates, after splitting, will be sent by the Company's R&T Agent to the shareholders at their registered address.

iv. Change of Address

What is the procedure to get changes in address registered in the Company's records?

Shareholders holding shares in physical form, may send a request letter duly signed by all the holders giving the new address alongwith Pin Code. Shareholders are also requested to quote their folio number and furnish proof such as attested copies of Ration Card / PAN Card / Passport / Latest Electricity or Telephone Bill / Lease Agreement etc. If shares are held in dematerialised form, information about change in address needs to be sent to the DP cencerd

v. Change of Name

What is the procedure for registering change of name of shareholders?

Shareholders may request the Company's R&T Agent for effecting change of name in the share certificate(s) and records of the Company. Original share certificate(s) alongwith the supporting documents like marriage certificate, court order etc. should be enclosed. The Company's R&T Agent, after verification, will effect the change of name and send the share certificate(s) in the new name of the shareholders. Shareholders holding shares in demat form, may request the concerned DP in the format prescribed by DP.

vi. You can contact the following Nucleus personnel for any information:-

Vishnu R Dusad Managing Director	Tel: +91 (120) 2404033 E Mail: vishnu@nucleussoftware.com
R P Singh President and Head, Global Delivery	Tel: +91 (120) 2403981 E Mail: rp@nucleussoftware.com
P K Sanghi Chief Financial Officer	Tel: +91 (120) 2404036 E Mail: pksanghi@nucleussoftware.com
Prakash Pai Head Product Management	Tel: +91 (120) 2404046 E Mail: pai@nucleussoftware.com
Niraj Vedwa Head-Global Sales & Marketing	Tel: +91 (120) 2403979 E Mail: niraj@nucleussoftware.com
Poonam Bhasin Company Secretary	Tel: +91 (120) 2404050 E Mail: poonam@nucleussoftware.com

Economic Value Added

Economic Value Added is a measure of shareholders value. In the field of corporate finance, economic value added is a way to determine the value created, above the required return, for the shareholders of a Company.

It represents the value added to the shareholder's wealth by generating operating profits (less tax) in excess of cost of capital employed to earn that profit.

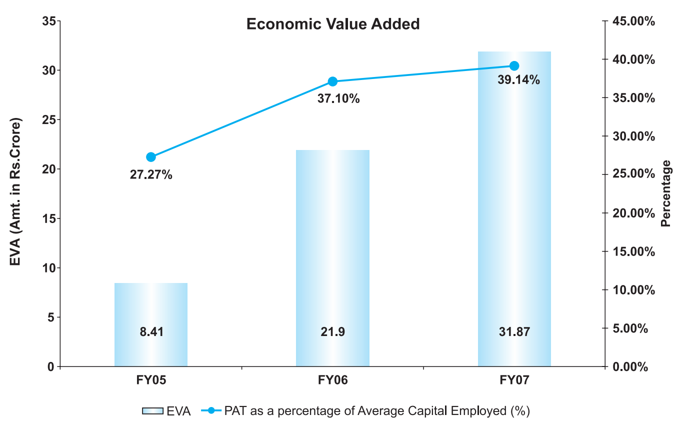
EVA= Net Operating Profit after Taxes - Cost of Capital Employed

In Rs. Crore, except as otherwise stated

	FY 07	FY 06	FY 05
Cost of Capital			
Return on Risk Free Investment (%)	7.98	7.50	6.80
Market Premium (%)	7.00	7.00	7.00
Beta Variant	0.65	0.66	0.86
Cost of Equity (%)	12.53	12.12	12.82
Average Debt/Total Capital (%)	-	-	-
Cost of Debt-Net of Tax(%)	N.A.	N.A.	N.A.
Weighted Average Cost of Capital (WACC) (%)	12.53	12.12	12.82
Average Capital Employed	140.89	99.94	76.08
PAT as a percentage of Average Capital Employed(%)	39.14%	37.10%	27.27%
Economic Value Added (EVA)			
Operating Profit (excluding extraordinary income)	51.72	37.13	19.60
Less: Tax	2.20	3.12	1.44
Cost of Capital	17.65	12.11	9.75
Economic Value Added	**31.87**	**21.90**	**8.41**
Enterprise Value			
Market Value of Equity	1546.38	587.91	287.54
Add: Debt	-	-	-
Less: Cash and Cash Equivalents	81.91	77.48	61.67
Enterprise Value	**1464.47**	**510.43**	**225.87**
Return Ratios			
EVA as a percentage of average capital employed (%)	22.62%	21.91%	11.05%
Enterprise Value/Average Capital Employed	10.39	5.11	2.97

Notes:

1. Cost of equity = return on risk-free investment + expected risk premium on equity investment adjusted for our beta variant in India.
2. Figures above are based on consolidated financial statements.
3. Cash and cash equivalents includes investments in liquid mutual funds.



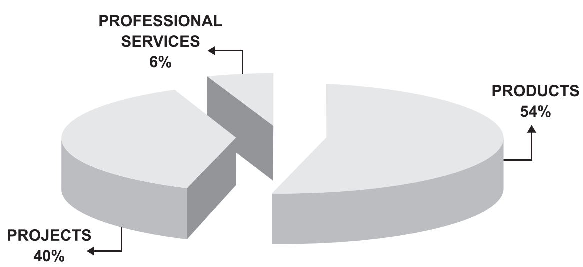
SEGMENT INFORMATION, HISTORICAL PERSPECTIVE AND RATIO ANALYSIS

Consolidated Segment Information of Nucleus Software Group

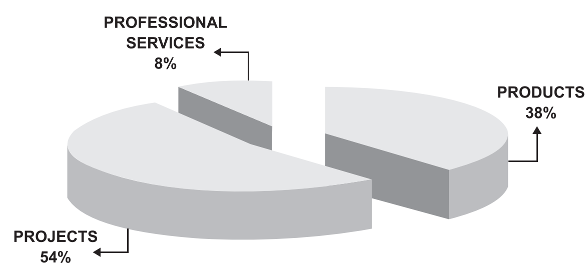
(Rs. in crore)

REVENUE BY	Year ended March 31, 2007	% of Revenue	Year ended March 31, 2006	% of Revenue
GEOGRAPHICAL SEGMENTS				
INDIA	23.81	10.76	14.78	9.98
FAR EAST	95.52	43.18	63.74	43.05
SOUTH EAST ASIA	46.46	21.00	38.66	26.11
EUROPE /U.K.	13.87	6.28	16.44	11.10
USA & CANADA	6.84	3.09	6.65	4.49
MIDDLE EAST	15.31	6.92	6.45	4.37
AFRICA	12.41	5.62	0.60	0.41
REST OF THE WORLD	6.97	3.15	0.73	0.49
TOTAL	**221.19**	**100.00**	**148.05**	**100.00**
CURRENCY SEGMENTS				
INDIAN RUPEE	23.81	10.76	14.75	9.96
JAPANESE YEN	12.82	5.80	16.50	11.15
SINGAPORE $	31.14	14.08	25.03	16.90
US $	151.35	68.43	89.36	60.36
MALAYSIAN RINGET	1.70	0.77	2.41	1.63
AUSTRALIAN $	0.02	0.01	—	—
EURO	0.35	0.15	—	—
TOTAL	**221.19**	**100.00**	**148.05**	**100.00**
BUSINESS SEGMENTS				
PRODUCTS	119.76	54.14	56.83	38.39
PROJECTS	88.55	40.04	78.65	53.12
PROFESSIONAL SERVICES	12.88	5.82	12.57	8.49
TOTAL	**221.19**	**100.00**	**148.05**	**100.00**

BUSINESS SEGMENT



Year Ended March 31, 2007



Year Ended March 31, 2006

A Historical Perspective

(All figures in Rs. crore except per share data)

Particulars	CONSOLIDATED PERFORMANCE				
For the year ended March 31,	**2007**	**2006**	**2005**	**2004**	**2003**
Revenue from Operations	221.19	148.05	103.14	80.09	88.83
Operating Profit (EBITDA)	63.28	45.13	27.07	15.25	16.02
Interest	—	—	—	—	0.17
Depreciation	6.88	4.76	3.54	3.24	3.70
Provision for Taxation	2.19	3.12	1.45	0.44	0.63
Profit after Tax (PAT)	55.15	37.08	20.75	9.73	8.41
Return on Average Networth (%)	39.29%	37.13%	27.28%	15.25%	14.75%
Return on Average Capital Employed (PBIT/Average Capital Employed) (%)	40.70%	40.23%	29.18%	15.92%	15.47%
Share Capital	16.16	16.11	16.09	8.03	7.91
Reserves and Surplus	149.03	99.41	68.15	59.83	51.82
Loan Funds	—	—	—	—	0.04
Gross Block	68.54	50.14	43.62	24.89	24.02
Net Current Assets	42.11	20.50	7.01	14.81	24.29
Market Capitalisation	1,546.38	587.91	287.54	61.68	51.86
Per Share data					
Earning Per Share	34.22	23.04	12.90	6.12*	5.32*
Dividend Per Share	3.50	3.50	2.50	2.50	2.00
Book Value Per Share	102.22	71.73	52.36	42.25*	7.72*

* Adjusted for the issue of Bonus Shares in ratio 1:1 in August 2004.

Note: While calculating the figures of group, intergroup transactions have been ignored.

A Historical Perspective Stated in US$

(All figures in US$'000 except per share data)

Particulars	CONSOLIDATED PERFORMANCE				
For the year ended March 31,	**2007**	**2006**	**2005**	**2004**	**2003**
Revenue from Operations	50,557	33,181	23,554	18,327	18,823
Operating Profit (EBITDA)	14,464	10,114	6,181	3,489	3,394
Interest	—	—	—	—	36
Depreciation	1,572	1,067	809	742	784
Provision for Taxation	501	699	331	100	133
Profit after Tax (PAT)	12,606	8,311	4,738	2,226	1,782
Return on Average Networth (%)	39.29%	37.13%	27.28%	15.25%	14.75%
Return on Average Capital Employed (PBIT/Average Capital Employed) (%)	40.70%	40.23%	29.18%	15.92%	15.47%
Share Capital	3,694	3,610	3,675	1,838	1,677
Reserves and Surplus	34,064	22,278	15,564	13,691	10,982
Loan Funds	—	—	—	—	8
Gross Block	15,666	11,237	9,962	5,695	5,090
Net Current Assets	9,625	4,594	1,600	3,389	5,148
Market Capitalisation	353,458	131,758	65,664	14,115	10,989
Per Share data					
Earning Per Share	0.78	0.52	0.29	0.14*	0.11*
Dividend Per Share	0.08	0.08	0.06	0.06	0.04
Book Value Per Share	2.34	1.61	1.20	0.96*	0.80*
US$ Exchange Rate (In Rs.)	43.75	44.62	43.79	43.70	47.19

* Adjusted for the issue of Bonus Shares in ratio 1:1 in August 2004.

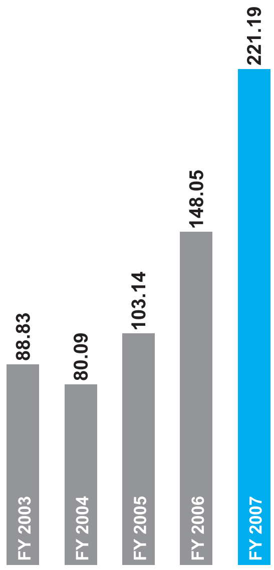
Note: While calculating the figures of group, intergroup transactions have been ignored.

Ratio Analysis

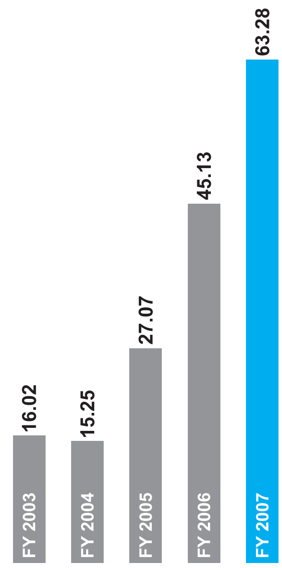
Particulars			CONSOLIDATED PERFORMANCE		
For the Year ended March 31	**2007**	**2006**	**2005**	**2004**	**2003**
Ratios-Financial Performance					
Export Revenue/Revenue (%)	89.24%	90.01%	91.66%	84.43%	87.71%
Domestic Revenue/Revenue (%)	10.76%	9.99%	8.34%	15.57%	12.29%
Gross Profit/Revenue (%)	43.44%	45.63%	42.11%	36.47%	36.02%
Software Development Expenses/Revenue (%)	56.56%	54.37%	57.89%	63.53%	63.98%
Selling and Marketing Expenses/Revenue (%)	8.11%	7.93%	7.97%	9.76%	9.04%
General and Administrative Expenses/Revenue (%)	6.72%	7.21%	7.89%	7.66%	8.94%
Total Operating Expenses/Revenue (%)	71.39%	69.52%	73.76%	80.96%	81.97%
Operating Profit/Revenue (%)	28.61%	30.48%	26.24%	19.04%	18.03%
Depreciation/Revenue (%)	3.11%	3.21%	3.43%	4.05%	4.16%
Other Income/Revenue (%)	2.54%	2.07%	2.52%	1.80%	0.87%
Tax/Revenue (%)	0.99%	2.10%	1.41%	0.55%	0.71%
Tax/PBT (%)	3.83%	7.75%	6.53%	4.31%	6.97%
PAT from Ordinary Activities/Revenue	22.39%	22.98%	17.60%	10.34%	8.60%
PAT from Ordinary Activities/Net Worth(%)	29.98%	29.45%	21.55%	12.21%	12.80%
ROCE (PBIT/Capital Employed) (%)	40.74%	40.23%	29.18%	15.92%	15.71%
ROANW (PAT/Average Net Worth) (%)	39.29%	37.13%	27.28%	15.25%	14.98%
Ratios Balance Sheet					
Debt-Equity Ratio	—	—	—	—	0.001
Debtors Turnover (Days)	91	59	68	60	95
Asset Turnover Ratio	1.33	1.28	1.22	1.18	1.48
Current Ratio	1.62	1.46	1.15	2.12	3.35
Cash and Equivalents/Total Assets (%)	49.28%	67.03%	73.17%	63.95%	46.37%
Cash and Equivalents/Revenue (%)	37.02%	52.33%	59.79%	54.20%	31.28%
Depreciation/Average Gross Block(%)	11.59%	10.15%	10.34%	13.26%	15.51%
Technology Investment/Revenue (%)	3.02%	3.86%	3.68%	1.05%	2.41%
Ratios - Growth					
Growth in Export Revenue (%)	48.12%	40.95%	39.81%	(13.20)%	49.43%
Growth in Revenue (%)	49.40%	43.54%	28.78%	(9.84)%	45.34%
Operating Expenses Growth (%)	53.42%	35.30%	17.32%	(10.95)%	57.90%
Operating Profit Growth (%)	40.22%	66.72%	77.51%	(4.79)%	6.75%
PAT Growth (%)	48.71%	78.72%	113.34%	15.65%	(22.42)%
EPS Growth (%)	48.52%	78.60%	113.22%	13.72%	(22.34)%
Per-Share Data (Period End) *					
Earning Per Share from Ordinary Activities (Rs.)	30.65	21.12	11.28	5.16	4.83
Earning Per Share (Including Other Income) (Rs.)	34.13	23.03	12.90	6.05	5.32
Cash Earning Per Share from Ordinary Activities (Rs.)	34.90	24.08	13.48	7.18	7.17
Cash Earning Per Share (Including Other Income) (Rs.)	38.38	25.98	15.10	8.07	7.65
Book Value (Rs.)	102.22	71.73	52.36	42.25	37.72
Price/Earning	28.04	15.85	13.86	6.34	6.17
Price/Cash Earning	24.93	14.05	11.84	4.76	4.28
Price/Book Value	9.36	5.09	3.41	0.91	0.87

* Adjusted for the issue of Bonus Shares in ratio 1:1 in August, 2004.

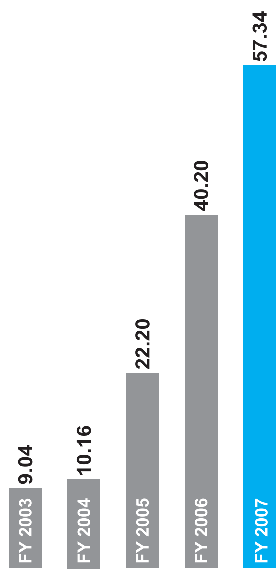
Note: 1) While calculating the consolidated figures of group, inter group transactions have been ignored.
2) Cash and Equivalents include cash and bank balances and current investments.



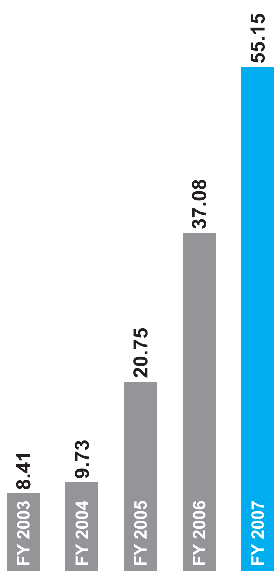
Revenue From Operations
(Rs. Crore)



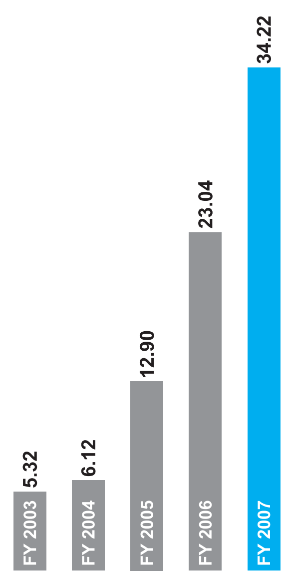
Profit Before Depreciation, Interest & Tax
(Rs. Crore)



Profit Before Tax
(Rs. Crore)



Profit After Tax
(Rs. Crore)



Earning Per Share
(Rs. Per Share)