

## **Idhasoft Limited**

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### **Schedule “ J “ forming part of the Consolidated Balance Sheet and Profit and Loss Account As At March 31, 2008.**

#### **Significant Accounting policies**

##### **Organization and Summary**

IDHASOFT Limited (IDHA) is provider of software technology services, IT enabled services. IDHA is headquartered in Mumbai, India. The company was incorporated on 21<sup>st</sup> Dec, 2006 under Companies Act, 1956. The Company has changed its name to IDHA Soft Private Limited. The company has been converted into Public Limited Company on 11<sup>th</sup> day of March, 2008 and consequent upon conversion to Public Limited Company, it changed its name to **IDHASOFT Limited**. On 20<sup>th</sup> June, 2007, the company has incorporated branch office in Atlanta- Georgia, United States of America, serving enterprise customers in the United States and Asia.

The parent company and with its subsidiaries, Semafor Technologies .LLC (öSemaforö) with its subsidiary , Cavaya Inc.(öCavayaö), INTECH Software Solutions Inc (öINTECHö), Aware Technologies Inc.(öAwareö) with its subsidiary, Bizshore Inc (öBizshoreö), Codesoft International Inc (öCodesoftö), Brevadum LLC, Idhasoft Inc, Georgia (formerly S3 Group Inc) alongwith its subsidiaries, Aagam Infotech Pvt Ltd. (öAagamö) , DCB and Company, INC , Indus Solution LLC, Ki Solutions LLC (öKiö), ITABS (India) Pvt. Ltd.(öITABSö), Semaphore Impex Pvt Ltd, ALTUS Systems Pvt. Ltd (öALTUSö), Cavaya Information Technologies & Services Private Limited, and Idhasoft US Branch, collectively (**“Idhasoft Limited or the Company “**) provide a range of information technology services from software implementation of third party enterprise ó wide products like Oracle ERPs, SAP, Cognos ,TIBCO and others .The company serves various industry segments including Public Sector, Banking & Financial Services, Insurance, Retail, Manufacturing, Services & Technologies, Healthcare and Telecommunications.

#### **Basis of Presentation of consolidated financial statements**

##### **1. Subsidiaries for consolidation**

- a. These financial statements consist of the combined financial statements of parent and its subsidiary companies that are controlled by the parent as on the March 31<sup>st</sup>, 2008. The controlling interest of the parent company has been determined based on the share purchase agreements signed by the parent company with its subsidiaries. Some of the commitments of the share purchase agreements are yet to be fulfilled.

Following subsidiaries financial statements have been consolidated:

- Semafor Technologies LLC and its subsidiary Apps People Inc
- Cavaya Inc.
- INTECH Software Solutions Inc.
- Aware Technologies Inc. and its subsidiary Orion Database Consultants Inc.
- Bizshore Inc

## Idhasoft Limited

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- Codesoft International Inc
  - S3 Group Inc and its subsidiaries Influx Info Solutions Inc , Aagam PTE, BIM Associates; Nitya Corporation; Intelligium LLC, Knowledge Solutions Inc.
  - Aagam Infotech Pvt Ltd. and
  - Idhasoft Limited ó US Branch
  - Ki Solutions, LLC;
  - DCB and Company INC
  - Indus Solutions LLC
  - Brevadum LLC
  - ALTUS Systems Pvt. Ltd
  - ITABS (India) Pvt. Ltd
  - Semaphore Impex Pvt Ltd
  - Cavaya Information Technologies & Services Private Limited
- b. The consolidated financial statements include unaudited financials of the following subsidiaries:
- i. BIM Associates
  - ii. Intelligium LLC
  - iii. Aagam PTE LTD.
  - iv. DCB and Company INC
- c. Following Subsidiaries have no operations from April 2007 onwards and have not been audited. The financial statements for these concerns are not incorporated for consolidation. In the opinion of the management, these financial statements have negligible impact on the consolidated financial statements of the Company.
- 1. Indus solutions LLC
  - 2. ITABS (India) Pvt. Ltd.
  - 3. ALTUS Systems Pvt. Ltd.
  - 4. Knowledge Solution Inc.,
  - 5. Orion Database Consultants Inc.,
- d. The financial statements of AGAM Infotech has been incorporated based on agreement August 31, 2007. The consideration provided in the books is based on management estimates.

## 2. Consolidation process

The consolidation of the financial statements has been made line by line basis adding together like items of assets, liabilities, income and expenditure, in order that the consolidated financial statement presents financial information about the subsidiary for the entire financial year as that of one single enterprise. Intra-Company transactions resulting in unrealized profit or loss have been eliminated. All the Inter-Company balances have also been eliminated from the consolidated balance sheet

## **Idhasoft Limited**

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apart from those realized from either provision or receipt of services from group companies.

### **3. Goodwill / Capital Reserves on consolidation**

Any excess of the cost to the parent of its investment in a subsidiary over the parent's proportion of equity of the subsidiary, at the date on which investment in the subsidiary is made, has been regarded as goodwill and has been duly recognized as asset in the consolidated financial statement. As the Goodwill is determined due to consolidation of financial statements, no provision has been made for amortization for the same.

When the cost of investment of the Parent in its subsidiary is less than the parent's proportion of equity of the subsidiary, as at the date on which investment in the subsidiary is made, the difference has been treated as capital reserve in the consolidated financial statement.

### **4. Conversion of foreign currency transactions**

The figures in the Balance sheet representing Idhasoft Limited for India operations have been converted at the USD rate prevailing as on March 31, 2008. The figures in the Profit & Loss Account for the period April 2007 to March 2008 have been converted at the average USD rate for the financial year ending March 31, 2008.

## **Accounting Policies**

### **1. Use of estimates**

The preparation of financial statements, in conformity with generally accepted accounting principles of the respective countries as per location of companies, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities on the date of the financial statements and amounts of revenues and expenses during the period reported. The management evaluates all estimates on an ongoing basis, variations, if any, are adjusted in the period in which they are known.

### **2. Revenue Recognition**

#### **India Operations**

Revenue from Software development services comprises of revenue from Time & Material ( T & M) and Fixed Price Contract. Revenue from T & M contracts are recognized as and when related services are performed. Revenue from fixed price & fixed time frame contracts is recognized on completion of predefined milestone. In case of sale of software, the revenue is recognized when right to use the software is passed on the customer.

Other income, including interest on loan to subsidiaries, is recognized on accrual basis.

### **US Operations**

The Company recognizes revenue in accordance with the SEC's Staff Accounting Bulletin Topic 13 (SAB 13), Revenue Recognition. Revenue is recognized when all of the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the seller's price to buyer is fixed and determinable, and (4) collectability is reasonably assured.

Revenues are primarily derived from professional services under time and materials contracts, which are recognized in the period in which services are provided.

Revenue related to services performed without a signed agreement or work order are not recognized until there is evidence of an arrangement, such as when agreements or work orders are signed or payment is received; however, the cost related to the performance of such work is recognized in the period the services are rendered.

### **3. Fixed Assets and Intangible Assets**

#### **In case of India**

Fixed Assets are stated at historical cost less accumulated depreciation. Direct costs are capitalized until fixed assets are ready for use. Direct Cost includes duties, taxes and incidental expenses related to the acquisition and installation of the fixed assets. Capital Work In progress comprises outstanding advances paid to acquire fixed assets and the cost of fixed assets that are not yet ready for their intended use at the balance sheet date.

#### **In case of US**

Property and equipment is recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation thereon, are removed from the accounts and any resulting gain or loss is included in the concerned period.

### **4. Depreciation and amortization**

#### **In case of India**

Depreciation on fixed assets is applied on the written down value (WDV) basis over the useful lives of assets as per rates prescribed in Schedule XIV of the Companies Act, 1956.

<u>Classification</u>	<u>Rate</u>
Computer equipments	40.00 %
Furniture & Fixtures	18.10 %
Office equipments	13.91 %
Vehicles	25.89 %

## Idhasoft Limited

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Intangible Assets consist of software, which has been amortized over its useful economic life on a straight line basis. In the opinion of management, the estimated life of software developed for sale is 3 years.

### In case of US

Depreciation is provided over the estimated useful lives of the related assets using the straight line method for financial Straight Line Method (SLM) for financial statement purpose. Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the term of the lease. The estimated useful lives of the assets are as follows:

Computers and purchased software	3-5 years
Furniture and equipment	5-7 years
Vehicle	7 years

## 5. **Retirement Benefits**

### In case of India

The company is registered under Provident Fund Act, 1952. Under the scheme, the employee will receive benefits from provident fund, which is defined contribution plan. Aggregate contributions along with interest thereon are paid at the time of retirement, death, incapacitation or termination of employment. Both employer and employee will make equal contribution towards provident fund.

The company has applied for creation of Trust under The Gratuity Act, 1972 with Life Insurance Corporation of India (LICI). Based on the actuarial value of premium provided by LICI, liability for gratuity has been provided in the books of accounts. In accordance with the payment of Gratuity Act, 1972, the gratuity plan provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on respective employees salary and tenure of employment.

### In case of US

In case of US Branch, the company employees participate in a saving plan under Section 401(k) of the Internal Revenue Code (CODE) covering all eligible employees. The plan provides that the company can make matching contributions, which is equivalent to employees contributions subject to maximum of 50% upto the first 4% of the employee contributions.

6. **Impairment of Assets :**

The company assesses at each balance sheet date whether there is any indication that an assets may be impaired based on internal / external factors. If any such indication exist, the company estimates the recoverable amount of the assets. If such recoverable amount of the assets or the recoverable amount of the cash generating unit to which the assets belong, is less than its carrying amount , the carrying amount is reduced from recoverable amount.

The reduction is treated as impairment loss and is recognized in Profit & Loss Account. If at the balance sheet date there is an indication that a previously assessed impairment loss no longer exist, the recoverable amount is reassesses and the asset is reflected at the recoverable amount subject to maximum of the depreciable historical cost.

7. **Investments**

Investments are either classified as current or long term investment, based on the management's intention at the time of purchase.

Long term investments are carried at cost and provisions are recorded to recognize any decline other than temporary in the carrying value of each investment. As on balance sheet date, the company has not made any current investments.

8. **Accounting of Taxes**

**Indian Operations**

The current charge for income taxes is calculated in accordance with the relevant tax regulations.

Deferred tax assets and liabilities are recognized for the future tax consequence attributable to timing differences that results between the profit offered for income taxes and the profit as per the financial statements. The accounting for the taxes is done as per the AS-22 "Accounting for Taxes on Income" issued by ICAI.

Consequent to the introduction of Fringe Benefit Tax (FBT) effective April 1, 2005, in accordance with the guidance note on accounting for fringe benefits tax issued by the ICAI, the company had provided for FBT.

US Operations

Deferred tax assets and liabilities are recognized based on the U.S. GAAP financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred income tax reflect the net tax effect of the temporary differences between the carrying amount of assets and liabilities for the financial reporting purpose and the amounts used for income tax purpose.

9. **Provisions**

The company creates a provision when there is present obligation as a result of an obligating event that probably requires an outflow of resources and reasonable estimate can be made of the amount of obligation.

Contingent liability disclosure is made when there is possible obligation or present obligation with probable outflow of resource is required.

10. **Cash Flow Statements :**

Cash Flows are reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, investing and financing activities of the company are segregated.

11. **Leasing**

In case of India

Lease payments for assets taken on operating lease are recognized as an expense in the Profit & Loss Account on straight line method over the lease term

In case of US

The lease payments for premises taken on operating lease are recognized as expense in the profit & loss Account.

**12. Employees Stock Option Plans :**

The Company has Employee Stock Option Plan which is administered by Committee formed by the Board. The ESOP provides for grant of stock options to the eligible management employees of group companies. The criteria for granting options are essentially on the basis of management grade of the employees. Since the Grant of Option date does not fall in the current financial year , it does not have financial implications.

**13. Earning Per Share**

Basic Earning Per Share is computed by dividing the net profit after tax by weighted average number of equity shares outstanding during the year.

**Notes to Accounts**
**1. Related party transactions**

Inter Company Related transactions have been removed from the financial statements for inter-company services and advances and the financials have no element of profit or loss on account of these inter-company transactions.

Following is the summary of the transactions with the related parties

<b>Particulars</b>	<b>Current Year</b>
	<b>In USD</b>
<b>Consultancy Income</b>	
Cavaya Inc	171,643
Semafor Technologies USA	495,139
Codesoft International Inc	247,194
Bizshore Inc	90,125
Aware Technologies Inc	275,394
<b>Inter Company Loans</b>	
Loan from Semafor to Apps People	60,834
Loan from Semafor to Cavaya	417,000
Loan from Semafor to Intech	30,768
Loan from Semafor to Indus Solutions	170,182
Loan from Semafor to S3	1,814,591
Loan from Semafor to Srikanth Konda	77,165
Loan from Semafor to Itabs	251,100
Loan from Semafor to Influx	4,35,000
Loan from Bizshore to Idhasoft	292,965
Loan from Bizshore to S3	50,000
Loan from Bizshore To Prasantha Das	23,940
Loan from Cavaya to Idhasoft	31,014
Loan from Cavaya to S3	62,000
Loan from Idha US Branch To Aware	184,100
Loan from Idha US Branch to Semafor	8,03,570

<b>Particulars</b>	<b>Current Year</b>
	<b>In USD</b>
Loan from Idha US Branch to Ki Solutions LLC	6,557
Loan from Idha US Branch to Apps	129,766
Loan from Idha US Branch to Brevadum	17,251
Loan from Idha US Branch to Bizshore	156,369
Loan from Idha US Branch to S3	2000
Loan from Idha US Branch to Prasad Dasari	50,000
Loans from Influx Info Solutions Inc to Idha US Branch	69,286
Loans from Intech Software to Deke Johnson	3,75,000
Loans from Intech Software to Cavaya	120,200
Loans from Intech Software to S3	1,323,283
Loans from Intech Software to Idha US branch.	403,833
Loans from S3 to Idha US Branch	20,543
Loans from S3 to Influx	60,000
Loans from S3 to Intech	245,300
Loans from S3 to Cavaya	57,500
Loans from S3 to Srikanth Konda	500,000
Loans from S3 to Ki Solutions	2,750
Loan from Idhasoft India to Semafor	8,00,000
Loan from Idhasoft India to Intech	150,000
Loan from Idhasoft India to Idha US	2,032,024
Loan from Idhasoft India to Influx	215,161
Loan from Apps people Inc to Intech	70,000
Loan from Apps people Inc to S3	50,000
Loan from Apps people Inc to Idha US Branch	28,084
Loan from DCB to Previous owners	214,265
Loan from Previous owners to BIM	43,294
Loan from Aware to Deke Johnson	14,113
Loan from Intelligium to Previous Owner	136,475
Loan from Brevadum to Previous Owner	155,799
Loan from Mr. Gibson to Semafor	773,840
Loan from Neeta Shah (Director) to Aagam	68,051
Loan from Yashwant Shah (Director) to Aagam	75
Loan from DT Singh (Director) to Aagam	9312

2. The Parent company has provided working capital loan to its subsidiaries and has charged interest of @ RBI Benchmark P.L.R.+ 2%. The total amount of Interest charged to subsidiaries during the year is \$ 199,751.

**3. Accounting for Taxes**

The Company has made following provisions for the taxes

<b>Particulars</b>	<b>Amount (\$)</b>
Income Tax	2,117,517
Fringe Benefit Tax	13,571
Wealth Tax	89
Deferred Tax Asset	43,770

**4. Lease commitments**

Lease property in India mainly consists of office premises at Mumbai, Gurgaon and Hyderabad locations. These lease payments are recognized as expenses on accrual basis in accordance with respective lease agreement.

Idhasoft US Subsidiaries lease office facilities and living quarters for employee for various terms under long term non-cancellable operating lease agreements. The lease provides for fixed and escalating monthly payments and expires at various dates. The members and stakeholder of the individual companies guarantee the obligation under the office facility use.

**5. Dividends payable**

The Parent acquired BizShore Inc and Codesoft International Inc as of September 01, 2007 and the Board declared dividend to the shareholders on record as of August 31, 2007. The dividends payable on March 31, 2008 amounted to \$778,863.

**6. Line of Credit**

Following US subsidiaries have line of credit (the line of credit) with bank that provided borrowings of various limits. The details of the same are summarized below :

	<b>Limit (\$)</b>
Idhasoft Inc (formerly S3)	200,000
Semafor	1,500,000
Intech	250,000
Intelligium	205,000

**Idhasoft Limited**


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Borrowings under the line are subject to certain financial covenants and restrictions on indebtedness, distributions, financial guarantees, business combinations and other related items.

**7. Investments:**

As on the Balance Sheet date, the company has 100% ownership in the following subsidiaries

Sr. No.	Name	Amount of investment (USD)
1	B.I.M. Associates LLC	400,000
2	AAGAM Infotech Pvt. Ltd.	2,217,093
3	ALTUS Systems Private Limited	5,000
4	ITABS (India) Private Limited	14,350
5	Orion Database Consultants Inc.	121,250
6	Knowledge Solutions Inc.	3,000
7	Codesoft International Inc.	2,160,000
8	Influx Info Solution Inc.	22,860
9	BizShore Inc.	2,330,000
10	Aware Technologies Inc. Blue Zone Technologies Inc. (a business name used by Aware)	1,160,000
11	Cavaya Inc. (CI)	1,000,000
12	Cavaya Information Technologies & services Private Limited (CITS)	200,000
13	Intech Software Solution Inc.	2,155,000
14	Semafor Technologies LLC Indus Solution LLC	3,400,000
15	Semaphore Impex Pvt. Ltd. (SEZ)	100,000
16	S3 Group International Inc.	397,000
17	APPS People Inc.	245,000
18	Nitya Corporation	565,514
19	Intelligium LLC	368,920
20	Brevadum LLC	3,250,000
21	Ki Solutions LLC	1,005,500
22	DCB and Company Inc.	3,068,100

**8. Remuneration to Auditors**

Auditors remuneration on account of India as well as US location for the year ending March 31, 2008 is USD 132,110

#### **9. Share Application Money**

- ❑ An amount of INR 50,000,000, ( Equivalent to USD 1,250,938), has been received from Housing Development Finance Corporation Limited on 28.03.2008 towards allotment of 270270 number of 0.01% Optionally Convertible / Redeemable Preference Shares having Face Value of INR 185 per share. (Previous year Nil).
- ❑ An amount of INR 19,920,038 ( Equivalent to USD 498,374) received from Mr. Dipak Poddar and Rohit Poddar towards 4.15 Cr share warrants of INR 14 each; INR 0.48 paid per warrant and balance INR 13.52 payable at the time of final payment/ conversion (not exceeding 3 years from date of issue).Warrants being convertible into equity shares on final payment of balance amount due per warrant.

#### **10. Employee Stock Option Plan**

As per the ESOP approved by the Board, 6251666 number of equity shares of INR 1 each fully paid are to be issued to 32 employees. The value of these shares shall be recovered from employees at INR 1 per share.

#### **11. Contingent Liabilities**

The quantification of the below transactions is based upon certain specific future event, the financial impact thereof cannot be estimated as on the date of Balance Sheet and no provision has been made for the same.

- ❑ Codesoft International Inc : As per SPA dated 1/8/2007 , all payments by the Company to promoters of Codesoft International Inc shall be secured by promissory note.
- ❑ Brevadum LLC : As per clause 2.4 of the SPA dated 1<sup>st</sup> January,2008, the promoters of Brevadum LLC, are eligible to subscribe for shares of the Company at INR 22.5 per share. The company has also guaranteed a buyback of any shares at an issue price of INR.22.5 per share.
- ❑ DCB and Company Inc : As per Clause 2.8 of SPA dated 1<sup>st</sup> October,2007, from 1<sup>st</sup> April, 2009 to 30<sup>th</sup> June, 2009 or within 30 days after the initial public issue, the promoter will have option to take as a bonus payment in USD, an amount which reflects the shortfall between \$ 4.8 M USD and the actual value of shares held by the promoters of DCB and Company Inc.

**11. Commitments :**

Based on the SPA entered into by the Management, the Company has following commitments towards issue of shares in future

- ❑ Knowledge Solutions Inc : As SPA dated 1<sup>st</sup> August,2007, Promoters of Knowledge Solutions Inc shall have option to subscribe for Idhasoft shares for a consideration of USD 100,000 at an issue price of INR 20 per share on or before 30th June 2008 or any date before the IPO whichever is later made in accordance with governing Laws.
- ❑ BIM Associates, LLC : As per clause 2.4 of the SPA dated 23<sup>rd</sup> October,2007, the promoters of BIM Associates, LLC are eligible for shares of the Company based on the following conditions

<b>Period</b>	<b>1<sup>st</sup> November 07 to 31<sup>st</sup> March 08</b>	<b>1<sup>st</sup> April 08 to 31<sup>st</sup> March 09</b>	<b>1<sup>st</sup> April 09 to 31<sup>st</sup> March 10</b>	<b>1<sup>st</sup> April 10 to 31<sup>st</sup> March 11</b>
Revenue	USD 800000	USD 2500000	USD 3750000	USD 5250000
Net Margin	USD 45000	USD 180000	USD 300000	USD 420000
Linked to stock plan	5000 per partner	10000 per partner	10000 per partner	10000 per partner

- ❑ Brevadum LLC :

1. As per clause 2.4 of the SPA dated 1<sup>st</sup> January,2008, the promoters of Brevadum LLC, are eligible to subscribe for shares of the Company at INR 22.5 per share.
2. As per clause 2.4 of the SPA, Brevadum shall give certain cash and stock option to their key employees aggregating to USD 300,000, in June, 2009, out of which Idhasoft will contribute 2/3<sup>rd</sup> of it.

**Idhasoft Limited**


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- The commitment on account of acquisitions of companies is USD 14,435,170 (previous year USD Nil) has been accounted and disclosed in the current liabilities as acquisition cost payable.

**12. Earning per share (working )**

<b>Calculation of Basic Earning Per Share (EPS)</b>	<b>2007-08</b>	<b>2006-07</b>
Net Profit as per Schedule VI	2,414,866	(340423)
<u>Less:</u>		
Preference Dividend(cumulative Preference Shares)	-	-
Tax on Preference Dividend	-	-
Preference Dividend(non-cumulative Preference Shares, if provided for in books)	-	-
<u>Add:</u>		
Appropriation to reserves	-	-
<b>Weighted Avg. Number of Shares</b>	285,819,629.25	88,856,549.51
<b>Basic Earning Per Shares</b>	<b>0.01</b>	<b>0</b>

13. In the opinion of the board of directors, other current assets have value on realization in the ordinary course of companies business, which is least equal to amount at which they are stated in the Balance sheet.
14. All advances, receivables and payable are subject to confirmations and reconciliations, if any.
15. Previous Year's figures are regrouped / recast wherever necessary. Current year, being first completed financial year, figures are not comparable with the previous year.

*As per our report of even date attached*

**For E.A.Patil & Associates**

**Chartered Accountants**

*For and on behalf of the board of directors of*

**Idhasoft Limited.**

**E.A.Patil**

Partner

Navi Mumbai

Date : July 18<sup>th</sup> 2008

**Director**

**Director**