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**NUCLEUS SOFTWARE EXPORTS LTD.****FINANCIAL HIGHLIGHTS**

Rs. in Crore, except per share data

	CONSOLIDATED PERFORMANCE		
	Quarter Ended		Year Ended
	June 30, 2006	June 30, 2005	March 31, 2006
For the Period			
Revenue from Operations	49.76	32.84	148.05
Operating Profit (PBIDT)	14.42	10.54	45.13
Profit after Tax	13.40	8.59	37.08
PBIDT as a % of Revenue from Operations	28.98%	32.10%	30.48%
PAT as a % of Revenue from Operations	26.93%	26.16%	25.05%
EPS	8.32	5.34	23.04
Dividend Per Share	—	—	3.50
Dividend Payout	—	—	5.64
Particulars	As at June 30, 2006	As at June 30, 2005	As at March 31, 2006
Share Capital	16.11	16.09	16.11
Reserves and Surplus	112.68	76.79	99.41
Net Worth	128.79	92.88	115.51
Total Assets	129.00	92.98	115.59
Net Fixed Assets	37.49	28.79	33.70
Investments	78.16	55.76	61.37
Current Assets	59.95	52.90	65.30
Cash and Cash Equivalents	77.35	60.20	77.48
Working Capital	13.30	8.31	20.50
Market Capitalisation	487.49	411.14	587.91
No. of Shareholders	7,176	8,439	7,528
No. of Shares (Face Value of Rs.10.00)	16,104,812	16,090,812	16,104,812

Notes:

Market Capitalisation is calculated by considering the closing market price of the scrip at the close of the year/quarter.

**NUCLEUS SOFTWARE EXPORTS LTD.****FINANCIAL HIGHLIGHTS**

All figures in US\$'000 except per share data

	CONSOLIDATED PERFORMANCE		
	Quarter Ended		Year Ended
	June 30, 2006	June 30, 2005	March 31, 2006
For the Period			
Revenue from Operations	10,796	7,547	33,181
Operating Profit (PBIDT)	3,128	2,478	10,114
Profit after Tax	2,907	1,973	8,310
PBIDT as a % of Revenue from Operations	28.98%	32.10%	30.48%
PAT as a % of Revenue from Operations	26.93%	26.16%	25.05%
EPS	0.18	0.12	0.52
Dividend Per Share	—	—	0.08
Dividend Payout	—	—	1,264
Particulars	As at June 30, 2006	As at June 30, 2005	As at March 31, 2006
Share Capital	3,495	3,698	3,610
Reserves and Surplus	24,448	17,645	22,278
Net Worth	27,943	21,342	25,888
Total Assets	27,988	21,364	25,905
Net Fixed Assets	8,135	6,615	7,552
Investments	16,958	12,156	13,753
Current Assets	13,008	12,813	14,634
Cash and Cash Equivalents	16,782	4,165	17,365
Working Capital	2,886	1,910	4,594
Market Capitalisation	105,770	94,541	131,758
US\$ Exchange Rate (In Rs.)	46.09	43.52	44.62

Notes:

Market Capitalisation is calculated by considering the closing market price of the scrip at the close of the year/quarter.



Letter to the Shareholders

Dear Shareholder,

It gives me immense pleasure and satisfaction to share the results of your Company for the quarter ended June 30, 2006. The results are in line with the growth trend in the operations of the Company and we have posted a y-o-y top line growth of 52% with consolidated revenue from operations for the quarter at Rs.49.76 crore, against Rs.32.84 crore for the corresponding quarter of the previous year. On a y-o-y basis, the bottom line also saw a growth of 56% with net profit for the quarter at Rs.13.40 crore against Rs.8.59 crore for the corresponding quarter of the previous year. Earnings per share was Rs.8.32 for the quarter against Rs. 5.34 for the corresponding quarter of the previous year.

Operating profit for the quarter was Rs.14.42 crore, 29% of revenue, against Rs.10.54 crore, 32% of revenue in the corresponding quarter of the previous year. Increase in personnel costs is the major contributor to the fall in operating margin with personnel costs at Rs.22.20 crore, 44.6% of revenue, against Rs.13.29 crore, 40.5% of revenue in the corresponding quarter of the previous year. Investment in the right talent is critical for our growth and we are confident that the returns in the medium and long term will enhance shareholder value.

Revenue from the product business, consisting of licenses, customization, implementation, and annual technical support stands at Rs.24.18 crore, an increase of 114% over Rs.11.32 crore in the corresponding quarter of the previous year. For the current quarter, the product business contributed 48.59% of the total revenue, the highest proportion to total revenue till date. We are making swift progress towards our short-term goal of realizing 50% plus revenues from this segment. Projects and services contributed Rs.25.58 crore against Rs.21.53 crore for the corresponding quarter of the previous year, a growth of 19%.

The Company continues to enjoy high level of liquidity. 'Cash and Bank balances' and 'Current Investments' were at Rs.77.35 crore as on June 30, 2006 against Rs.77.48 crore as on March 31, 2006. We continue to examine proactively means of increasing the returns on these amounts without taking any risk.

This quarter we have added 4 new clients taking the total client portfolio to 124. Your Company received 3 product orders during the quarter. A leading bank in Japan, a leading bank in Sri Lanka, and a leading bank in India have chosen our FinnOne™ product range to implement.

On the product front, we released FinnOne™ Collections Version 3.3 in this quarter. This product focuses on Delinquency Management for retail loans and this version is a major upgrade. With an increased focus by our prospective customers on small and medium enterprises, our FinnOne™ Lending product functionalities have been enriched to take care of the unique servicing needs of the SME segment. With this product upgrade of FinnOne™ Lending, our servicing module, our customers would be able to leverage the FinnOne™ suite for servicing both the retail and SME segments. Product up gradation and Development is a continuous journey and we are totally focused on achieving excellence in our offerings.

Against our targeted recruitment of 500 associates in the current financial year, we have added 350 plus associates in the first quarter increasing total head count to 1420 from 1068 at the end of March 2006. A new series of training programs has been initiated to effectively train and utilize this unprecedented intake.

Our growth in future years will be a function of product development, our capability to attract and retain talent, and consistently deliver high quality products to our customers. We have increased our head count in Product Development Group to beyond a hundred and are proactively working on meeting requirements of new geographies and new customers. With increased acceptance of our products across the globe, we are confident that we will continue to create shareholder value and economic wealth for our customers.

We have awarded the civil contract and commenced construction on the new 800-seat facility on our current campus. The work is proceeding satisfactorily and we expect completion during the current fiscal.

We look forward to the future with confidence and optimism. We wish to place on record the outstanding commitment and hard work of all Nucleites, who are contributing to the rapid growth of the Company. We also wish to thank our customers, business associates, shareholders and members of the Board for their continued support.

Vishnu R Dusad
Managing Director

Date: July 24, 2006



Auditors' Report

To the Board of Directors
Nucleus Software Exports Ltd.

As required by you, we have audited the attached Balance Sheet of Nucleus Software Exports Ltd. ("the Company") as at 30 June 2006, the Profit and Loss Account for the quarter ended on that date and also the Cash Flow Statement of the Company for the quarter ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We 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 have been kept by the Company, so far as appears from our examination of the 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, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the Accounting Standards issued by the Institute of Chartered Accountants of India, to the extent applicable; and
- e) in our opinion and to the best of our information and according to the explanations given to us, the said accounts 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 30 June 2006;
 - (ii) in the case of the Profit and Loss Account, of the profit of the Company for the quarter ended on that date; and
 - (iii) in the case of the Cash Flow Statement, of the cash flows of the Company for the quarter ended on that date.

for **BSR & Co.**
Chartered Accountants

Sd/-
(Akhil Bansal)
Partner
Membership No. 090906

Place : Gurgaon
Date : 24 July, 2006

**NUCLEUS SOFTWARE EXPORTS LTD.****Balance Sheet as at 30 June 2006**

All amounts in Rupees

Particulars	Schedule	As at 30 June 2006	As at 30 June 2005	As at 31 March 2006
SOURCES OF FUNDS				
Shareholders' Funds				
Share Capital	1	161,063,120	160,923,120	161,063,120
Share Application Money Pending Allotment		2,087,500	935,500	757,500
Reserves & Surplus	2	942,511,454	691,527,514	845,613,357
TOTAL		1,105,662,074	853,386,134	1,007,433,977
APPLICATION OF FUNDS				
Fixed Assets				
Gross Block	3	504,465,886	414,977,397	442,357,760
Less: Accumulated Depreciation		(179,274,534)	(148,227,962)	(171,405,059)
Net Block		325,191,352	266,749,435	270,952,701
Add : Capital Work in Progress (including capital advances)		10,794,723	787,612	35,070,281
		335,986,075	267,537,047	306,022,982
Investments	4	824,018,547	614,739,331	676,148,738
Deferred Tax Asset (Refer note 3, Schedule 16)		1,769,425	1,621,031	1,339,922
Current Assets, Loans & Advances				
Sundry Debtors	5	198,030,042	161,233,876	105,093,296
Cash & Bank Balances	6	28,763,129	116,272,999	213,088,500
Loans & Advances	7	33,861,334	49,015,859	31,305,677
Other Current Assets	8	95,033,680	42,491,603	71,558,325
		355,688,185	369,014,337	421,045,798
Less: Current Liabilities & Provisions				
Current Liabilities	9	(307,031,760)	(332,970,569)	(313,471,499)
Provisions	10	(104,768,398)	(66,555,043)	(83,651,964)
		(411,800,158)	(399,525,612)	(397,123,463)
Net Current Assets/(Liabilities)		(56,111,973)	(30,511,275)	23,922,335
TOTAL		1,105,662,074	853,386,134	1,007,433,977

Significant accounting policies and notes to the accounts

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The schedules referred to above form an integral part of the Balance Sheet.

As per our report of even date**For BSR & Co.**

Chartered Accountants

Akhil Bansal

Partner

Membership No. 090906

Gurgaon

July 24, 2006

NOIDA (U.P.)
July 24, 2006

For and on behalf of the Board of Directors

Lt. Gen. T P Singh (Retd.)
Chairman**Vishnu R Dusad**
Managing Director**P K Sanghi**
Chief Financial Officer**Poonam Bhasin**
Company Secretary

**NUCLEUS SOFTWARE EXPORTS LTD.****Profit and Loss Account for the quarter ended 30 June 2006**

All amounts in Rupees

Particulars	Schedule	For the quarter ended 30 June 2006	For the quarter ended 30 June 2005	For the year ended 31 March 2006
Sales and Services	11	313,658,168	215,363,241	943,678,136
Software Development Expenses	12	157,420,499	90,998,191	433,747,478
Gross profit		156,237,669	124,365,050	509,930,658
Selling and Marketing Expenses	13	21,584,454	17,683,144	73,072,349
General and Administration Expenses	14	22,470,058	18,951,664	78,565,977
Operating Profit Before Depreciation and Withholding Tax		112,183,157	87,730,242	358,292,332
Depreciation	3	11,448,052	10,721,649	39,292,691
Withholding Taxes Charged Off		7,496,897	5,176,434	32,114,267
Operating Profit After Depreciation, and Withholding Tax		93,238,208	71,832,159	286,885,374
Other Income	15	16,813,549	6,349,167	25,255,015
Profit before Taxation		110,051,757	78,181,326	312,140,389
Provision for Tax - current		3,100,000	4,100,000	19,200,000
- fringe benefit		900,000	875,000	4,271,465
- deferred (refer Note 3, Schedule 16)		589,352	577,969	859,078
- earlier years		86,355	—	(1,521,305)
Provision for Wealth Tax		—	—	51,402
Profit after Taxation		105,376,050	72,628,357	289,279,749
Profit Available for Appropriation		105,376,050	72,628,357	289,279,749
Profit for the period/year		105,376,050	72,628,357	289,279,749
Add: Balance Brought Forward		237,546,836	112,539,379	112,539,379
Total Amount Available		342,922,886	185,167,736	401,819,128
Final Dividend		—	—	56,366,842
Dividend Tax		—	—	7,905,450
Transferred to General Reserve		—	—	100,000,000
Balance Carried Forward to the Balance Sheet		342,922,886	185,167,736	237,546,836
Earnings Per Equity Share (par value Rs. 10 each) (Refer note 15, Schedule 16)				
Basic		6.54	4.51	17.97
Diluted		6.52	4.50	17.93
Number of Shares used in Computing Earning Per Equity Share				
Basic		16,104,812	16,090,812	16,097,694
Diluted		16,166,424	16,124,211	16,137,555

Significant accounting policies and notes to the accounts

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The schedules referred to above form an integral part of the Profit and Loss account.

As per our report of even dateFor BSR & Co.
Chartered AccountantsAkhil Bansal
Partner
Membership No. 090906Gurgaon
July 24, 2006NOIDA (U.P.)
July 24, 2006

For and on behalf of the Board of Directors

Lt. Gen. T P Singh (Retd.)
ChairmanP K Sanghi
Chief Financial OfficerVishnu R Dusad
Managing DirectorPoonam Bhasin
Company Secretary



NUCLEUS SOFTWARE EXPORTS LTD.

Cash Flow Statement for the quarter ended 30 June 2006

All amounts in Rupees

	For the quarter ended 30 June 2006	For the quarter ended 30 June 2005	For the year ended 31 March 2006
A. Cash flow from operating activities			
Net profit before tax	110,051,757	78,181,326	312,140,389
<i>Adjustment for:</i>			
Depreciation	11,448,052	10,721,649	39,292,691
Exchange difference on translation of foreign currency accounts	(1,231,794)	(536,415)	(4,764,732)
Dividend income from investments	(1,650,981)	(905,878)	(2,653,306)
Interest income	(1,776,709)	(2,033,679)	(7,457,597)
Profit on sale of investments	(11,960,652)	(2,338,575)	(12,981,491)
Amortisation of employees stock compensation expenses	1,503,192	472,075	1,972,818
(Profit)/Loss on sale of fixed assets	(143,895)	121,767	(45,470)
Loss on assets discarded	—	67,551	154,659
Bad debts written off	1,573,226	1,385,000	1,523,236
Advances and other current assets written off	—	2,813,754	5,904,441
Provision for doubtful debts/advances	590,523	69,251	(991,223)
Operating profit before working capital changes	108,402,719	88,017,826	332,094,415
Decrease / (increase) in debtors	(94,477,810)	(35,714,862)	22,780,957
Decrease / (increase) in loans and advances	(4,564,192)	(3,289,316)	(1,369,851)
Decrease / (increase) in other current assets	(25,823,110)	(17,423,702)	(50,674,732)
(Decrease) / increase in current liabilities and provisions	(22,524,960)	(29,220,140)	(48,722,293)
	(38,987,353)	2,369,806	254,108,496
Income Tax paid	(1,341,600)	(730,327)	(13,552,386)
Fringe Benefit Tax paid	(170,074)	—	(4,101,391)
Net cash from operating activities (A)	(40,499,027)	1,639,479	236,454,719
B. Cash flow from investing activities			
Purchase of fixed assets/capital work in progress	(31,363,328)	(11,016,425)	(69,972,264)
Sale of fixed assets	288,659	196,050	593,771
Purchase of investments (net)	(135,909,157)	(68,166,824)	(111,068,315)
Investment in subsidiaries	—	—	(5,365,000)
Purchase of other long term investment	—	—	(2,500,000)
Loan and advances to subsidiaries (net)	18,998,270	1,048,585	14,291,354
Interest received	4,109,121	788,714	7,306,115
Tax paid	(2,789,196)	(252,538)	(4,813,374)
Dividend received from investments	1,650,981	905,878	2,653,306
Net cash used in investing activities (B)	(145,014,650)	(76,496,560)	(168,874,407)
C. Cash flow from financing activities			
Dividends paid (including tax thereon)	—	—	(45,596,142)
Proceeds from employee stock option exercised	—	—	28,000
Receipt of share application money	1,330,000	620,500	760,500
Net cash used in financing activities (C)	1,330,000	620,500	(44,807,642)
Net increase/(decrease) in cash and cash equivalents (A+B+C)	(184,183,677)	(74,236,581)	22,772,670
Opening cash and cash equivalents	213,088,500	190,561,641	190,561,641
Exchange difference on translation of foreign currency bank accounts	(141,694)	(52,061)	(245,811)
Closing cash and cash equivalents*	28,763,129	116,272,999	213,088,500

* Includes fixed deposits amounting to Rs.7,809,459 (Rs.7,496,635 ; Rs.9,149,266) under lien with bank for guarantees issued on behalf of the Company.

Notes:

- 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.
- Cash and cash equivalents consist of cash in hand and balances with scheduled banks / non scheduled banks.
- The previous year's/period's figures have been recast / restated, wherever necessary to confirm to the current period's presentation.

As per our report of even date

For BSR & Co.
Chartered Accountants

Akhil Bansal
Partner
Membership No. 090906

Gurgaon
July 24, 2006

For and on behalf of the Board of Directors

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

Vishnu R Dusat
Managing Director

P K Sanghi
Chief Financial Officer

Poonam Bhasin
Company Secretary



NUCLEUS SOFTWARE EXPORTS LTD.

Schedules forming part of the financial statements

All amounts in Rupees

	As at 30 June 2006	As at 30 June 2005	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	200,000,000
Issued, subscribed and paid up			
Issued			
16,107,612 (16,093,612 ; 16,107,612) equity shares of Rs. 10 each	161,076,120	160,936,120	160,936,120
Subscribed and paid up			
16,104,812 (16,090,812 ; 16,104,812) equity shares of Rs. 10 each, fully paid up	161,048,120	160,908,120	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 during 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 ; 2,800) forfeited equity shares pending for reissue	15,000	15,000	15,000
	161,063,120	160,923,120	161,063,120



NUCLEUS SOFTWARE EXPORTS LTD.

Schedules forming part of the financial statements

All amounts in Rupees

	As at 30 June 2006	As at 30 June 2005	As at 31 March 2006
SCHEDULE—2			
RESERVES AND SURPLUS			
General reserve			
Balance as at 1 April	441,454,695	341,454,695	341,454,695
Add: Transferred from Profit and Loss Account	—	—	100,000,000
Less: Gratuity and leave encashment transitional liability (refer note 8)	9,981,145	—	—
	<u>431,473,550</u>	<u>341,454,695</u>	<u>441,454,695</u>
Securities premium account			
Balance as at 1 April	162,978,709	161,702,709	161,702,709
Add : On conversion of stock options issued to employees	—	—	1,276,000
	<u>162,978,709</u>	<u>161,702,709</u>	<u>162,978,709</u>
Capital reserve account			
Balance as at 1 April	1,500,030	1,480,030	1,480,030
Add: Amount forfeited against employees stock option plan	—	10,000	20,000
	<u>1,500,030</u>	<u>1,490,030</u>	<u>1,500,030</u>
Employee stock options			
Balance as at 1 April	4,394,168	2,304,350	2,304,350
Add: Options granted during the period / year	7,873,600	3,288,888	3,288,888
Less: Reversal on forfeiture of stock options granted	—	74,000	119,070
Less: Transferred to securities premium on exercise of stock options	—	—	1,080,000
	<u>12,267,768</u>	<u>5,519,238</u>	<u>4,394,168</u>
Less: Deferred employee compensation	(8,631,489)	(3,806,894)	(2,261,081)
	<u>3,636,279</u>	<u>1,712,344</u>	<u>2,133,087</u>
Profit and Loss Account			
Balance as at 1 April	237,546,836	112,539,379	112,539,379
Add: Profit for the year	105,376,050	72,628,357	289,279,749
Less: Transfer to general reserve	—	—	100,000,000
Less: Final dividend	—	—	56,366,842
Less: Dividend tax	—	—	7,905,450
	<u>342,922,886</u>	<u>185,167,736</u>	<u>237,546,836</u>
	<u>942,511,454</u>	<u>691,527,514</u>	<u>845,613,357</u>



Schedules forming part of the financial statements

**SCHEDULE—3
FIXED ASSETS**

Particulars	GROSS BLOCK		ACCUMULATED DEPRECIATION		NET BLOCK		
	As at 1 April, 2006	Additions/ Deductions/ Adjustments	As at 1 April, 2006	Deduction/ for the Adjustments period	As at 30 June, 2006	As at 30 June, 2005	As at 31 March, 2006
Freehold land	3,360,720	—	—	—	3,360,720	3,360,720	3,360,720
Leasehold land	64,195,000	—	2,891,645	178,880	61,124,475	61,841,962	61,303,355
Building	111,957,797	35,180,574	7,403,417	1,019,150	138,715,804	107,142,072	104,554,380
Office and other equipment	52,118,619	6,907,240	23,639,888	2,330,664	33,055,307	34,583,269	28,478,731
Computers	97,242,539	17,821,817	54,682,697	4,439,285	55,877,095	38,585,981	42,549,842
Vehicles	14,030,801	—	6,135,695	587,451	7,218,170	5,323,741	7,895,106
Furniture and fixtures	25,817,902	3,628,897	17,401,654	1,039,588	11,005,557	10,762,780	8,416,248
Software	73,634,382	2,292,939	59,240,063	1,853,034	14,834,224	5,148,910	14,394,319
Total	442,357,760	65,831,467	171,405,059	11,448,052	325,191,352	266,749,435	270,952,701
Previous period	402,276,461	13,216,196	137,636,205	10,721,649	266,749,435	—	—
Previous year	402,276,461	46,308,096	137,636,205	39,292,691	270,952,701	—	—



NUCLEUS SOFTWARE EXPORTS LTD.

Schedules forming part of the financial statements

All amounts in Rupees

	As at 30 June 2006	As at 30 June 2005	As at 31 March 2006
SCHEDULE—4			
INVESTMENTS			
Investments			
Long term investments			
Equity shares - Non trade and unquoted			
10,040,000 (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; 80,000) equity shares are held by nominees on behalf of the Company]	136,882,640	136,882,640	136,882,640
25,000 (Nil; 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	136,882,640	139,382,640
Equity shares in wholly owned subsidiaries - Non-trade and unquoted			
625,000 (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	16,319,950
1,000,000 (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	16,293,150
200 (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	4,092,262
316,000 (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	9,790,955
100,000 (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	619,885
1,000,000 (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 (Nil; 6) equity shares are held by nominees on behalf of the Company]	10,000,000	10,000,000	10,000,000
1,000 (Nil; 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	57,116,202	62,481,202
Current investments			
Investments in bonds and mutual funds - Non trade and unquoted			
Nil (4,322,224; 3,659,812) units of face value of Rs. 10 each of HDFC Cash management Fund-Saving Plan-Growth	—	59,742,894	50,742,894
Nil (460,889; Nil) units of face value of Rs. 10 each of HSBC Cash Fund -Growth	—	5,000,000	—



NUCLEUS SOFTWARE EXPORTS LTD.

Schedules forming part of the financial statements

All amounts in Rupees

	As at 30 June 2006	As at 30 June 2005	As at 31 March 2006
Nil (1,202,390; Nil) units of face value of Rs. 10 each of Kotak Liquid- Institutional Plan -Growth	—	15,800,000	—
Nil (3,605,681; Nil) units of face value of Rs. 10 each of J M High Liquidity Fund -Institutional Plan-Growth	—	39,000,000	—
Nil (254,087; Nil) units of face value of Rs. 10 each of Birla Cash Plus-Institutional Plan-Growth	—	4,500,000	—
Nil (992,418; Nil) units of face value of Rs. 10 each of DSP Merrill Lynch Liquidity Fund-Daily Dividend	—	9,934,102	—
Nil (1,741,470; Nil) units of face value of Rs. 10 each of Birla Cash Plus-Institutional Plan-Dividend	—	18,812,962	—
Nil (3,635,141; Nil) units of face value of Rs. 10 each of HSBC Cash Fund - Institutional Plan - Growth	—	40,000,000	—
Nil (2,040,247; Nil) units of face value of Rs. 10 each of DSP Merrill Lynch Floating Rate Fund-Daily Dividend	—	20,447,368	—
Nil (5,874,919; 62,196) units of face value of Rs. 10 each of Deutsche Insta Cash Plus Fund-Institutional Plan-Growth	—	59,999,972	650,000
Nil (500,000; Nil) units of face value of Rs. 10 each of UTI Fixed Maturity Plan-YFMP 11/2004-Growth	—	5,000,000	—
1,000,000 (Nil; 1,000,000) units of face value of Rs. 10 each of UTI Fixed Maturity Plan-YFMP 07/05-Growth	10,000,000	—	10,000,000
2,000,000 (Nil; 2,000,000) units of face value of Rs. 10 each of UTI Fixed Maturity Plan-YFMP 09/05-Growth	20,000,000	—	20,000,000
500,000 (Nil; 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; 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	20,000,000
Nil (1,000,000; 1,000,000) units of face value of Rs. 10 each of Reliance Fixed Maturity Fund-SeriesII-Annual Paln-I-Growth	—	10,000,000	10,000,000
1,185,642 (1,228,350; 2,413,992) units of face value of Rs. 10 each of DSP Merrill Lynch Liquidity Fund-Daily Growth	20,000,000	20,000,000	40,000,000
Nil (2,985,857; 2,985,857) units of face value of Rs. 10 each of SBI Magnum Institutional Income Fund-Saving-Growth	—	32,000,000	32,000,000
Nil (1,229,594; 1,229,594) units of face value of Rs. 10 each of Reliance Liquid Fund-Treasury Plan-Institutional -Growth	—	20,000,000	20,000,000
996,744 (1,975,869; 2,972,613) units of face value of Rs. 10 each of ABN Amro Cash Fund-Institutional-Growth	10,500,000	20,500,000	31,000,000
467,666 (951,565; 1,419,231) units of face value of Rs. 10 each of ING Vysya Liquid Fund Institutional-Growth	5,000,000	10,000,000	15,000,000
Nil (1,000,319; Nil) units of face value of Rs. 10 each of ABN Amro Cash Fund-Institutional-Dividend	—	10,003,191	—
26,544 (Nil; 26,544) units of face value of Rs. 1000 each of UTI Liquid Cash Plan Institutional-Growth	29,895,490	—	29,895,490
1,187,620 (Nil; 1,187,620) units of face value of Rs. 10 each of Prudential ICICI Institutional Liquid Plan-Growth	20,000,000	—	20,000,000



NUCLEUS SOFTWARE EXPORTS LTD.

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All amounts in Rupees

	As at 30 June 2006	As at 30 June 2005	As at 31 March 2006
881,780 (Nil; 881,780) units of face value of Rs. 10 each of Birla Sun Life Cash manager-Institutional Plan-Growth	10,000,000	—	10,000,000
750,000 (Nil; 750,000) units of face value of Rs. 10 each of Magnum Debt Fund Serires-13 Months (Oct 05)-Growth	7,500,000	—	7,500,000
800,000 (Nil; 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 (Nil; 900,000) units of face value of Rs. 10 each of Grindlays Fixed Maturity-20th Plan -Growth	9,000,000	—	9,000,000
5,472,457 (Nil; 5,136,964) units of face value of Rs. 10 each of LICMF Liquid Fund-Dividend	59,858,221	—	56,179,497
4,522,623 (Nil; 2,224,796) units of face value of Rs. 10 each of Birla Cash Plus-Institutional Premium-Growth	49,999,015	—	24,317,015
2,000,000 (Nil; 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 (Nil; 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
1,000,000 (Nil; 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; Nil) units of face value of Rs. 10 each of HSBC Fixed term Series-9-Growth	20,000,000	—	—
1,000,000 (Nil; 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
1,000,000 (Nil; 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	—	—
6,891,461(Nil; Nil) units of face value of Rs. 10 each of HSBC Cash Fund - Institutional Plus Plan - Daily Dividend	68,953,198	—	—
2,360,406 (Nil; Nil) units of face value of Rs. 10 each of Kotak Liquid- Institutional Plus Plan -Daily Dividend	28,863,282	—	—
3,117,013 (Nil; Nil) units of face value of Rs. 10 each of LICMF Liquid Fund-Growth	40,000,000	—	—
4,826,534(Nil; Nil) units of face value of Rs. 10 each of Prudential ICICI Super Institutional Plan-Growth	50,000,000	—	—
1,398,093 (Nil; Nil) units of face value of Rs. 10 each of Kotak Liquid- Institutional Plus Plan -Growth	20,000,000	—	—
3,950,846 (Nil; Nil) units of face value of Rs. 10 each of Birla Cash Plus-Institutional Premium-Daily Dividend	39,585,499	—	—
	622,154,705	420,740,489	474,284,896
	824,018,547	614,739,331	676,148,738

Notes:

1. Net asset value (NAV) of current investments Rs.631,463,642 (Rs.428,087,503; Rs.487,926,419) as at 30 June 2006.
2. Refer note 7, schedule 16 for details of investments purchased and sold during the quarter ended 30 June 2006.



NUCLEUS SOFTWARE EXPORTS LTD.

Schedules forming part of the financial statements

All amounts in Rupees

	As at 30 June 2006	As at 30 June 2005	As at 31 March 2006
SCHEDULE—5			
SUNDRY DEBTORS (UNSECURED)			
Debts outstanding for a period exceeding six months			
—Considered good	2,589,451	5,089,901	3,149,136
—Considered doubtful	19,645,122	20,044,627	18,879,154
	22,234,573	25,134,528	22,028,290
Less: Provision for doubtful debts	(19,645,122)	(20,044,627)	(18,879,154)
	2,589,451	5,089,901	3,149,136
Other debts (considered good)*	195,440,591	156,143,975	101,944,160
	198,030,042	161,233,876	105,093,296

* includes debt amounting to Rs.114,588,474 (Rs.124,603,210; Rs.46,192,627) due from companies under the same management.

SCHEDULE—6 CASH AND BANK BALANCES

Cash in hand [including cheques in hand Rs.50,000 (Rs.5,063,359; Rs.1,989,242)]	794,095	5,198,634	2,311,320
Balances with scheduled banks:			
—in current accounts	17,762,630	15,851,165	21,798,971
—in fixed deposit accounts*	9,337,461	94,997,635	184,301,711
Balance with non scheduled bank:			
—in current account (Citibank, United Kingdom) [Maximum amount outstanding Rs.1,058,740 (918,769; 1,108,854)]	868,943	225,565	660,698
Remittance in transit	—	—	4,015,800
	28,763,129	116,272,999	213,088,500

*include fixed deposits amounting to Rs.7,809,459 (Rs.7,496,635; Rs.9,149,266) under lien with bank on account of guarantees issued on behalf of the Company.

SCHEDULE—7 LOANS AND ADVANCES (Unsecured, considered good)

Advances recoverable in cash or in kind or for value to be received	12,553,297	10,240,438	9,281,723
Loans and advances to subsidiaries*	11,346,039	28,182,373	13,175,644
Security deposits	3,335,148	4,465,270	2,980,534
Prepaid expenses	6,626,850	6,127,778	5,867,776
	33,861,334	49,015,859	31,305,677

* includes loan amounting to Nil (Rs.5,168,000; Rs.5,516,000) to Nucleus Software Solutions Pte. Ltd., Singapore and Rs.5,415,575 (Rs.5,113,600; Rs.5,242,850) to Nucleus Software Inc., USA, wholly owned subsidiaries of the Company. Maximum amount outstanding of Rs.5,824,000 (Rs.5,308,000; Rs.5,516,000) to Nucleus Software Solutions Pte. Ltd., Singapore and Rs.5,415,575 (Rs.5,145,325; Rs.5,298,075) to Nucleus Software Inc., USA.



NUCLEUS SOFTWARE EXPORTS LTD.

Schedules forming part of the financial statements

All amounts in Rupees

	As at 30 June 2006	As at 30 June 2005	As at 31 March 2006
SCHEDULE—8			
OTHER CURRENT ASSETS			
Service income accrued but not due	93,535,815	37,552,362	67,712,705
Interest accrued but not due	1,497,865	4,939,241	3,845,620
	<u>95,033,680</u>	<u>42,491,603</u>	<u>71,558,325</u>

SCHEDULE—9 **CURRENT LIABILITIES**

Sundry creditors *	100,733,860	53,390,199	82,349,937
Withholding tax	12,623,566	6,783,175	8,036,409
Due to subsidiaries	28,861,071	14,106,674	12,253,033
Advances from customers	152,760,333	252,847,326	199,904,318
Unclaimed dividends	699,253	443,423	708,613
Other liabilities	11,353,677	5,399,772	10,219,189
	<u>307,031,760</u>	<u>332,970,569</u>	<u>313,471,499</u>

* The Company has no outstanding amounts payable to small-scale industrial undertakings as defined under section 3(j) of the Industries (Development and Regulation) Act, 1951.

SCHEDULE—10 **PROVISIONS**

Gratuity	16,125,188	8,629,978	10,885,152
Leave encashment	23,160,184	6,173,221	7,069,271
Income tax [Net of advance tax Rs.32,887,214 (Rs.19,845,945; Rs.28,774,091)]	310,734	5,007,973	1,255,175
Fringe benefit tax	900,000	875,000	170,074
Dividend	56,366,842	40,227,030	56,366,842
Corporate dividend tax	7,905,450	5,641,841	7,905,450
	<u>104,768,398</u>	<u>66,555,043</u>	<u>83,651,964</u>



NUCLEUS SOFTWARE EXPORTS LTD.

Schedules forming part of the financial statements

All amounts in Rupees

	For the quarter ended 30 June 2006	For the quarter ended 30 June 2005	For the year ended 31 March 2006
SCHEDULE—11			
SALES AND SERVICES			
Software development services and products			
— Domestic	61,723,648	39,802,797	207,937,981
— Overseas	251,934,520	175,560,444	735,740,155
	<u>313,658,168</u>	<u>215,363,241</u>	<u>943,678,136</u>

SCHEDULE—12 **SOFTWARE DEVELOPMENT EXPENSES**

Salaries and allowances	96,156,773	43,442,022	223,649,420
Contribution to provident and other funds	4,884,296	2,405,610	11,974,371
Directors' remuneration	2,246,742	1,760,000	7,002,000
Employee's stock compensation expenses	655,542	377,811	1,729,294
Staff welfare	1,919,025	1,425,704	7,858,245
Conveyance	1,236,113	819,442	4,006,269
Communication	5,443,220	2,492,049	8,893,719
Rent	738,526	775,777	2,743,719
Legal and professional	2,015,315	1,255,840	4,499,590
Repair and maintenance			
— Building	31,619	75,154	430,541
— Others	706,776	865,279	3,285,474
Training and recruitment	5,110,552	1,261,824	8,497,777
Printing and stationery	176,881	67,042	315,629
Insurance	700,853	565,420	1,349,112
Software and other development charges	1,398,534	900,009	10,685,838
Cost of software purchased for delivery to clients	5,130,567	1,905,981	12,766,339
Travelling	24,661,584	27,666,429	110,033,698
Consultancy charges	—	—	—
Power and fuel	3,530,717	2,361,839	9,628,878
Conference, exhibition and seminar	61,348	—	—
Information technology expenses	422,336	349,725	1,794,624
Miscellaneous expenses	193,180	225,234	2,602,941
	<u>157,420,499</u>	<u>90,998,191</u>	<u>433,747,478</u>



NUCLEUS SOFTWARE EXPORTS LTD.

Schedules forming part of the financial statements

All amounts in Rupees

	For the quarter ended 30 June 2006	For the quarter ended 30 June 2005	For the year ended 31 March 2006
SCHEDULE—13			
SELLING AND MARKETING EXPENSES			
Salaries and allowances	7,115,504	6,882,475	29,100,756
Contribution to provident and other funds	315,742	370,297	1,365,794
Salary contractor	—	—	—
Directors' remuneration	2,246,742	1,760,000	7,002,000
Employee's stock compensation expenses	—	53,989	145,736
Staff welfare	190,580	300,257	1,233,502
Conveyance	228,052	252,542	1,089,742
Communication	173,436	378,749	1,624,105
Rent	60,697	367,900	1,354,761
Legal and professional	233,332	308,613	746,551
Repair and maintenance			
— Building	3,162	7,515	43,054
— Others	70,678	86,528	328,547
Training and recruitment	218,131	86,380	717,917
Printing and stationery	278,062	43,723	285,885
Insurance	47,116	74,568	125,517
Travelling	3,636,138	3,485,419	14,202,603
Advertisement and business promotion	1,413,110	1,380,038	6,261,146
Power and fuel	149,950	228,394	998,473
Conference, exhibition and seminar	145,398	136,068	1,589,902
Information technology expenses	19,299	46,436	144,029
Commission on sales	4,988,291	585,656	2,853,673
Market survey expenses	—	806,230	1,394,695
Miscellaneous expenses	51,034	41,367	463,961
	<u>21,584,454</u>	<u>17,683,144</u>	<u>73,072,349</u>



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Schedules forming part of the financial statements

All amounts in Rupees

	For the quarter ended 30 June 2006	For the quarter ended 30 June 2005	For the year ended 31 March 2006
SCHEDULE—14			
GENERAL AND ADMINISTRATION EXPENSES			
Salaries and allowances	10,604,396	4,655,507	25,581,060
Contribution to provident and other funds	591,917	299,714	1,532,069
Salary contractor	—	—	—
Directors' remuneration	1,408,371	970,000	3,846,000
Employee's stock compensation expenses	-	40,275	97,788
Staff welfare	304,784	247,644	1,349,137
Conveyance	465,283	260,897	1,508,263
Communication	52,468	979,841	4,181,573
Rent	30,000	68,500	223,500
Rates and taxes	318,907	423,120	1,718,991
Legal and professional	3,297,463	1,966,957	13,759,580
Repair and maintenance			
— Building	11,067	26,304	150,689
— Others	247,372	302,847	1,149,913
Training and recruitment	31,692	54,939	924,886
Printing and stationery	217,632	410,527	1,618,650
Loss on sale of fixed assets (net)	—	121,767	—
Loss on discarded assets	—	67,551	154,659
Insurance	62,821	104,806	315,934
Bank charges	393,795	416,163	1,618,598
Travelling	13,953	822,395	1,900,349
Advertisement	27,883	227,235	1,097,331
Power and fuel	49,514	736,009	2,987,602
Conference, exhibition and seminar	302,199	—	426,060
Information technology expenses	31,417	35,553	170,812
Bad debts written off	1,573,226	1,385,000	1,523,236
Advances/ other current assets written off	—	2,813,754	5,904,441
Provision for doubtful debts /advances / other current assets	590,523	69,251	(991,223)
Loss on foreign exchange fluctuation (net)	359,219	—	—
Miscellaneous expenses	1,484,156	1,445,108	5,816,079
	22,470,058	18,951,664	78,565,977
SCHEDULE—15			
OTHER INCOME			
Dividend received from non-trade investments	1,650,981	905,878	2,653,306
Gain on foreign exchange fluctuation (net)	—	528,978	40,151
Interest on fixed deposits and loans to subsidiaries [Gross of tax deducted at source Rs.751,283 (Rs.93,398; Rs.70,847)]	1,776,709	2,033,679	7,457,597
Profit/ (loss) on sale of fixed assets (net)	143,895	—	45,470
Profit on sale of investments (net)	11,960,652	2,338,575	12,981,491
Miscellaneous income	1,281,312	542,057	2,077,000
	16,813,549	6,349,167	25,255,015



Schedules forming part of the financial statements

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 (IPO) in August 1995. As at 30 June 2006, 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. All income and expenditure having a material bearing on the financial statements are recognised on the 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 standard 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. 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.

(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



NUCLEUS SOFTWARE EXPORTS LTD.

from fixed price contracts and sale of license and related customisation and implementation is recognised in accordance with the percentage completion method under which the sales value of performance including earnings thereon is recognised on the basis of effort incurred in respect of each contract as a proportion of total effort expected to be incurred. Anticipated losses, if any, upto the completion of contract are recognised immediately.

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. Gratuity and leave encashment are recognised on the basis of actuarial valuation.

(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, 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. 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:

<i>Asset category</i>	<i>Useful life (in years)</i>
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) Retirements benefits

Contributions to provident fund are charged to the profit and loss account as incurred. Provisions for gratuity and leave encashment are made on the basis of an actuarial valuation at the year-end and charged off to the profit and loss account.

(xi) 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.

(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 originates.

3. Deferred tax

Components of net deferred tax asset:

(Amounts in Rupees)

	As at 30 June 2006	As at 30 June 2005	As at 31 March 2006
Deferred tax asset			
Provision for doubtful debts	918,036	1,058,478	786,249
Provision for retirement benefits	3,645,249	1,599,196	2,574,378
	<u>4,563,285</u>	<u>2,657,674</u>	<u>3,360,627</u>
Deferred tax liability			
Fixed Assets	(2,793,860)	(1,036,643)	(2,020,705)
Net deferred tax asset	1,769,425	1,621,031	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.384,449 (Rs.289,047; Rs.999,672). As at 30 June 2006, the Company has outstanding forward contracts for USD 2,600,000 (USD 2,791,200; USD 2,550,000).

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 three ESOP schemes, ESOP scheme-1999 instituted in 2000, ESOP scheme-2002 instituted in 2002 and ESOP scheme - 2005 instituted in 2005. These schemes were duly



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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 and 2005 scheme for 600,000 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:

(Amounts in Rupees)

1999 Stock Option Scheme

	Quarter ended		Year ended
	30 June 2006	30 June 2005	31 March 2006
Options outstanding at the beginning of the period	12,500	27,500	27,500
Options granted	9,000	—	—
Options forfeited	—	(1,000)	(1,000)
Options exercised	—	—	(14,000)
Balance carried forward	21,500	26,500	12,500

2002 Stock Option Scheme

	Quarter ended		Year ended
	30 June 2006	30 June 2005	31 March 2006
Options outstanding at the beginning of the period	63,250	5,000	5,000
Options granted	50,000	59,250	59,250
Options forfeited	—	—	(1,000)
Options exercised	—	—	—
Balance carried forward	113,250	64,250	63,250

2005 Stock Option Scheme

	Quarter ended		Year ended
	30 June 2006	30 June 2005	31 March 2006
Options outstanding at the beginning of the period	—	—	—
Options granted	40,000	—	—
Options forfeited	—	—	—
Options exercised	—	—	—
Balance carried forward	40,000	—	—

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

(Amounts in Rupees)

	Quarter ended		Year ended
	30 June 2006	30 June 2005	31 March 2006
Balance brought forward	2,261,081	1,064,081	1,064,081
Add: Recognised during the period	7,873,600	3,288,888	3,288,888
Less: Amortisation expense	1,503,192	472,075	1,972,818
Less: Reversal due to forfeiture	—	74,000	119,070
Balance carried forward	8,631,489	3,806,894	2,261,081



6. Managerial Remuneration *

(Amounts in Rupees)

	Quarter ended		Year ended
	30 June 2006	30 June 2005	31 March 2006
A. Managing Director			
Salary and perquisites	540,000	540,000	2,160,000
Contribution to provident and other funds	36,000	36,000	144,000
Commission	4,193,206	3,074,000	12,596,000
	4,769,206	3,650,000	14,900,000
B. Non executive Directors			
Commission	847,649	750,000	2,950,000
Sitting fees	285,000	90,000	345,000
	1,132,649	840,000	3,295,000

*Note: The above remuneration does not include expense towards retirement benefits as the same is based on actuarial valuation/ estimates carried out for the Company as a whole.

7. Details of investments purchased and sold during the quarter ended 30 June 2006

Name of the investment	Face value	Purchased during the quarter		Sold during the quarter	
	Amount (Rupees)	Quantity	Amount (Rupees)	Quantity	Amount (Rupees)
Kotak K Liquid-Inst. Prem (Dividend)	10	6,583,198	80,500,000	6,583,198	80,500,000
Prudential ICICI Liquid-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

8. Employee Benefit Obligations

Effective April 1, 2006, the Company adopted revised accounting standard on employee benefits. Pursuant to the adoption, the transitional obligations of the Company amounted to INR 9,981,145 (net of deferred tax amounting to INR 1,018,855). As required by the standard, the obligation has been recorded with the transfer of INR 9,981,145 to general reserve.

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

(Amounts in Rupees)

	Quarter ended 30 June 2006
Obligation at period beginning	12,890,710
Current Service Cost	755,776
Interest Cost	215,719
Actuarial Losses / (Gain)	2,393,751
Benefits Paid	(130,768)
Obligation at period end	16,125,188



Change in plan assets

(Amounts in Rupees)

Quarter ended 30 June 2006

Plan Assets at period beginning, at fair value	—
Expected Return on Plan Assets	—
Actuarial Gains / (Losses)	—
Contributions by Employer	130,768
Benefits Paid	(130,768)
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:

(Amounts in Rupees)

Quarter ended 30 June 2006

Current Service Cost	755,776
Interest on Defined Benefit Obligation	215,719
Expected Return on Plan Assets	—
Net Actuarial Losses / (Gains) Recognized in Year	2,393,751
Past Service Cost	—
Losses / (Gains) on "Curtailments & Settlements"	—
Total, included in "Employee Benefit Expense"	3,365,246

Assumptions

(Amounts in Rupees)

Quarter ended 30 June 2006

Discount Rate	7.3% 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 the Company operates and internal reporting systems.

(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



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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. 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.

Information in respect of primary segment

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

For the quarter ended 30 June 2006

(Amounts in Rupees)

Description	India	Far East	Singapore	Europe	Others	Total
Revenue from external customers	61,723,648	93,641,361	34,741,631	41,319,166	82,232,362	313,658,168
Expenses	56,645,444	55,912,050	17,962,377	21,484,536	43,756,487	195,760,894
Segment result	5,078,204	37,729,311	16,779,254	19,834,630	38,475,875	117,897,274
Unallocated corporate expenditure						24,659,066
Operating profit before taxation						93,238,208
Other income						16,813,549
Profit before tax						110,051,757
Provision for taxation - current						3,100,000
Provision for taxation - fringe benefit						900,000
Provision for taxation - deferred						589,352
Provision for taxation-earlier period						86,355
Net profit after taxation						105,376,050

For the quarter ended 30 June 2005

(Amounts in Rupees)

Description	India	Far East	Singapore	Europe	Others	Total
Revenue from external customers	39,802,797	25,954,972	71,963,805	39,905,198	37,736,469	215,363,241
Expenses	29,765,450	17,944,116	35,400,190	19,956,238	18,563,195	121,629,189
Segment result	10,037,347	8,010,856	36,563,615	19,948,960	19,173,274	93,734,052
Unallocated corporate expenditure						21,901,893
Operating profit before taxation						71,832,159
Other income						6,349,167
Profit before tax						78,181,326
Provision for taxation - current						(4,100,000)
Provision for taxation-fringe benefit						(875,000)
Provision for taxation-deferred						(577,969)
Net profit after taxation						72,628,357



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For the year ended 31 March 2006

(Amounts in Rupees)

Description	India	Far East	Singapore	Europe	Others	Total
Revenue from external customers	207,937,981	162,033,377	241,720,772	160,024,871	171,961,135	943,678,136
Expenses	158,655,612	115,679,509	124,453,558	82,940,282	88,562,915	570,291,876
Segment result	49,282,369	46,353,868	117,267,214	77,084,589	83,398,220	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						19,200,000
Provision for taxation - fringe benefit						4,271,465
Provision for taxation-deferred						859,078
Provision for taxation - earlier						(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 30 June 2006

(Amounts in Rupees)

Description	India	Far East	Singapore	Europe	Others	Total
Segment assets	67,349,188	117,804,896	13,141,753	56,957	104,559,102	302,911,896
Unallocated corporate assets						1,214,550,336
Total assets						1,517,462,232
Segment liabilities	33,318,861	37,715,786	8,088,828	140,666,531	32,406,124	252,196,130
Unallocated corporate liabilities						162,604,029
Total liabilities						411,800,159
Capital employed						1,105,662,073

**NUCLEUS SOFTWARE EXPORTS LTD.****As at 30 June 2005***(Amounts in Rupees)*

Description	India	Far East	Singapore	Europe	Others	Total
Segment assets	49,641,783	33,221,340	87,450,586	—	56,716,744	227,030,453
Unallocated corporate assets						1,025,881,293
Total assets						1,252,911,746
Segment liabilities	15,646,605	22,735,632	7,779,445	236,979,692	11,532,791	294,674,165
Unallocated corporate liabilities						104,851,447
Total liabilities						399,525,612
Capital employed						853,386,134

As at 31 March 2006*(Amounts in Rupees)*

Description	India	Far East	Singapore	Europe	Others	Total
Segment assets	44,122,673	42,889,359	21,454,760	-	77,514,853	185,981,645
Unallocated corporate assets						1,218,575,795
Total assets						1,404,557,440
Segment liabilities	15,885,668	24,031,850	7,227,246	170,896,465	29,356,945	247,398,174
Unallocated corporate liabilities						149,725,289
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 quarter ended 30 June 2006*(Amounts in Rupees)*

Description	India	Far East	Singapore	Europe	Others	Total
Capital expenditure (unallocated)						41,555,909
Total capital expenditure						41,555,909
Depreciation expenditure (unallocated)						11,448,052
Total depreciation						11,448,052
Segment non-cash expense other than depreciation	50,729	368,842	136,843	162,751	2,947,774	3,666,939
Total non cash expenditure other than depreciation	50,729	369,057	136,923	165,699	2,954,815	3,666,939



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For the quarter ended 30 June 2005

(Amounts in Rupees)

Description	India	Far East	Singapore	Europe	Others	Total
Capital expenditure (unallocated)						13,216,196
Total capital expenditure						13,216,196
Depreciation expenditure (unallocated)						10,721,649
Total depreciation						10,721,649
Segment non-cash expense other than depreciation	853,618	47,329	514,464	72,768	3,251,901	4,740,080
Total non cash expenditure other than depreciation	853,618	47,329	514,464	72,768	3,251,901	4,740,080

For the year ended 31 March 2006

(Amounts in Rupees)

Description	India	Far East	Singapore	Europe	Others	Total
Capital expenditure (unallocated)						79,361,014
Total capital expenditure						79,361,014
Depreciation expenditure (unallocated)						39,292,691
Amortization (Unallocated) (miscellaneous expenditure amortised during the year)						—
Total depreciation and amortisation						39,292,691
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 and amortisation	798,647	372,501	310,743	52,807	6,874,575	8,409,273

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 period/year:

- Key managerial personnel:
- Vishnu R Dusad (Managing Director)

**NUCLEUS SOFTWARE EXPORTS LTD.****b) Transactions with related parties***(Amounts in Rupees)*

	Quarter ended		Year ended
	30 June 2006	30 June 2005	31 March 2006
i. Software development, services and products			
Wholly owned subsidiary companies	130,260,211	113,088,979	453,282,354
ii. Other income			
Wholly owned subsidiary companies	479,340	359,028	1,554,585
iii. Managerial remuneration			
Key Managerial Personnel	4,769,206	3,650,000	14,900,000
iv. Reimbursement of expenses			
From wholly owned subsidiary companies	6,958,126	4,731,622	14,286,881
To wholly owned subsidiary companies	7,527,894	6,134,657	27,587,652
v. Commission paid			
To wholly owned subsidiary companies	165,483	—	653,775
vi. Interest received			
From wholly owned subsidiary companies	184,612	123,690	628,348
vii. Loans and advances			
Given to wholly owned subsidiary companies	—	4,100,000	8,800,000
Repaid by wholly owned subsidiary companies	5,824,000	4,100,000	8,800,000
viii. Investments			
Nucleus Software Netherlands B.V.	—	—	5,365,000

c) Outstanding balances as at period/year end*(Amounts in Rupees)*

	As at	As at	As at
	30 June 2006	30 June 2005	31 March 2006
Loans and advances			
To wholly owned subsidiary companies	11,346,039	28,182,373	13,175,644
From wholly owned subsidiary companies	28,861,071	14,106,674	12,253,033
Debtors			
Wholly owned subsidiary companies	114,589,104	124,593,331	46,192,627
Service income accrued but not due			
Wholly owned subsidiary Company	—	225,371	—
Interest income accrued			
Wholly owned subsidiary companies	594,125	220,391	684,405

**NUCLEUS SOFTWARE EXPORTS LTD.***(Amounts in Rupees)*

	Quarter ended 30 June 2006	30 June 2005	Year ended 31 March 2006
11. Legal and professional (includes payment to auditors)			
- Audit fees (includes service tax)	334,602	551,000	1,661,333
- Other services	—	—	264,480
- Out of pocket expenses	50,000	32,400	123,530
Total	384,602	583,400	2,049,343
12. CIF value of imports			
Capital goods	13,630,275	10,387,446	24,206,256
Software	—	—	—
Total	13,630,275	10,387,446	24,206,256
13. Expenditure in foreign currency			
Travel expenses	21,258,739	25,360,772	101,474,758
Professional charges	49,244	1,025,130	1,948,035
Others	7,212,576	2,320,906	14,971,587
Total	28,520,559	28,706,808	99,665,853
14. Earnings in foreign currency			
Income from software development services	251,934,520	175,560,444	735,740,155
Interest	186,104	123,690	630,694
Total	252,120,624	175,684,134	736,370,849
15. Dividend remitted in foreign currency			
Amount remitted (net of tax)			
Final dividend (2005)	—	—	—*
Number of shares held			
Final dividend (2005)	—	—	303,884
Number of non-resident shareholders			
Final dividend (2005)	—	—	61

*Dividend was remitted in Indian Rupees

**NUCLEUS SOFTWARE EXPORTS LTD.***(Amounts in Rupees)*

	30 June 2006	Quarter ended 30 June 2005	Year ended 31 March 2006
16. Earnings per share			
Profit after taxation available to equity shareholders (Rupees)	105,376,050	72,628,357	289,279,749
Weighted average number of equity shares used in calculating basic earnings per share	16,104,812	16,090,812	16,097,694
Add: Effect of dilutive issue of shares	61,612	33,399	39,861
Weighted average number of equity shares used in calculating diluted earnings per share	16,166,424	16,124,211	16,137,555
Basic earnings per share (Rupees)	6.54	4.51	17.97
Diluted earnings per share (Rupees)	6.52	4.50	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.43,475,474 (Rs.4,115,669; Rs.12,281,986).
- b. Claim against the Company not acknowledged as debt Rs.324,000 (Rs.324,000, Rs.324,000).

**NUCLEUS SOFTWARE EXPORTS LTD.**

18. 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

(Amounts in Rupees)

	Quarter ended		Year ended
	30 June 2006	30 June 2005	31 March 2006
Salaries and allowances	113,876,673	54,980,004	278,331,236
Contribution to provident and other funds	5,791,955	3,075,621	14,872,234
Directors' remuneration	5,901,855	4,490,000	17,850,000
Employee's stock compensation expenses	655,542	472,075	1,972,818
Staff welfare	2,414,389	1,973,605	10,440,884
Training and Recruitment	5,360,375	1,403,143	10,140,580
Software and other development charges	1,398,534	900,009	10,685,838
Cost of software purchased for delivery to clients	5,130,567	1,905,981	12,766,339
Travelling	28,311,675	31,974,243	126,136,650
Conveyance	1,929,448	1,332,881	6,604,274
Communication	5,669,124	3,850,639	14,699,397
Rent, rates and taxes	1,148,130	1,635,297	6,040,971
Legal and professional	5,546,110	4,337,640	19,005,721
Loss on foreign exchange fluctuation	359,219	—	—
Power and fuel	3,730,181	3,326,242	13,614,953
Repair and maintenance			
- Building	45,848	108,973	624,284
- Others	1,024,826	1,254,654	4,763,934
Advertisement and business promotion	1,467,593	1,607,273	7,358,477
Conference, exhibition and seminar	508,945	136,068	2,015,962
IT expenses	473,052	431,714	2,109,465
Bad debts/ advances/ other current assets written off	1,573,226	4,198,754	7,427,677
Commission on sales	4,988,291	585,656	2,853,673
Provision for doubtful debts	590,523	69,251	(991,223)
Printing and stationery	672,575	521,292	2,220,164
Loss on discarded assets	—	67,551	154,659
Insurance	810,790	744,794	1,790,563
Loss on sale of fixed assets (net)	—	121,767	—
Bank charges	393,795	416,163	1,618,598
Marketing Survey	—	—	1,394,695
Miscellaneous expenses	1,701,770	1,711,709	8,882,981
	201,475,011	127,632,999	585,385,804

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

For and on behalf of the Board of Directors

Lt. Gen T P Singh (Retd.)
Chairman

Vishnu R Dusad
Managing Director

NOIDA (U.P.)
July 24, 2006

P K Sanghi
Chief Financial Officer

Poonam Bhasin
Company Secretary



Consolidated Financial Statements of Nucleus Software Exports Ltd. and its Subsidiaries

Basis of Preparation of the Financial Statements

The accompanying financial statements for the quarter ended June 30, 2006 have been prepared incorporating Accounting Policies of the parent Company under the historical cost convention, in compliance with Indian Generally Accepted Accounting Practices ("GAAP") in accordance with mandatory and relevant Accounting Standards issued by the Institute of Chartered Accountants of India and in compliance with the provisions of The Companies Act, 1956.

Use of Estimates

The consolidated financial statements include the accounts of the Company and its Subsidiary Companies. The preparation of the financial statements in conformity with GAAP requires that the management make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Examples of such estimates include expected contract costs to be incurred to complete software development, provision for doubtful debts, future obligations under employee retirement benefit plans and the useful lives of fixed assets. Actual results could differ from those estimates.



NUCLEUS SOFTWARE EXPORTS LTD.

Consolidated Balance Sheet as at 30 June 2006 (Unaudited)

All amounts in Rupees

Particulars	As at 30 June 2006	As at 30 June 2005	As at 31 March 2006
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	161,063,120	160,923,120	161,063,120
Share Application Money Pending Allotment	2,087,500	935,500	757,500
Reserves & Surplus	1,126,819,542	767,892,761	994,061,141
TOTAL	1,289,970,162	929,751,381	1,155,881,761
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	577,473,914	456,789,336	501,422,509
Less: Accumulated Depreciation	(214,041,294)	(170,760,155)	(201,902,924)
Net Block	363,432,620	286,029,181	299,519,585
Add: Capital Work in Progress (including capital advances)	11,511,330	1,842,276	37,487,576
	374,943,950	287,871,457	337,007,161
Investments	781,601,702	557,623,129	613,667,536
Deferred Tax Asset	430,587	1,143,043	234,543
Current Assets, Loans & Advances			
Sundry Debtors	321,031,982	261,216,263	238,307,655
Cash & Bank Balances	131,250,620	181,270,093	300,525,040
Loans & Advances	46,275,464	40,051,291	37,771,624
Other Current Assets	100,974,292	46,480,217	76,360,903
	599,532,358	529,017,864	652,965,222
Less : Current Liabilities & Provisions			
Current Liabilities	(346,375,889)	368,399,881	(353,968,289)
Provisions	(120,162,546)	77,504,231	(94,024,412)
	(466,538,435)	445,904,112	(447,992,701)
Net Current Assets	132,993,923	83,113,752	204,972,521
TOTAL	1,289,970,162	929,751,381	1,155,881,761

**NUCLEUS SOFTWARE EXPORTS LTD.****Consolidated Profit and Loss Account for the Quarter Ended 30 June 2006 (Unaudited)**

All amounts in Rupees

Particulars	For the quarter ended 30 June 2006	For the quarter ended 30 June 2005	For the year ended 31 March 2006
			(Audited)
Sales and Services	497,598,682	328,433,980	1,480,518,319
Software Development Expenses	290,851,669	168,059,677	805,005,109
Gross profit	206,747,013	160,374,303	675,513,210
Selling and Marketing Expenses	32,107,418	29,225,184	117,459,678
General and Administration Expenses	30,484,683	25,792,971	106,761,548
Operating Profit Before Finance Charges, Depreciation and Withholding Tax	144,154,912	105,356,148	451,291,984
Depreciation	14,458,811	12,506,633	47,589,862
Withholding Taxes Charged Off	9,021,077	6,947,535	32,376,266
Operating Profit After Finance Charges, Depreciation and Withholding Tax	120,675,023	85,901,980	371,325,856
Other Income	21,823,773	8,696,331	30,666,043
Profit before Taxation	142,498,796	94,598,311	401,991,899
Provision for Tax - current	6,766,544	7,071,600	26,920,302
- fringe benefit	900,000	1,075,000	4,271,465
- deferred	765,097	577,969	1,433,780
- earlier year tax	86,355	—	(1,521,305)
Provision for Wealth Tax	—	—	51,402
Profit after Taxation	133,980,801	85,873,742	370,836,255
Profit Available for Appropriation			
Profit for the quarter/year	133,980,801	85,873,742	370,836,255
Add: Balance Brought Forward	381,673,741	175,109,779	175,109,778
Total Amount Available	515,654,542	260,983,521	545,946,033
Final Dividend	—	—	56,366,842
Dividend Tax	—	—	7,905,450
Transferred to General Reserve	—	—	100,000,000
Balance Carried Forward to Balance Sheet	515,654,542	260,983,521	381,673,741
Earnings Per Equity Share (par value Rs. 10 each)			
Basic	8.32	5.34	23.04
Diluted	8.29	5.33	22.98
Number of Shares used in Computing Earning Per Share			
Basic	16,104,812	16,090,812	16,097,694
Diluted	16,166,424	16,124,211	16,137,555



NUCLEUS SOFTWARE EXPORTS LTD.

Consolidated Cash Flow Statement for the Quarter Ended 30 June 2006

All amounts in Rupees

	For the quarter ended 30 June 2006	For the quarter ended 30 June 2005	For the year ended 31 March 2006
A. Cash flow from operating activities			
Net profit before tax	142,498,796	94,598,311	401,991,899
<i>Adjustment for:</i>			
Depreciation	14,458,811	12,506,633	47,589,862
Exchange difference on translation of foreign currency accounts	5,208,328	(1,544,546)	1,953,614
Dividend income from investments	(1,766,707)	(918,280)	(2,717,457)
Interest income	(1,651,828)	(1,940,451)	(7,112,658)
Profit on sale of investments	(11,960,652)	(2,338,575)	(12,981,491)
Amortisation of employees compensation expenses	1,503,192	472,075	1,972,818
Loss on sale of fixed assets (net)	(143,895)	121,767	(45,470)
Loss on assets discarded	—	67,551	154,659
Bad debts/advances written off	1,573,226	1,385,000	2,039,965
Advances and other current assets written off	—	2,813,754	5,904,441
Provision for doubtful debts/advances	3,087,927	570,650	(991,223)
Operating profit before working capital changes	152,807,199	105,793,889	437,758,959
Decrease / (increase) in debtors	(86,231,527)	(69,801,166)	(46,539,022)
Decrease / (increase) in loans and advances	(8,328,395)	(3,457,902)	(1,352,486)
Decrease / (increase) in other current assets	(26,868,236)	(20,685,391)	(55,203,069)
(Decrease) / increase in current liabilities	6,330,436	(14,253,236)	(29,655,908)
Direct taxes paid	37,709,475	(2,403,807)	305,008,474
<i>Net cash from operating activities (A)</i>	34,345,520	(3,481,508)	280,892,959
B. Cash flow from investing activities			
Purchase of fixed assets/capital work in progress	(52,115,703)	(15,606,323)	(91,469,344)
Sale of fixed assets	288,659	196,050	593,771
Sale/(Purchase) of current investments (net)	(155,973,514)	(68,166,823)	(111,068,315)
Purchase of Long Term Investment	—	—	(2,500,000)
Interest received	3,552,300	1,209,406	7,318,182
Tax paid	(2,789,196)	(252,538)	(4,813,374)
Dividend received from investments	1,766,707	918,280	2,717,457
<i>Net cash used in investing activities (B)</i>	(205,270,747)	(81,701,948)	(199,221,623)
C. Cash flow from financing activities			
Dividend paid	—	—	(45,596,142)
Proceeds from employee stock option exercised	—	—	28,000
Receipt from share application money	1,330,000	620,500	760,500
<i>Net cash used in financing activities (C)</i>	1,330,000	620,500	(44,807,642)
Net increase in cash and cash equivalents	(169,595,227)	(84,562,956)	36,863,694
Cash and cash equivalents opening balance	300,525,040	266,461,406	266,461,406
Effect of exchange rate change	320,806	(628,358)	(2,800,060)
Cash and cash equivalent closing balance	131,250,619	181,270,092	300,525,040



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

A. 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 and is currently listed on National Stock Exchange of India Ltd., Bombay Stock Exchange Ltd. and Madras Stock Exchange Ltd.

Over the last seventeen years Nucleus has built a distinguished reputation of providing innovative and comprehensive software solutions and products in the BFSI Vertical. The geographical spectrum of 124 clients is spread over 30 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. 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.

B. COMPANY STRENGTHS

The Company's business broadly consists of Software Product Development and Marketing and Software Development and Support 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 the "Banking Products" industry 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 30 countries. Nucleus has 250+ product installations and has delivered projects which have been implemented and supported successfully for leading banks and financial institutions in India, Canada, USA, China, Norway, Oman, Jordan, Saudi Arabia, Thailand, Singapore, Philippines, Taiwan, Australia, Malaysia, UK, Indonesia, Mauritius, Bangladesh and Mongolia.

Nucleus' basket of products stand out in the marketplace due to its customization, which takes into consideration the unique legal frameworks within which financial service providers have to operate in different countries. The Company has meticulously perfected the various modules individually and then compiled into one consolidated package, ensuring that specific configuration needs are addressed with the highest operational efficiency.



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:

- Nucleus received Institute of Chartered Accountants of India's Award for Excellence in Financial Reporting for the year 2004-2005. The Company has been awarded the silver shield for the second best annual reporting in the category of Information Technology, Communication and Entertainment Enterprises.
- Nucleus Software received Asia Pacific Level Technology Award from Oracle for developing Outstanding Oracle Fusion Middleware Solution (2005)
- The Company's flagship product FinnOne™ has been ranked as India's No # 3 selling universal banking solution for 2002 and 2004 by International Banking Systems (IBS), UK. Nucleus' FinnOne™ has been ranked No.10 and No.8 in 2004 and 2005 respectively in the overall worldwide listing in the same report.
- 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.
- Nucleus has received the best Partner award for "Most Innovative ISV" by Oracle Corporation in 2004.
- Nucleus has received the best Partner award for "Building World Class Loan Management Solution on 9iAS technology" by Oracle Corporation in 2003.
- 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.

C. RISKS AND CONCERNS

1. Market Risks

The IT services market presents a tough competition and the list of competitors is growing at a fast pace day by day. Nucleus is committed to mitigate the risks arising due to macro level uncertainties. Your Company continues to focus on rapidly increasing its market share and take marketing initiatives that help clients and prospects make better informed decisions based on our competitive strengths.

The Company has a robust budgeting mechanism and control measures, whereby the likely impact of the changes in the fundamentals of economy and software industry are already discounted in the financial budgets.

2. Concentration of Revenues

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. 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 seek new clients.



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The Company has added 4 new clients during the quarter and earned 72% of its revenues from top five clients.

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

	Quarter ended	
	June 30, 2006	June 30, 2005
Active clients	124	99
Clients added during the quarter	4	3
% of Revenue from the top-five clients	72%	77%
Clients accounting for > 10% of revenues	2	3

b) Geographical Risks

Geographical risk is attributable to all the factors, which are peculiar or sensitive to a region. The Company's business is largely spread across India, South East Asia and Far East Asia, with these regions accounting for more than 75% of revenues. This increases the susceptibility of the 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, and Wars.

The Company has entered into sizeable business for Europe for the next few years and plans to invest heavily in new developed economies in future. As the Company's products find greater acceptance, we are confident that this risk will not be a constraint in the future. During the year the Company incorporated a wholly owned Subsidiary "Nucleus Software Netherlands B.V." in Netherlands to address business opportunities in Netherlands and other European countries.

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

GEOGRAPHICAL AREA	Quarter ended	
	June 30, 2006	June 30, 2005
India	12%	8%
Far East	42%	38%
South East Asia	22%	37%
Europe	8%	12%
USA and Canada	4%	2%
Middle East	5%	NIL
Africa	6%	NIL
Rest of the World	1%	3%

3. Exchange Rate Risk

The Company derives its revenue from more than thirty countries around the world. This exposes the Company to currency fluctuations and volatility. Significant appreciation of rupee would have adverse impact on our earnings and vice-versa.

During the quarter, the movement of the Indian Rupee against the major currencies of billing by the Company is as below:

As on	June 30, 2006	March 31, 2006	% Change
USD	46.09	43.52	5.91
Japanese Yen	0.4011	0.3956	1.39
GBP	84.48	79.09	6.82
SGD	29.02	25.84	12.31



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We seek to reduce the effect of exchange rate fluctuations on operating results by taking foreign exchange forward contracts to cover a portion of outstanding accounts receivable and limited hedging against appreciation of the Rupee. We are also considering "options" for reducing the risk.

D. LIQUIDITY AND CAPITAL RESOURCES

Our capital requirements are completely financed by internal accruals. Your Company is a zero-debt Company 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 June 30, 2006 the cash and bank balances stood at Rs.13.13 crore (Rs.18.13 crore on June 30, 2005) and current investments in liquid schemes of mutual funds were Rs.64.22 crore (Rs.42.07 crore on June 30, 2005).

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

RATIO	Quarter ended	
	June 30, 2006	June 30, 2005
Days of sale receivable	59	73
Cash and Bank balances as % of assets	10.17%	19.50%
Cash and Bank balances as % of revenue	26.38%	55.19%
Current investments as % of assets	49.79%	45.25%
Current investments as % of revenue	129.06%	128.10%

E. FINANCIALS

1. Share Capital

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

Share Capital of the Parent Company consists of 16,104,812 Equity Shares of Rs.10/- each as on June 30, 2006. The Share Capital increased from 16,090,812 Equity Shares of Rs.10/- each as on June 30, 2005 to 16,104,812 Equity Shares of Rs.10/- each as on June 30, 2006. Consequently the paid up Share Capital increased from Rs.16.09 crore as on June 30, 2005 to Rs.16.11 crore as on June 30, 2006, including the amount in share forfeiture account.

The increase is consequent to:

- Allotment of 14,000 fully paid up Equity Shares of Rs.10/- each to employees in pursuance of stock options exercised in July and October 2005.

The total stock options granted to employees under Employee Stock Option Scheme (1999)' Employee Stock Option Scheme (2002) and Employee Stock Option Scheme (2005) and outstanding as on June 30, 2006 are 274,750.

This figure of 274,750 stock options includes 140,000 options granted under Employee Stock Option Scheme (2005) during the quarter. Out of these 140,000 stock options, for 100,000 stock options certain formalities are pending and to be completed.

Paid-up Share Capital of the Subsidiaries as on June 30, 2006 is given below. As 100% of the 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 account of the Parent Company.



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Name of Subsidiary Company	Currency	As at June 30, 2006		As at June 30, 2005	
		In foreign Currency	Eqv. Rupees (in crores)	In foreign Currency	Eqv. Rupees (in crores)
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 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., 316,000 equity shares of Aus \$ 1 each	Aus \$	316,000	0.98	316,000	0.98
VirStra I-Technology Services Limited. India. 1,000,000 equity shares of Rs. 10 each	INR	—	1.00	—	1.00
Nucleus Software Netherlands BV. 1000 equity shares of Euro 100 each	Euro	100,000	0.54	—	—
Step down Subsidiary of Nucleus Software Exports Ltd. Virstra (Singapore) Pte Limited. 100,000 equity shares of S\$ 1 each	SGD	100,000	0.27	100,000	0.27

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

2. Retained Earnings

During the quarter ended June 30, 2006, the Company earned consolidated net profit of Rs.13.40 crore on a consolidated turnover of Rs.49.76 crore as against consolidated net profit of Rs.8.59 crore on a consolidated turnover of Rs.32.84 crore for the quarter ended June 30, 2005.

The Reserves and Surplus of the Company including balance in the Profit and Loss account is Rs.112.68 crore as on June 30, 2006 (Rs.76.79 crore as on June 30, 2005.)

3. Fixed Assets

As at June 30, 2006, gross block of fixed assets including investment in technology assets was Rs.57.75 crore (Rs.45.68 crore as on June 30, 2005). The increase in gross block of fixed assets is primarily on account of investment in technology assets.

The net fixed assets after depreciation are Rs.37.49 crore as on June 30, 2006 compared to Rs.28.79 crore as on June 30, 2005.



4. Current Investments

Current Investments of the Company as on June 30, 2006 was Rs.64.22 crore against Rs.42.07 crore as on June 30, 2005. All of them are in low risk liquid mutual funds in India.

- Rs.1.00 crore in UTI Fixed Maturity Plan-YFMP 07/05-Growth,
- Rs.2.00 crore in UTI Fixed Maturity Plan-YFMP 09/05-Growth
- 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.2.00 crore in DSP Merrill Lynch Liquidity Fund-Daily Growth
- Rs.1.05 crore in ABN Amro Cash Fund-Institutional-Growth
- Rs.0.50 crore in ING Vysya Liquid Fund Institutional-Growth
- Rs.2.99 crore in UTI Liquid Cash Plan Institutional-Growth
- Rs.2.00 crore in Prudential ICICI Institutional Liquid Plan-Growth
- Rs.1.00 crore in Birla Sun Life Cash Manager-Institutional Plan-Growth
- Rs.0.75 crore in Magnum Debt Fund Series-13 Months (Oct 05)-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.7.99 crore in LICMF Liquid Fund-Dividend
- Rs.5.00 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.1.00 crore in HSBC Fixed term Series-4-Growth
- Rs.2.00 crore in HSBC Fixed term Series-9-Growth
- Rs.1.00 crore in Principal Pnb Fixed Maturity Plan-385 Days-Series I Institutional Plan-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.6.90 crore in HSBC Cash Fund - Institutional Plus Plan - Daily Dividend
- Rs.2.89 crore in Kotak Liquid- Institutional Plus Plan - Daily Dividend
- 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.3.96 crore in Birla Cash Plus-Institutional Premium-Daily Dividend

Investment in mutual funds are in low risk liquid funds.

5. 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 India Limited made by the Company (together with its nominees), representing 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. 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 professionals with banking and technology background.



6. Sundry Debtors

Sundry Debtors amount to Rs.32.10 crore (net of provision for bad and doubtful debts) as on June 30, 2006 (Rs.26.12 crore, net of provision for bad and doubtful debts as on June 30, 2005).

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

As at	June 30, 2006	June 30, 2005
Less than 6 months	99.19%	97.94%
More than 6 months	0.81%	2.06%
Days of sales receivables	59	73

7. Cash and Bank Balances

Cash and bank balance represent 10.17% and 19.50% of the total assets as on June 30, 2006 and June 30, 2005 respectively.

(Rs. in crore)

As at	June 30, 2006	June 30, 2005
Cash and cheques in hand	0.09	0.53
Balances with Bank		
-In Current Accounts	12.07	8.08
-In Fixed Deposit Account	0.97	9.52
Total	13.13	18.13

8. 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.2.05 crore as on June 30, 2006 (Rs.1.70 crore as on June 30, 2005).

Security Deposits are primarily for hiring of office premises and staff accommodation. The amount is Rs.1.39 crore as on June 30, 2006 (Rs.1.30 crore as on June 30, 2005).

Prepaid expenses stood at Rs.1.19 crore as on June 30, 2006 (Rs.1.01 crore as on June 30, 2005). The increase in prepaid expenses is attributable to prepayments under the heads: Commission, Lease rent, Insurance, Subscription, Training and Recruitment.

The Parent Company has the following loan outstanding from the Subsidiary, it does not appear in the consolidated accounts, as it is contra in the consolidation:

- Loan of US\$ 117,500 equivalent to Rs.0.54 crore, is outstanding on June 30, 2006 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 \$ 40,000 in one installment.

9. Current Liabilities

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

The total amount of Sundry Creditors as on June 30, 2006 is Rs.14.06 crore (Rs.7.38 crore as on June 30, 2005).



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Withholding tax payable represents the amount of liability 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 June 30, 2006 is Rs.1.26 crore (Rs.0.92 crore as on June 30, 2005).

The amount of Unclaimed Dividend as on June 30, 2006 is Rs.0.07 crore (Rs.0.04 crore as on June 30, 2005).

Advances from customers as on June 30, 2006 is Rs.16.45 crore (Rs.26.54 crore as on June 30, 2005). 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.

Other liabilities represent amounts accrued for statutory dues related to taxes and staff benefits etc. The total amount of other liabilities as on June 30, 2006 is Rs.2.79 crore (Rs.1.50 crore as on June 30, 2005).

10. Provisions

Provisions at Rs.12.02 crore as on June 30, 2006 (Rs.7.75 crore as on June 30, 2005) includes provision for taxation, gratuity and leave encashment.

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

Provisions	<i>(Rs. In crore)</i>	
	As on June 30, 2006	As on June 30, 2005
Gratuity	1.80	0.89
Leave Encashment	2.81	0.85
Taxation (Net of advance tax)	0.87	1.31
Fringe Benefit tax	0.11	0.10
Dividend	5.64	4.02
Dividend Tax	0.79	0.56
Total	12.02	7.75

A sharp increase in Gratuity and Leave Encashment amount is due to the adoption of revised Accounting Standard 15 'Employee Benefits' issued by the Institute of Chartered Accountants of India (effective April 01, 2006).

F. RESULTS OF OPERATIONS

1. Income

The revenues of the Company are derived from software products and projects and services.

The Company's consolidated revenue from operations for the quarter ended June 30, 2006 is Rs.49.76 crore as against Rs.32.84 crore for the quarter ended June 30, 2005, representing an increase of 51.52%.

Details of the geographical segmentation, business segmentation and currency segmentation of income have been provided elsewhere in the report.



2. Expenditure

2.1 Software Development Expenses:

Quarter Ended June 30, (Rs. In Crore)

Particulars	2006	% of Revenue	2005	% of Revenue	Growth %
Employee Costs	18.98	38.14	11.04	33.61	71.97
Travel Expenses	3.44	6.91	2.85	8.68	20.57
Rent, Rates and Taxes	0.49	0.98	0.49	1.48	0.13
Cost of Software Purchased for Delivery to Clients	0.51	1.03	0.19	0.58	169.18
Communication	0.69	1.39	0.39	1.18	77.47
Consultancy Charges	3.07	6.18	0.79	2.42	287.07
Power and Fuel	0.44	0.88	0.26	0.80	67.60
Software and Other Development Charges	0.14	0.28	0.09	0.27	55.39
Legal and Professional	0.23	0.45	0.14	0.44	57.62
Conveyance	0.15	0.29	0.10	0.31	44.37
IT Expenses	0.06	0.12	0.07	0.22	-15.73
Repairs and Maintenance	0.09	0.18	0.11	0.32	-17.51
Training and Recruitment	0.59	1.19	0.14	0.42	324.63
Others	0.21	0.43	0.15	0.44	47.23
Total Software Development Expenses	29.09	58.45	16.81	51.17	73.06
Revenue	49.76	100.00	32.84	100.00	51.51

The Company incurred total software development expenses of Rs.29.09 crore at 58.45% of revenue during the quarter ended June 30, 2006 against Rs.16.81 crore at 51.17% of revenue during the corresponding quarter of the previous year. In comparison to the corresponding quarter of previous year, the software development expenses have increased by 73.06% in absolute terms, whereas revenue has increased by 51.51%.

The Gross Margin consequently increased from Rs.16.04 crore to Rs.20.67 crore representing an increase of 28.92%.

2.2 Selling and Marketing Expenses

Quarter ended June 30,

Particulars	2006	% of Revenue	2005	% of Revenue	Growth %
Employee Costs	1.68	3.38	1.44	4.38	16.69
Travel Expenses	0.46	0.93	0.80	2.44	-42.06
Rent, Rates and Taxes	0.11	0.22	0.11	0.33	0.30
Advertisement and Business Promotion	0.17	0.34	0.14	0.43	20.61
Communication	0.10	0.20	0.12	0.37	-18.60
Conference, Exhibition and Seminar	0.04	0.08	0.01	0.03	288.94
Commission on Sales	0.49	0.99	0.06	0.18	717.81
Others	0.16	0.32	0.24	0.73	-33.16
Total Selling and Marketing Expenses	3.21	6.45	2.92	8.89	9.93
Revenue	49.76	100.00	32.84	100.00	51.51

The Company incurred selling and marketing expenses at 6.45% of revenue during the quarter ended June 30, 2006 against 8.89% of revenue during the corresponding quarter of previous year. In comparison to corresponding quarter of previous year, the selling and marketing expenses have increased by 9.86% in absolute terms.



2.3 General and Administrative Expenses

Quarter ended June 30,

Particulars	2006	% of Revenue	2005	% of Revenue	Growth %
Employee Costs	1.54	3.09	0.81	2.45	90.97
Travel Expenses	0.00	0.01	0.09	0.29	-96.55
Legal and Professional Communication	0.45	0.91	0.26	0.80	70.91
Rent, Rates and Taxes	0.03	0.05	0.11	0.34	-76.02
Provision for Doubtful Debts	0.06	0.12	0.07	0.22	-14.18
Printing and Stationery	0.31	0.62	0.06	0.17	440.79
Conveyance	0.05	0.10	0.06	0.18	-18.71
Power and Fuel	0.05	0.10	0.03	0.09	69.28
Bad Debts/Advances/Other Current Assets Written off	0.01	0.02	0.08	0.23	-90.01
Advertisement	0.16	0.32	0.42	1.28	-62.53
Training and Recruitment	0.00	0.01	0.02	0.07	-87.77
Consultancy Charges	0.02	0.04	0.02	0.05	20.78
Others	0.02	0.05	0.02	0.06	27.20
Total General and Administrative Expenses	3.05	6.13	2.58	7.85	18.19
Revenue	49.76	100.00	32.84	100.00	51.51

The Company incurred general and administrative expenses amounting to Rs.3.05 crore, 6.13% of revenue during the quarter ended June 30, 2006 against Rs.2.58 crore, 7.85% of revenue during the corresponding quarter of previous year.

'Others' head consists of expenses incurred on maintenance, bank charges, insurance, miscellaneous expenses, IT expenses, loss on sale of fixed assets, conference, seminar and exhibition, etc.

In comparison to corresponding quarter of previous year administrative and other expenses have increased by 18.19%.

3. Operating Profit

During the quarter ended June 30, 2006 the Company earned consolidated operating profit (profit before interest, depreciation and withholding tax) of Rs.14.42 crore representing 28.97% of revenue as compared with Rs.10.54 crore representing 32.08% of revenue for the quarter ended June 30, 2005.

4. Depreciation

Depreciation at Rs.1.45 crore on fixed assets is 2.91% of the revenue for the quarter ended June 30, 2006 as against Rs.1.25 crore, 3.81% of the revenue for the quarter ended June 30, 2005.

5. Withholding Taxes

Withholding taxes charged off represent withholding taxes charged to Profit and Loss Account during the quarter ended June 30, 2006, of Rs.0.90 crore (Rs.0.69 crore for the quarter ended June 30, 2005). These relate to the Parent Company and Subsidiary in Japan.

6. Other Income

Other income primarily consists of interest and dividend income and capital gains on sale of current investment. Other income for the quarter ended June 30, 2006 is Rs.2.18 crore against Rs.0.87 crore for the quarter ended June 30, 2005.

7. Provision for Income Tax

The Company has made a provision for current tax of Rs.0.68 crore (Rs.0.71 crore for the quarter ended June 30, 2005), 1.36% of revenue, deferred tax expense of Rs.0.08 crore (Rs.0.06 crore expense for the quarter ended June 30, 2005), fringe benefit tax of Rs.0.09 crore (0.11 crore for the quarter ended June 30, 2005) and earlier year tax of Rs.0.01 crore (nil for the quarter ended June 30, 2005).

8. Net Income

During the quarter ended June 30, 2006, Company has earned a net profit of Rs.13.40 crore (Rs.8.59 crore for the quarter ended June 30, 2005). The net profit represents 26.93% of revenue for the quarter ended June 30, 2006 as compared to 26.12% of revenue for the quarter ended June 30, 2005.



Additional Information to Shareholders

1. Date of Incorporation January 9, 1989
2. Registered Office 33-35, Thyagraj Nagar Market
New Delhi-110003
India
3. Corporate Office A-39, Sector 62
NOIDA, UP-201307
India
4. Financial Calendar
(tentative and subject to change)
Financial reporting for the first quarter
ending June 30, 2006. July 24, 2006
Financial reporting for the second quarter
ending September 30, 2006. between 20th to 31st of October, 2006
Financial reporting for the third quarter
ending December 31, 2006. between 20th to 31st of January, 2007
Financial results for the year ending
March 31, 2007. between 21st to 30th of April, 2007
5. Share related data
 - The Shares of Nucleus are listed on The National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Madras Stock Exchange Limited.
 - Scrip Code (NSE) NUCLEUS
 - Scrip Code (BSE) 531209
 - 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) INE096B01018
 - Face value of the Company's equity shares is Rs.10.
 - Shares of the Company are compulsorily traded in demat form.
 - 93.32% of the Company's equity shares are in demat form.
 - The Company had 7,176 shareholders as on June 30, 2006.
 - The Company has not issued any GDRs/ADRs. The Company has granted options to employees under ESOP (1999), ESOP (2002) and ESOP (2005) scheme. The options if exercised at the end of the vesting period shall be converted into equity shares.



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— The dividend declared and paid in the previous financial years is give below:

<i>Financial Year</i>	<i>Dividend (%)</i>	<i>Dividend Per Share in Rs.</i>	<i>Dividend Pay Out in Rs. Lacs</i>
2005-06	35%	3.50	563.67
2004-05	25%	2.50	402.27*
2003-04	25%	2.50	200.79
2002-03	20%	2.00	158.22
2001-02	20%	2.00	158.22
2000-01	20%	2.00	68.03

The Board had not recommended any dividend prior to financial years 2000-2001.

* The dividend payout in 2004-05 was on the enhanced capital consequent to 1:1 bonus issue made during the year.

— Registrars of Company

Karvy Computer Share Private Limited
 "Karvy House" 46, Avenue 4,
 Street No.1 Banjara Hills,
 Hyderabad 500034
 Tel: 040-23312454/23320251/751
 Fax: 040- 23311968
 Email: mailmanager@karvy.com

6. Locations

Nucleus services its clients through a network of international offices. At the quarter-end Nucleus had wholly owned subsidiaries in Singapore, U.S.A, Japan, Hongkong, Australia, India, Netherlands and a Branch Office in London, U.K.

Nucleus operates state-of-the-art Software Development Centers at NOIDA and Chennai under the Software Technology Park Scheme of the Government of India. Nucleus Software Solutions Pte. Ltd., Singapore operates a Development Center at Singapore and Virstra I-Technology Services Ltd., India operates a Development Center at Pune, India.

7. Stock Market Data Relating to Shares Listed in India

A. Monthly high and low quotations as well as the volume of shares traded at Bombay Stock Exchange Ltd. and National Stock Exchange.

	BSE					NSE				
	Open	High	Low	Close	Volume	Open	High	Low	Close	Volume
April 06	365.00	439.95	345.00	407.80	296,100	369.30	437.50	346.00	408.45	661,013
May 06	405.00	430.00	304.10	317.30	147,420	400.00	430.00	293.10	314.50	369,598
June 06	321.50	326.50	245.00	303.75	183,705	330.00	330.00	245.25	302.70	343,122

1. The highest share price of the Nucleus scrip at Bombay Stock Exchange Ltd. was Rs.439.95 in April 2006 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.437.50 in April 2006 and the lowest share price was Rs.245.25 in June 2006.



B. Quarterly High-Low Price History of the Share for the Past Year

During Quarter Ended	BSE		NSE	
	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)
September 30, 2005	324.00	254.60	323.00	253.00
December 31, 2005	414.40	257.10	417.00	256.70
March 31, 2006	400.00	325.00	385.00	335.00
June 30, 2006	326.50	245.00	330.00	245.25

8. 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 15,028,701 shares (93.32% of the paid up share capital) as at June 30, 2006.

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.

9. Employee Stock Option Schemes

The Company launched a new ESOP scheme-ESOP 2006. The scheme was approved by the Board of Directors in April 2006 and by the shareholders in the Annual General Meeting held in July 2006. The Company earlier instituted an ESOP scheme 1999 in year 2000, ESOP scheme 2002 was instituted in 2002 and ESOP scheme 2005 was instituted in 2005. 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 625,000 Equity Shares and 2006 scheme for 10,00,000 to eligible employees. These schemes are administered by a Compensation Committee of Board of Directors.

10. Investors' Services

Details of request/complaints received during the quarter.

S. No.	Nature of Requests	Received	Attended	Pending
1.	Revalidation of Dividend Warrants	3	3	Nil
2.	Issue of Duplicate Share Certificates	Nil	Nil	Nil
3.	Request for Stop Transfer	Nil	Nil	Nil
4.	Non-receipt of Share Certificate	3	3	Nil
5.	D'mat Queries	Nil	Nil	Nil

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 quarter.



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11. Legal Proceedings

There is one legal proceeding pending against the Company in Labour Court. relating to termination of employment.

12. Distribution of Shareholding

No. of equity shares held	As on June 30, 2006				As on June 30, 2005			
	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	3,982	55.43	193,597	1.20	4,310	51.07	234,240	1.46
101-200	987	13.74	174,931	1.09	1,275	15.11	231,910	1.44
201-500	1,225	17.05	421,921	2.62	1,601	18.97	560,353	3.48
501-1000	466	6.49	357,927	2.23	664	7.87	514,894	3.20
1001-5000	402	5.60	904,984	5.62	457	5.42	1,061,031	6.59
5001-10000	49	0.67	358,077	2.21	52	0.62	380,387	2.36
10001 and above	73	1.02	13,693,375	85.03	80	0.95	13,107,997	81.45
Total	7,184	100.00	16,104,812	100.00	8,439	100.00	16,090,812	100.00

13. Categories of Shareholders

Category	As on June 30, 2006			As on June 30, 2005		
	No. of share-holders	Voting Strength (%)	No. of shares held	No. of share-holders	Voting Strength (%)	No. of shares held
Individuals	6,647	21.96	3,536,545	7,753	28.28	4,551,205
Companies	342	44.20	7,118,823	530	49.90	8,029,105
OCBs and NRIs	169	1.62	260,161	140	1.52	243,884
FII's	6	3.27	525,950	2	0.37	60,000
Directors/relatives	10	19.98	3,218,446	12	19.93	3,206,018
Mutual Funds	10	8.97	1,444,887	2	0.00	600
Total	7,184	100.00	16,104,812	8,439	100.00	16,090,812

14. Investors' 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



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15. Employee Strength of Nucleus

Nucleus employed 1,420 people as on June 30, 2006 as compared to 935 people on June 30, 2005.

The distribution of the employees is:

As at	June 30, 2006		June 30, 2005	
Technical Staff	1,180	83.10%	769	82.25%
Non-Technical Staff including Business Development Group	240	16.90%	166	17.75%

The gender classification of employees is:

Male	1,076	75.77%	735	78.61%
Female	344	24.23%	200	21.39%
Total	1,420	100.00%	935	100.00%

The age profile of employees is:

As at	June 30, 2006		June 30, 2005	
Between 20 and 25 years	532	37.46%	208	22.25%
Between 26 and 30 years	520	36.62%	430	45.99%
Between 31 and 40 years	322	22.68%	269	28.77%
Between 41 and 50 years	37	2.61%	23	2.46%
Between 51 and 60 years	9	0.63%	5	0.53%
Total	1,420	100.00%	935	100.00%

16. How do I contact Nucleus by telephone, mail or in person?

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
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Prakash Pai
Head Global Account and
Product Management
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E Mail: pai@nucleussoftware.com

P K Sanghi
Chief Financial Officer
Tel:++91 (120) 2404036
E Mail: pksanghi@nucleussoftware.com

Niraj Vedwa
Head-Global Sales
& Marketing
Tel:++91 (120) 2403979
E Mail: niraj@nucleussoftware.com

Poonam Bhasin
Company Secretary
Tel:++91 (120) 2403960
E Mail: poonam@nucleussoftware.com

**Consolidated Segment Information of Nucleus Software Group***(Rs. in Crore)*

REVENUE BY	Quarter Ended		Quarter Ended		Year Ended	
	June 30,	% of	June 30,	% of	March 31,	% of
	2006	Revenue	2005	Revenue	2006	Revenue
<i>GEOGRAPHICAL SEGMENTS</i>						
India	5.80	11.65	2.48	7.55	14.78	9.99
Far East	20.80	41.80	12.61	38.40	63.74	43.05
South East Asia	11.04	22.19	12.01	36.58	38.66	26.11
Europe/UK	4.13	8.29	4.00	12.15	16.44	11.10
USA & Canada	2.24	4.51	0.66	2.02	6.65	4.50
Middle East	2.60	5.22	—	—	6.45	4.36
Africa	2.90	5.84	—	—	0.60	0.40
Rest of the World	0.25	0.50	1.08	3.30	0.73	0.49
Total	49.76	100.00	32.84	100.00	148.05	100.00
<i>CURRENCY SEGMENTS</i>						
US\$	32.95	66.21	18.52	56.38	89.36	60.36
Sing\$	7.98	16.04	6.03	18.37	25.03	16.91
Japanese Yen	2.98	6.00	4.95	15.08	16.50	11.15
Great Britain Pound	—	—	0.00	0.00	0.00	0.00
Indian Rupee	5.80	11.65	2.45	7.45	14.75	9.96
Oman Riyal	—	—	0.89	2.72	—	—
Malaysian Ringet	0.05	0.10	—	—	2.41	1.62
Total	49.76	100.00	32.84	100.00	148.05	100.00
<i>BUSINESS SEGMENTS</i>						
Product	24.18	48.58	11.32	34.45	56.83	38.39
Projects	21.66	43.54	19.32	58.82	78.65	53.12
Professional Services	3.92	7.88	2.20	6.73	12.57	8.49
Total	49.76	100.00	32.84	100.00	148.05	100.00

BUSINESS SEGMENT



Ratio-Analysis

Particulars	CONSOLIDATED PERFORMANCE		
	Quarter Ended		Year Ended
	June 30, 2006	June 30, 2005	March 31 2006
Ratios-Financial Performance			
Export Revenue/Revenue	88.35%	92.45%	90.01%
Domestic Revenue/Revenue	11.65%	7.55%	9.99%
Gross Profit/Revenue	41.55%	48.83%	45.63%
Software Development Expenses/Revenue	58.45%	51.17%	54.37%
Selling and Marketing Expenses/Revenue	6.45%	8.90%	7.93%
General and Administrative Expenses/Revenue	6.13%	7.85%	7.21%
Total Operating Expenses/Revenue	71.03%	67.92%	69.52%
Operating Profit/Revenue	28.97%	32.08%	30.48%
Depreciation/Revenue	2.91%	3.81%	3.21%
Other Income/Revenue	4.39%	2.65%	2.07%
Tax/Revenue	1.71%	2.66%	2.10%
Tax/PBT	5.98%	9.22%	7.75%
PAT from Ordinary Activities/Revenue	22.54%	23.50%	22.98%
PAT from Ordinary Activities/Net Worth	8.71%	8.31%	29.45%
ROCE (PBIT/Average Capital Employed)	11.65%	10.67%	40.23%
RONW (PAT/Average Net Worth)	10.97%	9.70%	37.13%
Ratios Balance Sheet			
Debtors Turnover (Days)	59	72	59
Asset Turnover Ratio	0.39	0.35	1.28
Current Ratio	1.29	1.19	1.46
Cash and Equivalents/Total Assets (%)	59.96%	64.75%	67.03%
Cash and Equivalents/Revenue (%)	155.44%	183.30%	52.33%
Depreciation/Average Gross Block(%)	2.68%	2.80%	10.15%
Technology Investment/Revenue (%)	6.24%	3.85%	3.85%
Ratios - Growth			
Growth in Export Revenue (%)	44.79%	61.53%	40.95%
Growth in Revenue (%)	51.51%	56.96%	43.54%
Operating Expenses Growth (%)	58.44%	33.19%	35.30%
Operating Profit Growth (%)	36.83%	147.16%	66.72%
PAT Growth (%)	56.02%	192.14%	78.72%
EPS Growth (%)	55.81%	191.80%	78.60%
Per-Share Data (Period End)			
Earning Per Share from Ordinary Activities (Rs.)	6.96	4.80	21.12
Earning Per Share (Including Other Income) (Rs.)	8.32	5.34	23.03
Cash Earning Per Share from Ordinary Activities (Rs.)	7.86	5.57	24.08
Cash Earning Per Share (Including Other Income)(Rs.)	9.22	6.11	25.98
Book Value (Rs.)	79.97	57.72	71.73
Price/Earning (Annualized)	9.10	11.98	15.85
Price/Cash Earning (Annualized)	8.21	10.46	14.05
Price/Book Value	3.79	4.43	5.09

Note: 1. While calculating the consolidated figures of group, inter group transactions have been ignored.
2. Cash and Equivalents includes cash and bank balances and current investments.