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To the Board of Directors and Shareholders of Mastek Limited:

In our opinion, based upon our audits and the report of other independent auditors, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in shareholders' equity present fairly, in all material respects, the financial position of Mastek Limited and its consolidated subsidiaries (Mastek) as of June 30, 2008 and 2007, and the results of their operations and their cash flows for each of the two years ended June 30, 2008 and 2007, in conformity with accounting principles generally accepted in the United States of America. 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 did not audit the financial statements of Mastek DC Offshore Development Company Private Limited, a 50.1% owned equity affiliate for the period ended March 09, 2007, the investment in which is reflected in the accompanying financial statements using the equity method of accounting. Mastek's investment's in the equity affiliates was $Nil and $Nil as of June 30, 2008, 2007 and earnings in equity affiliate, net of taxes, was $Nil and $498 thousands for the years ended June 30 2008 and June 30, 2007 respectively. The summarized financial data of this equity affiliates contained in Note 11 are derived from its financial statements. Those statements were audited by other independent auditors, whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for this equity affiliates as at June 30, 2008 and 2007 and for the years then ended, is based solely on the report of the other independent auditors. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other independent auditors provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Price Waterhouse
Mumbai, India
Date: 23 JAN 2009

Consolidated Balance Sheet
Mastek Limited
(US Dollars in thousands except per share data and as stated otherwise)

		As of June 30,	
	Schedule	**2008**	**2007**
ASSETS:			
Current assets			
Cash and cash equivalents		**$11,797**	$21,961
Accounts receivables, net of allowance for doubtful debts	6	**66,299**	40,339
Unbilled revenue on contracts		**6,224**	12,155
Deferred tax assets	17	**285**	269
Prepaid expenses and other current assets	7	**7,146**	1,647
Total current assets		**$91,751**	**$76,371**
Property and equipment, net	8	**24,634**	20,984
Goodwill and other Intangible assets, net	9	**30,971**	2,570
Investments	11	**18,742**	27,076
Investments in bank deposits		**289**	29
Deferred tax assets	17	**4,918**	2,121
Other assets	12	**720**	1,307
Total assets		**$172,025**	**$130,458**
LIABILITIES AND SHAREHOLDERS' EQUITY:			
Current liabilities			
Short-term and current portion of long-term debts	13	**$5,714**	$26
Accounts payable		**7,184**	1,881
Accrued expenses and other liabilities	14	**42,453**	35,331
Unearned and deferred revenue		**2,036**	1,563
Retirement benefit obligation - Gratuity	16	**174**	160
Total current liabilities		**$57,561**	**$38,961**
Long-term debts	13	**14,693**	66
Retirement benefit obligation - Gratuity	16	**2,357**	2,171
Total liabilities		**$74,611**	**$41,198**
Contingencies and Commitments	25		
Minority Interest (Refer Note 21)		**-**	-
Shareholders' equity			
40,000,000 shares authorized as of June 30, 2008 and 40,000,000 shares authorized as of June 30, 2007. 27,624,582 shares of Rs. 5 (US$0.12)* issued and outstanding as at June 30, 2008 and 28,464,181 shares as of June 30, 2007		**$3,740**	$3,837
Additional paid-in capital		**2,130**	9,477
Retained earnings			
- Appropriated		**2,665**	2,665
- Unappropriated		**93,321**	70,941
Treasury stock		**(5,162)**	-
Accumulated other comprehensive income/(loss)		**720**	2,340
Total shareholders' equity		**$97,414**	**$89,260**
Total liabilities and shareholders' equity		**$172,025**	**$130,458**

**The par value has been converted at year end rate of $1 = Rs. 43.035*

The accompanying notes are an integral part of these consolidated financial statements

23 JAN 2009

Consolidated Statements of Income
Mastek Limited
(US Dollars in thousands except per share data and as stated otherwise)

		Year ended June 30,	
	Schedule	**2008**	**2007**
Service revenues		**$220,001**	**$166,511**
Cost of service revenues (includes stock based compensation $292 and $546 for the year ended June 30, 2008 and 2007 respectively)		**132,622**	97,368
Gross profit		**87,379**	**69,143**
Selling, general and administrative expenses (includes stock based compensation $410 and $775 for the year ended June 30, 2008 and 2007 respectively)		**57,542**	47,961
Total operating expenses		**57,542**	**47,961**
Income from operations		**29,837**	**21,182**
Interest expense		**(860)**	(194)
Interest income		**899**	461
Gain on sale of shares in joint venture		**-**	7,454
Other income	18	**3,577**	1,747
Income before income taxes		**33,453**	**30,650**
Income taxes	17	**(4,474)**	(5,900)
Equity in earnings of equity affiliates, net of taxes		**-**	498
Net Income		**$28,979**	**$25,248**
Earnings per equity share:	19		
Basic		$1.02	$0.89
Diluted		$1.01	$0.89
Weighted average number of shares used in computing earning per share (in thousands)			
Basic		28,460	28,298
Diluted		28,590	28,300

The accompanying notes are an integral part of these consolidated financial statements

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Consolidated Statement of Changes in Shareholders' Equity and Comprehensive Income

Mastek Limited

(US Dollars in thousands except per share data and as stated otherwise)

	Equity Shares		Additional paid-in capital	Retained earnings		Accumulated other comprehensive income	Treasury stock	Total shareholders' equity
	Shares	Par Value		Appropriated	Unappropriated			
Balance as of June 30, 2007	**28,464,181**	**$3,837**	**$9,477**	**$2,665**	**$70,941**	**$2,340**	**$0**	**$89,260**
<u>Comprehensive income</u>:								
Net income					28,979			**28,979**
Loss on foreign currency translation						(1,822)		**(1,822)**
Unrealised gain on available for sale investments						52		**52**
Actuarial gain under FAS 158, net						150		**150**
Total comprehensive income								**27,359**
Shares issued under stock-based compensation plan	76,115	10	317					**327**
Stock based compensation			702					**702**
Retirement of treasury stock	(915,714)	(107)	(8,366)	-	-		-	**(8,473)**
Purchase of treasury stock							(5,162)	**(5,162)**
Cash dividend paid at the rate of $0.23 per share					(6,599)			**(6,599)**
Balance as of June 30, 2008	**27,624,582**	**$3,740**	**$2,130**	**$2,665**	**$93,321**	**$720**	**($5,162)**	**$97,414**

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Consolidated Statement of Changes in Shareholders' Equity and Comprehensive Income

Mastek Limited

(US Dollars in thousands except per share data and as stated otherwise)

	Equity Share		Additional paid-in capital	Retained earnings		Accumulated other comprehensive income/(Loss)	Total shareholders' equity
	Shares	Par Value		Appropriated	Unappropriated		
Balance as of June 30, 2006	**28,137,634**	**$3,800**	**$7,054**	**$2,665**	**$50,458**	**($2,058)**	**$61,919**
Comprehensive income:							
Net income					25,248		**25,248**
Gain on foreign currency translation						4,676	**4,676**
Unrealised gain on investments						156	**156**
Actuarial loss under FAS 158, net						(434)	**(434)**
Total comprehensive income							**29,646**
Shares issued under stock-based compensation plan	326,547	37	1,102				**1,139**
Stock based compensation			1,321				**1,321**
Cash dividend paid at the rate of $0.17 per share					(4,765)		**(4,765)**
Balance as of June 30, 2007	**28,464,181**	**$3,837**	**$9,477**	**$2,665**	**$70,941**	**$2,340**	**$89,260**

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Consolidated Statement of Cash Flows
Mastek Limited
(US Dollars in thousands except per share data and as stated otherwise)

	Year ended June 30, 2008	2007
Net income	**28,979**	**$25,248**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,262	6,175
Amortization of intangibles	3,727	-
Provision/write off for doubtful receivables	1,254	(114)
Amortization of deferred stock compensation	702	1,321
Profit on divestment of subsidiary	-	(7,454)
Deferred taxes on income	(338)	49
Profit on sale of investments	(46)	(9)
(Profit) on sale of premises and equipment	(706)	(110)
Equity in earnings of equity affiliate	-	(498)
Dividend from equity affiliate	-	521
Dividend from Mutual Funds and Interest Income	(1,957)	(1,098)
Changes in assets and liabilities:		
(Increase) in accounts receivable	(25,572)	(12,046)
Decrease in unbilled revenue on contracts	6,499	1,288
(Increase) in prepaid expenses and other receivable	(7,939)	(342)
Decrease in other assets, non-current	543	(408)
Increase in accounts payable	4,377	7,817
Increase in accrued expenses, MAT credit and other liabilities	3,581	484
Increase/(Decrease) in unearned and deferred revenue	485	(64)
Net cash provided by operating activities	**18,851**	**20,760**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Dividend from Mutual Funds and Interest Income	1,957	1,098
Acquisition of premises and equipment	(9,866)	(6,819)
Proceeds from sale of premises and equipment	885	221
Acquisition of Business (acquired net of cash)	(28,494)	-
Investment in equity affiliate	-	(687)
Acquisition of shares in subsidiaries	-	(263)
Proceeds from sale of Investment in Joint Ventures	-	13,358
Purchase of investments	(377,565)	(199,829)
Proceeds from sale of investments	385,126	186,601
Net cash used in investing activities	**(27,957)**	**(6,320)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issue of equity shares	327	1,402
Payment of capital lease obligations	(322)	(116)
Borrowings on line of credit	20,000	-
Payments on line of credit	(500)	-
Buyback of equity shares, inclusive of redemption costs	(13,636)	-
Cash dividends paid	(6,599)	(4,765)
Net cash used in financing activities	**(730)**	**(3,479)**
Effect of exchange rate changes on cash and cash equivalents	(328)	(1,512)
Net change in cash and cash equivalents	**(10,164)**	**9,449**
Cash and cash equivalents at beginning of the year	21,961	12,512
Cash and cash equivalents at end of the year	**11,797**	**21,961**
SUPPLEMENTARY INFORMATION		
Cash Paid during the period for:		
Income taxes	6,001	6,377
Interest	860	194
Non cash items - Assets acquired under capital leases	25	51

Note: For reasons, principally the effects of translation differences and consolidation changes, certain items in the statements of cash flow not correspond to the differences between the balance sheet amounts for the respective items.

The accompanying notes are an integral part of these consolidated financial statements.

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1. Description of Business

Mastek Limited and its subsidiaries (hereinafter referred to as "Mastek") are engaged in software development, technical and consultancy services. Mastek adopts a cost effective synthesis of onsite and offshore development teams to enhance the value generation to its clients. Mastek also customizes software products for insurance sector and stock broking services in the Asia-pacific region.

Mastek Limited has evolved a subsidiary model of operations. It has international subsidiaries in Germany, United States of America, United Kingdom, Singapore, Thailand and Malaysia and branch offices in UK, Japan and Korea to cater to the needs of the specific regions. The offshore software development centers are located at Mumbai, Pune, Chennai and Mahape, all being in India.

Mastek Limited is also engaged in Business Process Outsourcing and Information Technology Enabled Services.

2. Summary of Significant Accounting Policies

a) ***Basis of Consolidation.*** The consolidated financial statements of Mastek Limited and its majority-owned subsidiaries are prepared in accordance with generally accepted accounting principles applicable in the United States of America ("US GAAP"). All inter-company balances and transactions are eliminated. Investments in companies that Mastek does not have control, but has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method.

Based on EITF 96-16, "Investor's Accounting for an Investee when the Investor has a Majority of the Voting Interest but the Minority Shareholder or Shareholders have certain Approval or Veto Rights" Mastek Limited accounts for its investment in Mastek-DC Offshore Development Company Private Limited" (DCOTG) under the equity method of accounting and does not consolidate because Deloitte Consulting LLP, the joint venture partner, has certain veto rights, which provide for its effective involvement in significant decisions in the ordinary course of business.

b) ***Use of Estimates.*** The preparation of the consolidated financial statements in conformity with the US GAAP requires that the management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amount of revenues and expenses during the reported period, examples of such estimates include: estimate of expected contract cost to be incurred to complete software development, allowance for doubtful debts, future obligations under employee benefit plans, provision for uncertain tax positions, valuation allowance for deferred taxes and useful life of premises and equipments. Actual results could differ from those estimates.

c) ***Foreign Currency Translation and Transactions.*** The Company translates the foreign currency financial statements in accordance with the requirements of SFAS No. 52, "Foreign Currency Translation." The accompanying consolidated financial statements are reported in US Dollars. The Indian Rupees is the functional currency for the holding company, Mastek Limited and its branches in UK and Japan. However, Great Britain Pounds, US dollars, Singapore dollars, Malaysian Ringitt, Baht and Euro are the functional currencies for its subsidiaries located in UK, US, Singapore, Malaysia, Thailand and Germany respectively. The translation of the functional currencies into US dollars (reporting currency) is performed for assets and liabilities using current exchange rates in effect at the balance sheet date except for certain items of stockholders' equity which have been at historical rates and for revenues, costs and expenses using average exchange rates prevailing during the reporting periods. Adjustments resulting from the translation of functional currency financial statements to reporting currency are accumulated and reported as other comprehensive income, a separate component of shareholders' equity.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currency are expressed in functional currency at the exchange rates in effect at the balance sheet date. Non Monetary assets and liabilities denominated in foreign currency are expressed in functional currency at the historical exchange rates. Gains or losses resulting from foreign currency transactions are included in the statement of income.

d) ***Revenue and Cost Recognition.*** Revenues of Mastek consist of revenues earned from services performed on a "time and material" basis and related revenue is recognized as and when the related services are rendered. Mastek also performs time bound fixed-price engagements under which revenue is recognized using the percentage-of-completion method of accounting, measured by the percentage of cost incurred over the estimated total cost of each contract. The cumulative impact of any revision in estimates of the percentage of work completed is reflected in the period in which the changes become known. Provision for estimated loss on such engagements is made during the period in which the loss becomes probable and can be reasonably estimated. Company provides warranty as post sale support for fixed price engagements. Cost associated for such services are accrued at the time the related revenue is recorded. The Company has not provided for any warranty cost for the years ended June 30, 2008 and June 30, 2007 as historically the Company has not incurred any expenditure on account of warranties and since the customer is required to formally sign on the work performed, any subsequent work is usually covered by an additional contract.

Amounts included in the financial statements, which relate to recoverable costs and accrued profits not yet billed on contracts are classified in current assets as "Unbilled revenue on contracts". Billings on uncompleted contracts in excess of accrued cost and accrued profit are classified in current liabilities under the heading "Unearned deferred revenue".

Mastek also provides its clients post sale support. Revenues from such customer support services are recognized ratably over the term of the support period.

Revenue from trading of software license agreements are recognized upon shipment.

Additionally, the company derives revenue from three other sources: new software licenses, software license updates and professional services, which include consulting and custom training services.

The Company recognizes revenue from the above mentioned activities based on the provisions of the American Institute of Certified Public Accountants Statement of Position, or SOP No. 97-2, "Software Revenue Recognition," and" SOP No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts".

In accordance with EITF Topic D 103, "Income Statement Characterization of Reimbursement Received for Out-of-Pocket Expenses Incurred", the Company has accounted for reimbursements received for out of pocket expenses incurred as revenues in the statement of operations.

(US Dollars in thousands except per share data and as stated otherwise)

*e) **Costs of Service Revenue.*** Costs of service revenues primarily include the compensation cost and travel of technical staff, depreciation on dedicated assets and software, travel costs, data communication expenses, and other expenses incurred that are directly related to the generation of revenue.

*f) **Selling, General and Administrative Expenses.*** Selling, general and administrative expenses generally include the compensation costs of sales, management and administrative personnel, travel costs, advertising, business promotion, depreciation on assets, software costs, rent, repairs, electricity, finance, and other general expenses not directly attributable to costs of revenues.

*g) **Cash and Cash equivalents.*** Mastek considers all highly liquid investments with an original maturity of three months or less to be cash equivalent. Cash equivalents are stated at cost, which approximates their fair value due to the short maturity of the investments.

Cash and claims to cash that are restricted as to withdrawal or use in the ordinary course of business are classified as other receivable under current assets unless to be utilized for other than current operations in which case they are classified as other assets, non-current. As of June 30, 2008 and 2007, restricted cash in the form of unpaid dividend amounted to $75 thousands and $31 thousands and restricted amount in the form of bank deposit placed with the banks to obtain bank guarantees amounted to $289 thousands and $29 thousands respectively.

*h) **Property and Equipment.*** Property and equipment are stated at actual cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives. Assets under capital leases and leasehold improvements are amortized over the lower of their useful lives or the primary term of the lease and included in depreciation expense. Expenditure incurred on purchase of Design and Software used in operations of the entity is depreciated over its estimated life.

Mastek has established the estimated useful lives of assets for depreciating its assets as follows:

Leasehold land	Over the Lease Term ranging from 95-99 years
Owned/Leasehold premises	25 – 30 years
Computers	2 years
Software	1 – 5 years
Office equipments	5 years
Leasehold improvement	5 years or over the primary period of lease whichever is less
Furniture and fixtures	5 years
Vehicles	5 years

The cost and the accumulated depreciation for premises and equipment sold, retired or otherwise disposed off are removed from the stated values and the resulting gains and losses are included in the statement of income.

Advances paid towards the acquisition of premises and equipment outstanding at each balance sheet date and the cost of premises and equipment not put to use before such date are disclosed as Capital work in progress.

i) **Business Combinations, Goodwill and other intangible assets**
Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations", requires that the purchase method of accounting be used for all business combinations. The Company accounts for acquired businesses using the purchase method of accounting, which requires that the assets acquired and liabilities assumed to be recorded at the date of acquisition at

their respective fair values. The cost to acquire a business comprises of cash paid, deferred consideration and transaction costs. The cost is allocated to the fair value of the underlying net assets, including pre-acquisition contingencies, of the acquired business in proportion to their respective fair values.

Contingent consideration including consideration that is payable on maintaining or achieving specified earnings levels in future periods is recorded as an additional cost of the acquired entity when the contingency is resolved and consideration is issued or becomes issuable.

The judgments made in determining the estimated fair values assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company's results of operations. Accordingly, for significant items, the Company typically obtains assistance from third party valuation specialists. Useful lives are determined based on the expected future period of benefit of the asset, which considers various characteristics of the asset, including projected cash flows. The Company reviews goodwill for impairment annually or more frequently if impairment indicators arise.

In cases where a part of the agreed purchase consideration is payable in future, the discounted present value of such consideration is included in the cost of acquisition and recorded as a liability. The interest accrued on such amounts is recorded as an expense in the statement of earnings.

SFAS No. 141 specifies criteria that intangible assets acquired in a business combination that must be recognized and reported separately from goodwill. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", all assets and liabilities of the acquired businesses including goodwill are assigned to reporting units.

Goodwill represents the cost of the acquired businesses in excess of the fair value of identifiable tangible and intangible net assets purchased. Goodwill is not amortized but is tested for impairment at least on an annual basis, relying on a number of factors including operating results, business plans and future cash flows. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Goodwill of a reporting unit is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

Intangible assets are amortized over their estimated useful lives on straight line basis, unless such life is deemed indefinite. The estimated useful life of an identifiable intangible asset is based on a number of factors including the effects of obsolescence, demand, competition and other economic factors (such as the stability of the industry, and known technological advances) and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.
Amortizable intangible assets are tested for impairment based on undiscounted cash flows, and if impaired, written down to fair value, either on discounted cash flows or appraised values.

Amortized Intangible asset	**Life (Years)**
Customer contracts and relationships	3-5
Leasehold benefit	7
Intellectual property	3-5

j) Impairment of Long-lived Assets and Investments. Mastek has adopted the provisions of SFAS 144, "Accounting for the impairment or Disposal of Long Lived Assets". Mastek reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of assets may not be fully recoverable. Each impairment test is based on comparison of undiscounted cash flows to the recorded value of the assets. If impairment is indicated, the impairment to be recognized is measured by the amount by which the carrying value of the asset exceeds the projected discounted future operating cash flows. Assets to be disposed of are reported at the lower of the carrying value or the fair value less cost to sell. Mastek does not have any long-lived assets, which it considers to have been impaired.

Mastek performs periodic reviews of its investments for impairment. Investments in privately held companies are considered impaired when a review of operations and other indicators of impairment indicate that the carrying value of the investment is not likely to be recoverable. Such indicators include limited liquidity and limited prospects of profitability. Impaired investments in privately held companies are written down to estimated fair value, which is the amount; Mastek believes is recoverable from the investment.

k) Investments. Consistent with the provisions of SFAS 115, *"Accounting for certain Investments in Debt and Equity Securities"*, investment securities are classified as available-for-sale and such securities are carried at fair value with the unrealized gains and losses, net of taxes, reported as other comprehensive income, a separate component of shareholders' equity. Realized gains and losses and decline in value judged to be other-than-temporary are included in the statement of income. The cost of securities sold is based on the first-in-first-out method. Other investments that are not marketable are carried at cost, subject to test of other than temporary impairment. Interest and dividends on securities are included in other income as and when earned.

l) Advertising Costs. Mastek expenses all advertising costs as incurred. Advertising expenses charged to income amounted to $1,537 thousands and $1,419 thousands for the years ended June 30, 2008 and 2007 respectively.

m) Employee Benefits.

i) Provident Fund. In accordance with Indian law, all employees in India are entitled to receive benefits under the provident fund, which is a defined contribution plan. Both, the employee and the employer make monthly contributions to the plan at a predetermined rate (presently at 12%) of the employees' basic salary. Mastek has no further obligations under the plan beyond its monthly contributions. These contributions are made to the fund administered and managed by the Government of India. Mastek's monthly contributions are charged to income in the year it is incurred. Mastek contributed $6,056 thousands and $5,019 thousands towards the provident fund during the year ended June 30, 2008 and 2007 respectively.

ii) Gratuity Plan. In addition to the above benefit, Mastek provides for gratuity obligation, a defined benefit retirement plan (the "Gratuity Plan") covering all employees in India, when terms of employment so provide. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment based on the respective employee's salary and the years of employment with Mastek.
Mastek provides for liability towards Gratuity Plan on the basis of actuarial valuation. The entire amount of gratuity is unfunded. Effective June 30, 2007, Mastek has adopted the provisions of SFAS 158 *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"*. This plan has been accounted for under the provisions of SFAS 87, *"Employers' Accounting for Pensions"* as amended by SFAS 158. The provisions of SFAS 158 have been adopted pursuant to the transitional provisions and Mastek has recognized unrecognized actuarial

losses as a liability with corresponding adjustment to the accumulated other comprehensive income, net of tax, a separate component of shareholders' equity.

iii) Superannuation Plan. The senior employees of Mastek are entitled to superannuation, a defined contribution plan (the "Superannuation Plan"). Mastek makes yearly contribution under the superannuation plan administered and managed by Life Insurance Corporation of India (LIC) based on a specified percentage (presently at 12% to 15% depending on the grade of the employee) of each covered employee's basic salary. Mastek contributed $89 thousands and $52 thousands towards the Superannuation Plan maintained by LIC during the year ended June 30, 2008 and 2007 respectively.

iv) Pension Commitments. Mastek paid contributions to a defined contribution pension scheme for its Directors and staff of its UK subsidiary. The assets of the scheme are held separately from those of Mastek in an independently administered fund. The pension cost charge represents contributions payable by Mastek to the fund and amounted to $90 thousands and $133 thousands for the year ended June 30, 2008 and 2007 respectively. Contributions payable for the period is charged to the statement of income.

v) Leave encashment. Leave encashment benefit comprises of encashment of leave balances accrued by the employees. These leave balances can be accumulated and carried forward to the extent of leave accrued without any limit on the maximum number of days that can be accrued. They are encashable on employee leaving Mastek or on retirement. Mastek provides for leave encashment benefit, which is a defined benefit scheme, based on actuarial valuation as at the balance sheet date conducted by an independent actuary.

n) ***Income Taxes***. In accordance with the provisions of SFAS 109, *"Accounting for Income Taxes"*, income taxes are accounted for under the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of income in the period of change. Based on management's judgment, the measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits of which future realization is uncertain.

Effective July 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a minimum recognition threshold for a tax position taken or expected to be taken in a tax return that is required to be met before being recognized in the financial statements. Mastek classifies potential interest and penalties related to unrecognized tax benefits as income tax expense.

o) ***Derivative Instruments***. All derivatives are recorded in the balance sheet at their fair value. Mastek normally enters into foreign exchange forward contracts where the counter party is generally a bank, to mitigate its foreign currency risk on foreign currency denominated inter-company balances. Although these contracts are effective as hedges from an economic perspective they do not qualify for hedge accounting under SFAS 133, as amended. Any derivative that is either not designated hedge, or is designated but ineffective as per SFAS 133, is marked to market and recognized in earnings immediately.

p) ***Earnings Per Share.*** In accordance with the provisions of SFAS 128, "Earnings Per Share", the basic earnings per share is computed on the basis of the weighted average number of shares outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of common and dilutive common equivalent shares outstanding during the period, using the "treasury stock" method for options and warrants, except where the results will be anti-dilutive.

q) ***Stock-Based Compensation Plan.*** The Company adopted the fair value recognition provisions of the Financial Accounting Standard Board (FASB) Statement of Financial Accounting Standards (SFAS) No 123 (R) "Share Based Payments" using the modified prospective application method. Under this transition method, compensation cost recognized in the year ended June 30, 2007, includes the applicable amounts of : (a) compensation cost of all stock –based payments granted prior to, but not yet vested as of July 1, 2006 (based on the grant date fair value estimated in accordance with original provisions of SFAS No.123 and previously presented proforma disclosures), and (b) compensation cost for all stock-based payments granted subsequent to July 1, 2006 (based on the grant-date fair value estimated in accordance with the new provisions of SFAS No.123(R)). Results for prior year have not been restated. All the options issued to date have been accounted as a fixed stock option plan. Mastek values its option using *Black Scholes model.*

r) ***Dividend.*** Dividend to Common Stock holders is recognized on approval from the shareholders of Mastek Limited.

s) ***Reclassifications.*** Certain reclassifications, regrouping or rearrangements have been made to the prior year financial statements to confirm to the current year presentation.

3. Recent Accounting Pronouncements.

In December 2007, FASB issued SFAS 141 (R), "Business Combinations". The objective of this Statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which is fiscal year commencing July 1, 2009 for us. Mastek will be required to apply this new Statement prospectively to business combinations consummated in fiscal years beginning after December 15, 2008. Early adoption is prohibited

In December 2007, FASB issued SFAS 160, "Non controlling interests in Consolidated Financial Statements" which improves the relevance, comparability and transparency of the financial information provided to investors by requiring all entities to report non controlling (minority) interest in subsidiaries in the same way as equity in the consolidated financial statements. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, which is fiscal year commencing July 01, 2009 for us. Mastek does not expect the adaptation of this statement to have material effect on consolidated financial statement.

In March 2008, FASB issued SFAS 161, "Disclosures about Derivative instruments and Hedging Activities". This Statement requires enhanced disclosures about an entity's derivative and hedging activities. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, which is fiscal year commencing July 1, 2009 for Mastek. This interpretation is mandatory for company in later period but is not relevant for companies operation.

In April 2008, the FASB issued FASB Staff Position No. 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS No. 142-3"). FSP FAS No. 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB Statement No. 142, "Goodwill and Other Intangible Assets". This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP FAS No. 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption is prohibited. The Mastek is currently evaluating the impact of adopting FSP FAS No. 142-3 on the consolidated financial statements.

In May 2008 the FASB issued SFAS 162 "The Hierarchy of Generally Accepted Accounting Principles" which identifies the source of accounting principles and the framework for selecting the principles used in the preparation of financial statement of nongovernmental entities that are presented in conformity with the generally accepted accounting principles (GAAP) in the United States. FASB 162 shall be effective 60 days following the SEC approval.

In May 2008 the FASB issued SFAS 163 "Accounting for financial guarantees insurance contracts" which requires the disclosures about the risk-management activities of the insurance enterprise. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008, which is fiscal year commencing July 1, 2009 for Mastek. This interpretation is not relevant for Mastek's operation.

In August 2008, the FASB issued FASB staff position No. 117–1, "Endowment of not for profit organization : Net Asset Classification of Funds subject to an enacted version of the uniform prudent management of institutional funds Act, and enhanced disclosures for all endowment funds" The above interpretation improves disclosures about organizations endowment funds. This interpretation is not relevant for the Mastek's operation.

In September 2008, the FASB issued FASB staff position No. 133-1, "Disclosure about credit derivatives and certain guarantees". The Interpretation is intended to improve disclosures about credit derivatives by requiring more information about the potential adverse effects of changes in credit risk on the financial position, financial performance, and cash flows of the sellers of credit derivatives. Mastek is in process of evaluating the impact of above interpretation on the financial position, results of operation, liquidity and its related disclosures.

In October 2008, the FASB issued FASB staff position No. 157–3, "Determining the fair value of financial asset when the market for that asset is not active". The interpretation provides the consideration for determining the fair value of financial asset, when the market for that financial asset is not active. The Mastek is in process of evaluating the impact of above interpretation on the financial position, results of operation, liquidity and its related disclosures.

4. Acquisitions

The following paragraphs describe each of the acquisitions made by Mastek during the year ended June 2008 (none during the year 2007). Descriptions regarding each acquisition will vary dependent upon the complexity and materiality of the transaction. Unless otherwise noted, pro-forma disclosures regarding these purchases have not been provided because they are not material to the operations of Mastek.

These acquisitions have been accounted for by following the purchase method of accounting. The purchase consideration has been allocated to the assets acquired and liabilities assumed based on their fair values as of the date of acquisition based on management's estimates and a valuation done by an independent valuer in accordance with SFAS As No.141, "Business Combinations".

(US Dollars in thousands except per share data and as stated otherwise)

(a) **System Task Group International (STG):** On March 8, 2008, the Company acquired 100% of the common shares of STG, a New York Corporation for $25,294.

The condensed balance sheet incorporated as at date of acquisition is as follows:

Particulars	STG
Current assets	$4,381
Tangible assets	760
Customer Contracts	3,124
Intellectual Property	11,735
Leasehold benefit identified	1,085
Current liabilities	(5,337)
Net Asset	**15,748**
Less: Purchase Consideration	**25,294**
Goodwill	**$9,546**

Goodwill is deductible for tax purposes. Factors contributing towards recognisation of goodwill mainly includes: assembled workforce, synergies of business and benefits beyond contractual period of customer relationships.

Had STG been acquired as of the beginning of the financial year the unaudited proforma results would have been as follows:

Proforma Unaudited results

Particulars	Amount
Sales	$230,301
Interest Cost	(1,527)
Amortization expenses	(12,369)
Net Profit / (loss) before taxes	29,882
Tax	(4,475)
Net Profit / (loss) after tax	**$25,407**

(b) **Vector Insurance Services LLC ('Vector'):** On July 13, 2007, the Company acquired 90% of the outstanding shares of Vector, a company incorporated in United States of America, for $5,154. The acquisition process was initiated in Feb 2007 and consummated on Jul 13, 2007. As per provisions of FAS 141, for the sake of accounting convenience, the acquisition date has been taken as July 01, 2007. Hence the financials of Vector have been consolidated from July 1, 2007.

(US Dollars in thousands except per share data and as stated otherwise)

The condensed balance sheet incorporated as at date of acquisition is as follows:

Particulars	Vector
Current assets	$539
Tangible assets	321
Customer Contracts	282
Customer Relationships	109
Intellectual Property	52
Current liabilities	(673)
Non current liabilities	(194)
Net Asset	**436**
Less: Purchase Consideration	5,154
Goodwill	**$4,718**

Goodwill is deductible for tax purposes. Factors contributing towards recognisation of goodwill mainly includes: assembled workforce, synergies of business and benefits beyond contractual period of customer relationships.

5. **Buyback of shares:**

The Board of Directors at their Meeting held on October 11, 2007 had announced buy back of its fully paid equity shares from existing shareholders and beneficial owners in accordance with the relevant provisions of Companies Act, 1956 and Securities and Exchange Board of India (Buy Back of Securities) Regulations, 1998 at a price not exceeding $18.56 per share. The Company opted to buy back shares from open market through stock exchange route and the total offer size aggregates to $16,000 thousands representing 25% of the Company's paid up capital and free reserves as on June 30, 2007 as per accounts drawn in accordance with Indian GAAP.

As of June 30, 2008, the Company had bought back 14,83,232 equity shares of $.0.12 each at an average price of $9.74 per share. Out of this, 915,714 equity shares of $.0.12 each have been retired whereas 567,518 shares have been held for retirement and have accordingly been shown under the Treasury Stock as at June 30, 2008 and disclosed as a separate component of shareholders' equity. The difference between the par value and amount spent for buy back of shares which have been retired during the year, amounting to $8,366 thousands has been fully appropriated from the additional paid in capital.

(US Dollars in thousands except per share data and as stated otherwise)

6. Accounts receivables

	As of June 30	
	2008	**2007**
Customers (trade)	$67,714	$40,568
Less: Allowance for doubtful receivables	(1,415)	(229)
Accounts receivables	**$66,299**	**$40,339**

Allowance for doubtful receivables is established in amounts considered to be appropriate based primarily upon management's specific evaluation of potential losses in the outstanding receivable balances. Moreover, the amount of bad debts provided during the year ended June 30, 2008 and June 30, 2007 amounts to $1,254 thousands and $44 thousands respectively whereas bad debts written off amounts to $68 thousands and $Nil respectively.

7. Prepaid expenses and Other Receivables

	As of June 30	
	2008	**2007**
Prepaid expenses	$1,145	$1,217
Advance for expenses	718	277
Loans and advance to employees	187	118
Loans and advances	200	230
Other advances and receivables	5,096	5
Total	**7,346**	**1,847**
Less: Allowance for doubtful loan (*Refer note 24*)	(200)	(200)
Prepaid expenses and other receivables	**$7,146**	**$1,647**

Prepaid expenses principally include the un-expired portion of annual rentals paid for use of office premises and insurance premium.

8. Property and Equipment

	As of June 30	
	2008	**2007**
Leasehold land and premises	$5,787	$5,807
Leasehold improvements	985	1,194
Other premises	6,106	3,539
Computers including servers	6,932	4,981
Office equipment	10,157	6,506
Furniture and fixtures	9,691	6,960
Vehicles	763	753
Capital work in progress	5,091	7,767
Total	**45,512**	**37,507**
Less: Accumulated depreciation	(20,878)	(16,523)
Property and Equipment, net	**$24,634**	**$20,984**

(US Dollars in thousands except per share data and as stated otherwise)

Depreciation expense accounted for is $5,262 thousands and $4,299 thousands for the years ended June 30, 2008 and 2007 respectively. The value of premises and equipment, which are fully depreciated and still in use is $12,203 thousands and $5,914 thousands for the years ended June 30, 2008 and 2007 respectively.

9. Goodwill and Other Intangible assets

	As of June 30	
	2008	**2007**
Goodwill	$14,614	$350
Customer contracts	16,668	281
Software	13,175	11,783
Total	**44,457**	**12,414**
Less: Accumulated Amortisation	(13,486)	(9,844)
Goodwill and Other Intangible assets	**$30,971**	**$2,570**

Amortization expense accounted for is $3,727 thousands and $1,876 thousands for the years ended June 30, 2008 and 2007 respectively.

The following table presents the reconciliation of changes in carrying values of goodwill

	As of June 30	
	2008	**2007**
Goodwill at the beginning of the year	$350	$350
Acquisition during the year	14,264	-
Goodwill at the end of the year	**$14,614**	**$350**

Other Intangible assets:

	Range of life (in years)	June 30, 2008			June 30, 2007		
		Gross carrying amount	Accumulated Amortization	Net intangible asset	Gross carrying amount	Accumulated Amortization	Net intangible asset
Customer contract and relationship	3-5	3,796	604	3,192	281	188	93
Intellectual property	3-5	11,787	800	10,987			
Leasehold benefit	7	1,085	52	1,033			
Software	1-2	13,175	12,030	1,145	11,783	9,656	2,127
Total		**29,843**	**13,486**	**16,357**	**12,064**	**9,844**	**2,220**

(US Dollars in thousands except per share data and as stated otherwise)

The following table presents the reconciliation of changes in carrying values of other intangible assets (other than Goodwill):

	As of June 30	
	2008	**2007**
Identifiable intangible at the beginning of the year	$2,220	$3,227
Acquisition during the year (net)	17,778	835
Amortization during the year (net)	3,641	1,842
Identifiable intangible at the end of the year	**$16,357**	**$2,220**

The estimated aggregate amortization expense for succeeding fiscal year is as follows:

Year ended	As of June 30	
	2008	**2007**
June 30, 2008	-	$1,862
June 30, 2009	$4,253	$358
June 30, 2010	$3,412	-
June 30, 2011	$3,149	-
June 30, 2012	$3,149	-
June 30, 2013	$2,136	-
Beyond 5 Years	$258	-
Total	**$16,357**	**$2,220**

10. Leases

Capital leases

Equipment under capital leases are stated at the present value of minimum lease payments. Mastek is obligated under capital leases that expire in the year ended June 30, 2008 through 2012 for certain items of computers, furniture and vehicles. The gross amount and related accumulated depreciation recorded under capital leases, included with premises, equipment and vehicles were as follows:

	As of June 30	
	2008	**2007**
Computers	$216	$91
Furniture	42	42
Vehicles	218	243
Less: Accumulated depreciation	(240)	(101)
Assets under capital leases, net	**$236**	**$275**

Depreciation on assets held under capital leases included in total depreciation expense accounted for $139 thousands and $45 thousands for June 30, 2008 and June 30, 2007 respectively.

(US Dollars in thousands except per share data and as stated otherwise)

Schedule of future minimum capital lease commitment

	As of June 30	
	2008	**2007**
Due for the Year Ending June 30		
2009	223	35
2010	152	26
2011	39	17
2012	8	-
Total minimum lease payments	**422**	**78**
Less: Interest portion	(15)	(21)
Present value of net minimum capital leases payments	**407**	**57**
Less: Current installments of obligations under capital leases	(214)	(26)
Obligations under capital leases, excluding current installments	**$193**	**$31**

Operating Leases

Mastek has certain operating leases for office premises. These are renewable on a periodic basis at its option, with the longest renewal period extending beyond 2010. The operating leases are cancelable at Mastek's as well as lessor's option. Rental expense for operating leases amounted to $2,480 thousands and $1,982 thousands for the years ended June 30, 2008 and 2007 respectively.

Future minimum annual lease commitments, including those leases for which renewal options may be exercised, as at June 30, 2008 are $517 thousands in the year 2009, $77 thousands in the year 2010.

11. Investments

	As of June 30	
	2008	**2007**
Available-for-sale securities	$18,742	$27,076
Investments	**$18,742**	**$27,076**

Available-for-sale securities

The Company has purchased investments aggregating to $377,565 thousands and $199,829 thousands for the years ended June 30, 2008 and 2007 respectively. Aggregate proceeds from the sale of available-for-sale securities made during the year amounted to $385,126 thousands and $186,601 thousands for the years ended June 30, 2008 and 2007 respectively. On those sales, net realized gains computed on a FIFO basis amounted to $46 thousands and $9 thousands for the years ended June 30, 2008 and 2007 respectively. These gains have been included in the other income in the income statement. The fair value of the available-for-sale securities was higher than the carrying value by $208 thousands and $156 thousands as at year ended June 30, 2008 and 2007 respectively, the difference has been credited to other comprehensive income.

(US Dollars in thousands except per share data and as stated otherwise)

Investment in unconsolidated Subsidiaries and Associates

Summarized information as to assets, liabilities and results of operation of the equity affiliates is as follows:

	As of June 30,	
	2008	**2007**
Total Assets	$Nil	$Nil
Total Liabilities	Nil	Nil
Stockholders' Equity	Nil	Nil

	For the year ended June 30,	
	2008	**2007**
Revenues	$Nil	$17,651
Operating Income	Nil	$1,210
Net Income	Nil	$850

"Mastek-D.C. Offshore Development Company Private Limited" (DCOTG)

The Company had during the year 2001-02 established a jointly controlled entity in India, named "Mastek-D.C. Offshore Development Company Private Limited" (DCOTG) with Deloitte Consulting LLP, USA ('Deloitte) to set up and operate an offshore development center for developing IT and other related services. The Company owned 50.1% of the shares in the joint venture. Both the parties had equal voting rights in the entity.
On March 9, 2007, the Company sold its entire stake in the joint venture to Deloitte for a consideration of $13,295 thousands. The excess of sales consideration over the net asset value of the investment amounting to $7,391 thousands has been disclosed as 'Gain on sale of shares in joint venture' in the profit and loss account.

As per the tax regime in the U.S.A., a joint venture is to be designated as a partnership and the joint venturers are subject to tax on their individual share of net income in the joint venture. Until the previous year, the Company accounted for the tax on its share of income in the joint venture. Pursuant to the sale of stake to Deloitte, the tax on profits made by DCOTG for the current year would be borne by Deloitte. As such, no amount of tax has been recognised during the year relating to profits made by DCOTG until the date of stake sale. The company has recognised $Nil and $624 thousands in equity in earnings of equity affiliate, as taxes payable relating to its share, for the year ended June 30, 2007 and 2006 respectively.

Carretek LLC

In the year 2003, the Company had formed an alliance with Carreker Inc. in Dallas. The Company held 49% of the holding in Carretek LLC with a Paid-up Capital of $2,211 up to previous year. During the current year, an additional amount of $553 was invested in Carretek LLC.

Pursuant to share purchase agreement, entered into with Carretek Inc., the Company acquired with effect from January 1, 2007, the balance 51% equity stake in Carretek LLC, at $Nil consideration. In view of the continuing losses and the fair value of assets acquired being equivalent to the liabilities assumed, no consideration was payable on acquisition of the balance stake. The results of operations of Carretek LLC from January 1, 2007 have been consolidated on a line by line basis.

(US Dollars in thousands except per share data and as stated otherwise)

A condensed balance sheet disclosing the amount assigned to each major asset and liability assumed of Carretek LLC at acquisition date is as follows:

Balance Sheet	**As at Dec. 31, 2006**
Property and Equipment	$55
Prepaid expenses and other current assets	$135
Total Assets	**$190**
Unearned revenues	$44
Other current liabilities	$146
Total Liabilities	**$190**
Stockholders Equity	$Nil

12. Other Assets

	As of June 30	
	2008	**2007**
Rent and maintenance deposits	$339	$980
Telephone and other deposits	161	140
Others	220	187
Other Assets	**$720**	**$1,307**

Telephone and other deposits principally include deposits with government organizations mainly to obtain leased telephone lines and electricity supplies. Others include deposit with housing societies for the use of office premises and miscellaneous other deposits.

13. Borrowings

Short-term debts

	As of June 30	
	2008	**2007**
Current portion of capital lease obligation	$214	$26
Current portion of term loan	5,500	-
	$5,714	**$26**

Cash credit facilities were taken and repaid during the year were secured by current assets and the weighted average interest rate was 8.45 % and 12.30 % approx. for the year ended June 30, 2008 and 2007 respectively.

As of June 30, 2008 and 2007, Mastek had unused lines of credit amounting to $4,919 thousands and $5,297 thousands which relates to cash credit and debts respectively.

(US Dollars in thousands except per share data and as stated otherwise)

Long-term debts

MajescoMastek, a wholly owned subsidiary of the company has taken a long term loan of $20,000 thousands as per details below for acquiring 100% stake in System Task Group International (STG).

Title	Nature	Amount	Interest	Tenure	Purpose
Syndicated USD Term Facility Agreement	Secured	20,000	2% + LIBOR	4 years	Acquisition of STG

The above mentioned loan has been secured by pledging of shares of STG. Company has given unconditional and irrevocable guarantee to ICICI Bank in relation to the obligations of MajescoMastek.

The loan is repayable in 4 years as follows:

Year	Amount
2009	5,500
2010	5,500
2011	6,000
2012	3,000

Long-term debts outstanding consist of:

	As of June 30	
	2008	**2007**
Secured debts		
Capital lease obligations	$407	$92
Long Term portion of Term Loan	14,500	-
Total Debts	**14,907**	**92**
Less: Current portion of long-term debts and lease obligations	(214)	(26)
Long-term debts, net of current portion	**$14,693**	**$66**

14. Accrued Expenses and Other Liabilities

	As of June 30	
	2008	**2007**
Accrued expenses	$26,504	$21,859
Statutory payments	6,774	6,170
Unclaimed dividend	75	31
Provision for taxation	3,679	1,978
Employee benefits	3,876	3,214
Advance received	275	940
Others	1,270	1,139
Accrued expenses and other liabilities	**$42,453**	**$35,331**

Accrued expenses as of June 30, 2008 and 2007 primarily include accrued payroll $2,870 thousands and $2,478 thousands, accrued bonus $12,527 thousands and $11,822 thousands, directors commission payable $277 thousands and $498 thousands, employee health care benefits payable $259 thousands and $199 thousands, sub-contracting charges $1,074 thousands and $901 thousands respectively and accrual for capital purchases $633 thousands and $2,328 thousands respectively.

(US Dollars in thousands except per share data and as stated otherwise)

Others as on June 30, 2008 and 2007 represent bank overdraft. Employee benefits as on June 30, 2008 and 2007 represents leave encashment.

Leave encashment expenses amounted to $1,589 thousands and $950 thousands for the years ended June 30, 2008 and June 30, 2007 respectively. The weighted average actuarial assumptions used to determine benefit obligations and net periodic benefit cost were:

	As of June 30	
	2008	**2007**
Discount rate	8.7%	8.3%
Future salary increases	15% for first year and 10% thereafter	15% for first year and 10% thereafter

15. Fair Value of Financial Instruments

Mastek's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and notes payable. The current carrying amount of these instruments approximates fair market value due to the relatively short period of time to maturity for these instruments.

16. Retirement benefit obligation - Gratuity

The following table sets forth the funded status of the Gratuity Plan of Mastek, and the amounts recognized in Mastek's balance sheet. The measurement date used is June 30 of relevant fiscal year.

	As of June 30	
	2008	**2007**
Accumulated benefit Obligation	$968	$882
Projected benefit obligation at beginning of the year	$2,331	$2,010
Service cost	552	479
Interest cost	226	182
Benefits paid	(289)	(225)
Actuarial (Gain)/Loss	(141)	(383)
Effect of exchange rate changes	(148)	268
Projected benefit obligation at end of the year	**$2,531**	**$2,331**
Funded status of the plans	-	-
Projected benefit obligation	($2,531)	($2,331)
Unrecognized net actuarial loss (gain)	-	-
Prepaid (accrued) benefit cost	**($2,531)**	**($2,331)**

The Component of net gratuity costs for the	**Year ended June 30,**	
respective financial years are reflected below:	**2008**	**2007**
Service cost	552	479
Interest cost	226	182
Net Actuarial (gain)/loss	18	50
Net gratuity costs recognized	**$796**	**$711**

(US Dollars in thousands except per share data and as stated otherwise)

Weighted average assumption used to determine benefits obligations and net periodic cost

	As of June 30	
	2008	**2007**
Discount rate	10.05%	9.95%
Long-term rate of compensation increase	15% for first year & 10% thereafter	15% for first year & 10% thereafter

Gratuity	As of June 30	
	2008	**2007**
Current assets	$174	$160
Non Current assets	2,357	2,171
Total	**$2,531**	**$2,331**

Cash Flows

Mastek expects to settle $174 thousands towards its gratuity obligations during the year ending June 30, 2009. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

For the financial years ended June 30,	Expected Contributions
2010	242
2011	338
2012	459
2013	573
2014 –2018	3,298

17. Income Taxes

	Year ended June 30	
	2008	**2007**
Foreign Taxes		
Current	$2,861	$3,442
Deferred	(278)	333
Domestic taxes		
Current	1,951	2,409
Deferred	(60)	(284)
Aggregate taxes recognized in statement of income	**$4,474**	**$5,900**

(US Dollars in thousands except per share data and as stated otherwise)

Reconciliation between the provisions for income taxes to the amount computed by applying the statutory income tax rate to the income before provision for income taxes is summarized below:

	As of June 30	
	2008	**2007**
Net income before taxes	$33,453	$30,650
Effective tax rates	33.99%	33.66%
Computed tax expense	$11,371	$10,316
Tax effect due to non-taxable income	(8,421)	(5,929)
Stock compensation (non-deductible)	239	458
Valuation allowance	(416)	(764)
Tax charge of earlier year assessed in current year	924	-
Taxes on profits –UK branch (non-deductible)	1,092	923
Difference arising from different tax jurisdiction	(372)	(129)
Intangible customer write off	(57)	-
Tax on Profit on Sale of Joint Venture	-	592
Other non-deductible expenses	114	433
Total taxes recognized in statement of income	**$4,474**	**$5,900**

Mastek benefits from exemptions from payment of Indian corporate income taxes for a period of ten consecutive years of software development facilities located at special economic zones or designated as "software technology park"(STP units). The benefits of these tax incentives will expire till fiscal 2010. However, Mastek earns certain other income and domestic income which are taxable irrespective of the tax incentive stated above.

Significant components of activities that gave rise to deferred tax assets and liabilities included on the balance sheet were as follows:

	As of June 30	
	2008	**2007**
Deferred tax assets:		
Carry forwarded operating losses	$647	$416
Doubtful debts	80	80
Premises and equipment	1,408	1,132
Employee benefits	916	1,631
MAT Credit	2,794	215
Others	6	(20)
Gross deferred tax assets	**$5,851**	**$3,454**
Less: Valuation allowance	(648)	($1064)
Total deferred tax assets	**$5,203**	**$2,390**
Total deferred tax liabilities:	$Nil	$Nil
Net deferred tax assets	**$5,203**	**$2,390**

Carry forwarded operating losses for tax purposes of Mastek as at June 30, 2008 and June 30, 2007 amounts to approximately $1,997 thousands and $1,602 thousands respectively and are available as an offset against future taxable income of such entities. Realization is dependent on Mastek generating sufficient taxable income prior to the expiration of the loss carry forwards.

(US Dollars in thousands except per share data and as stated otherwise)

As of June 30, 2008, Mastek's carry forward operating losses expire as follows:

Expiring in the year ending March 31,	As of June 30, 2008
2009	$1,440
2016	557

A valuation allowance is established attributable to deferred tax assets and loss carry forwards by Mastek where, based on available evidence, it is more likely than not that they will not be realized. Mastek has not created a deferred tax liability on the outside basis for the unremitted earnings of its foreign subsidiaries as the management of Mastek intends to reinvest these funds and does not expect to remit the earnings as dividends nor sell the stock, liquidate or merge any of its foreign subsidiaries. Deferred tax asset includes foreign exchange fluctuation loss of $18.63 thousands. Net deferred tax assets (liabilities) included in the consolidated balance sheets were as follows:

	As of June 30	
	2008	**2007**
Current assets – Deferred tax assets	$285	$269
Non-current assets – Deferred tax assets	4,918	2,121
Deferred tax assets	**$5,203**	**$2,390**

Effective July 1, 2007, Mastek Group adopted provisions of FIN 48, "Accounting for Uncertainty in Income Taxes"- an interpretation of FASB Statement No.109 ("FIN 48"). Upon adoption of FIN 48, Mastek's policy to include interest and penalties relating to unrecognized tax benefits within the provision for income taxes did not change. As a result of the adoption of FIN 48, Mastek did not have to recognize any increase/decrease in the liability for unrecognized tax benefits related to tax positions taken in prior periods.

Mastek's total unrecognized tax benefits as at June 30, 2008, if recognized, would reduce the tax provision by $924 thousands and thereby affect it's effective tax rate.

During the year ended June 30, 2008, Mastek recognized $435 thousands in interest and penalties and the same is outstanding as of June 30, 2008.

Mastek's major tax jurisdiction is India and UK though it files tax returns in other foreign jurisdictions. In India, the assessment is not yet completed for fiscal year ended March 1999 and onwards. Further, U.K. tax returns pertaining to fiscal year 2007 onwards are pending for examination by the relevant authorities.

Significant changes in the amount of unrecognized tax benefits is not reasonably possible within the next 12 months from the reporting date.

(US Dollars in thousands except per share data and as stated otherwise)

18. Other Income

	As of June 30	
	2008	2007
Dividend Income	$1,947	$1,098
Profit on sale of Investment	46	9
Others	1,584	640
Other income	**$3,577**	**$1,747**

Others as of June 30, 2008 and 2007 include recoveries from debtors written off in earlier years of $Nil and $46 thousands and profit on sale of assets of $706 thousands and $109 thousands respectively.

19. Earnings Per Share

Basic earnings per share are computed on the basis of the weighted average number of shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of shares outstanding plus the effect of outstanding stock options using the "treasury stock" method.
The components of basic and diluted earnings per share were as follows:

	As of June 30	
	2008	2007
Net income available to equity shareholders		
Income from continuing operations	$28,979	$25,248
Average outstanding equity shares	28,460,276	28,298,337
Dilutive effect of:		
Employee Stock Options	130,021	1,273
Share and share equivalents	**28,590,297**	**28,299,610**
Net Income per share of common stock:		
Basic	$1.02	$0.89
Diluted	$1.01	$0.89

20. Employee stock option plan:

The Company elected the modified prospective method on 1st July 2006 as prescribed in SFAS No. 123R, Share-based Payment (SFAS 123R) and therefore prior period was not restated. Under the modified prospective method, this statement was applied to new grants after the date of adoption as well as to the unvested portion of previously granted equity-based awards.

Certain employees of the Company participate in Mastek's Stock Option Plan. Under this plan, Mastek Limited grants options to employees of Mastek and its affiliates which are subject to service conditions. Options issued under the Plan have varying terms as provided in separate stock option agreements and vest in a graded manner over a period of 4 years and expire within 6 years from the date of grant.

Under SFAS 123 R forfeitures are estimated at the time of valuation and reduce the expense ratably over the vesting period. This estimate is adjusted periodically based on the extent to which actual forfeitures differ or are expected to differ from previous estimate. The forfeiture estimate has been reviewed and revised to 15% (in 2007-08) from $Nil (in 2006-07).

In June 1999, Mastek established an Employees Stock Options Plan ("ESOP") which provided for the issuance of 150,000 stock options to the eligible employees of Mastek. This was modified in the Extra Ordinary Meeting held on April 18, 2000 to 600,000 stock options so as to give effect to the stock bonus and the stock split.

Mastek issues stock options to eligible employees either with immediate vesting or subject to progressive vesting period up to four years. The exercise period is for a period of two years from the date of vesting. The options granted to the employees entitle them to purchase one share of Mastek at a price of $1.67 (Rs.80) per option. The intrinsic value of each stock option is difference in the market price of the shares underlying the stock option on the date of grant and the exercise price paid by the employees.

In view of the bonus shares issued to the stockholders of Mastek Limited, in the year 1999 – 2000, Mastek issued additional stock options to the employees to whom options have been issued, in the same proportion as the bonus issue and simultaneously reduced the exercise price of the stock options. The earlier scheme did not provide for anti dilution. Hence, this lead to a modification as this stock bonus was not treated as an equity restructuring pursuant to Emerging Issue Task Force (EITF) 90 – 9 "Changes to Fixed Employee Stock Option Plans as a result of Equity Restructuring". Correspondingly, additional compensation cost of $429 thousands has been recognized as a result of the modification in the year ended June 30, 2001. The modification led to a reduction in the exercise price that made the scheme variable as per the provisions of FASB Interpretations (FIN) 44.
Mastek established a new scheme in 2002 for granting 700,000 stock options to employees of Mastek. The issue price will be the market price on the date of grant. One-third of the options granted would vest with the employees at rests of twelve months with the first vesting after a minimum period of one year after the grant date. The options are exercisable within two years of their vesting. The options granted during the year have been granted at an exercise price, which is equal to the market value of the underlying equity shares. Consequently, there is no compensation cost relating to these option grants recognized till date.

Mastek Limited ("the Company") passed special resolutions at its Annual General Meeting held on September 20, 2004 approving the allocation of 700,000 stock options to the eligible employees of the company and its subsidiaries.

The Company subsequently established a new scheme in 2004 for granting 700,000 stock options to the employees referred to above, each option representing one equity share of the company. The first vesting of the stock options shall happen only on completion of one year from the date of grant and the options are exercisable within two years from the date of vesting. All the options granted under this scheme have been granted at an exercise price which is equal to the market price of the underlying equity shares.

The Shareholders of the Company through Postal Ballot on August 9, 2007 approved the allocation of 1,000,000 stock options to the eligible employees of the Company and its subsidiaries.

The Company subsequently established a new scheme in 2007 for granting 1,000,000 stock options to the employees referred to above, each option representing one equity share of the Company. The exercise price is as governed by the guidelines issued by SEBI. The scheme is governed by the Employee Stock Option Scheme and Employee Stock Purchase Guidelines issued in 1999 by SEBI and as amended from time to time. The first vesting of the stock options shall happen only on completion of one year from the date of grant and the options are exercisable within two years from the date of vesting. The options granted during the year have been granted at an exercise price which is equal to the market price of the underlying equity shares.

(US Dollars in thousands except per share data and as stated otherwise)

As at June 30 2008 and 2007 the stock options for 13,30,293 and 11,41,469 shares remain unallocated respectively. Unallocated stock options are not considered outstanding for purposes of computing earnings per share.

Activity in the Employees Stock Option Plan during the year was as follows:

	Weighted Average Exercise Price	As of June 30	
	2008	**2008**	**2007**
Outstanding at the beginning of the year	$7.37	14,11,400	14,00,066
Granted	$7.66	811,176	587,040
Cancelled/Lapsed	$5.00	(575,968)	(249,159)
Exercised	$3.95	(76,115)	(326,547)
Outstanding at the end of the year	$6.78	**15,70,493**	**14,11,400**
Weighted Average Fair Value of grants during the year		$2.54	$3.47

**The per share value has been converted at year end rate 1 US $ = Rs 43.035 and Rs.40.705 as at June 30, 2008 and June 30, 2007.*

The total grant date fair value of options vested during the year ended June 30, 2008 is $1,082.06 thousands.

The total grant date intrinsic value (i.e. the difference in the market price at the date of the grant and the price paid by the employee) of options exercised during year ended June 30, 2008 is $Nil.

The total cash received on account of exercise of options, during the year ended June 30, 2008 is $327 thousands.

As of June 30, 2008, the total future compensation cost related to non-vested options not yet recognized in the statement of income was $1,029 thousands and the weighted average period over these awards are expected to be recognized was 1.85 years.

(US Dollars in thousands except per share data and as stated otherwise)

Information about employee stock options outstanding as at June 30, 2008 is as follows:

	Outstanding		Exercisable
Exercise Price	Weighted average remaining contractual life	Number of shares arising out of options	Number of shares arising out of options
$2.47 (Rs. 106.50)	0.85	114,413	114,413
$3.82 (Rs. 164.50)	1.22	112,535	103,535
$4.08 (Rs. 175.50)	2.54	15,003	15,003
$4.37 (Rs. 188)	0.12	18,400	18,400
$4.44 (Rs. 191)	0.37	5,231	5,231
$6.02 (Rs. 259)	3.54	404,042	185,410
$7.13 (Rs. 307)	4.78	100,000	25,000
$7.37 (Rs.317)	4.28	133,876	-
$8.18 (Rs.352)	5.05	244,500	-
$8.59 (Rs. 370)	3.68	263,658	91,914
$8.62 (Rs. 371)	3.78	7,300	2,400
$8.64 (Rs. 372)	4.20	151,535	48,425

** the per share value has been converted at year end rate 1 US $ = Rs 43.035 as at June 30, 2008.*

As of June 30, 2008 stock options vested and expected to vest are $15,70,493 with the aggregate grant date intrinsic value of nil.

For SFAS 123 valuation the fair value of each stock option is estimated on the date of grant using the Black Scholes Model with the following assumptions:

	As of June 30	
	2008	2007
Expected life	3.4 years	3.2 years
Risk-free interest rates	7.51%	7.49%
Expected volatility	46.63%	50.68%
Expected dividend yield (%)	1.32%	1.35%

The volatility is determined based on annualized standard deviation of the continuously compounded rate of return on the stock over a period of time.

The risk free interest rates are determined using the expected life of options based on the zero-coupon yield curve for Government Securities.

The expected dividend is based on the average dividend yields for preceding six years.

Weighted average price is based on latest available closing market price on the stock exchange with the highest trading volume on the date of grant.

(US Dollars in thousands except per share data and as stated otherwise)

21. Minority Interest

All the acquisitions made by the Company during the year were 100% acquisitions except in case of Vector where the Company acquired 90% stake. As Vector incurred loss during the year there is a due from the minority shareholders amounting to $21 i.e. to the extent of their share in the loss. As there is no specific recoverable agreement with the minority shareholders, such loss has been borne by the company.

22. Segmental Reporting:

Mastek Limited follows SFAS 131, *"Disclosures about Segments of an Enterprise and Related Information"* which requires disclosure of financial and descriptive information about Mastek's reportable operating segments. The operating segments reported below are the Strategic Business Units [SBU's] of Mastek for which separate financial information is available and for which operating profit/loss amounts are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance.

These SBUs primarily provide end-to-end information technology solutions that include consulting on time and material basis contracts and fixed bid contracts. Mastek's reportable operating segments consist of following SBU's, which are primarily based on the location of the customers; the US Operations, UK Operations, and other SBU's aggregated and categorized as 'Others'. 'Others' includes operations of Mastek in other parts of the world including India, except those mentioned separately as a segment. The management of Mastek was reviewing the operation of DCOTG in previous year, an equity affiliate, separately.

Segmental Reporting on the basis of SBU's:

Year ended June 30, 2008	**UK operations**	**US operations**	**Others**	**Adjustments**	**Total**
Revenue -external customers	$140,807	$63,592	$16,816	($1,214)	$220,001
Operating income before common charges	$49,544	$12,535	($1,398)	($5,713)	$54,968
Profit Reconciliation:					
Segment Operating income					$54,968
Less : Corporate and other Common expenses					$25,131
Operating income					$29,837
Interest expense					($860)
Interest income					$899
Other income, net					$3,577
Income before income taxes and minority interest					$33,453
Segment Depreciation and amortization of expense	$2,252	$3,593	$748		$6,593
Add : Unallocated depreciation					$2,396
Total depreciation					$8,989

(US Dollars in thousands except per share data and as stated otherwise)

Year ended June 30, 2007	UK operations	US operations	Others	Adjustments	Total
Revenue -external customers	$116,168	$37,696	$11,429	$1,218	$166,511
Operating income before common charges	$31,487	$5,527	$13	$859	$37,886
Equity in earnings of equity affiliates			$498		$498
Profit Reconciliation:					
Segment Operating income					$37,886
Less : Corporate and other Common expenses					$16,704
Operating income					$21,182
Interest expense					($194)
Interest income					$461
Other income, net					$1,747
Profit on sale of shares in subsidiary company/ Joint venture					7,454
Income before income taxes and minority interest					$30,650
Segment Depreciation and amortization of expense	$2,203	$1,515	$473		$4,191
Add : Unallocated depreciation					$1,984
Total depreciation					$6,175

The adjustment represents the reconciling items to confirm the segmental information to US GAAP. Such adjustments primarily in case of revenue relate to grossing up of expense reimbursement. In case of segmental profit, it mainly relates to losses on forward foreign exchange, accruals in respect of employee benefit and other adjustment.

Mastek Limited incurs corporate costs and other common cost on account of various support functions for services that are provided to SBUs. These support functions mainly include, services of technical cell, resources, recruitment, infrastructure, training, quality, administration, director, finance, public relations, marketing cost, interest cost, practice line development cost, etc. For internal reporting purposes, these are not allocated to any segments, as the management is of the view that these cost are not identifiable to any particular segment.

The executive management does not review the total asset for each reportable segment.

Geographic Information

The revenues that are attributable to countries based on location of customers and long-lived assets are as follows:

				Year ended June 30, 2008	
	UK	**US**	**India**	**Rest of the world**	**Total**
Revenue	$140,807	$60,272	$7,104	$11,818	$220,001
Long lived asset	$135	$30,739	$24,711	$20	$55,605

				Year ended June 30, 2007	
	UK	**US**	**India**	**Rest of the world**	**Total**
Revenue	$117,334	$37,259	$2,499	$9,419	$166,511
Long lived asset	$217	$104	$23,177	$56	$23,554

23. Concentration of credit risk

Mastek's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents and account receivable. As at June 30, 2008 and 2007, an amount of $12,082 thousands and $21,982 thousands respectively, is maintained with various banks. Account receivables are typically unsecured and are derived from revenues earned from customers primarily located in the United States of America and United Kingdom. Mastek monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. For the year ended June 30, 2008 and 2007, revenues from UK operations include a customer who accounted for 34% and 40% of Mastek's revenue and represents 41% and 41% of Mastek's receivables respectively.

24. Related parties transactions

Varstreet.Com

One of the Director of Mastek Limited is also a co-founder and Director of varstreet.com. In addition, the Company holds common stock of Varstreet.com.

During the year ended June 30, 2002, the Company extended a loan of $200 thousands to Varstreet.com. The loan amount is secured by a charge on the collaterals, being the license on the software developed by Varstreet.com. However, in view of the performance of Varstreeet.com, the Company had provided for the loan of $200 thousands in the year ended June 30, 2002. Further, in the previous year the company extended a loan of $30 thousands which was subsequently recovered.

25. Contingencies and Commitments

i) Litigations

a) Mastek is subject to legal proceedings and claims, which have arisen in the ordinary course of business. These actions, when ultimately concluded and determined, will not, in the opinion of the management, have a material effect on results of operation or financial position.

b) The Income Tax department, India, has raised demands of income taxes in respect of the subject matters for which Mastek has contested the demands and has received in its favour decisions on subject matter of disputes relating to earlier Assessment years by appropriate higher authorities. Mastek Limited is confident of winning the appeals made by the Income Tax department at higher judicial authorities.

ii) Bank Guarantees

Guarantees provided by banks on behalf of the Company amounted to $358 thousands and $155 thousands as of June 30, 2008 and 2007 respectively. The guarantees were provided to various Indian government agencies and to few customers. These guarantees can be revoked by the government agencies and customers, if they suffer any losses or damage through the breach of any covenants contained in the agreements.

Guarantees provided by banks on behalf of the Company to the customs authorities amounted to $3 thousands and $Nil as of June 30, 2008 and 2007 respectively.

iii) Corporate Guarantees

Corporate guarantees given on behalf of following subsidiaries

- Majesco Mastek $24,000 thousands and $Nil as of June 30, 2008 and 2007 respectively.
- Mastek (UK) Limited $41,355 thousands and $Nil as of June 30, 2008 and 2007 respectively.

iv) Capital Commitments

Mastek had contractual commitments of $7,174 thousands and $7,083 thousands as of June 30, 2008 and 2007 respectively for capital expenditures relating to acquisition of property, equipment and new network infrastructure.

v) Other

Claims against the company not acknowledge as debt amounting to $246 thousands and $246 thousands as of June 30, 2008 and June 30, 2007 respectively.

26. Forward Contracts

Mastek enters into forward foreign exchange contracts where the counter party is generally a bank. Mastek considers the risks of non-performance by the counter party as non-material. The aggregate contracted principal amounts of Mastek foreign exchange forward contracts (sell) outstanding as of June 30, 2008 and 2007 amounted to $25,250 thousands and $16,760 thousands respectively. Gain/(Loss) on outstanding foreign exchange forward contracts amounted to ($122) thousands and $1.91 thousands for the years ended June 30, 2008 and 2007 respectively, which are included under the head 'selling, general and administrative expenses'. The outstanding forward contracts as on June 30, 2008 mature between one to Six months.

27. Shareholders' Equity and Dividends

i) Dividends

Dividends proposed by the Board of Directors are payable when declared by the shareholders who have the right to decrease but not increase the amount of the dividend recommended by the Board of Directors. With respect to equity shares issued by Mastek Limited during a particular fiscal year, cash dividends declared and paid for such fiscal year generally will be prorated from the date of issuance to the end of such fiscal year. Mastek Limited accrues dividend payable and pays them after obtaining shareholders' approval. Dividend payable to equity shareholders are based on net income available for distribution as reported in Mastek Limited's transfer to its reserves a minimum percentage of its profits for that year, ranging from 2.5% to 10%, depending on the dividend percentage to be declared in such year. Should Mastek declare and pay a dividend, such dividend will be paid in Indian Rupees.

ii) Retained earnings

Retained earnings include appropriated retained earning amounting to $2,665 thousands and $2,665 thousands for the year ended June 30, 2008 and 2007 respectively and unappropriated retained earnings amounting to $93,321 thousands and $70,941 thousands for the year ended June 30, 2008 and 2007 respectively. Appropriated retained earnings represent Capital Redemption Reserve. Under the Companies Act of 1956, if any preference share is redeemed otherwise than out of the proceeds of a fresh issue then a company is required to transfer, from the profits which would have been otherwise available for dividend, an amount equal to the nominal amount of the preference share redeemed to a fund called Capital Redemption Reserve Account. Similarly on buy back, nominal value is transferred to Capital Redemption Reserve Account. Such a reserve is not available for declaration of dividend but can be used to declare stock split in the nature of stock dividend. Nothing has been appropriated to Capital Redemption Reserve during the year ended June 30, 2008 and 2007.

28. Subsequent Events (un-audited)

i) Dividend

At the Board Meeting held on July 23, 2008, the boards of directors have proposed a dividend of $5,091 thousands including corporate dividend tax, which has been approved by the shareholders in the Annual General Meeting, held on October 6, 2008.

ii) Buyback of shares

Treasury Stock of 5,67,518 shares that have been held for retirement as at June 30, 2008 has been retired by July 11, 2008. Moreover, the Company has further bought back 176,863 shares in the month of July 2008 at an average price of $8.70 and retired the said shares immediately thereafter.

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