



## **Evolving Growth in a Competitive World**



**Audited Consolidated Financial Statements for 2004**

## **Auditors' Report**

### **To the Board of Directors of R Systems International Limited on the Consolidated Financial Statements of R Systems International Limited and its subsidiaries**

1. We have examined the attached consolidated balance sheet of R Systems International Limited (the Company) and its subsidiaries (as per the list appearing at Note 2 under Schedule 19 to the consolidated financial statements) as at December 31, 2004, the consolidated profit and loss account and cash flows for the year then ended prepared in accordance with accounting principles generally accepted in India.
2. These financial statements are the responsibility of R Systems International Limited's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in India. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements. 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 statements. We believe that our audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of the Company's subsidiaries, whose financial statements reflect:
  - (i) in relation to R Systems Inc., US subsidiary, total assets (net) of Rs. 156,103,812 (US \$ 3,569,719) as at December 31, 2004 and revenues of Rs. 731,841,101 (US \$ 16,141,180) for the year then ended.
  - (ii) in relation to the Singapore subsidiary, total assets (net) of Rs. 92,860,480 (US \$ 2,123,496) as at December 31, 2004 and revenues of Rs. 14,779,843 (US \$ 325,978) for the year then ended.
  - (iii) in relation to Indus Software Inc., US subsidiary, total liabilities (net) of Rs. 17,991,309 (US \$ 411,418) as at December 31, 2004 and revenues of Rs. 42,796,789 (US \$ 943,908) for the year then ended.
  - (iv) in relation to EC Net Limited, total liabilities (net) of Rs. 10,938,626 (Sing \$ 409,533) as at December 31, 2004 and revenues of Rs. 108,597,349 (Sing \$ 4,047,609) for the year then ended.
4. These financial statements of Company's subsidiaries have been audited by other auditors who have submitted their audit opinions, prepared under generally accepted auditing standards of their respective countries, to the shareholders of the respective countries, copies of which have been provided to us by the Company. Our opinion thus, insofar it relates to amounts included in respect of these subsidiaries, is based solely on the reports of the other auditors and figures certified by the management.

5. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of R Systems International Limited and its subsidiaries included in the consolidated financial statements.
6. Subject to Note 14 under Schedule 19 relating to management's views on non-amortisation of goodwill amounting to Rs. 24,495,721 and its consequent effect on the net assets and losses for the year in the event of amortisation, which is not determinable, on the basis of the information and explanations given to us and on the consideration of the separate audit reports on the individual audited financial statements of R Systems International Limited and its aforesaid subsidiaries, we are of the opinion that:
- (a) the Consolidated Balance Sheet gives a true and fair view of the consolidated state of affairs of R Systems International Limited and its subsidiaries as at December 31, 2004; and
  - (b) the Consolidated Profit and Loss Account gives a true and fair view of the consolidated results of operations of R Systems International Limited and its subsidiaries for the year then ended.
  - (c) the Consolidated Cash Flow Statement gives a true and fair view of the consolidated cash flows of R Systems International Limited and its subsidiaries for the year then ended.

For S. R. Batliboi & Associates  
Chartered Accountants

per Pankaj Chadha  
Partner  
Membership No. 91813

Delhi  
Date: March 30, 2005

**R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)**  
**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**

<b>Consolidated Balance Sheet as at December 31, 2004</b>			
	<b>Schedules</b>	<b>As at December 31, 2004 Rs.</b>	<b>As at December 31, 2003 Rs.</b>
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' Funds</b>			
Capital	1	51,785,174	53,780,174
Reserve and Surplus	2	461,605,237	585,978,469
		<b>513,390,411</b>	<b>639,758,643</b>
<b>Minority Interest</b>	3	-	-
<b>Loan Funds</b>			
Secured Loans	4	125,865,458	59,704,737
Deferred payments liability (refer note 11(a) under schedule 19)		21,372,513	-
<b>TOTAL</b>		<b>660,628,382</b>	<b>699,463,380</b>
<b>APPLICATION OF FUNDS</b>			
<b>Fixed Assets</b>			
Gross block	5	439,632,049	295,176,366
Less : Depreciation		183,701,820	102,431,900
Net block		255,930,229	192,744,469
Capital work-in-progress including capital advances		26,144,930	18,142,472
		<b>282,075,159</b>	<b>210,886,941</b>
<b>Investments</b>	6	1,592,852	1,659,897
<b>Current Assets, Loans &amp; Advances</b>			
Sundry debtors	7	345,165,358	270,075,610
Cash and bank balances	8	96,629,581	121,368,251
Other current assets	9	63,852,967	91,736,121
Loans and advances	10	41,896,628	159,955,214
<b>Less : Current Liabilities and Provisions</b>			
Liabilities	11	171,374,785	163,515,502
Provisions	12	29,490,030	31,566,133
		<b>200,864,815</b>	<b>195,081,635</b>
<b>Net Current Assets</b>		<b>346,679,719</b>	<b>448,053,561</b>
<b>Deferred tax assets (net)</b>	13	30,280,652	34,584,235
<b>Miscellaneous Expenditure</b> (to the extent not written off or adjusted )	14	-	4,278,746
<b>TOTAL</b>		<b>660,628,382</b>	<b>699,463,380</b>
<b>Notes to accounts</b>	19		

The schedules referred to above and the notes to accounts form an integral part of the Balance Sheet

As per our report of even date

For S.R.Batliboi & Associates Chartered Accountants For and on behalf of the Board of Directors

per Pankaj Chadha  
Partner  
Membership No. 91813

Lt. Gen. Baldev Singh (Retd)  
[Managing Director]

Avirag Jain  
[Director]

Nand Sardana  
[Vice President (Finance) &  
Company Secretary ]

New Delhi  
Date: March 31, 2005

**R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)**  
**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**

**Profit and Loss account for the year ended December 31, 2004**

	Schedules	For the year ended December 31, 2004 Rs.	For the year ended December 31, 2003 Rs.
<b>INCOME</b>			
Sale of software products and rendering software development services		1,323,455,650	1,224,665,286
Amortisation of Government grant received (refer note 11(e) under schedule 19)		715,476	-
Other income	15	3,256,659	2,266,186
<b>Total</b>		<b>1,327,427,785</b>	<b>1,226,931,472</b>
<b>EXPENDITURE</b>			
Personnel expenses	16	820,270,856	766,127,153
Operating and other expenses	17	440,235,958	405,739,612
Amortisation of goodwill		-	24,460,860
Depreciation / amortisation	5	48,218,244	39,514,947
Finance expenses	18	11,784,366	2,160,190
Exceptional item (refer note 13 under schedule 19)		-	22,630,294
<b>Profit / (loss) before tax and minority interest</b>		<b>6,918,360</b>	<b>(33,704,584)</b>
Provision for tax (net of excess provision of Rs Nil, Previous Year Rs 2,566,064, written back relating to earlier years).		2,472,921	(5,619,608)
Deferred tax		2,304,394	8,607,111
<b>Total tax expense</b>		<b>4,777,315</b>	<b>2,987,504</b>
Share of losses of EC Net Ltd relating to minority shareholders		149,585	-
<b>Net profit</b>		<b>2,290,630</b>	<b>(36,692,087)</b>
Surplus brought forward from previous year		78,419	55,905,126
Less: Foreign currency translation differences relating to earlier years		-	15,287,807
Less : Deferred tax liabilities as on January 1, 2003		-	3,846,813
<b>Balance carried forward to Balance Sheet</b>		<b>2,369,049</b>	<b>78,419</b>
Earnings per share (refer note 15 under Schedule 19)			
Basic [Nominal value of shares Rs. 2 (previous year: Rs. 2)]		0.09	(1.36)
Diluted [Nominal value of shares Rs. 2 (previous year: Rs. 2)]		0.08	(1.34)

**Notes to Accounts**

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The schedules referred to above and the notes to accounts form an integral part of the Profit & Loss Account

As per our report of even date

For S.R.Batlboi & Associates  
Chartered Accountants

For and on behalf of the Board of Directors

per Pankaj Chadha  
Partner

Lt. Gen. Baldev Singh (Retd)  
[Managing Director]

Avirag Jain  
[Director]

Nand Sardana  
[Vice President (Finance)  
& Company Secretary]

New Delhi  
Date: March 31, 2005

R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

Balance sheet and profit and loss account

Cash flow statement for the year ended December 31, 2004

	For the year ended December 31, 2004 Rs.
<b>A. Cash flow from operating activities</b>	
Net profit before taxation, extraordinary items and after minority interest	6,918,360
Adjustments for:	
Depreciation	48,218,244
Miscellaneous expenditure written off	4,251,319
Amortisation of Government grant	(715,476)
Loss on sale of fixed assets	2,071,554
Unrealised foreign exchange loss / (gain)	2,364,107
Interest income	(1,398,471)
Excess provisions written back	(294,291)
Interest expense	9,543,190
<b>Operating profit before working capital changes</b>	<b>70,958,536</b>
Movements in working capital :	
Decrease / (Increase) in sundry debtors	(42,276,261)
Decrease / (Increase) in other current assets	31,093,588
Decrease / (Increase) loans and advances	86,774,852
Increase / (Decrease) in provisions	(41,206,919)
Increase / (Decrease) in current liabilities	22,615,407
Cash generated from operations	127,959,203
Direct taxes paid (net of refunds)	2,572,741
Interest on income-tax refund	218,720
Cash flow before extraordinary items	130,750,664
Extraordinary item	-
<b>Net cash from operating activities</b>	<b>130,750,664</b>
<b>B. Cash flows from investing activities</b>	
Purchase of fixed assets	(83,236,677)
Movement in capital work in progress	(9,214,199)
Proceeds from sale of fixed assets	2,723,317
Cash inflow on acquisition of subsidiary	6,732,544
Interest received	1,179,751
<b>Net cash used in investing activities</b>	<b>(81,815,264)</b>
<b>C. Cash flows from financing activities</b>	
Proceeds from borrowings	535,567,746
Repayment of borrowings	(477,817,332)
Buy back of equity shares	(115,131,450)
Interest paid	(9,649,208)
<b>Net cash used in financing activities</b>	<b>(67,030,244)</b>
<b>Net increase in cash and cash equivalents (A + B + C)</b>	<b>(18,094,844)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>121,368,251</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>103,273,407</b>
<b>Components of cash and cash equivalents as at</b>	<b>December 31, 2004</b>
	<b>Rs.</b>
<b>Cash and cheques on hand</b>	<b>464,800</b>
<b>Balances with scheduled banks</b>	
on current accounts	11,809,694
on deposit accounts	1,776,976
<b>Balances with other banks</b>	
on current accounts	31,137,882
on deposit accounts	51,440,229
	96,629,581
<b>Unrealised loss/ (gain) on foreign currency cash and cash equivalents</b>	<b>6,643,826</b>
<b>Net cash and cash equivalents</b>	<b>103,273,407</b>

**Note:**

In view of the modification in provisions of Accounting Standard – 3, where an enterprise has previously qualified for exemption from application of this Standard (being not covered by any of the prescribed categories) but no longer qualifies for exemption in the current accounting year, this Standard becomes applicable from the current year. Accordingly, the corresponding previous year figures need not be and are not disclosed.

As per report of even date

For S.R.Batlboi & Associates  
Chartered Accountants

For and on behalf of the Board of Directors

per Pankaj Chadha  
Partner  
Membership No. 91813

Lt. Gen. Baldev Singh (Retd) Avirag Jain  
[Managing Director] [Director]

Nand Sardana  
[Vice President (Finance) &  
Company Secretary]

New Delhi  
Date : March 31, 2005

**R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)**  
**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**

**Schedules to the Accounts**

	<b>As at December 31, 2004 Rs.</b>	As at December 31, 2003 Rs.
<b>Schedule 1: Share Capital</b>		
<u>Authorised (see note 1 below)</u>		
50,000,000 (Previous year 50,000,000) equity shares of Rs. 2 each	<b>100,000,000</b>	100,000,000
<u>Issued and Subscribed</u>		
26,890,087 (Previous year 26,890,087) equity shares of Rs. 2 each fully paid-up	<b>53,780,174</b>	53,780,174
Less: Equity shares buy-back		
997,500 (Previous Year Nil) equity shares of Rs. 2 each fully paid-up	<b>1,995,000</b>	-
	<b>51,785,174</b>	53,780,174

Notes:

1a) Authorised capital includes 503,589 (Previous year 503,589) equity shares of Rs. 2 each, reserved towards conversion of warrants to a shareholder (once issued) to be allotted at mutually agreed terms.

1b) Pursuant to the shareholders' agreement dated February 16, 2002, the Company has agreed to issue warrants to its two strategic shareholders. The number of warrants to be issued is to be determined based on the new revenues to the Company by these shareholders over an agreed period, subject to the maximum of 7.5% of equity stake each in the Company's then diluted share capital (including shares issued / to be issued under an ESOP or any instruments convertible into equity shares). Such warrants, when issued, shall be at zero cost and consideration for exercise of warrants, to the extent eligible, would be paid at the time of exercise of the warrants. The exercise price of the warrants would be the par value of Company's shares, subject to the minimum pricing guidelines of the Reserve Bank of India prevailing on the exercise date.

The warrants, at the option of the holder, shall be convertible into equity shares of the Company .

2) Out of above, 23,213,233 equity shares of Rs. 2 each (Previous Year 23,213,233 equity shares) are issued for consideration other than cash. (See also note 9 under Schedule 19).

3) The Company during the year has bought back 997,500 equity shares allotted to the R Systems Employee Stock Option Trust at the rate of Rs 115.42 per equity share (also refer note 12 (a) under Schedule 19)

**R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)**

**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**

**Schedules to the Accounts**

	As at December 31, 2004 Rs.	As at December 31, 2003 Rs.
<b>Schedule 2: Reserves and Surplus</b>		
Share premium account		
Balance as per last account	581,447,050	581,447,050
Less: Utilised for buy back of equity shares (refer note 12 (a) under Schedule 19)	113,136,450	-
	<b>468,310,600</b>	581,447,050
Capital reserve	31,726	31,726
Balance in profit and loss account	2,369,049	78,419
Government grant (refer note 11(c) under schedule 19)		
Balance at the time of acquisition	1,427,744	-
Less amortised during the year	715,476	-
Balance at the end of the year	712,268	-
Foreign currency translation adjustment		
Balance as per last account	4,421,274	-
Foreign currency translation differences relating to earlier years- transferred from profit and loss account (See note 1 below)	-	15,287,807
Less: Current year translation differences (See note 2 below)	(14,239,680)	(10,866,533)
	<b>(9,818,406)</b>	4,421,274
<b>Total</b>	<b>461,605,237</b>	<b>585,978,469</b>

**Note:**

- (1) Deduction to Balance in profit and loss account was towards reversal and transfer of foreign currency translation difference, to the extent recognised in Year 2001 and 2002.
- (2) Net of Rs. 888,362 representing currency translation adjustment arising due to change in reporting currency from Singapore \$ to US \$ by R Systems Singapore Pte during the year.

**Schedule 3: Minority interest**

Minority interest in EC Net Limited at the time of acquisition	149,585	-
Less: Minority interest in post acquisition losses to the extent allocable	149,585	-
	-	-

**R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)****BALANCE SHEET AND PROFIT AND LOSS ACCOUNT****Schedules to the Accounts**

	As at December 31, 2004 Rs.	As at December 31, 2003 Rs.
<b>Schedule 4: Secured Loans</b>		
Loan from banks		
Cash credit facilities (Secured by hypothecation of debtors)	76,057,790	35,834,058
Working capital loan (Secured by substantially all of the assets of a US subsidiary, R Systems Inc.)	2,724,104	22,773,855
For motor vehicles (Secured by hypothecation of underlying motor vehicles)	6,737,634	1,051,499
Term Loan (Secured by equitable mortgage of properties situated at Noida and Pune units)	40,345,930	-
Other loans		
For motor vehicles (Secured by hypothecation of underlying motor vehicles)	-	45,325
	<b>125,865,458</b>	<b>59,704,737</b>

In case of motor vehicle loans, amount repayable within one year is Rs. 1,921,413 (Previous Year Rs.394,967)

**R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)**

**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**

**Schedules to the Accounts**

**Schedule 5: Fixed Assets**

	Land - Freehold	Land- Leasehold	Building- Freehold	Lease hold improvement (1)	Computers	Office & electrical equipment	Furniture & fittings	Vehicle (2)	Software	Product Development Cost	Right to provide services	Goodwill	Total	Previous Year
<b>Gross Block</b>														
As at 1.1.2004	4,765,674		48,077,654	36,299,531	177,653,903	34,143,183	28,323,028	12,296,990	157,697,413	-			499,257,376	244,867,989
Additions	-	10,005,968	1,980,408	9,134,235	28,302,311	5,623,418	5,250,641	7,552,845	6,022,452	4,057,182	5,564,861	24,495,721	107,990,042	82,130,874
Deductions/adjustments (4)	-		18,290,173	(2,003,474)	51,986,252	1,662,597	824,118	416,146	96,439,557	-			167,615,369	31,822,497
<b>At 31.12.2004</b>	<b>4,765,674</b>	<b>10,005,968</b>	<b>31,767,889</b>	<b>47,437,240</b>	<b>153,969,962</b>	<b>38,104,004</b>	<b>32,749,551</b>	<b>19,433,689</b>	<b>67,280,308</b>	<b>4,057,182</b>	<b>5,564,861</b>	<b>24,495,721</b>	<b>439,632,049</b>	<b>295,176,366</b>
<b>Depreciation/Amortisation</b>														
As 1.1.2004	-		18,221,594	7,863,069	106,475,540	11,607,056	11,089,531	4,432,738	138,720,944	-			298,410,472	65,754,269
For the year	-	120,554	2,071,356	1,945,923	22,374,141	2,559,455	3,137,484	1,764,327	11,961,734	422,623	2,163,988		48,521,585	39,514,947
Deletions/adjustments (4)	-	-	18,274,424	(3,902,546)	51,336,229	1,231,901	946	(111,527)	96,323,968	-	76,842		163,230,236	2,837,316
<b>At 31.12.2004</b>	<b>-</b>	<b>120,554</b>	<b>2,018,526</b>	<b>13,711,538</b>	<b>77,513,452</b>	<b>12,934,610</b>	<b>14,226,069</b>	<b>6,308,592</b>	<b>54,358,710</b>	<b>422,623</b>	<b>2,087,146</b>	<b>-</b>	<b>183,701,820</b>	<b>102,431,900</b>
<b>Net Block</b>														
<b>At 31.12.2004</b>	<b>4,765,674</b>	<b>9,885,414</b>	<b>29,749,363</b>	<b>33,725,702</b>	<b>76,456,510</b>	<b>25,169,394</b>	<b>18,523,482</b>	<b>13,125,097</b>	<b>12,921,598</b>	<b>3,634,559</b>	<b>3,477,715</b>	<b>24,495,721</b>	<b>255,930,228</b>	<b>192,744,466</b>
At 31.12.2003	4,765,674	-	29,856,061	28,436,462	71,178,363	22,536,127	17,233,497	7,864,252	18,976,469	-	-	-	26,144,930	18,142,471
Capital work in progress (including capital advances)													282,075,158	210,886,937

**Notes:**

(1) Includes Rs. 21,155,390 (Previous Year Rs. 21,155,390) paid towards land and building under a composite lease for which no separate values are assignable

(2) Vehicles amounting to Rs 8,787,677 (Previous Year Rs. 1,956,281) are hypothecated against terms loans for vehicle finance from banks.

(3) Out of current year depreciation/ amortisation of Rs. 48,521,585, Rs. 303,433 has been capitalised towards product development costs.

(4) At the time of acquisition of R Systems Inc, Indus Software Inc and R Systems (Singapore) Pte Ltd, the opening gross block was increased by the net value of assets in the books of the subsidiaries at the time of acquisition. In the current year, the gross block has been reinstated. As a result, the amount of deletions/adjustments include an amount of Rs 30,730,346.

(5) The opening gross block and accumulated depreciation on January 1, 2004 are higher than the closing balance on December 31, 2003 as the assets of EC Net Limited have been included in the block of assets (refer note11 (b) under schedule19)

**R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)  
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**

**Schedules to the Accounts**

	<b>As at December 31, 2004 Rs.</b>	As at December 31, 2003 Rs.
<b>Schedule 6: Investments</b>		
<b>Long term investments (at cost)</b>		
<b>Other than trade, unquoted</b>		
Equity Shares		
2,500 (Previous Year 2,500) equity shares of Rs.10 each in The Saraswat Co-operative Bank Limited	<b>25,000</b>	25,000
<b>Current investment</b>		
<b>Non trade, unquoted</b>		
30,000 * (Previous year 30,000) shares of common stock of "no par" value in Caranything.com Inc., USA	<b>46,512</b>	46,512
34,000 ** (Previous year 34,000) shares of common stock of "no par" value in N Techra Inc., USA	<b>1,521,340</b>	1,588,385
	<b>1,592,852</b>	1,659,897
Aggregate amount of unquoted investments	<b>1,592,852</b>	1,659,897

\* represent shares issued by Caranything.com Inc. to settle the amount owed by it to a US subsidiary, R Systems Inc.

\*\* represent shares ( series A preferred stock) issued by N Techra Inc. to settle the amount owed by it to a US subsidiary, R Systems Inc.

**R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)**

**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**

**Schedules to the Accounts**

	As at December 31, 2004 Rs.	As at December 31, 2003 Rs.
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**Schedule 7: Sundry Debtors**

<b>Debts outstanding for more than six months</b>		
Considered good	32,896,336	7,821,853
Considered doubtful	23,353,652	30,665,406
<b>Other debts</b>		
Considered good	312,247,324	262,253,757
Considered doubtful	5,278,779	385,071
	<u>373,776,091</u>	<u>301,126,088</u>
Less : Provision for doubtful debts	28,610,733	31,050,477
	<u>345,165,358</u>	<u>270,075,611</u>

**Schedule 8: Cash and Bank Balances**

Cash on hand	464,800	126,134
Balances with scheduled banks		
On current accounts	11,809,694	6,274,944
On deposit accounts	1,776,976	18,291,007
Balances with other banks		
On current accounts	31,137,882	16,428,539
On deposit accounts	51,440,229	80,247,628
	<u>96,629,581</u>	<u>121,368,251</u>

**Schedule 9: Other current assets**

Interest accrued on deposits	256,624	556,630
Accrued income on forward cover	712,041	-
Interest accrued on staff advance	12,542	-
Unbilled revenue	64,177,408	93,515,777
Less: Anticipated cost to complete contracts	<u>1,316,148</u>	<u>2,346,786</u>
	62,861,260	91,168,991
Fixed assets held for disposal (at net book value or estimated net realisable value, whichever is lower)	10,500	10,500
	<u>63,852,967</u>	<u>91,736,121</u>

**R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)**

**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**

**Schedules to the Accounts**

	As at December 31, 2004 Rs.	As at December 31, 2003 Rs.
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**Schedule 10: Loans and Advances**

(Unsecured, considered good, except where otherwise stated)

Advances recoverable in cash or in kind or for value to be received (including Rs. 6,837,533 considered doubtful, Previous Year Rs. 6,147,395)	31,259,956	23,613,411
Advance to R Systems Employees Stock Option Trust (also refer note 12 (a) under Schedule 19)	-	115,142,450
Advance to Indus Software Employees Welfare Trust (also refer note 12 (c) under Schedule 19)	3,382,791	3,382,792
Deposits - others	9,149,067	8,430,797
Income tax receivable	4,942,347	15,533,159
	<u>48,734,161</u>	<u>166,102,609</u>
Less Provision for doubtful advance	6,837,533	6,147,395
	<u>41,896,628</u>	<u>159,955,214</u>

**Schedule 11: Liabilities**

Sundry creditors	141,186,276	118,559,714
Deferred compensation to EC Net Shareholders (Refer note 11(a) under schedule 19)	4,579,825	-
Accrued liability on forward cover	474,687	-
Book overdraft with banks	-	12,221,127
Security deposits	1,132,402	485,290
Other liabilities	24,001,595	32,249,372
	<u>171,374,785</u>	<u>163,515,502</u>

**Schedule 12: Provisions**

Provision for taxation - income tax	2,814,263	8,211,841
Provision for taxation - wealth tax	44,398	47,000
Provision for gratuity	6,523,900	4,260,453
Provision for leave encashment	20,107,469	19,046,837
	<u>29,490,030</u>	<u>31,566,131</u>

**R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)**  
**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**  
**Schedules to the Accounts**

	As at December 31, 2004 Rs.	As at December 31, 2003 Rs.
<b>Schedule 13: Deferred tax assets (net)</b>		
<b>Deferred tax assets</b>		
Payroll related liabilities	5,070,055	8,811,470
Allowance for doubtful advances	6,638,608	8,317,531
Accrued vacation	4,308,367	4,852,752
Prepaid expenses	2,550,334	-
Unabsorbed tax losses and depreciation	19,851,059	19,192,721
Miscellaneous temporary differences	370,087	367,126
<b>Gross deferred tax assets</b>	<b>38,788,510</b>	<b>41,541,600</b>
<b>Deferred tax liabilities</b>		
Differences in depreciation and other differences in block of fixed assets as per tax books and financial books	8,507,858	6,957,364
<b>Gross deferred tax liabilities</b>	<b>8,507,858</b>	<b>6,957,364</b>
<b>Deferred tax assets (net)</b>	<b>30,280,652</b>	<b>34,584,236</b>

**R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)**  
**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**

**Schedules to the Accounts**

	As at December 31, 2004 Rs.		As at December 31, 2003 Rs.	
<b>Schedule 14: Miscellaneous Expenditure</b>				
<b>a) Pre-operational expenses</b>				
Balance as per last Balance Sheet	317,096		470,373	
Add: Additions in currents year	-		42,586	
Less : Written off	<u>317,096</u>	-	<u>195,863</u>	317,096
<b>b) Fees for increase in share capital</b>				
Balance as per last Balance Sheet	112,371		196,849	
Less : Written off	<u>112,371</u>		<u>84,478</u>	112,371
<b>c) Rights for customer services</b>				
	-		2,070,889	
Less : Written off	<u>-</u>	-	<u>2,070,889</u>	-
<b>d) Advance to Customers</b>				
Balance as per last Balance Sheet	3,849,279		4,629,279	
Less : Written off	<u>3,849,279</u>	-	<u>780,000</u>	3,849,279
		-		<b>4,278,746</b>

**R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)**  
**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**

**Schedules to the Accounts**

	For the year ended December 31, 2004 Rs.	For the year ended December 31, 2003 Rs.
<b>Schedule 15: Other Income</b>		
Interest		
Loans and bank deposits (Gross, Tax deducted at source Rs. 72,147, previous year Rs. 151,069)	1,179,751	1,514,845
Interest received on Income tax refund	218,720	366,893
Others	-	45,325
Consultancy fee	539,543	-
Excess provision written back, as no longer required	294,291	252,982
Miscellaneous income	1,024,354	86,141
	<b>3,256,659</b>	<b>2,266,186</b>
<b>Schedule 16: Personnel expenses</b>		
Salaries, wages, bonus and perquisites	767,225,235	726,562,649
Contribution to provident and other funds	44,347,280	32,352,442
Staff welfare expenses	8,698,341	7,212,063
	<b>820,270,856</b>	<b>766,127,153</b>
<b>Schedule 17: Operating and other expenses</b>		
Software development - sub contracting expenses	131,484,227	143,772,786
Recruitment & training expenses	8,179,578	8,747,084
Travelling and conveyance	101,388,437	79,295,013
Insurance premium	7,425,391	9,809,578
Commission	11,405,433	10,801,881
Repair and maintenance	20,536,686	10,949,728
Provision for doubtful debts & advances	12,198,887	12,797,692
Debts and advances written off	382,030	651
Rent - premises	30,814,835	7,542,733
Rent - equipment	5,987,365	5,151,376
Power and fuel	11,792,653	9,090,700
Communication costs (Includes Rs. 1,005,989 pertaining to earlier years, Previous Year Rs. Nil)	40,104,267	38,860,793
Printing & stationery	3,680,758	3,466,686
Advertising and sales promotion	5,872,911	5,932,407
Legal & professional expenses	26,349,922	39,236,453
Auditor's remuneration		
- Audit fee	716,300	594,000
- Management accounts	307,900	226,800
- Out of pocket expenses	22,000	20,000
	<b>1,046,200</b>	<b>840,800</b>
Director's sitting fee	5,000	5,000
Loss on sale of fixed assets	2,071,554	1,725,533
Amortisation of miscellaneous expenditure	4,251,319	3,131,230
Rates and taxes	3,293,866	1,765,723
Loss on exchange fluctuation	4,363,433	7,140,255
Miscellaneous expenses	7,601,206	5,675,508
	<b>440,235,958</b>	<b>405,739,612</b>
<b>Schedule 18: Financial expenses</b>		
Interest		
- on fixed loans	352,507	354,068
- on others	9,190,683	779,275
Bank charges	2,241,177	1,026,847
	<b>11,784,366</b>	<b>2,160,190</b>

# R SYSTEMS INTERNATIONAL LIMITED (SUMMARY FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

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### Schedule 19: Notes to Accounts

#### 1. Statement of Significant Accounting Policies

##### (a) Basis of preparation

The consolidated financial statements of R Systems International Limited ('The Company') and its subsidiaries (collectively referred to as 'R Systems Group' or 'the Group') have been prepared under the historical cost convention on an accrual and going concern basis.

All figures are in Rupees except where expressly stated.

- (b) The consolidated financial statements include the financial statements of R Systems International Limited and its subsidiaries. These accounts do not include enterprises, which are set-up for the benefit of employees like ESOP trusts (more fully explained in note 12 below) as not required to be consolidated as per Accounting Standard 21. The financial statements are prepared in accordance with the principles and procedures for the preparation and presentation of consolidation financial statements as laid down under Accounting Standard 21 issued by the Institute of Chartered Accountants of India. All material inter-company transactions and accounts are eliminated on consolidation.

##### (c) Changes in accounting policies

(i) During the current year, the Company has changed its policy to include indirect costs incurred by it for developing new products against hitherto followed policy of including only direct costs. As result, the Company has included indirect costs aggregating Rs. 303,434 for current year out of which Rs. 31,608 has been amortised during the year and consequentially, the net intangible assets as at the year-end are higher by Rs. 271,826, expenses for the year are lower by 271,826 and profit for the year is higher by Rs. 271,826.

(ii) Hitherto, the Company had the policy of amortising costs incurred for contract acquisition equally over the period for which the contract is undertaken on the basis of mutually agreed terms between contracting parties and pre-operative expenses being written off over a period of three years. During the current year, the Company has decided to discontinue such policy and has decided to write-off the balance unamortised amount at the year-end. As a result, the miscellaneous expenditure (not written off or adjusted) has decreased by Rs. 2,435,389 and amounts charged to the profit and loss account is higher and profit for the year is lower by Rs. 2,435,389.

##### (d) Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use.

##### (e) Depreciation

Depreciation is provided on Straight Line method over the remaining estimated useful lives of the fixed assets.

The useful lives of the fixed assets have been estimated giving due consideration to environment in respective countries by the Group management as:

<u>Category of fixed assets</u>	<u>Estimated useful life</u>
Furniture and fittings	5-15 years
Office equipment	3 –20 years
Leasehold improvements	5-7 years
Leasehold land and buildings	Shorter of period of lease term or 61 years
Computer hardware	3-6years
Vehicles	7 –10 years

Individual assets costing up to Rs. 5,000 in the parent company and US \$ 250 in its US companies are considered fully depreciated in the year of put to use.

# R SYSTEMS INTERNATIONAL LIMITED (SUMMARY FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

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### (f) Intangibles

#### *Product Development Costs*

Product development cost represents direct cost incurred by the company for developing new product. Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is charged off in the year when revenue from the product starts accruing.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

#### *Computer Softwares*

Costs relating to acquired production softwares are capitalized and amortized on a straight-line basis over their useful lives estimated by the management at 3 years or below as in specific cases.

#### *Rights to provide services*

During the year, R Systems Inc (subsidiary) entered into verbal agreements with a technology service firm to acquire the rights to provide technology services to four of the service firm's customers. The subsidiary paid Rs 5,564,861 for these rights and is amortising these rights over a two year period.

### (g) Leases

#### *Where the Company is the lessee*

Finance leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalised.

If there is no reasonable certainty that the Company will obtain the ownership by the end of the lease term, capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognized as an expense in the Profit and Loss account on a straight-line basis over the lease term.

### (h) Investments

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

### (i) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

#### *Sale of software products*

Revenue from the sale of software products is recognized when the sale has been completed with the passing of title.

#### *Rendering of services*

Revenues from software development services and projects comprise income from time-and-material and fixed-price contracts.

# R SYSTEMS INTERNATIONAL LIMITED (SUMMARY FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

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Revenue associated with software development services / customization of products rendered on time and materials basis is recognised on the basis of software developed and billed to the clients as per the terms of the specific contracts.

Fixed-price contracts vary in duration depending on the terms of the work being performed and historically have ranged in length from two months to six months. Revenue from fixed price contracts (including maintenance and support contracts) is recognised using the percentage of completion method, when reasonable progress has been made on the milestones achieved as specified in the contracts. The stage of completion of project is determined by the proportion that contract efforts incurred for work performed up to the balance sheet date bear to the estimated total contract effort. Changes in contract performance, estimated profitability and final contract settlements may result in revisions to costs and revenues and are recognized in the period in which the revisions are determined. If a loss is projected on any contracts in process, the entire projected loss is recognized currently.

Management fees from the customers for managing projects is being recognised on time basis over the estimated life of the project.

### (j) Foreign currency translation

#### *Foreign currency transactions*

##### (i) Initial Recognition

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

##### (ii) Conversion

Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

##### (iii) Exchange Differences

Exchange differences arising on the settlement of monetary items or on reporting company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year in which they arise except those arising from investments in non-integral operations.

##### (iv) Forward Exchange Contracts not intended for trading or speculation purposes

The premium or discount arising at the inception of forward exchange contracts is amortised as expense or income over the life of the contract. Exchange differences on such contracts are recognised in the statement of profit and loss in the year in which the exchange rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognised as income or as expense for the year.

##### (v) Foreign operations

In translating the financial statements of a non-integral foreign operation for incorporation in financial statements, the assets and liabilities, both monetary and non-monetary, of the non-integral foreign operation are translated at the closing rate; income and expense items of the non-integral foreign operations are translated at yearly average exchange rates; and all resulting exchange differences are accumulated in a foreign currency translation reserve until the disposal of net investment.

# R SYSTEMS INTERNATIONAL LIMITED (SUMMARY FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

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On the disposal of a non-integral foreign operation, the cumulative amount of the exchange differences which have been deferred and which relate to that operation are recognised as income or as expenses in the same period in which the gain or loss on disposal is recognised.

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2004, the rates used were US \$ 1= Rs. 45.34 and Singapore \$ 1 = Rs. 26.83. For translating assets and liabilities at the year-end, the rates used were US \$ 1= Rs. 43.73 and Singapore \$ 1= Rs. 26.71.

Opening cash and cash equivalents have been translated at US \$ 1= Rs. 45.6 and Singapore \$ 1= Rs. 26.77 and closing cash and cash equivalents at US \$ 1= Rs. 43.73 and Singapore \$ 1= Rs. 26.71.

### (k) Retirement benefits

- i. Retirement benefits in the form of Provident Fund are charged to the Company's Profit & Loss Account of the year when the contributions to the respective funds are due. The Company's US subsidiaries maintain a defined contribution retirement plan (the "Plan"), qualified under Section 401 (K) of the Internal Revenue Code, for certain eligible employees. Pursuant to the plan, eligible employees may contribute a portion of their compensation, subject to a maximum amount per year as specified by law. The Company provides a matching contribution based on specified percentages of amounts contributed by participants.
- ii. Gratuity liability under the Payment of Gratuity Act and provision for leave encashment is accrued and provided for on the basis of an actuarial valuation made at the end of each financial year. The US and Singapore subsidiaries provides the liability towards accrued leave, where encashable, of employees on accrual basis determined on the basis of leaves standing in credit of the account of each employee at the close of the year.

### (l) Income taxes

Tax expense comprises both current and deferred taxes.

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable in the Group. However, payments of taxes are determined and made based on results on the tax year basis.

Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. The deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the tax rates and the tax laws enacted or substantively enacted at the balance sheet date and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are recognised and carry forward to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

The companies in the Group are subject to tax legislation as applicable in the respective country of incorporation. Accordingly, the calculations does not represent tax liability / income attributable to Group results, if these were to be analysed under the local legislation of the parent company.

### (m) Expenditure on new projects

Expenditure directly relating to construction activity is capitalised. Indirect expenditure incurred during construction period is capitalised to the extent allocable. Other indirect expenditure (including borrowing costs) incurred during the construction period which is not related to the construction activity nor is incidental thereto is charged to the Profit & Loss Account.

### (n) Goodwill / capital reserve

Goodwill / capital reserve represents the cost to the parent of its investment in subsidiaries over / under the parent's portion of equity of the subsidiary, at the date on which the investment in the subsidiaries is made.

The Group evaluates the carrying value of its goodwill whenever events or changes in circumstances indicate that its carrying value may be impaired. Impairment is recognised in the

# R SYSTEMS INTERNATIONAL LIMITED (SUMMARY FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

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year of such determination. Management also ascertains the future revenues and earnings of the acquired entities and analyses sustainability thereof to determine impairment. For ascertaining impairment, consideration is given to fair value of the acquired entities.

### (o) Earnings Per Share

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year.

For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares.

### (p) Segment Reporting Policies

Identification of segments :

The Company's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The analysis of geographical segments is based on the areas in which the major customers of the Company operate.

Intersegment Transfers :

The Company generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

Allocation of common costs :

Common allocable costs are allocated to each segment according to the relative contribution of each segment to the total common costs.

Unallocated items :

The Corporate and Other segment includes general corporate income and expense items which are not allocated to any business segment.

## 2. Description of the Group

R Systems Group provides full service information technology solutions for a mix of Global 1000, mid-sized companies and government organizations. The portfolio of services include, software architecture, design and development, web enabling, ASP migration, platform consulting, optimization (including Intel® Itanium™) and migration, data migration, data warehousing, re-engineering and productivity tools, software customization and implementation, application maintenance and documentation with global delivery capabilities.

Additionally, R Systems Inc. provides porting and tuning services on the Itanium (Intel 64 bit Architecture) through Intel trained engineers. These services are provided through its dedicated Intel Application Solution Centers.

The parent company, R Systems International Limited is registered under the Indian Companies Act, 1956 with its Registered Office at New Delhi. This is the parent company of the Group and is presently unlisted.

# R SYSTEMS INTERNATIONAL LIMITED (SUMMARY FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

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### List of wholly owned subsidiaries

<b>Subsidiary</b>	<b>Holding</b>	<b>Country of incorporation and other particulars</b>
R Systems Inc.	100%	A company registered under the laws of California, USA in 1993 and subsidiary of the Company since January 2, 2001. R Systems Inc. has a division in Japan.
R Systems (Singapore) Pte Limited	100%	A company registered under the laws of Singapore in 1997 and subsidiary of the Company since September 19, 2000.
Indus Software Inc.	100%	A company registered under the laws of Delaware, USA in 1996 and subsidiary of the Company since April 1, 2002.
EC Net Limited	98.59%	A company registered under the laws of Singapore in 1996. The Company has acquired majority share on January 8, 2004. The Company has subsidiaries in Malaysia, Thailand, China, Hong Kong, USA, Korea and Japan.

### 3. Segment Information

#### Business Segments :

R Systems International Limited is a leading global provider of IT solutions and Business Process Outsourcing (BPO) services. The Company considers business segment as the basis for primary segmental reporting. The Company is organized into two business segments – software development and customisation services and BPO services. All other costs and expenses are reflected in the corporate segment. Segments have been identified and reported based on the nature of the services, the risks and returns, the organization structure and the internal financial reporting system.

#### Geographical Segments :

The group operates in four principal geographical areas of the world which are: India, United States of America, South East Asian countries and Other areas.

The following table provides required information for the primary segments:

# R SYSTEMS INTERNATIONAL LIMITED (SUMMARY FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

(Amount in Rs)

Particulars	Software development and customisation services	Business process outsourcing services	Eliminations	Corporate and Others	Total
<b>REVENUE</b>					
External Sales	1,251,371,416	72,084,234	-	-	<b>1,323,455,650</b>
Inter-segment sales	1,588,657	-	1,588,657	-	-
Total revenue	1,252,960,073	72,084,234	1,588,657	-	<b>1,323,455,650</b>
<b>RESULT</b>					
<b>Segment result</b>	13,363,410	3,409,552	-	-	<b>16,678,825</b>
Unallocated corporate expenses	-	-	-	(4,039,925)	<b>(4,039,925)</b>
Operating profit	-	-	-	-	<b>12,638,899</b>
Interest Expenses	-	-	-	(9,543,190)	<b>(9,543,190)</b>
Interest income	-	-	-	1,398,471	<b>1,398,471</b>
Other Income	-	-	-	2,573,664	<b>2,573,664</b>
Income Taxes	-	-	-	(4,777,215)	<b>(4,777,215)</b>
Net profit	-	-	-	-	<b>2,290,630</b>
<b>OTHER INFORMATION</b>					
Segment assets	778,643,915	57,858,115	59,392,441	-	<b>777,109,589</b>
Unallocated corporate assets	-	-	-	49,160,609	<b>49,160,609</b>
Income Tax Assets	-	-	-	35,222,999	<b>35,222,999</b>
Total assets	778,643,915	57,858,115	59,392,441	84,383,608	<b>861,493,197</b>
Segment liabilities	194,431,212	67,374,609	59,392,441	-	<b>202,413,380</b>
Unallocated corporate liabilities	-	-	-	142,830,745	<b>142,830,745</b>
Income Tax Liabilities	-	-	-	2,858,661	<b>2,858,661</b>
Total liabilities	194,431,212	67,374,609	59,392,441	145,689,406	<b>348,102,786</b>
Capital expenditures	90,144,631	7,809,293	-	34,495,150	<b>132,449,074</b>
Depreciation & Amortization	43,521,859	4,696,385	-	-	<b>48,218,244</b>
Other non-cash expenses	14,452,341	4,451,449	-	-	<b>18,903,790</b>

Geographical segments:

The Company reports secondary segment information on the basis of the geographical location of the customers. The management views the domestic and export markets as distinct geographical segments.

The geographical segments considered for disclosure are based on the sales within India and sales outside India on the basis of location of customers. The following is the distribution of the Company's revenues by geographical market:

# R SYSTEMS INTERNATIONAL LIMITED (SUMMARY FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

	<b>For the year ended December 31, 2004</b>
	<b>Rs.</b>
India	42,662,958
United States of America	997,970,913
South East Asian countries	122,086,170
Other countries	160,735,609
	<u>1,323,455,650</u>

Information about Secondary segment assets and liabilities:

The following is the net carrying amount of segment assets by geographical area in which the assets are located along with additions to fixed assets and intangible assets as at the year-end:

	<b>Carrying amount of segment assets</b>	<b>Addition to fixed assets and intangible assets</b>
	<b>For the year ended December 31, 2004</b>	<b>For the year ended December 31, 2004</b>
	<b>Rs.</b>	<b>Rs.</b>
India	335,260,264	96,804,352
United States of America	337,330,862	35,000,001
South East Asian countries	115,559,297	644,721
Other countries	73,342,774	-
	<u>861,493,197</u>	<u>132,449,074</u>

In view of the modification in provisions of Accounting Standard – 17, where an enterprise has previously qualified for exemption from application of this Standard (being not covered by any of the prescribed categories) but no longer qualifies for exemption in the current accounting year, this Standard becomes applicable from the current year. Accordingly, the corresponding previous year figures need not be and are not disclosed.

#### 4. Related party disclosure

##### (i) Names of related parties

###### *Key management personnel*

<b>Name</b>	<b>Designation</b>	<b>Company</b>
Lt. Gen. Baldev Singh (Retd)	Managing Director	R Systems International Limited
Avirag Jain	Alternate Director	R Systems International Limited
N. K. Garg	Alternate Director	R Systems International Limited
Raj Swaminathan	COO	Indus unit, R Systems International Limited
S S Rekhi	Director	R Systems International Limited
	CEO and Director	R Systems Inc
	Director	R Systems (Singapore) Pte Ltd
	Director	Indus Software Inc.
O'Neil Nalavadi	Director	R Systems International Limited
	CFO	R Systems Inc
Sarvi Dhaliwal	Vice President	R Systems Inc
Mandeep Sodhi	Vice President	R Systems Inc
Thiru Dorai	Vice President	R Systems Inc
See Kwee Tong Peter	Director	R Systems (Singapore) Pte Ltd

# R SYSTEMS INTERNATIONAL LIMITED (SUMMARY FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

	Director	ECnet Ltd
Daniel Loh Hong Chye	Director resigned on August 31, 2004	ECnet Ltd
Harpreet Rekhi	Director	R Systems (Singapore) Pte Ltd
	Director	Indus Software Inc
	Director	R Systems Inc
Subir Kumar Dikshit	Director resigned on April 26, 2004	R Systems (Singapore) Pte Ltd
Lu Kok Wah	Director	ECnet Ltd

(ii) The amounts paid to key managerial personnel towards compensation for services is Rs 66,452,387.

(iii) In view of the modification in provisions of Accounting Standard – 18, where an enterprise has previously qualified for exemption from application of this Standard (being not covered by any of the prescribed categories) but no longer qualifies for exemption in the current accounting year, this Standard becomes applicable from the current year. Accordingly, the corresponding previous year figures need not be and are not disclosed.

### 5. Leases - In case of assets taken on lease

The Company has operating leases for office premises, etc. including composite leases for land and building, where lease rentals toward land are not separated.

	2004 Rs.	2003 Rs.
Minimum Lease Payments:		
Not later than one year	21,655,551	10,903,140
Later than one year but not later than five years	31,825,518	13,367,436
Later than five years	Nil	6,150,980

### 6. Capital Commitments

	2004 Rs.	2003 Rs.
Estimated amount of contracts remaining to be executed on capital account and not provided for.		
Commitments for acquisition of fixed assets	370,001	40,804,678
	<u>370,001</u>	<u>40,804,678</u>

### 7. Contingent Liabilities not provided for

	2004 Rs.	2003 Rs.
(i) Guarantees and Counter guarantees given by the Company	3,800,000	3,775,000
Guarantee given by R Systems International Limited, India on behalf of R Systems Inc, USA	96,206,000	-
	<u>100,006,000</u>	<u>3,775,000</u>
(ii) The Company has export obligations under the Software Technology Park (STP) scheme. The Company has imported capital goods without payment of duties under the STP scheme for which agreements and bonds have been executed and Bank Guarantees given by the Company. The Company shall, if the obligations are not met, pay on demand an amount equal to such duties saved including interest and liquidated damages. As the Company has met all the requirements stipulated by STP and in future also expects to meet its commitment to earn the requisite revenue in the foreign exchange as per the norms prescribed by the STP authorities; and is using such imported capital goods for earning such revenue, the contingent liability on this account is unlikely.		

8. Sundry creditors do not include any amounts payable to small scale and ancillary industrial undertakings, to the extent such parties have been identified by the management from available documents/information.

# R SYSTEMS INTERNATIONAL LIMITED (SUMMARY FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

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9. Issued, subscribed and paid up capital includes:

- 18,000,000 (Previous year 18,000,000) equity shares of Rs. 2 each, allotted as fully paid up bonus shares by way of capitalisation of accumulated profits.
- 335,000 (Previous year 335,000) equity shares of Rs. 2 each, allotted at a premium of Rs. 2,167.55 per equity share pursuant to a contract for share swap with existing shareholders of R Systems Inc., USA after obtaining necessary regulatory approvals.
- 3,596,869 (Previous year 3,596,869) equity shares of Rs. 2 each, allotted at a premium of Rs. 113.42 per equity share pursuant to a "Shareholders Agreement" resulting in share swap with specific shareholders of Indus Software Private Limited (or 'Indus') after obtaining necessary regulatory approvals.
- 1,281,364 (Previous year 1,281,364) equity shares of Rs. 2 each, allotted at a premium of Rs. 113.42 per equity share to the remaining shareholders of Indus, pursuant to the approval of "Scheme of Amalgamation" relating to the amalgamation of Indus with the Company by the High Courts of Delhi and Mumbai.

10. The Group had advanced a loan of Rs. 6,837,533 to another company and its promoter under an agreement signed in August 2001 in terms of a Letter of Intent indicating the Company's intention to enter into a proposed transaction of amalgamation with the said another company. However, the proposed transaction, as envisaged in the Letter of Intent had been shelved and legal claims had been made for the recoveries from the said parties. During the year, the legal claims have been settled and a payment plan has been agreed with the said parties. Considering the settled amount to be lower than the original advance and the financial position of the said parties, the management has created an additional provision in the current year of Rs 778,200, thus resulting in this loan being fully provided.

11. (a) During the current year, the Company has acquired 98.59% shares in EC Net Limited, a Company incorporated in Singapore at total consideration of Rs. 34,938,958 for which, at the year-end, it has to pay balance amounts aggregating Rs. 25,952,337 to the erstwhile shareholders of EC Net Limited. Out of such payables, Rs. 4,579,824 is payable within one year from the year-end and is shown under 'current liabilities' and balance amounts is payable after one year which has been disclosed separately as 'deferred payment liabilities'. The instalment of Rs. 4,579,824 due on January 8, 2005 has not been paid by the Company based on discussions with erstwhile shareholders, for which management is in process of obtaining extension from the said shareholders

(b) The assets of EC Net limited have been included in the opening block of assets. As a result of this, the opening block of assets and accumulated depreciation as on January 1, 2004 is higher by the following amounts:

Asset	Gross block	Accumulated depreciation
Building	18,887,729	17,075,348
Computer hardware	64,277,984	62,878,568
Computer Software	113,754,790	109,640,778
Furniture & fixtures	3,751,106	3,049,396
Office & electrical equipments	3,409,400	3,334,460
Total	204,081,009	195,978,548

# R SYSTEMS INTERNATIONAL LIMITED (SUMMARY FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

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(c) Analysis of the acquisition of the subsidiary as noted in 11 (a) above:

	<b>Ecnet Ltd</b>
Cash and cash equivalents	15,557,775
Sundry Debtors	20,190,608
Loans and advances	8,191,887
Tangible fixed assets (net)	8,102,461
Liabilities	(41,449,911)
Minority interest	(149,585)
<b>Total</b>	<b>10,443,235</b>
Goodwill / (Capital reserve) arising on acquisition	24,495,723
<b>Grand total</b>	<b>34,938,958</b>
Discharged by:	
Cash paid	8,825,232
Amount payable	26,113,726
<b>Total</b>	<b>34,938,958</b>

(d) All profits / losses relating to the Company's subsidiary subsequent to the date of acquisition are included in these consolidated financial statements. Accordingly, loss for the period from January 8, 2004 (the acquisition date) to December 31, 2004 is incorporated into the profit and loss account. Further, goodwill, as mentioned above, has been computed on the basis of management accounts of the subsidiary as on the acquisition date. For the purpose of above computation, the amounts in foreign currencies have been translated at the applicable rates on the acquisition date, i.e., Singapore \$ 1= Rs. 26.88.

(e) E C Net Limited had received government grant of Rs 2,136,800 which is being amortised over a period of three years, the current year being the second year. The unamortized amount of the grant has been included in reserves and surplus.

### 12 (a) R Systems International Limited – Employees Stock Option Plan ('the plan'):

The Company had instituted the plan for all eligible employees in pursuance of the special resolution duly approved by the shareholders. The plan provided for the issuance of 997,500 options to eligible employees as recommended by the Compensation Committee constituted for this purpose. The Company had established "R Systems International Employees Stock Option Trust" ('the Trust') to administer the plan, as approved by the members, for the benefits of the Company's employees and had provided an interest free loan of Rs. 115,142,450. Consequently, the Company had allotted 997,500 equity shares at a premium of Rs. 113.42 per equity share to the Trust to be further issued to the Company's eligible employees on the exercise of the underlying options granted to them.

During the year, the Company has bought back the shares from the said Trust for a consideration of Rs 115.42 per share. Subsequent to the buy back, the loan given to the Trust has been received and the Trust has been liquidated after approval by the Board. No claims from any employees in this regard exists.

### (b) R Systems International Limited- Year 2004 Employee Stock Option Plan'

During the year, the Company has instituted a new plan 'R Systems International Limited- Year 2004 Employee Stock Option Plan' (new plan) for all eligible employees as specified in the rules in pursuance of the special resolution duly approved by the shareholders. The plan provides for the issuance of 997,500 options to eligible employees as recommended by the Compensation Committee constituted for this purpose.

# R SYSTEMS INTERNATIONAL LIMITED (SUMMARY FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

The plan is administered by a compensation committee and exercise price is “1.60 times the Book Value of the Share as per the audited balance sheet as on December 31, 2003 i.e. Rs. 42 per Share or 1.60 times of the book value as per immediate previous accounting year audited balance sheet rounded off to nearest rupee as on the date of Exercise which ever is higher”.

The vesting period is 4 years (25% in each year) commencing from September 1, 2005. The eligible employees have an option to exercise it over a period up to August 31, 2014. The movement in the options during the year ended December 31, 2004 is set out below:

	Year Ended December 31, 2004	Year Ended December 31, 2004
1. Options issued to the employees under the Plan	944,700	Nil
2.Grants pending determination by the compensation committee [A]	52,800	Nil
(a) Grants made to eligible employees	944,700	
(b) Options lapsed or surrendered [B]	57,500	
(c) Options exercised during the year	Nil	
(d) Grants outstanding at the end of the year	887,200	Nil
3.Grants pending determination by the compensation committee (at the end of the year) [A+B]	110,300	Nil

(c) Indus Software Employees Stock Option Plan – Year 2001 (‘the plan’):

Indus Software Private Limited (Indus) had outstanding options aggregating to 21,967 equity shares as on March 31, 2002, to be issued to the eligible employees under the Indus Software Employees Stock Options Plan – Year 2001 under various vesting periods as specified in the said Plan, duly approved by the erstwhile shareholders. Indus had established “Indus Software Employees Welfare Trust” (‘the Indus Trust’) to administer the plan, as approved by the members, for the benefits of the Company’s employees and had provided an interest free loan of Rs. 3,382,792 included under Schedule 12. Consequently, Indus had allotted 21,967 equity shares of Rs. 10 each at a premium of Rs. 144 per equity share to the Indus Trust to be further issued to the Indus’ eligible employees on the exercise of the underlying options granted to them.

As a result of the merger of Indus with the Company, all employees had surrendered their options in favour of the Indus Trust to enable them to obtain options for shares in R Systems International Limited after the merger. Also, the Company had issued 206,822 equity shares of Rs. 2 each at a premium of Rs. 113.42 per share to the Indus Trust in exchange of 21,967 equity shares of Indus, apropos to the agreed swap ratio. The movement in the options (in equivalent number of shares of the Company) held by the Trust during the year ended December 31, 2004 and December 31, 2003 is set out below:

# R SYSTEMS INTERNATIONAL LIMITED (SUMMARY FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

	Year Ended December 31, 2004	Year Ended December 31, 2003
1. Shares issued to the Trust under the Plan	206,822	206,822
2. Grants pending determination by the compensation committee (start of the year) [A]	165,650	158,410
(a) Grants made to eligible employees (outstanding at the start)	41,172	48,412
(b) Options lapsed or surrendered [B]	15,864	7,240
(c) Options exercised during the year	Nil	-
Grants outstanding at the end of the year	25,308	41,172
3. Grants pending determination by the compensation committee (at the end of the year) [A+B]	181,514	165,650

(d) R Systems International Limited – Year 2004 Employees Stock Option Plan – ECNet (the plan)

The Company has instituted the plan for all eligible employees in pursuance of the special resolution duly approved by the shareholders. The plan provides for the issuance of 1,000,000 options to eligible employees as recommended by the Compensation Committee constituted for this purpose.

The plan is administered by a compensation committee and exercise price is “Book Value of the Share as per the audited Balance Sheet as on 31st December 2003 i.e. Rs. 26 or as on the date of Exercise, the book value as per immediate previous accounting year audited balance sheet rounded off to nearest rupee which ever is higher”.

The vesting period is 4 years (40% in 1<sup>st</sup> year & 20% in 2<sup>nd</sup>, 3<sup>rd</sup> & 4<sup>th</sup> year) commencing from September 1, 2005. The eligible employees have an option to exercise it over a period up to August 31, 2014. The movement in the options during the year ended December 31, 2004 is set out below:

	Year Ended December 31, 2004	Year Ended December 31, 2003
1. Options issued to the employees under the Plan	862,000	Nil
2. Grants pending determination by the compensation committee (A)	138,000	Nil
(a) Grants made to eligible employees	862,000	Nil
(b) Options lapsed or surrendered [B]	Nil	
(c) Options exercised during the year	Nil	
(d) Grants outstanding at the end of the year	8,62,000	
3. Grants pending determination by the compensation committee (at the end of the year) [A+B]	138,000	Nil

13. In May 2002, the Company’s subsidiary, R Systems, Inc. was notified by the United States Department of Labor (“DOL”) of a formal inquiry regarding the Company’s compliance with various regulations related to the hiring of H-1B employees. As a result of the investigation, monetary violations were noted resulting in compensation being due to eighty employees and former employees. The subsidiary recognised this liability of US\$ 485,000 (Rs. 22,630,294) in 2003. Payments commenced in July 2003, with the final payment paid in December 2004. During the year ended December 31, 2004 and December 31, 2003, the subsidiary paid compensation totaling \$ 205,000 and \$ 279,803 respectively.

# R SYSTEMS INTERNATIONAL LIMITED (SUMMARY FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

14. Goodwill is considered unamortisable where the associated period for amortisation can not be reasonably ascertained. In such cases, in management's view, the life of goodwill is indeterminable and accordingly, annual impairment reviews are considered adequate. Provision for impairment losses is unwarranted at this stage, based on management's analysis that no indicators exist resulting in a need for such impairment tests.

15. Earnings per share (EPS) has been computed as below:

	<b>2004 Rs.</b>	<b>2003 Rs.</b>
Net profit as per profit and loss account	2,290,630	(36,692,087)
Weighted average number of equity shares in calculating basic EPS	26,582,116	26,890,087
Add: Weighted average number of equity shares which would be issued on the conversion of warrants	504,068	456,753
Weighted average number of equity shares in calculating diluted EPS	27,086,184	27,346,840
EPS – basic	0.09	(1.36)
EPS – diluted	0.08	(1.34)

16. Previous year's figures have been regrouped where necessary to conform to this year's classification.

As per our report of even date

For S. R. Batliboi & Associates  
Chartered Accountants

For and on behalf of the Board of  
Directors

**per Pankaj Chadha**  
Partner

Membership No. 91813

**Lt. Gen. Baldev Singh (Retd.)**  
[Managing Director]

**Avirag Jain**  
[Director]

**Nand Sardana**  
[Vice President (Finance) &  
Company Secretary]

Place : New Delhi  
Date : March 31, 2005