



# **The Engine Room for Software Products**

**Audited Consolidated Financial Statements for 2003**

## **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, 2003 and the consolidated profit and loss account 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. 161,189,629 (US \$ 3,534,858) as at December 31, 2003 and revenues of Rs. 793,186,935 (US \$ 16,999,138) for the year then ended.
  - (ii) in relation to the Singapore subsidiary, total assets (net) of Rs. 98,391,028 (Sing \$ 3,674,996) as at December 31, 2003 and revenues of Rs. 17,500,281 (Sing \$ 653,337); for the year then ended.
  - (iii) in relation to Indus Software Inc., US subsidiary, total liabilities (net) of Rs. 22,741,277 (US \$ 498,712) as at December 31, 2003 and revenues of Rs. 25,922,285 (US \$ 555,552) 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. 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, 2003; 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.

For S. R. Batliboi & Associates  
Chartered Accountants

per Pankaj Chadha  
Partner  
Membership No. 91813

Delhi  
March 26, 2004

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

**Consolidated Balance Sheet as at December 31, 2003**

	Schedules	As at December 31, 2003 Rs.	As at December 31, 2002 Rs.
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' Funds</b>			
Capital	1	53,780,174	53,780,174
Reserve and surplus	2	585,978,469	637,383,903
		<b>639,758,643</b>	691,164,077
<b>Loan Funds</b>			
Secured loans	3	59,704,737	2,486,470
		<b>59,704,737</b>	2,486,470
<b>Deferred tax liabilities</b>	4	<b>6,957,364</b>	3,011,284
<b>TOTAL</b>		<b>706,420,744</b>	696,661,831
<b>APPLICATION OF FUNDS</b>			
<b>Fixed Assets</b>			
Gross block	5	295,176,366	244,867,989
Less : Depreciation		102,431,900	65,754,269
Net block		192,744,466	179,113,720
Capital work-in-progress including capital advances		16,356,337	29,498,625
		<b>209,100,803</b>	208,612,345
<b>Incidental expenditure during construction</b> (Pending Capitalization/Allocation)	6	-	2,287,747
<b>Intangible asset</b> (Product development costs)		1,786,135	-
<b>Investments</b>	7	1,659,897	76,005
<b>Current Assets, Loans &amp; Advances</b>			
Sundry debtors	8	270,075,610	282,102,947
Cash and bank balances	9	121,368,251	158,988,880
Other current assets	10	91,736,121	66,195,945
Loans and advances	11	159,955,214	164,345,289
<b>Less : Current Liabilities and Provisions</b>			
Liabilities	12	163,515,502	193,762,433
Provisions	13	31,566,131	47,303,756
		<b>195,081,633</b>	241,066,189
<b>Net Current Assets</b>		<b>448,053,563</b>	430,566,872
<b>Deferred tax assets</b>	4	<b>41,541,600</b>	52,380,751
<b>Miscellaneous Expenditure</b> (to the extent not written off or adjusted )	14	<b>4,278,746</b>	2,738,111
<b>TOTAL</b>		<b>706,420,744</b>	696,661,831
<b>Notes to accounts</b>	19		

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

In terms of our attached 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  
[General Manager (Finance  
& Company Secretary )

New Delhi  
Date: March 26th, 2004

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

**Profit and Loss account for the year ended December 31, 2003**

	Schedules	For the year ended December 31, 2003 Rs.	For the year ended December 31, 2002 Rs.
<b>INCOME</b>			
Sale of software products and rendering software development services		1,224,665,286	1,395,682,008
Other income	15	2,266,186	16,989,158
<b>Total</b>		<b>1,226,931,472</b>	<b>1,412,671,166</b>
<b>EXPENDITURE</b>			
Personnel expenses	16	763,783,367	937,581,643
Operating and other expenses	17	408,086,398	393,520,517
Depreciation / amortisation	4	39,514,947	29,018,952
Finance expenses	18	2,160,190	2,521,277
Amortisation of goodwill (see note 1 under Schedule 5)		24,460,860	-
Exceptional item (see note 14 under Schedule 19)		22,630,294	-
<b>Profit / (loss) from continuing operations before tax</b>		<b>(33,704,584)</b>	<b>50,028,777</b>
Provision for tax		(5,619,608)	(1,676,658)
Deferred tax		8,607,112	15,227,684
<b>Total tax expense</b>		<b>2,987,504</b>	<b>13,551,026</b>
<b>Net profit</b>		<b>(36,692,088)</b>	<b>36,477,751</b>
Surplus brought forward from previous year		55,905,127	19,427,376
Less: Translation of foreign currency translation differences		15,287,807	-
Less : Deferred tax liabilities as on January 1, 2003 [Refer note 1 (c) under Schedule 19]		3,846,813	-
<b>Balance carried forward to Balance Sheet</b>		<b>78,419</b>	<b>55,905,127</b>
Earnings per share (refer note 15 under Schedule 19)			
Basic [Nominal value of shares Rs. 2 (previous year: Rs. 2)]		(1.36)	1.47
Diluted [Nominal value of shares Rs. 2 (previous year: Rs. 2)]		(1.34)	1.43

**Notes to Accounts**

19

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

In terms of our attached report of even date.

For S.R.Batliboi & 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  
[General Manager (Finance)  
& Company Secretary ]

New Delhi  
Date: March 26th, 2004

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

	As at December 31, 2003 Rs.	As at December 31, 2002 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	<u>100,000,000</u>	<u>100,000,000</u>
<u>Issued and Subscribed</u>		
26,890,087 (Previous year 26,890,087) equity shares of Rs. 2 each fully paid	<u>53,780,174</u>	<u>53,780,174</u>
	<b>53,780,174</b>	<b>53,780,174</b>

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 7 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, 2003 Rs.	As at December 31, 2002 Rs.
<b>Schedule 2: Reserves and Surplus</b>		
Share premium account		
Balance as per last account	<b>581,447,050</b>	954,091,492
Add: Share premium on allotment of equity shares	-	666,425,637
Less: Adjustment of share issue expenses	-	1,921,400
Less: Adjustment of goodwill as per High Court order in terms of section 78 of the Companies Act, 1956	-	523,381,468
Less: Adjustment of goodwill arisen out of amalgamation	-	513,767,211
	<b>581,447,050</b>	581,447,050
Capital reserve	<b>31,726</b>	31,726
Balance in profit and loss account		
Balance as per last account	<b>55,905,127</b>	19,427,376
Add: Transferred from Profit & Loss Account	<b>(36,692,088)</b>	36,477,751
Less: Translation of foreign currency translation differences (1)	<b>15,287,807</b>	-
Less : Deferred tax liabilities as on January 1, 2003 [Refer note 1(c) under Schedule 19]	<b>3,846,813</b>	-
	<b>78,419</b>	55,905,127
Foreign currency translation adjustment		
Translation of foreign currency translation differences - transferred from profit and loss account	<b>15,287,807</b>	-
Less: Current year translation differences (Also refer note 13 under Schedule 19)	<b>10,866,533</b>	-
	<b>4,421,274</b>	-
	<b>585,978,469</b>	637,383,903

**Note:**

- (1) Deduction to Balance in profit and loss account is towards reversal and transfer of foreign currency translation difference, to the extent recognised in Year 2001 and 2002.

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

**Schedules to the Accounts**

	As at December 31, 2003 Rs.	As at December 31, 2002 Rs.
<b>Schedule 3: Secured Loans</b>		
Loans from banks		
Cash credit facilities (Secured by hypothecation of debtors)	35,834,058	-
Working capital loan (Secured by substantially all of the assets of a US subsidiary, R Systems Inc.)	22,773,855	-
For motor vehicles (Secured by hypothecation of underlying motor vehicles)	1,051,499	567,594
Other loans - motor vehicles (Secured by hypothecation of underlying motor vehicles)	45,325	1,918,876
	<b>59,704,737</b>	<b>2,486,470</b>

In case of motor vehicle loans, amount repayable within one year is Rs. 798,731 (Previous Year Rs. 2,295,510)

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

**Schedules to the Accounts**

	As at December 31, 2003 Rs.	As at December 31, 2002 Rs.
<b>Schedule 4: Deferred Tax Assets (net)</b>		
<b>Deferred Tax Liabilities</b>		
Differences in depreciation and other differences in block of fixed assets as per tax books and financial books	6,957,364	3,009,691
Miscellaneous temporary differences	-	1,593
<b>Gross Deferred Tax Liabilities</b>	<b>6,957,364</b>	<b>3,011,284</b>
<b>Deferred Tax Assets</b>		
Payroll related liabilities	8,811,470	19,977,416
Allowance for doubtful advances	8,317,531	10,451,252
Accrued vacation	4,852,752	10,349,975
Foreign taxes credit	-	1,674,670
Prepaid expenses	-	828,375
Unabsorbed tax losses and depreciation	19,192,721	8,644,087
Miscellaneous temporary differences	367,126	454,976
<b>Gross Deferred Tax Assets</b>	<b>41,541,600</b>	<b>52,380,751</b>

R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

										Rs.
Schedule 5: Fixed Assets										
	Goodwill on consolidation (1)	Land - Freehold	Buildings (2)	Leasehold Improvements	Computers	Furniture & fittings	Office & electrical equipments	Vehicles (3)	Total	Previous Year
<b>Gross Block</b>										
As at 1.1.2003	24,460,860	4,765,674	49,568,384	12,231,114	105,409,753	18,482,452	18,496,318	11,453,434	244,867,989	634,467,205
Additions	-	-	2,159,755	-	54,399,560	8,817,913	14,226,432	2,527,214	82,130,874	650,814,412 (4)
Deductions	24,460,860	-	-	173,599	2,490,773	2,728,442	285,165	1,683,658	31,822,497	1,040,413,628
<b>At 31.12.2003</b>	<b>-</b>	<b>4,765,674</b>	<b>51,728,139</b>	<b>12,057,515</b>	<b>157,318,540</b>	<b>24,571,923</b>	<b>32,437,585</b>	<b>12,296,990</b>	<b>295,176,366</b>	<b>244,867,989</b>
<b>Depreciation / Amortisation</b>										
As at 1.1.2003	-	-	1,440,185	5,248,085	46,315,926	5,442,156	3,958,660	3,349,257	65,754,269	22,587,945
For the year	-	-	850,987	2,746,088	27,807,346	3,332,671	3,360,869	1,416,986	39,514,947	44,820,152 (4)
Deletions / Adjustments	-	-	-	1,328,732	1,446,160	734,690	(1,005,771)	333,505	2,837,316	1,653,828
<b>At 31.12.2003</b>	<b>-</b>	<b>-</b>	<b>2,291,172</b>	<b>6,665,441</b>	<b>72,677,112</b>	<b>8,040,137</b>	<b>8,325,300</b>	<b>4,432,738</b>	<b>102,431,900</b>	<b>65,754,269</b>
For previous year (4)	-	-	1,002,542	2,704,182	33,207,250	2,953,462	2,483,536	2,469,180	44,820,152	19,126,627
<b>Net Block</b>										
<b>At 31.12.2003</b>	<b>-</b>	<b>4,765,674</b>	<b>49,436,967</b>	<b>5,392,074</b>	<b>84,641,428</b>	<b>16,531,786</b>	<b>24,112,285</b>	<b>7,864,252</b>	<b>192,744,466</b>	<b>179,113,720</b>
At 31.12.2002	24,460,860	4,765,674	48,128,199	6,983,029	59,093,827	13,040,296	14,537,658	8,104,177	179,113,720	611,879,260

Notes:

(1) Includes amount paid towards land and building under a composite lease for which no separate values are assignable.

(2) Goodwill on consolidation, resulting from the acquisition of Indus Software Inc., pursuant to amalgamation of the Company with Indus Software Private Limited in 2002 has been fully amortised during the year. (also refer note 16(ii) under Schedule 19)

(3) Vehicles amounting to Rs. 4,722,915 (Previous Year Rs. 3,236,709) are hypothecated against loans from banks and others.

(4) Includes assets aggregating Rs.596,896,139 including goodwill of Rs. 513,767,211 and accumulated depreciation aggregating Rs.15,801,199 arising pursuant to amalgamation, consequent to the scheme of amalgamation of Indus Software Private Limited with the Company.

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

**Schedules to the Accounts**

	As at December 31, 2003 Rs.	As at December 31, 2002 Rs.
<b>Schedule 6: Incidental expenditure during construction period (Pending Capitalization/Allocation)</b>		
Salaries, wages, bonus and perquisites	1,138,670	996,492
Contribution to provident fund and other statutory payments	62,473	56,910
Staff welfare expenses	98,909	104,478
Recruitment and training expenses	-	182,893
Consumable stores	13,039	8,840
Travelling	-	2,494
Insurance premium	21,514	606
Local conveyance	179,373	57,535
Communication Charges	1,227,779	673,884
Vehicle running and maintenance	43,093	1,888
Repair and maintenance - Others	40,762	136,857
Postage, telephone and telegram charges	23,869	20,819
Printing and stationery	10,032	2,540
Membership & Subscription Charges	45,751	-
Legal and professional expenses	-	5,500
Bank Charges	6,701	-
Miscellaneous expenses	115	36,011
	<b>2,912,080</b>	<b>2,287,747</b>
Add: incidental expenditure incurred upto previous year	<b>2,287,747</b>	-
	<b>5,199,827</b>	<b>2,287,747</b>
Less: Allocated / transferred to fixed assets	<b>2,287,747</b>	-
Less: Transferred to expense heads (refer note 11 under Schedule 19)	<b>2,912,080</b>	-
	-	<b>2,287,747</b>

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

**Schedules to the Accounts**

	As at December 31, 2003 Rs.	As at December 31, 2002 Rs.
<b>Schedule 7: Investments</b>		
<b>Long term investments (at cost)</b>		
<b>Other than trade, unquoted</b>		
<i>Government Securities</i>		
6 Year National Saving Certificate- VIII issue	-	2,000
<i>Shares, Debentures and Bonds</i>		
<i>Equity Shares</i>		
2,500 (Previous Year 2,500) equity shares of Rs.10 each in The Saraswat Co-operative Bank Limited	25,000	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	46,512	49,005
34,000 ** (Previous year Nil) shares of common stock of "no par" value in N Techra Inc., USA	1,588,385	-
	<b>1,659,897</b>	<b>76,005</b>
Aggregate amount of unquoted investments	<b>1,659,897</b>	<b>76,005</b>

The following investment was matured during the year:  
6 Year National Saving Certificate- VIII issue of Rs. 2,000

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

\*\* represent shares 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, 2003 Rs.	As at December 31, 2002 Rs.
<b>Schedule 8: Sundry Debtors</b>		
<b>Debts outstanding for more than six months</b>		
Considered good	7,821,853	12,775,207
Considered doubtful	<u>30,665,406</u>	<u>25,033,656</u>
<b>Other debts</b>		
Considered good	262,253,757	269,327,740
Considered doubtful	<u>385,071</u>	<u>7,317,820</u>
	<b>301,126,087</b>	<b>314,454,423</b>
Less : Provision for doubtful debts	<u>31,050,477</u>	<u>32,351,476</u>
	<b>270,075,610</b>	<b>282,102,947</b>
<b>Schedule 9: Cash and Bank Balances</b>		
Cash on hand	126,134	187,859
Balances with scheduled banks		
On current accounts	6,274,944	11,769,211
On deposit accounts	18,291,007	21,136,635
Balance with other bank		
On current accounts	16,428,539	24,585,497
On deposit accounts	<u>80,247,627</u>	<u>101,309,678</u>
	<b>121,368,251</b>	<b>158,988,880</b>
<b>Schedule 10: Other current assets</b>		
Interest accrued on deposits	556,630	805,295
Unbilled revenue	93,515,777	65,232,360
Less: Anticipated cost to complete contracts	<u>2,346,786</u>	-
Fixed assets held for disposal (at net book value or estimated net realisable value, whichever is lower)	<b>91,168,991</b>	<b>65,232,360</b>
	<u>10,500</u>	<u>158,290</u>
	<b>91,736,121</b>	<b>66,195,945</b>
<b>Schedule 11: Loans and Advances</b> (Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	17,466,016	16,544,397
Advance to R Systems Employees Stock Option Trust (also refer note 9 under Schedule 19)	115,142,450	115,132,450
Advance to Indus Software Employees Welfare Trust (also refer note 9 under Schedule 19)	3,382,792	3,382,792
Deposits - others	8,430,797	6,564,356
Income Tax receivable	15,533,159	22,721,296
Considered doubtful	<u>6,147,395</u>	<u>6,304,547</u>
	<b>166,102,609</b>	<b>170,649,837</b>
Less Provision for doubtful advance	<u>6,147,395</u>	<u>6,304,547</u>
	<b>159,955,214</b>	<b>164,345,290</b>
<b>Schedule 12: Liabilities</b>		
Sundry creditors	118,559,714	141,486,790
Book overdraft with banks	12,221,127	-
Security deposits	485,290	685,060
Other liabilities	<u>32,249,372</u>	<u>51,590,583</u>
	<b>163,515,502</b>	<b>193,762,433</b>
<b>Schedule 13: Provisions</b>		
Provision for taxation - income tax	8,211,841	15,352,621
Provision for taxation - wealth tax	47,000	34,000
Provision for gratuity	4,260,453	2,775,070
Provision for leave encashment	<u>19,046,837</u>	<u>29,142,065</u>
	<b>31,566,131</b>	<b>47,303,756</b>

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

**Schedules to the Accounts**

	As at December 31, 2003 Rs.		As at December 31, 2002 Rs.	
<b>Schedule 14: Miscellaneous Expenditure</b>				
<b>a) Preliminary expenses</b>				
Balance as per last Balance Sheet	-		3,395	
Less : Written off	-	-	3,395	-
<b>b) Pre-operational expenses</b>				
Balance as per last Balance Sheet	470,373		323	
Add: Additions in currents year	42,586		347,686	
Add: On amalgamation	-		490,751	
Less : Written off	195,863	<b>317,096</b>	368,387	470,373
<b>c) Fees for increase in share capital</b>				
Balance as per last Balance Sheet	196,849		282,573	
Less : Written off	84,478	<b>112,371</b>	85,724	196,849
<b>d) Rights for customer services</b>				
	2,070,889		4,169,149	
Less : Written off	2,070,889	-	2,098,260	2,070,889
<b>e) Advance to Customers</b>				
Additions in current year (see note 10 under Schedule 19)	4,629,279		-	
Less : Written off	780,000	<b>3,849,279</b>	-	-
		<b>4,278,746</b>		2,738,111

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

**Schedules to the Accounts**

	For the year ended December 31, 2003 Rs.	For the year ended December 31, 2002 Rs.
<b>Schedule 15: Other Income</b>		
Interest		
Loans and bank deposits (Gross, Tax deducted at source Rs. 151,069, previous year Rs. 703,565)	1,514,845	5,165,034
Interest received on Income tax refund	366,893	349,729
Others	45,325	-
Profit on Sale of Fixed Assets (net)	-	195,002
Profit on sale of current non-trade quoted investment	-	9,071
Excess provision written back, as no longer required	252,982	8,647,392
Miscellaneous income	86,141	2,622,930
	<b>2,266,186</b>	<b>16,989,158</b>
<b>Schedule 16: Personnel expenses</b>		
Salaries, wages, bonus and perquisites	724,218,863	887,338,045
Contribution to provident and other funds	32,352,442	47,260,324
Staff welfare expenses	7,212,063	2,983,274
	<b>763,783,367</b>	<b>937,581,643</b>
<b>Schedule 17: Operating and other expenses</b>		
Software development - sub contracting expenses	143,772,786	181,459,426
Power and fuel	9,090,700	6,326,197
Rent - premises	7,542,733	15,895,217
Rent - equipments	5,151,376	4,451,818
Rates and taxes	1,765,723	1,515,978
Insurance	9,809,578	7,622,534
Repair and maintenance		
- Buildings	71,359	-
- Others	10,878,369	6,483,133
Advertising and sales promotion	5,932,407	6,172,115
Commission - others	10,801,881	13,026,582
Travelling and conveyance	79,295,013	54,112,043
Communication costs	38,860,793	21,292,003
Printing and stationery	3,466,686	3,040,298
Legal and professional expenses	39,236,453	43,783,036
Directors' sitting fee	5,000	10,000
Auditor's remuneration		
- Audit fee	594,000	525,000
- Other services	226,800	220,500
- Out of pocket expenses	20,000	35,788
	<b>840,800</b>	<b>781,288</b>
Foreign exchange fluctuation (net)	7,140,255	1,512,639
Provision for doubtful debts and advances	12,797,692	7,049,718
Debts and advances written off	651	727,112
Loss on sale of fixed assets (net)	1,484,514	-
Fixed assets written off	241,019	720,933
Recruitment and training expenses	8,747,084	6,525,080
Amortisation of miscellaneous expenditure	3,131,230	2,555,766
Anticipated costs to complete contracts	2,346,786	-
Miscellaneous expenses	5,675,508	8,457,601
	<b>408,086,398</b>	<b>393,520,517</b>
<b>Schedule 18: Financial expenses</b>		
Interest		
- on fixed loans	354,068	1,103,778
- on prepayment of loans	-	391,700
- on others	779,275	309,801
Bank charges	1,026,847	715,998
	<b>2,160,190</b>	<b>2,521,277</b>

# R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

---

### 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. The accounting policies have been consistently applied by the Company and except for the changes in accounting policy discussed more fully below, are consistent with those used in the previous year.

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, which are 100% owned. 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) **Change in Accounting Policies**

The Company has changed its accounting policy for taxes on income in the current year as a result of the new accounting standard AS- 22 on 'Accounting for taxes on income' issued by the Institute of Chartered Accountants of India. In accordance with the transitional provisions the opening deferred tax liability of Rs 3,846,812 has been charged directly to the general reserves. The current year's deferred tax liability of Rs 1,788,163 has been charged to the profit and loss account. Had the earlier accounting policy of accruing for taxes based on what is payable to the tax authorities been followed, profit for the year would have been higher by the current year's deferred tax liability amount, Rs. 1,788,163 and Reserves and Surplus at the end of the year would have been higher by Rs. 5,634,975.

(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	5 –20 years
Leasehold improvements	7 years
Leasehold land and buildings	Shorter of period of lease term or 61 years
Computer hardware	5-6years
Computer software	3 years
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.

(f) **Intangibles**

# R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

---

### *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.

### **(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.

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 one month to twelve 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 upto the balance sheet date bear to the estimated

# R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

---

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.

### (j) **Miscellaneous expenditure**

Costs incurred for contract acquisition are amortised equally over the period for which the contract is undertaken on the basis of mutually agreed terms between contracting parties.

Pre-operative expenses are written off over a period of three years.

Expenditure incurred on increase in authorised share capital is being written off over a period of five years.

Costs incurred for 'rights for customer services' are amortised equally over the expected terms of the underlying projects.

### (k) **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.

#### *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 the net investment.

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 and expense items during the year ended December 31, 2003, the rates used were US \$ 1= Rs. 46.66 and Singapore \$ 1 = Rs. 26.79. For translating assets and liabilities at the year-end, the rates used were US \$ 1= Rs. 45.60 and Singapore \$ 1= Rs. 26.77.

# R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

---

### (l) 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.

### (m) 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.

### (n) 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.

### (o) 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 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.

# R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

---

### (p) 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.

### 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.

#### List of wholly owned subsidiaries

<u>Subsidiary</u>	<u>Country of incorporation and other particulars</u>
R Systems Inc.	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	A company registered under the laws of Singapore in 1997 and subsidiary of the Company since September 19, 2000.
Indus Software Inc.	A company registered under the laws of Delaware, USA in 1996 and 100% subsidiary of the Company since April 1, 2002.

### 3. 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.

	2003 Rs.	2002 Rs.
Minimum Lease Payments:		
Not later than one year	10,903,140	6,848,789
Later than one year but not later than five years	13,367,436	6,223,060
Later than five years	6,150,980	6,244,128

# R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

---

<b>4. Capital Commitments</b>	<b>2003</b>	2002
Estimated amount of contracts remaining to be executed on capital account and not provided for.	<b>Rs.</b>	Rs..
Commitments for acquisition of fixed assets	<b>40,804,678</b>	1,878,028
	<b>40,804,678</b>	1,878,028

### 5. Contingent Liabilities not provided for

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.

6. 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.

7. 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.

8. The Group had advanced a loan of Rs. 7,000,000 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 agreed upon and a payment plan has been agreed with the said parties. Considering the agreed amount to be lower than the original advance and the financial position of the said parties, the management is of the view that the provision of Rs. 6,147,395, created in an earlier year is sufficient at this stage.

## R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

### NOTES TO ACCOUNTS

**9. (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 provides for the issuance of 997,500 options to eligible employees as recommended by the Compensation Committee constituted for this purpose. The Company has 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 has provided an interest free loan of Rs. 115,142,450 included under Schedule 12. Consequently, the Company has 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.

The plan is administered by a compensation committee comprising of 3 directors and exercise price is determined at Rs. 115.42. The vesting period of 3 years commenced from 1.3.2001 (the date of grant to the eligible employees). The eligible employees have an option to exercise it over a period upto 28.2.2011. The movement in the options held by the Trust during the year ended December 31, 2003 and December 31, 2002 is set out below:

	Year Ended December 31, 2003	Year Ended December 31, 2002
1. Shares issued to the Trust under the Plan	997,500	997,500
2. Grants pending determination by the compensation committee (start of the year) [A]	725,975	506,725
(a) Grants made to eligible employees (outstanding at the start)	271,525	490,775
(b) Options lapsed or surrendered [B]	106,550	219,250
(c) Options exercised during the year	-	-
(d) Grants outstanding at the end of the year	164,975	271,525
3. Grants pending determination by the compensation committee (at the end of the year) [A+B]	832,525	725,975

**(b) 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, 2003 and December 31, 2002 is set out below:

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

**NOTES TO ACCOUNTS**

	Year Ended December 31, 2003	Year Ended December 31, 2002
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]	158,410	-
(a) Grants made to eligible employees (outstanding at the start)	48,412	206,822
(b) Options lapsed or surrendered [B]	7,240	158,410
(c) Options exercised during the year	-	-
(d) Grants outstanding at the end of the year	41,172	48,412
3. Grants pending determination by the compensation committee (at the end of the year) [A+B]	165,650	158,410

(c) Considering the availability of 998,175 equity shares with the Trusts pending to be granted (i.e. 832,525 equity shares under 'R Systems International Limited – Employees Stock Option Plan' and 165,650 equity shares under 'Indus Software Employees Stock Option Plan'), the management has instructed the compensation committee to draw up plans to

- (i) grant these equity shares to further employees, or
- (ii) explore induction of third party vendors, etc. as eligible persons to the equity shares issued to the Trust.

As the above possibilities are being explored, advances given to the Trusts are considered good and fully recoverable by the management.

10. During the year, the Company has entered into a contract for a term of 3 years with a customer for providing billing and customer support services, wherein it has paid Rs. 4,629,279 (US \$ 100,000) towards one –time non-refundable / non-adjustable fee. By virtue of such payment, the Company is entitled to purchase certain fully paid equity shares of the customer at prices for which the formula has been agreed. As no significant gains through acquisition of such shares is anticipated at the year-end date, the management has decided not to purchase the said shares and is accordingly amortising these expenses over a period of three years.
11. The Company has commenced operations in Business Process Outsourcing ('BPO') segment during the year effective April 1, 2003. While the facility was ready to put to use at January 1, 2003, commercial operations commenced only on April 1, 2003, when all significant operational issues with the service provider of lease line were sorted out. During this period of delay of three months, certain administrative expenses amounting to Rs. 2,912,080 were incurred and accumulated under the head 'Incidental expenditure during construction' aggregating Rs. 5,199,827. Accordingly, on the commencement of the said operations, it has allocated Rs. 2,287,747 being cost incurred till December 31, 2002, over the basic cost of the fixed assets of BPO, which were constructed as on that date and charged off remaining amount of Rs. 2,912,080 in the respective expense heads in the profit and loss account.
12. In the current year, the management has re-assessed the estimated useful lives of all fixed assets and on the basis of the results of such re-assessment, has decided to prospectively depreciate the written down value, as on January 1, 2003, of such assets which has resulted in estimated useful life being lower than hitherto followed over the remaining estimated useful lives. This change in revision of estimated useful lives has resulted in additional depreciation of Rs. 794,972 during the year and has been recognised in the current year's profit and loss account.

# R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

## NOTES TO ACCOUNTS

13. To comply with the provisions of Accounting Standard (AS) – 11 (Revised 2003), “The Effects of Changes in Foreign Exchange Rates” issued by the Institute of Chartered Accountants of India, the management has translated its wholly owned subsidiaries on a ‘non-integral operations’ approach basis. The resultant difference of Rs. 4,421,274 represents net credit of Rs. 15,287,807 towards such differences upto December 31, 2002 and net debit Rs. 10,866,533 of such differences arising during the year.
14. 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 \$ 485,000 (Rs. 22,630,294) in 2003. Payments commenced in July 2003, with the final payment to be paid in June 2004. During the year ended December 31, 2003, the subsidiary paid compensation totaling \$ 279,803.
15. Earnings per share (EPS) has been computed as below:

	<b>2003</b>	<b>2002</b>
	<b>Rs.</b>	<b>Rs.</b>
Net profit as per profit and loss account	(36,692,088)	36,477,751
Weighted average number of equity shares in calculating basic EPS	26,890,087	24,891,544
Add: Weighted average number of equity shares which would be issued on the conversion of warrants	456,753	577,772
Weighted average number of equity shares in calculating diluted EPS	27,346,840	25,469,316
EPS - basic	(1.36)	1.47
EPS – diluted	(1.34)	1.43

16. (i) In terms of the Scheme of Amalgamation (“the Scheme”) approved by Hon’ble High Courts of Mumbai and New Delhi, Indus Software Private Limited (hereby referred to as Indus) had been amalgamated with the Company with effect from April 1, 2002.

In accordance with the said Scheme, the assets, liabilities, rights and obligations of Indus as at April 1, 2002 were transferred to the Company at the carrying values as per audited accounts as at March 31, 2002. Also, the goodwill amounting to Rs. 513,767,211 had arisen out of the amalgamation. However, the Hon’ble High Courts had approved the amount of goodwill as Rs. 546,034,828 and had ordered this goodwill amount to be adjusted against securities premium account. As this goodwill had been determined based on results of Indus as at March 31, 2001, goodwill for adjustment against securities premium account had been restricted to Rs. 513,767,211, which was considered as appropriate compliance with orders of the Hon’ble High Courts.

- (ii) The Company, as a result of the above acquisition and amalgamation of Indus Software Private Limited, also acquired its wholly owned subsidiary, Indus Software Inc. (ISI) based in USA effective April 1, 2002. For the purpose of consolidation in accordance with Accounting Standard 21 issued by the Institute of Chartered Accountants of India, the goodwill had been recomputed as Rs. 538,228,071 and the difference of Rs. 24,460,860 arising out of above recomputation of goodwill was not set-off against the securities premium account and represented company’s share in losses of the investment in Indus Software Inc. as at March 31,

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

## **NOTES TO ACCOUNTS**

---

2002. During the current year, management has decided to fully amortise the balance amount of goodwill in these consolidated financial statements considering such impairment to be other than temporary in nature.

(iii) Further, the shareholders of the Company at the Extraordinary General Meeting held on September 28, 2002 approved the adjustment / set-off of goodwill against securities premium account, to the extent of Rs. 523,381,468, representing excess of consideration paid over the underlying net assets as at the time of acquisition of R Systems Inc. by the Company, as is not represented by available assets. The High Court of Delhi confirmed the utilisation of Securities Premium Account in accordance with the provisions of section 78 read with sections 100, 102 and 103 of the Companies Act, 1956, towards abovenoted adjustment. As a result, Securities premium account and goodwill had been reduced by an amount of Rs. 523,381,468.

**17.** 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**  
[General Manager (Finance)  
& Company Secretary]

Place : New Delhi  
Date : March 26, 2004

Place : New Delhi  
Date : March 26, 2004