



Evolving Growth in a Competitive World



Audited Financial Statements for 2004

Auditors' Report

To
The Members of R Systems International Limited

1. We have audited the attached balance sheet of R Systems International Limited as at December 31, 2004 and also the statement of profit and loss and cash flows of the Company for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
 - i. We have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purpose of our audit;
 - ii. In our opinion, proper books of account, as required by law, have been kept by the Company so far as appears from our examination of those books;
 - iii. The balance sheet and the statements of profit and loss and cash flows dealt with by this report are in agreement with the books of account;
 - iv. In our opinion, the attached balance sheet and the statements of profit and loss and cash flows comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
 - v. On the basis of the written representations received from the Directors, as on December 31, 2004, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on December 31, 2004 from being appointed as a Director in terms of clause (g) of Sub Section (1) of Section 274 of the Companies Act, 1956;
 - vi. In our opinion and to the best of our information and according to the explanations given to us, the said statements of account, give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - a) In the case of balance sheet, of the state of affairs of the Company as at December 31, 2004, and

- b) In the case of profit and loss account, of the profit of the Company for the year ended on that date.
- c) in the case of the statement of cash flows, of the cash flows for the year ended on that date.

For S. R. Batliboi & Associates
Chartered Accountants

per Pankaj Chadha

Partner

Membership No: 91813

Place: New Delhi

Date: March 31, 2005

Annexure referred to in paragraph 3 of our report of even date

Re: R Systems International Limited

- (i) (a) The Company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) All fixed assets at the Noida branch and additions to fixed assets at the Pune branch have been physically verified by management during the year in accordance with a planned programme of verifying them once in two years which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Discrepancies noticed during physical verification, which were not material, have been properly dealt within the books of accounts.
- (c) There was no substantial disposal of fixed assets during the year.
- (ii) The Company has no inventory and accordingly, paragraph 4(ii) is not applicable.
- (iii) (a) The following are the particulars of loans granted by the Company to companies, firms and other parties covered in the Register maintained under Section 301 of the Companies Act, 1956:

Sl. No.	Name of Party	Relationship with Company	Amount Rs.	Year end Balance Rs.
1.	EC Net Ltd	Subsidiary	26,550,473	26,442,900

The following are the particulars of loans taken by the Company from companies, firms and other parties covered in the Register maintained under Section 301 of the Companies Act, 1956:

Sl. No.	Name of Party	Relationship with Company	Amount Rs.	Year end Balance Rs.
1.	R Systems (Singapore) Pte Ltd.	Subsidiary	15,592,600	14,868,200

- (b) In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions for such loans are not prima facie prejudicial to the interest of the Company.
- (c) In respect of loans granted, repayment of the principal amount is as stipulated and payment of interest have been regular.
- (d) There is no overdue amount of loans granted to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.
- (iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control procedure commensurate with the size of the Company and the nature of its business, for the purchase of fixed assets. Due to the nature of its business, the Company does not purchase any inventory and does not sell any goods. During the course of our audit, no major weakness has been noticed in the internal controls.

- (v) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that the transactions that need to be entered into the register maintained under section 301 have been so entered. In respect of transactions with parties with whom transactions exceeding value of Rupees five lakhs have been entered into during the financial year, *the prevailing prices are not ascertainable considering the uniqueness of transactions and accordingly, we do not comment as to whether these transactions are entered at the prevailing market prices at the relevant time.*
- (vi) The Company has not accepted any deposits from the public.
- (vii) The Company has an internal audit system commensurate with its size and the nature of its business.
- (viii) To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the products of the Company.
- (ix) According to the records of the Company, the Company is generally regular in depositing undisputed statutory dues including Provident Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth Tax, Custom Duty, Excise Duty, cess and other statutory dues applicable to it with the appropriate authorities. According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty were outstanding, at the year end for a period of more than six months from the date they became payable.
- (x) The Company has no accumulated losses at the end of the financial year and it has not incurred any cash losses in the current and immediately preceding financial year.
- (xi) Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to any bank. The Company did not have any dues from any financial institution or any outstanding debentures during the year.
- (xii) According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (xiv) The Company does not deal or trade in shares, securities, debentures and other investments.
- (xv) According to the information and explanations given to us, the Company has given guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof in our opinion are not prima-facie prejudicial to the interest of the Company.
- (xvi) Based on information and explanations given to us by the management, term loans were applied for the purpose for which the loans were obtained.

- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet and cash flow statement of the Company, we report that no funds raised on short-term basis have been used for long-term investment.
- (xviii) The Company has not made any allotment of shares during the year.
- (xix) The Company did not have any outstanding debentures during the year.
- (xx) The Company has not raised any money through a public issue during the year.
- (xxi) Based upon the audit procedures performed by us for expressing our opinion on these financial statements and information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For S.R.Batliboi & Associates
Chartered Accountants

per Pankaj Chadha

Partner

Membership No: 91813

Place: New Delhi

Date: March 30, 2005

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Balance Sheet as at December 31, 2004

	Schedules	As at December 31, 2004 Rs.	As at December 31, 2003 Rs.
SOURCES OF FUNDS			
Shareholders' Funds			
Capital	1	51,785,174	53,780,174
Reserve and Surplus	2	555,309,944	651,261,081
		607,095,118	705,041,255
Loan Funds			
Secured Loans	3	123,141,354	36,930,882
Unsecured Loans	4	14,868,200	15,609,998
Deferred payments liability (refer note 11(b) under schedule 19)		21,372,514	-
		159,382,068	52,540,880
Deferred Tax Liabilities	5	7,939,368	5,634,975
TOTAL		774,416,555	763,217,110
APPLICATION OF FUNDS			
Fixed Assets			
Gross block	6	286,552,877	215,815,021
Less : Depreciation		83,042,787	56,068,570
Net Block		203,510,090	159,746,451
Capital work-in-progress including capital advances		26,144,930	16,930,731
		229,655,020	176,677,182
Investments	7	334,567,290	301,628,332
Current Assets, Loans & Advances			
Sundry debtors	8	247,507,887	146,916,882
Cash and bank balances	9	24,165,355	32,988,413
Other current assets	10	34,739,541	53,722,586
Loans and advances	11	60,171,350	157,303,521
Less : Current Liabilities and Provisions			
Liabilities	12	140,835,508	93,138,476
Provisions	13	15,554,380	17,108,029
		156,389,888	110,246,505
Net Current Assets		210,194,245	280,684,897
Miscellaneous Expenditure (to the extent not written off or adjusted)	14	-	4,226,699
TOTAL		774,416,555	763,217,110
Notes to Accounts	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
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.
INCOME			
Sale of software products and rendering software development services		561,161,038	426,435,846
Other income	15	2,556,120	1,193,380
TOTAL		563,717,158	427,629,226
EXPENDITURE			
Personnel expenses	16	283,289,956	205,584,846
Operating and other expenses	17	219,547,677	173,798,861
Depreciation / amortisation	6	28,384,704	23,496,108
Finance expenses	18	9,505,114	1,559,800
Provision for diminution in value of long term investments (refer note 11 under Schedule 19)		2,000,000	16,774,508
Profit from continuing operations before tax		20,989,706	6,415,103
Provision for tax (net of excess provision of Rs.Nil, Previous Year Rs. 2,566,064, written back related to earlier years)		1,500,000	(2,222,014)
Deferred tax		2,304,393	1,788,163
Total tax expense		3,804,393	(433,851)
Profit after tax		17,185,313	6,848,954
Balance brought forward from previous year		69,814,031	66,811,889
Less : Deferred tax liabilities as on January 1, 2003		-	3,846,812
Balance carried to Balance Sheet		86,999,344	69,814,031
Earnings per share (refer note 13 under Schedule 19)			
Basic [Nominal value of shares Rs. 2 (Previous Year: Rs. 2)]		0.65	0.25
Diluted [Nominal value of shares Rs. 2 (Previous Year: Rs. 2)]		0.63	0.25

Notes to Accounts

19

The schedules referred to above and the notes to accounts form an integral part of the Profit and 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
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**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.

A. Cash flow from operating activities	
Net profit before taxation, and extraordinary items	20,989,706
Adjustments for:	
Depreciation	28,688,137
Miscellaneous expenditure written off	4,226,699
Provision for diminution in value of investment	2,000,000
Loss on sale of fixed assets	688,936
Fixed assets written off	104,500
Unrealised foreign exchange loss / (gain)	2,364,107
Interest income	(1,303,317)
Excess provisions written back	(294,291)
Interest expense	8,097,086
Operating profit before working capital changes	65,561,563
Movements in working capital :	
Decrease / (Increase) in sundry debtors	(105,219,880)
Decrease / (Increase) in other current assets	18,983,045
Decrease / (Increase) loans and advances	88,695,368
Increase / (Decrease) in provisions	4,835,794
Increase / (Decrease) in current liabilities	43,108,064
Cash generated from operations	115,963,955
Direct taxes paid (net of refunds)	2,701,370
Interest on income-tax refund	218,720
Cash flow before extraordinary items	118,884,045
Extraordinary item	-
Net cash from operating activities	118,884,045
B. Cash flows from investing activities	
Purchase of fixed assets	(73,144,578)
Movement in capital work in progress	(9,214,199)
Proceeds from sale of fixed assets	202,800
Purchase of investments (net of deferred compensation to the erstwhile shareholders of EC Net Limited)	(8,825,231)
Interest received	1,084,597
Net cash used in investing activities	(89,896,611)
C. Cash flows from financing activities	
Proceeds from borrowings	93,607,621
Repayment of long-term borrowings	(7,397,149)
Buy back of equity shares	(115,131,450)
Interest paid	(8,203,084)
Net cash used in financing activities	(37,124,062)
Net increase in cash and cash equivalents (A + B + C)	(8,136,628)
Cash and cash equivalents at the beginning of the year	32,988,413
Cash and cash equivalents at the end of the year	24,851,785
Components of cash and cash equivalents as at	December 31, 2004
	Rs.
Cash on hand	131,174
Balances with scheduled banks	
On current accounts	11,809,694
On deposit accounts	1,776,976
Balance with other bank	
On current account	10,447,511
	24,165,356
Unrealised loss on foreign currency cash and cash equivalents	686,429
Net cash and cash equivalents	24,851,785

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.Batlilobi & Associates
Chartered Accountants

For and on behalf of the Board of Directors

per Pankaj Chadha
Partner
Membership No. 91813Lt. 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
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2004 Rs.	As at December 31, 2003 Rs.
Schedule 1: Share Capital		
<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-up	53,780,174	53,780,174
Less: Equity shares buy-back		
997,500 (Previous Year Nil) equity shares of Rs. 2 each fully paid-up	<u>1,995,000</u>	-
	<u>51,785,174</u>	<u>53,780,174</u>

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 10 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)

Schedule 2: Reserves and Surplus

Securities 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	-
	<u>468,310,600</u>	<u>581,447,050</u>
Balance in Profit and Loss Account		
Balance as per last account	69,814,031	66,811,889
Add: Transferred from Profit & Loss Account	17,185,313	6,848,954
Less : Deferred tax liabilities as on January 1, 2003	-	3,846,812
	<u>86,999,344</u>	<u>69,814,031</u>
	<u>555,309,944</u>	<u>651,261,081</u>

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2004 Rs.	As at December 31, 2003 Rs.
Schedule 3: Secured Loans		
Loans from banks		
Cash credit facilities (Secured by hypothecation of debtors)	76,057,790	35,834,058
Term Loan facilities (Secured by equitable mortgage of properties situated at Noida and Pune units)	40,345,930	-
For motor vehicles (Secured by hypothecation of underlying motor vehicles)	6,737,634	1,051,499
Other loan - motor vehicle (Secured by hypothecation of underlying motor vehicle)	-	45,325
	123,141,354	36,930,882

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
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December	As at December
	31, 2004	31, 2003
	Rs.	Rs.
Schedule 4: Unsecured Loans		
Other loans		
From a subsidiary company (1)	14,868,200	15,504,000
Interest accrued and due	-	105,998
	14,868,200	15,609,998

Note:

(1) Loan from subsidiary company represents external commercial borrowing from a wholly owned subsidiary, R Systems (Singapore) Pte. Ltd, which is repayable by June 30, 2008.

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2004 Rs.	As at December 31, 2003 Rs.
Schedule 5: Deferred Tax Liability		
Differences in depreciation and other differences in block of fixed assets as per tax books and financial books	7,939,368	5,634,975
	7,939,368	5,634,975

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

													Rs.	
Schedule 6: Fixed Assets														
	Land - Freehold	Land - leasehold	Building - freehold	Leasehold improvements (1)	Computers	Office & electrical equipments	Furniture & fittings	Vehicles (2)	Noida	Indus	Softwares	Product Development Costs	Total	Previous Year
Gross Block														
As at 1.1.2004	4,765,674	-	29,189,925	24,242,016	77,743,759	26,225,287	16,461,229	7,304,775	8,378,481	21,503,875	29,882,356	-	215,815,021	148,347,488
Additions	-	10,005,968	1,801,237	9,134,235	24,559,950	5,487,945	5,246,955	7,552,845	3,729,675	1,872,019	5,601,694	4,057,182	73,448,011	73,147,727
Deductions	-	-	-	-	1,112,832	494,047	148,789	660,067	294,420	-	294,420	-	2,710,155	5,680,194
At 31.12.2004	4,765,674	10,005,968	30,991,162	33,376,251	101,190,877	31,219,185	21,559,395	14,197,553	11,813,736	23,375,894	35,484,050	4,057,182	286,552,877	215,815,021
Depreciation / Amortisation														
As at 1.1.2004	-	-	1,146,246	1,197,628	23,337,053	4,231,305	3,466,611	2,760,752	5,127,143	14,801,832	19,928,975	-	56,068,570	34,565,257
For the year	-	120,554	486,374	479,399	15,000,146	2,217,000	1,997,830	988,768	2,980,890	3,994,553	6,975,443	422,623	28,688,137	23,496,108
Deletions / Adjustments	-	-	-	-	939,210	90,481	148,789	241,020	294,420	-	294,420	-	1,713,920	1,992,795
At 31.12.2004	-	120,554	1,632,620	1,677,027	37,397,989	6,357,824	5,315,652	3,508,500	7,813,613	18,796,385	26,904,418	422,623	83,042,787	56,068,570
Net Block														
At 31.12.2004	4,765,674	9,885,414	29,358,542	31,699,224	63,792,888	24,861,361	16,243,743	10,689,053	4,000,123	4,579,509	8,579,632	3,634,559	203,510,090	159,746,451
At 31.12.2003	4,765,674	-	28,043,679	23,044,388	54,406,707	21,993,983	12,994,618	4,544,023	3,251,338	6,702,043	9,953,381	-	26,144,930	16,930,731
Capital work in progress (including capital advances)													26,144,930	16,930,731
													229,655,020	176,677,182

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. 28,688,137, Rs. 303,434 has been capitalised towards product development costs.

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2004 Rs.	As at December 31, 2003 Rs.
Schedule 7: Investments		
Long term investments (at cost)		
A. Other than trade		
Equity Shares		
2,500 (Previous Year 2,500) equity shares of Rs.10 each in The Saraswat Co-operative Bank Limited	25,000	25,000
B. In subsidiary companies:		
Unquoted, fully paid up		
10,000,000 (Previous year 10,000,000) shares of "no par" value in R Systems Inc., USA	203,418,532	203,418,532
4,070,000 (Previous year 4,070,000) Ordinary Shares of Sing \$1 each in R Systems (Singapore) Pte. Ltd.	104,173,570	104,173,570
Less: Provision for diminution in value (see note 11 (a) under Schedule 19)	<u>7,989,770</u>	<u>5,989,770</u>
	96,183,800	98,183,800
243,750 (Previous Year 243,750) common stock of US\$1 each fully paid up in Indus Software Inc., USA	10,785,738	10,785,738
Less: Provision for diminution in value	<u>10,784,738</u>	<u>10,784,738</u>
	1,000	1,000
17,651,705 (Previous Year Nil) ordinary shares of Sing \$ 0.06 each in ECNet Limited, Singapore (refer note 11(b) under schedule 19)	34,938,958	-
	334,567,290	301,628,332
Aggregate amount of unquoted investments	334,567,290	301,628,332

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2004 Rs.	As at December 31, 2003 Rs.
Schedule 8: Sundry Debtors		
Debts outstanding for a period more than six months		
Unsecured, considered good	9,376,786	3,380,315
Considered doubtful	7,084,704	4,734,807
Other debts		
Unsecured, considered good	238,131,101	143,536,567
Considered doubtful	-	160,110
	<u>254,592,591</u>	151,811,799
Less : Provision for doubtful debts	7,084,704	4,894,917
	<u>247,507,887</u>	146,916,882

Included in Sundry Debtors are:

Dues from the subsidiary companies:

R Systems Inc.	39,138,018	-
EC Net Ltd.	6,080,273	-
R Systems (Singapore) Pte. Ltd.	176,056	703,242

Schedule 9: Cash and Bank Balances

Cash on hand	131,174	120,735
Balances with scheduled banks		
On current accounts	11,809,694	6,274,943
On deposit accounts	1,776,976	18,291,007
Balance with other bank		
On current account	10,447,511	8,301,728
	<u>24,165,355</u>	32,988,413

Notes:

- Balances with scheduled banks - on deposit accounts include receipts pledged with Banks and various Government Departments Rs 1,076,976 (Previous year Rs. 1,203,000)
- Bank balance with other bank represent balance with California Bank Trust (Maximum balance during the year Rs.25,533,491, (previous year Rs. 18,445,687)

Schedule 10: 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	35,063,982	55,502,242
Less: Anticipated cost to complete contracts	<u>1,316,148</u>	2,346,786
	33,747,834	53,155,456
Fixed assets held for disposal (at net book value or estimated net realisable value, whichever is lower)	10,500	10,500
	<u>34,739,541</u>	53,722,586

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2004 Rs.	As at December 31, 2003 Rs.
Schedule 11: 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. 4,778,200 considered doubtful, Previous Year Rs. 4,000,000)	21,990,409	18,957,558
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)	3,382,792	3,382,792
Advance recoverable from EC Net Limited (a subsidiary company)	570,353	-
Loan to EC Net Limited(a subsidiary company) (refer note 11 (c) under Schedule 19)	26,442,900	-
Advance to R Systems (Singapore) Pte Ltd (a wholly owned subsidiary)	1,395,341	-
Deposits - others	6,225,408	8,287,561
Income-tax receivable	4,942,347	15,533,160
	64,949,550	161,303,521
Less : Provision for doubtful advances	4,778,200	4,000,000
	60,171,350	157,303,521

Schedule 12: Liabilities

Sundry creditors	52,132,538	41,509,417
Payable to subsidiary companies	74,295,399	43,643,912
Deferred payment compensation to the shareholders of EC Net Limited (refer note 11 (b) under schedule 19)	4,579,824	-
Accrued liability on forward cover	474,687	-
Advance from customers	2,285,112	1,435,869
Book overdraft with a bank	-	2,290,284
Security deposits	1,132,403	485,291
Other liabilities	5,935,545	3,773,703
	140,835,508	93,138,476

Schedule 13: Provisions

Provision for taxation - income tax	1,825,000	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	7,161,082	4,588,735
	15,554,380	17,108,029

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December		As at December
	31, 2004		31, 2003
	Rs.		Rs.
Schedule 14: Miscellaneous Expenditure			
a) Pre-Operational Expenses			
Balance as per last Balance Sheet	317,096		470,373
Add: Additions in current year	-		42,586
Less : Written off (refer note 2(b) under Schedule 19)	<u>317,096</u>	-	<u>195,863</u> 317,096
b) Fees for Increase in Share Capital			
Balance as per last Balance Sheet	60,324		120,648
Less : Written off	<u>60,324</u>	-	<u>60,324</u> 60,324
c) Contract acquisition expenses			
Balance as per last Balance Sheet	3,849,279		4,629,279
Less : Written off (refer note 2(b) under Schedule 19)	<u>3,849,279</u>	-	<u>780,000</u> 3,849,279
		-	<u>4,226,699</u>

R SYSTEMS INTERNATIONAL LIMITED
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.
Schedule 15: Other Income		
Interest on:		
Bank deposits (Gross, Tax deducted at source Rs. 72,147 Previous Year Rs. 151,069)	241,592	447,584
Income-tax refund	218,720	366,893
Others (interest on loan to EC Net Ltd)	843,005	45,325
Consultancy fee	539,543	-
Excess provisions written back, as no longer required	294,291	-
Miscellaneous income	418,969	333,578
	2,556,120	1,193,380
Schedule 16: Personnel expenses		
Salaries, wages and bonus	263,866,181	191,278,090
Contribution to provident fund and other statutory payments	10,789,969	7,291,541
Staff welfare expenses	8,633,806	7,015,215
	283,289,956	205,584,846
Schedule 17: Operating and other expenses		
Power and fuel	11,999,596	9,366,053
Rent - premises	4,638,272	5,098,385
Rent - equipments	2,840,722	4,308,272
Rates and taxes	57,607	625,635
Insurance	2,124,173	2,753,575
Repair and maintenance		
- Buildings	213,990	71,359
- Others	11,682,449	4,212,290
Advertising and sales promotion	1,642,236	1,736,392
Commission - others	25,108,668	12,214,902
Traveling and conveyance	74,513,935	60,443,479
Communication costs (Includes Rs. 1,005,989 pertaining to earlier years, Previous Year Rs. Nil)	32,880,782	23,769,707
Printing and stationery	1,156,249	1,047,255
Consumption of stores	574,572	570,961
Legal and professional fees	16,365,685	20,573,566
Directors' sitting fee	5,000	5,000
Auditor's remuneration		
- Audit fee	716,300	594,000
- Other services	307,900	226,800
- Out of pocket expenses	22,000	20,000
Foreign exchange fluctuation (net)	6,310,276	5,898,134
Provision for doubtful debts and advances	2,967,987	161,569
Bad debts and advances written off	307,474	-
Advances and other current assets written off		937,519
Loss on sale of fixed assets (net)	688,936	1,484,514
Fixed assets written off	104,500	241,019
Recruitment and training expenses	4,181,591	3,877,498
Management fees	10,151,998	9,600,000
Amortisation of miscellaneous expenditure	4,226,699	1,036,187
Miscellaneous expenses	3,758,080	2,924,790
	219,547,677	173,798,861
Schedule 18: Financial expenses		
Interest		
- on fixed loans	352,507	193,517
- on loans from banks	7,744,579	779,275
Bank charges	1,408,028	587,008
	9,505,114	1,559,800

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

Schedule 19: Notes to Accounts

1. Nature of Operations

The Principal business of the Company is to carry on and undertake the business of Computer Software Development for the International as well as Domestic market.

The Company is a leading global provider of IT solutions and Business Process Outsourcing (BPO) services. The Company's primary focus is to provide full service IT solutions and software engineering services for a mix of Global 1000 mid-size companies and independent software vendors (ISV's). The Company develops and markets a suite of applications under the "Indus" brand name for the retail lending sector and undertakes turnkey software projects in the banking and financial services segment.

2. Statement of Significant Accounting Policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956. The financial statements 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 as noted below, are consistent with those used in the previous year.

(b) 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.

(c) 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.

(d) Depreciation

Depreciation is provided on Straight Line method over the estimated useful lives of the fixed assets which result in depreciation rates being greater than or equal to the corresponding rates prescribed in Schedule XIV of the Companies Act, 1956.

The estimated useful lives of the fixed assets followed by the Company in preparing the financial statements are described as below:

<u>Category of fixed assets</u>	<u>Estimated useful life</u>
Land – leasehold	Lease period
Buildings - leasehold	Lower of lease period or 61 years
Plant and machinery - office and electrical equipments other than i) UPS systems, ii) stand alone air conditioners and iii) telephone	20 years

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

instruments, other than meridian phones.	
UPS systems	12 years
Stand alone air conditioners and telephone instruments other than meridian phones.	6 years
Computer hardware and network installations	6 years
Furniture and fittings	15 years
Vehicles	10 years

In the following cases, the estimated useful lives of the assets followed by the Company result in depreciation rates to be higher than that provided under Schedule XIV.

	<u>Rates (SLM)</u>	<u>Schedule XIV Rates (SLM)</u>
UPS systems	8.33%	4.75%
Stand alone air conditioners and telephone instruments other than meridian phones.	16.66%	4.75%

Individual assets costing upto Rs. 5,000 are fully depreciated in the year of put to use.

(e) 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 over the expected useful life of the product of 48 months beginning in the month 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.

(f) Leases

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.

(g) 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

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

decline other than temporary in the value of the investments

(h) 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. 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 total contract effort.

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

(i) 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.

(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.

(j) Retirement benefits

- i. Retirement benefits in the form of Provident Fund are charged to the Profit & Loss Account of the year when the contributions to the respective funds are due.
- 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.

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

(k) Income taxes

Tax expense comprises both current and deferred taxes.

Provision for taxes are made based on applicable provisions of the Income-tax Act, 1961. Payments of taxes are made based on the assessable profits on the yearly basis from April to March.

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. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. 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.

(l) 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.

(m) 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.

(n) 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.

3. Segment Information

Business Segments :

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

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 :

Although the Company's major operating divisions are managed on a worldwide basis, they operate 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:

Amount in Rs.

	Software development and customisation services	Business process outsourcing services	Eliminations	Corporate and others	Total
REVENUE					
External Sales	489,076,804	72,084,234	-	-	561,161,038
Inter-segment sales	1,588,657	-	1,588,657	-	-
Total revenue	490,665,461	72,084,234	1,588,657	-	561,161,038
RESULT					
Segment result	34,729,523	5,283,981	-	-	40,013,504
Unallocated corporate expenses				13,482,830	13,482,830
Operating profit					26,530,674
Interest expenses				(8,097,086)	(8,097,086)
Interest income				1,303,317	1,303,317
Other income				1,252,803	1,252,803
Income taxes				(3,804,394)	(3,804,394)
Net profit					17,185,314
OTHER INFORMATION					
Segment assets	518,820,473	57,858,115	59,392,441	-	517,286,147
Unallocated corporate assets				408,577,448	408,577,448
Income Tax Assets				4,942,347	4,942,347
Total assets	518,820,473	57,858,115	59,392,441	413,520,295	930,806,442
Segment liabilities	148,221,445	67,374,609	59,392,441	-	156,203,613
Unallocated corporate liabilities				157,698,945	157,698,945
Income Tax Liabilities				9,808,766	9,808,766
Total liabilities	148,221,445	67,374,609	59,392,441	167,507,711	323,711,324
Capital expenditures	55,632,750	7,809,293	-	34,495,150	97,937,193
Depreciation and amortization	23,688,309	4,696,385	-	-	28,384,694
Other non-cash expenses	3,844,147	4,451,449	-	-	8,295,596

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

Geographical segments:

The Company reports secondary segmentation 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:

	For the year ended December 31, 2004 Rs.
India	42,662,958
United States of America	385,266,591
South East Asian countries	18,263,082
Other countries	114,968,407
	<u>561,161,038</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 alongwith additions to fixed assets and intangible assets as at the year-end:

	Carrying amount of segment assets For the year ended December 31, 2004 Rs.	Addition to fixed assets and intangible assets For the year ended December 31, 2004 Rs.
India	321,011,307	96,804,352
United States of America	390,919,975	1,132,841
South East Asian countries	173,139,120	-
Other countries	45,736,041	-
	<u>930,806,443</u>	<u>97,937,193</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

(a) Key management personnel

Lt. Gen. Baldev Singh (Retd), Managing Director
Avirag Jain, Alternate Director
N. K. Garg, Alternate Director
Raj Swaminathan, COO (Indus unit)

(b) Related party relationships where transactions have taken place during the year:

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

Subsidiary companies:

R Systems Inc., USA
R Systems (Singapore) Pte Ltd, Singapore
Indus Software Inc., USA
EC Net Ltd, Singapore

- (ii) During the year, the Company has entered into transactions with related parties. Those transactions along with related balances as at December 31, 2004 and for the year then ended are presented in the following table:

(Amount in Rs)

	Subsidiary companies
	Current year
Sale of software products and rendering software development services	55,758,105
Management fee expenses	10,151,998
Subcontract expenses by Company	9,637,907
Commission expenses	24,624,550
Interest paid	500,057
Interest received	843,005
Expense reimbursements by Company	23,149,712
Expense reimbursements to Company	2,427,953
Purchase of fixed assets	726,734
Guarantees given by the Company	96,206,000
Loan / advance given	26,442,900
Loan / advance taken	14,868,200
Amounts receivables – trade receivables	45,394,347
Amounts receivables – advances	1,965,694
Amounts payable	74,295,399

- (iii) The remuneration paid to directors is disclosed in note 8.1 below.

- (iv) 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.

	2004	2003
	Rs.	Rs.
Lease payments for the year	3,842,184	4,629,962
Minimum Lease Payments:		
Not later than one year	3,842,184	3,919,272
Later than one year but not later than five years	7,893,550	12,304,500

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

Later than five years	-	6,150,980
6. Capital Commitments	2004	2003
Estimated amount of contracts remaining to be executed on capital account and not provided for.	Rs.	Rs.
Commitments for acquisition of fixed assets	370,001	40,804,678
	370,001	40,804,678
<hr/>		
7. Contingent Liabilities not provided for:		
(i)		
Guarantees and Counter guarantees given by the Company	3,800,000	3,775,000
Guarantee given on behalf of wholly owned subsidiary	96,206,000	Nil
	100,006,000	3,775,500
(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.		
	2004	2003
	Rs.	Rs.
8. Supplementary Statutory Information		
8.1 Directors' Remuneration		
Salaries	2,217,963	1,943,147
Allowances and perquisites	922,640	878,158
Contribution to Provident fund	173,023	147,830
	3,313,626	2,969,135
	2004	2003
	Rs.	Rs.
8.2 Earnings in foreign currency (on accrual basis)		
Exports at F.O.B. Value	519,027,623	359,411,090
Interest	843,005	Nil
	519,870,628	359,411,090
8.3 Expenditure in foreign currency (on accrual basis)		
Travelling	59,509,727	18,241,032
Commission	25,108,668	12,197,107
Management fees	10,151,998	9,600,000
Interest	500,057	105,998
Salaries, consultancy and other miscellaneous expenses	20,721,491	3,954,307
	115,991,941	44,098,444
8.4 Value of imports calculated on CIF basis		
Capital goods	20,655,819	28,782,227
	20,655,819	28,782,227

The Company is engaged in the business of development of Software, which is not capable of being expressed in any generic unit. Hence, other information pursuant to the provisions of paragraphs 3, 4C and 4D of Part II of Schedule VI to the Companies Act, 1956 are not applicable to the Company.

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

9. 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.
10. 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.
11. (a) During the previous year, a provision of Rs. 5,989,770 was made towards decline in the value of the Company's investment in one of its wholly owned subsidiaries, R Systems (Singapore) Pte Ltd, which was considered as other than temporary by the management. Further, the management has re-assessed this wholly owned subsidiary's future projections and budgets based on current year's actual performance being lower than that budgeted. Accordingly, an additional provision of Rs. 2,000,000 has been made towards decline, considered other than temporary by the management.
- (b) 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.
- (c) As referred in note 11(b) above, the Company has invested Rs. 34,938,958 towards acquisition of 98.59% shareholding in EC Net Limited, Singapore. The Company has also given loans and advances aggregating to Rs. 27,013,253 and has outstanding debtors amounting to Rs. 6,080,273 at the year-end. The investee company is currently into losses and the net worth is fully eroded. However, the management has considered the future operational plans of this company and considering the positive cash flows and profitability in the next three years and considering the long term nature of relationship, the Board of directors is of the view that no diminution, other than temporary, exists in the value of investments in this subsidiary company and the current assets are fully recoverable. Accordingly, no provision is made in these financial statements against these amounts. To continue its financial supports, the Company has approved the extension of the loan for another term of 12 months.

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

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 ('the 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.

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 upto 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

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

(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:

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

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

	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	
(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	Nil
3. Grants pending determination by the compensation committee (at the end of the year) [A+B]	138,000	Nil

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

	2004 Rs.	2003 Rs.
Net profit as per profit and loss account	17,185,314	6,848,954
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	0.65	0.25
EPS – diluted	0.63	0.25

14. 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