



Transforming Product Life Cycle Management



Audited Consolidated Financial Statements for 2005

Auditors' Report

To,

Board of Directors
R Systems International Limited
B-104A Greater Kailash
New Delhi- 110048

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, 2005, the Consolidated Profit and Loss Account and Consolidated Cash Flow Statement 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.174,007,077 (US\$3,850,140) as at December 31, 2005 and revenues of Rs.757,642,714 (US \$17,172,319) for the year then ended.
 - (ii) in relation to the R System (Singapore) Pte Ltd., Singapore subsidiary, total assets (net) of Rs.98,349,517 (US \$ 2,176,115) as at December 31, 2005 and revenues of Rs.16,506,792 (US \$ 374,134) for the year then ended.
 - (iii) in relation to Indus Software Inc., US subsidiary, total liabilities (net) of Rs.19,191,856 (US\$434,254) as at December 31, 2005 and revenues of Rs. 49,731,579 (US \$ 1,127,189) for the year then ended.
 - (iv) in relation to EC Net Limited, total liabilities (net) of Rs.25,648,798 (Sing \$ 945,097) as at December 31, 2005 and revenues of Rs.122,469,904 (Sing \$ 4,618,752) 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 a at December 31, 2005;
 - (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 and
 - (c) the Consolidated Cash Flow Statement gives a true and fair view of the consolidated cash flows of R Systems International Limited and its subsidiaries for the year then ended.

For S. R. Batliboi & Associates
Chartered Accountants

per Pankaj Chadha
Partner
Membership No. 91813
Place: New Delhi
Date: March 10, 2006

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

Consolidated Balance Sheet as at December 31, 2005

	Schedules	As at December 31, 2005 Rs.	As at December 31, 2004 Rs.
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	51,391,886	51,371,530
Share application money pending allotment		1,598,100	-
Reserve and surplus	2	560,175,285	458,636,089
		613,165,271	510,007,619
Minority interest	3	-	-
Loan funds			
Secured loans	4	101,330,290	125,865,458
Deferred payments liability (refer note 10(a) under Schedule 19)		-	21,372,513
TOTAL		714,495,561	657,245,590
APPLICATION OF FUNDS			
Fixed assets			
Gross block	5	462,720,909	439,632,049
Less : Accumulated depreciation / amortisation		235,155,904	183,701,820
Net block		227,565,005	255,930,229
Capital work-in-progress including capital advances		54,517,277	26,144,930
		282,082,282	282,075,159
Investments	6	1,645,376	1,592,852
Deferred tax assets (net)	7	22,036,866	30,280,652
Current assets, loans and advances			
Sundry debtors	8	418,807,643	345,165,358
Cash and bank balances	9	115,277,949	96,629,581
Other current assets	10	66,662,694	63,852,967
Loans and advances	11	49,561,250	38,513,837
Less : Current liabilities and provisions			
Current liabilities	12	198,645,255	171,374,786
Provisions	13	42,933,244	29,490,030
Net current assets		408,731,037	343,296,927
Miscellaneous expenditure (to the extent not written off or adjusted)	14	-	-
TOTAL		714,495,561	657,245,590
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 of R Systems International Limited

per Pankaj Chadha
Partner
Membership No. 91813

Satinder Singh Rekhi
[Managing Director]

Lt. Gen. Baldev Singh (Retd)
[Senior Executive Director]

Nand Sardana
[Vice President (Financ
Company Secretary]

New Delhi
Date: March 10, 2006

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

Profit and Loss Account for the year ended December 31, 2005

	Schedules	For theyear ended December 31, 2005 Rs.	For the year ended December 31, 2004 Rs.
INCOME			
Sale of software products and rendering software development services		1,573,778,868	1,323,455,650
Amortisation of government grant received (refer note 10(b) under Schedule 19)		712,268	715,476
Other income	15	7,742,816	3,256,659
Total		1,582,233,952	1,327,427,785
EXPENDITURE			
Personnel expenses	16	932,475,919	821,587,004
Operating and other expenses	17	448,223,337	438,919,811
Depreciation /amortisation	5	48,924,178	48,218,244
Finance expenses	18	8,422,630	11,784,366
Profit / (Loss) before tax and minority interest		144,187,888	6,918,360
Current tax (net of excess provision of Rs. 181,145, Previous year Rs. Nil, related to earlier years)		7,397,477	2,472,921
Deferred tax (net of prior period item of Rs. 2,380,094 , Previous year Rs. Nil)		9,379,542	2,304,394
Fringe benefit tax		2,641,190	-
Total tax expense		19,418,209	4,777,315
Share of losses of ECnet Ltd relating to minority shareholders		-	149,585
Net Profit/(Loss)		124,769,679	2,290,630
Surplus brought forward from previous year		2,369,048	78,418
Balance carried forward to Balance Sheet		127,138,727	2,369,048
Earnings per share (refer note 14 under Schedule 19)			
Basic [Nominal value of shares Rs. 2 (previous year: Rs. 2)]		4.82	0.09
Diluted [Nominal value of shares Rs. 2 (previous year: Rs. 2)]		4.72	0.08

Notes to accounts

19

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

As per our report of even date.

For S.R.Batliboi & Associates
Chartered Accountants

For and on behalf of the Board of Directors R Systems International Limited

per Pankaj Chadha
Partner
Membership No. 91813

Satinder Singh Rekhi
[Managing Director]

Lt. Gen. Baldev Singh (Retd)
[Senior Executive Director]

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

New Delhi
Date: March 10, 2006

R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

Balance Sheet and Profit and Loss Account

Cash Flow Statement for the year ended December 31, 2005

	For the year ended December 31, 2005	For the year ended December 31, 2004
A. Cash flow from operating activities		
Net profit before taxation	144,187,869	6,918,360
Adjustments for:		
Depreciation / amortization	48,924,178	48,521,678
Amortisation of government grant	(712,268)	(715,476)
Miscellaneous expenditure written off	-	4,251,319
Debts and advances provided / written off	23,291,004	12,580,917
Loss on sale of fixed assets	807,113	2,071,554
Unrealised foreign exchange loss / (gain)	(4,787,364)	(2,350,847)
Interest income	(1,416,984)	(1,398,471)
Excess provisions written back (including provision for doubtful debts)	(2,072,730)	(294,291)
Interest expense	6,597,353	9,543,190
Operating profit before working capital changes	214,818,171	79,127,933
Movements in working capital :		
Decrease / (Increase) in sundry debtors	(64,089,638)	(53,870,371)
Decrease / (Increase) in other current assets	(616,002)	30,923,563
Decrease / (Increase) in loans and advances	(33,493,819)	(29,173,380)
Increase / (Decrease) in provisions	3,823,217	(41,206,919)
Increase / (Decrease) in current liabilities	(7,088,852)	21,221,207
Cash generated from operations	113,353,077	7,022,033
Direct taxes(paid)/ refund net	(4,992,569)	2,572,741
Interest on income-tax refund	(394,148)	218,720
Net cash from operating activities	107,966,360	9,813,494
B. Cash flows used in investing activities		
Purchase of fixed assets	(68,020,711)	(91,360,160)
Proceeds from sale of fixed assets	121,177	2,723,317
Cash inflow on acquisition of subsidiary	-	6,732,544
Interest received	1,390,306	1,179,751
Net cash used in investing activities	(66,509,228)	(80,724,548)
C. Cash flows from/(used in) financing activities		
Proceeds from borrowings	20,663,849	535,567,746
Proceeds from issue of equity shares, including share application money pending allotment	1,764,574	-
Share issue expenses	(2,390,943)	-
Repayment of borrowings	(45,645,837)	(477,817,332)
Interest paid	(6,597,353)	(9,649,208)
Net cash from / (used in) financing activities	(32,205,710)	48,101,206
Net increase/(decrease) in cash and cash equivalents (A + B + C)	9,251,422	(22,809,848)
Cash and cash equivalents at the beginning of the year	103,273,407	126,083,255
Cash and cash equivalents at the end of the year	112,524,829	103,273,407
Components of cash and cash equivalents as at	December 31, 2005	December 31, 2004
Cash and cheques on hand	148,611	464,800
Balances with scheduled banks		
on current accounts	7,904,760	9,568,591
on EEFC accounts	4,959,507	2,241,103
on deposit accounts	16,011,748	1,776,976
Balances with other banks		
on current accounts	32,328,384	31,137,882
on deposit accounts	53,924,939	51,440,229
	115,277,949	96,629,581
Unrealised loss/ (gain) on foreign currency cash and cash equivalents	(2,753,120)	6,643,826
Net cash and cash equivalents	112,524,829	103,273,407

As per our report of even date

For S.R.Batlboi & Associates
Chartered Accountants

For and on behalf of the Board of Directors of R Systems International Limited

per Pankaj Chadha
Partner
Membership No. 91813

Satinder Singh Rekhi
[Managing Director]

Lt. Gen. Baldev Singh (Retd)
[Senior Executive Director]

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

New Delhi
Date: March 10, 2006

R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2005 Rs.	As at December 31, 2004 Rs.
Schedule 1: Share capital		
<u>Authorised</u>		
50,000,000 (Previous year 50,000,000) equity shares of Rs. 2 each	100,000,000	100,000,000
<u>Issued, subscribed and paid up capital</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 997,500) equity shares of Rs. 2 each fully paid-up	1,995,000	1,995,000
Less: Advance to Indus Software Employees Welfare Trust (also refer note 11 (b) under Schedule 19)	393,288	413,644
	51,391,886	51,371,530

Notes:

1) Pursuant to the shareholders' agreement dated February 16, 2002, the Company had agreed to issue warrants to its two strategic shareholders. The number of warrants to be issued were to be determined based on the proportionate new revenues to the Group 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, were to be issued, at zero cost and consideration for exercise of warrants, to the extent eligible, was to be paid at the time of exercise of the warrants at the par value of Company's shares, subject to the minimum pricing guidelines of the Reserve Bank of India prevailing on the exercise date. These warrants were convertible into equity shares of the Company. Subsequent to the year ended December 31, 2005, the company has issued 495,667 warrants to the shareholders, which have been converted into 495,667 shares upon exercise of option by these shareholders.

2) Out of issued, subscribed and paid up capital, 23,213,233 equity shares of Rs. 2 each (Previous Year 23,213,233 equity shares) were issued for consideration other than cash. (See also note 9 under Schedule 19).

3) The Company had earlier advanced Rs.115,131,450 to R Systems Employee Stock Option Trust, and allotted 997,500 equity shares at the rate of Rs.115.42. During the year ended December 31, 2004, the Company bought back these shares at the rate of Rs 115.42 per equity share.

Schedule 2: Reserves and surplus

<u>Securities premium account</u>		
Balance as per last account	468,310,600	581,447,050
Less: Utilised for buy back of equity shares	-	113,136,450
Less: Utilised for written off of goodwill arising on amalgamation of EC net Limited. (also refer note 10(a) under Schedule 19)	24,495,721	-
Less: Utilised for share issue expenses	8,278,872	-
	435,536,007	468,310,600
Less: Advance to Indus Software Employees Welfare Trust (also refer note 11 (b) under Schedule 19)	2,837,030	2,969,147
	432,698,977	465,341,453
Capital reserve	31,726	31,726
Balance in Profit and Loss account	127,138,727	2,369,048
<u>Government grant (also refer note 10(b) under schedule 19)</u>		
Balance as per last account/at the time of acquisition	712,268	1,427,744
Less: Amortised during the year	712,288	715,476
Balance at the end of the year	-	712,268
Balance as per last account	(9,818,406)	4,421,274
Less: Current year translation differences (also refer note 12 under Schedule 19 and note 1 below)	10,124,261	(14,239,680)
	305,855	(9,818,406)
Total	560,175,285	458,636,089

Note:

Net of Rs. 888,362 representing currency translation adjustment arising due to change in reporting currency from Singapore \$ to US \$ by R Systems Singapore Pte Ltd.during year ended 2004.

Schedule 3: Minority interest

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

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

Schedules to the Accounts

	As at December 31, 2005 Rs.	As at December 31, 2004 Rs.
Schedule 4: Secured loans		
Loan from banks		
Cash credit facilities (Secured by first charge over current assets and collateral charge over the immovable property and fixed assets)	43,915,477	76,057,790
Working capital loan (Secured by substantially all of the assets of a US subsidiary, R Systems Inc.)	17,698,515	2,724,104
For motor vehicles (Secured by hypothecation of underlying motor vehicles)	6,336,939	6,737,634
Term loan (Secured by first charge over the immovable property, fixed assets and current assets)	33,379,359	40,345,930
	101,330,290	125,865,458

Note:

In case of term loan facilities- the amount repayable within 1 year is Rs. 14,974,382 (Previous Year Rs.12,198,820).

In case of motor vehicle loans, amount repayable within one year is Rs. 2,225,354 (Previous Year Rs.1,921,413).

R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

Schedule 5: Fixed assets

	Land - freehold	Land-leasehold	Building-freehold	Building-leasehold (1)	Computers	Office and electrical equipment	Furniture and fittings	Vehicle (2)	Software	Product development cost	Right to provide services	Goodwill	Total	As at December 31, 2004 (5)
Gross block														
As at January 1, 2005	4,765,674	10,005,968	31,767,889	47,437,240	153,969,962	38,104,004	32,749,551	19,433,689	67,280,308	4,057,182	5,564,861	24,495,721	439,632,049	295,176,366
Acquisition of EC net (Refer note 10 (c) of Schedule 19)	-	-	-	-	-	-	-	-	-	-	-	-	-	204,081,009
Additions	-	-	123,264	860,883	29,335,639	2,275,528	2,530,346	6,232,329	5,646,999	-	-	-	47,004,988	107,990,043
Deductions/adjustments	-	-	276,571	(471,058)	(1,423,210)	13,581	(125,292)	2,215,719	(879,475)	-	(186,429)	24,495,721	23,916,128	167,615,369
At December 31, 2005	4,765,674	10,005,968	31,614,582	48,769,181	184,728,811	40,365,951	35,405,189	23,450,299	73,806,782	4,057,182	5,751,290	-	462,720,909	439,632,049
Depreciation/ amortisation														
As at January 1, 2005	-	120,554	2,018,526	13,711,538	77,513,452	12,934,610	14,226,069	6,308,592	54,358,710	422,623	2,087,146	-	183,701,820	102,431,900
Acquisition of EC net (Refer note 10 (c) of Schedule 19)	-	-	-	-	-	-	-	-	-	-	-	-	-	195,978,572
For the year	-	163,097	637,475	1,380,132	24,556,683	2,640,184	2,837,441	2,406,883	10,480,652	1,014,300	2,807,331	-	48,924,178	48,521,585
Deletions/adjustments	-	-	119,503	(423,553)	(1,327,471)	(162,705)	(187,885)	459,016	(868,192)	-	(138,619)	-	(2,529,906)	163,230,236
At December 31, 2005	-	283,651	2,536,498	15,515,223	103,397,606	15,737,499	17,251,395	8,256,459	65,707,554	1,436,923	5,033,096	-	235,155,904	183,701,820
Net block														
At December 31, 2005	4,765,674	9,722,317	29,078,084	33,253,957	81,331,205	24,628,451	18,153,794	15,193,840	8,099,229	2,620,259	718,194	-	227,565,005	255,930,229
At December 31, 2004	4,765,674	9,885,414	29,749,363	33,725,702	76,456,510	25,169,394	18,523,482	13,125,097	12,921,598	3,634,559	3,477,715	24,495,721	-	-
Capital work in progress (including capital advances)	-	-	-	-	-	-	-	-	-	-	-	-	54,517,277	26,144,930
													282,082,282	282,075,159

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 10,746,455 (Previous Year Rs. 8,787,677) are hypothecated against terms loans for vehicle finance from banks.

(3) The exchange difference included in the assets capitalized is Rs.31,340 (Previous Year Rs.116,856)

(4) At the time of acquisition of R Systems Inc and R Systems (Singapore) Pte Ltd, the opening gross block was increased by the net value of assets in the books of the subsidiaries at the time of acquisition. In the year ended 2004, the gross block has been reinstated. As a result, the amount of deletions/adjustments for year ended 2004 include an amount of Rs 30,730,346.

(5) For the year ended December 31, 2004, depreciation of Rs. 303,433 has been capitalised towards product development costs.

(6) The goodwill arising on acquisition of ECnet Limited has been written off during the year against Securities Premium Account (also refer note 10 (a) under Schedule 19)

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

Schedules to the Accounts

	As at December 31, 2005 Rs.	As at December 31, 2004 Rs.
Schedule 6: Investments		
Long term investments (at cost)		
Other than trade, unquoted		
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
Current investment		
Non trade, unquoted		
30,000 * (Previous year 30,000) shares of common stock of "no par" value in Caranything.com Inc., USA	46,099	46,512
34,000 ** (Previous year 34,000) shares of common stock of "no par" value in N Techra Inc., USA	1,574,277	1,521,340
	1,645,376	1,592,852

Aggregate amount of unquoted investments	1,645,376	1,592,852
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* represent shares issued by Caranything.com Inc. to settle the amount owed by it to a US subsidiary, R Systems Inc.

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

Schedule 7: Deferred tax assets (net)

Deferred tax assets		
Payroll related liabilities	1,271,109	5,070,055
Allowance for doubtful advances	11,909,606	6,638,608
Accrued vacation	4,274,557	4,308,367
Prepaid expenses	1,671,718	2,550,334
Unabsorbed tax losses and depreciation	14,345,707	19,851,059
Miscellaneous temporary differences	423,568	370,087
Gross deferred tax assets	33,896,265	38,788,510
Deferred tax liability		
Differences in depreciation/amortisation and other differences in block of fixed assets as per tax books and financial books	11,859,399	8,507,858
Gross deferred tax liability	11,859,399	8,507,858
Deferred tax assets (net)	22,036,866	30,280,652

Schedule 8: Sundry debtors

Debts outstanding for more than six months		
Unsecured, considered good	15,107,576	32,896,336
Considered doubtful	43,451,924	23,353,652
Other debts		
Unsecured, considered good	403,700,068	312,269,022
Considered doubtful	5,432,459	5,257,081
	467,692,027	373,776,091
Less : Provision for doubtful debts	48,884,384	28,610,733
	418,807,643	345,165,358

Schedule 9: Cash and bank balances

Cash on hand	148,611	464,800
Balances with scheduled banks		
On current accounts	7,904,760	9,568,591
On EEFC account	4,959,507	2,241,103
On deposit accounts	16,011,748	1,776,976
Balances with other banks		
On current accounts	32,328,384	31,137,882
On deposit accounts	53,924,939	51,440,229
	115,277,949	96,629,581

Notes:

1) Balances with scheduled banks - on deposit accounts include receipts pledged with Banks and various Government departments Rs 16,011,748 (Previous year Rs. 1,076,976)

Schedule 10: Other current assets

Interest accrued on deposits	142,397	256,624
Unamortised expense on forward cover contracts	-	712,041
Interest accrued on staff advance	45,799	12,542
Unbilled revenue	68,888,755	64,177,408
Less: Anticipated cost to complete contracts	3,088,802	1,316,148
	65,799,953	62,861,260
Fixed assets held for disposal (at net book value or estimated net realisable value, whichever is lower)	674,545	10,500
	66,662,694	63,852,967

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

	As at December 31, 2005 Rs.	As at December 31, 2004 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. 8,762,506 considered doubtful, Previous year Rs. 6,837,533)	36,152,497	31,259,956
Deposits - others	12,501,830	9,149,067
Income tax receivable	9,669,429	4,942,347
	58,323,756	45,351,370
Less Provision for doubtful advance	8,762,506	6,837,533
	49,561,250	38,513,837

Schedule 12: Current liabilities

Sundry creditors	157,352,059	141,186,277
Deferred compensation to erstwhile ECnet shareholders (Refer note 10(a) under schedule 19)	26,368,974	4,579,825
Unamortised income on forward cover contracts	909,484	474,687
Security deposits	1,247,834	1,132,402
Other liabilities	12,766,904	24,001,595
	198,645,255	171,374,786

Schedule 13: Provisions

Provision for taxation - income tax	9,475,026	2,814,263
Provision for fringe benefit tax	2,641,190	-
Provision for taxation - wealth tax	23,252	44,398
Provision for gratuity	8,913,558	6,523,900
Provision for leave encashment	21,880,218	20,107,469
	42,933,244	29,490,030

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

Schedules to the Accounts

	As at December 31, 2005 Rs.	As at December 31, 2004 Rs.
Schedule 14: Miscellaneous expenditure (to the extent not written off or adjusted)		
a) Pre-operational expenses		
Balance as per last Balance Sheet	-	317,096
Less : Written off	-	317,096
	-	-
b) Fees for increase in share capital		
Balance as per last Balance Sheet	-	112,371
Less : Written off	-	112,371
	-	-
c) Advance to customers		
Balance as per last Balance Sheet	-	3,849,279
Less : Written off	-	3,849,279
	-	-
	-	-

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

Schedules to the Accounts

	For the year ended December 31, 2005 Rs.	For the year ended December 31, 2004 Rs.
Schedule 15: Other income		
<u>Interest on :</u>		
-Loans and bank deposits (Gross of tax deducted at source Rs. 35,805, Previous year Rs. 72,147)	1,309,340	1,179,751
-Interest received on Income tax refund	107,644	218,720
Consultancy fee	4,155,054	539,543
Provision for doubtful debts written back	449,256	-
Excess provisions written back, as no longer required	1,623,474	294,291
Miscellaneous income	98,048	1,024,354
	7,742,816	3,256,659
Schedule 16: Personnel expenses		
Salaries, wages and bonus	878,183,717	768,541,383
Contribution to provident fund and other funds	42,769,439	44,347,280
Staff welfare expenses	11,522,763	8,698,341
	932,475,919	821,587,004
Schedule 17: Operating and other expenses		
Recruitment and training expenses	15,524,430	7,704,430
Travelling and conveyance	98,848,944	103,458,152
Insurance	7,501,739	7,425,391
Commission	19,512,677	11,405,433
Repair and maintenance	14,833,444	16,723,008
Provision for doubtful debts and advances	19,777,882	12,198,887
Debts and advances written off	3,513,122	382,030
Rent - premises	22,600,734	30,814,835
Rent - equipment	7,951,028	5,987,365
Power and fuel	17,704,899	14,011,764
Communication costs (Including prior period expenses Rs Nil , Previous year Rs 1,005,989)	34,811,771	40,104,267
Printing and stationery	4,788,125	3,680,758
Advertising and sales promotion	5,383,578	5,860,911
Legal and professional expenses	153,098,214	157,834,149
Auditor's remuneration		
- Audit fee	1,322,400	716,300
- Other services	330,600	307,900
- Out of pocket expenses	65,000	22,000
Director's sitting fee	35,000	5,000
Loss on sale of fixed assets	807,113	2,071,554
Amortisation of miscellaneous expenditure	-	4,278,746
Rates and taxes	979,565	3,293,866
Loss on exchange fluctuation (net of prior period income of Rs. 538,160, Previous year Rs. Nil)	10,579,230	4,363,433
Miscellaneous expenses	8,253,842	6,269,632
	448,223,337	438,919,811
Schedule 18: Financial expenses		
Interest on loan from banks	6,597,353	9,543,190
Bank charges	1,825,277	2,241,176
	8,422,630	11,784,366

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.

All figures are in Rupees except where expressly stated.

The consolidated financial statements include the financial statements of R Systems International Limited and its subsidiaries. These accounts do not include enterprises, which are set-up for the benefit of employees like ESOP trusts (more fully explained in note 11 below) as not required to be consolidated as per Accounting Standard 21. The financial statements are prepared in accordance with the principles and procedures for the preparation and presentation of consolidation financial statements as laid down under Accounting Standard 21 issued by the Institute of Chartered Accountants of India. All material inter-company transactions and accounts are eliminated on consolidation.

(b) Fixed assets

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

(c) Depreciation

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

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

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

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

R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

NOTES TO ACCOUNTS

(d) Intangibles

Product development costs

Product development cost represents direct cost incurred by the Group for developing new product. Research costs are expensed as incurred. Development expenditure incurred on an individual product is carried forward when its future recoverability can reasonably be regarded as assured. The expenditure incurred is carried forward under capital work in progress till the product is ready to be marketed. Expenditure carried forward is charged off over the expected useful life of 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 capitalised and amortised on a straight-line basis over their useful lives estimated by the management at 3 years or below as in specific cases.

Rights to provide services

R Systems Inc (subsidiary) has entered into verbal agreements with a technology service firm to acquire the rights to provide technology services to four of the service firm's customers. The cost incurred to acquire these rights are being amortised over a two year period.

(e) 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 and Loss Account.

(f) 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.

(g) Impairment

The carrying amounts of assets, including intangibles and goodwill, are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

After impairment, depreciation is provided on the revised carrying amount of the assets over its remaining useful life.

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

(h) Leases

Where the Group is the lessee

Finance leases, which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised 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 Group will obtain the ownership by the end of the lease term, capitalised 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 recognised as an expense in the Profit and Loss Account on a straight-line basis over the lease term.

(i) 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.

(j) Revenue recognition

Revenue is recognised 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 license is recognised when the sale has been completed with the transfer 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 / customisation of products rendered on time and materials basis is recognised when services are rendered. The same is calculated based on man-hours incurred for rendering services.

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

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

(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.

R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

NOTES TO ACCOUNTS

(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. Exchange differences arising in respect of fixed assets acquired from outside India are capitalised as a part of fixed asset.

(iv) Forward exchange contracts not intended for trading or speculation purposes

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

(v) Foreign operations

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

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

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2005, the rates used were US \$ 1= Rs. 44.12 and Singapore \$ 1 = Rs. 26.52. For translating assets and liabilities at the year-end, the rates used were US \$ 1= Rs. 45.20 and Singapore \$ 1= Rs. 27.14.

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

(I) Retirement benefits

Retirement benefits in the form of Provident Fund are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due. The Group'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 Group's US subsidiaries provide a matching contribution based on specified percentages of amounts contributed by participants. These amounts are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due.

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 en cashable, 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.

R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

NOTES TO ACCOUNTS

(m) Income taxes

Tax expense comprises of current, deferred and fringe benefit tax.

Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the relevant tax regulations applicable to the Group. However, payments of current 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. 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 and deferred tax liabilities across various countries of operation are not set off against each other as the company does not have a legal right to do so. Deferred tax assets are recognised only 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. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

The Company claims exemption under section 10A of the Income Tax Act, 1961 in respect of taxable income. Deferred tax is recognised after eliminating timing differences, which reverse during the tax holiday period.

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) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term investments with an original maturity of three months or less.

(o) Government grants and subsidies

Grants and subsidies from the government are recognised when there is reasonable assurance that the grant/subsidy will be received and all attaching conditions will be complied with.

When the grant or subsidy relates to an expense item, it is recognised as income over the periods necessary to match them on a systematic basis to the costs, which it is intended to compensate.

(p) Provisions

A provision is recognised when the Group has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to their present value and are determined based on best management estimate required to settle the obligation at the each Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current management estimates.

(q) 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. The weighted average number of equity shares outstanding during the year is adjusted for events of bonus issue and share split.

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.

R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

NOTES TO ACCOUNTS

(r) Segment reporting policies

Identification of segments :

The Group'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 Group operate.

Intersegment transfers :

The Group 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 include general corporate income and expense items which are not allocated to any business segment.

2. Description of the Group

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

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

Subsidiary	Holding	Country of incorporation and other particulars
R Systems Inc.	100%	A company registered under the laws of California, USA in 1993 and subsidiary of the Company since January 2, 2001. R Systems Inc. has a division in Japan.
R Systems (Singapore) Pte Limited	100%	A company registered under the laws of Singapore in 1997 and subsidiary of the Company since September 19, 2000.
Indus Software Inc.	100%	A company registered under the laws of Delaware, USA in 1996 and subsidiary of the Company since April 1, 2002.

R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

NOTES TO ACCOUNTS

ECnet Limited	98.59%	A company registered under the laws of Singapore in 1996. The Company has acquired majority share on January 8, 2004. The Company has subsidiaries in Malaysia, Thailand, China, Hong Kong, USA, Korea and Japan. The Company has following wholly owned subsidiaries:
---------------	--------	---

Name	Holding in %	Country of incorporation
ECnet (M) Sdn Bhd	100	Malaysia
ECnet Systems (Thailand) Co. Ltd.	100	Thailand
ECnet (Shanghai) Co. Ltd.	100	People's Republic of China
ECnet (Hong Kong)	100	Hong Kong
ECnet (Taiwan) Co.	100	People's Republic of China
ECnet Inc.	100	United State Of America
ECnet Korea Co, Ltd.	100	Korea
ECnet Kabushiki Kaisha	100	Japan

3. Segment information

Business Segments :

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

Geographical Segments :

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

R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

NOTES TO ACCOUNTS

For the year ended December 31, 2004

(Amount in Rs.)

Particulars	Software Development	Business Process Outsourcing	Eliminations	Corporate and Others	Total
REVENUE					
External sales	1,251,371,416	72,084,234	-	-	1,323,455,650
Inter-segment sales	1,588,657	-	1,588,657	-	-
Total revenue	1,252,960,073	72,084,234	1,588,657	-	1,323,455,650
RESULT					
Segment result	11,075,949	3,409,552			14,485,502
Unallocated corporate expenses				(1,051,200)	(1,051,200)
Operating profit					13,434,302
Interest expenses				(9,543,190)	(9,543,190)
Interest income				1,318,645	1,318,645
Other income				1,858,188	1,858,188
Income taxes				(4,777,315)	(4,777,315)
Net profit					2,290,630
OTHER INFORMATION					
Segment assets	801,488,825	57,858,115	59,392,441		799,954,499
Unallocated corporate assets					53,213,558
Income tax assets					4,942,347
Total assets	801,488,825	57,858,115	59,392,441		858,110,404
Segment liabilities	225,790,091	67,374,609	59,392,441		233,772,260
Unallocated corporate liabilities					111,471,866
Income tax liabilities					2,858,661
Total liabilities	225,790,091	67,374,609	59,392,441		348,102,787
Capital expenditures	107,990,042	7,809,293			
Depreciation and amortization	43,521,859	4,696,385			48,218,244
Other non-cash expenses	14,452,341	4,451,449			18,903,790

Revenue by geographical market

	Rs.
India	42,662,958
USA	997,970,913
South East Asia	122,086,170
Others	160,735,609
<u>Total</u>	<u>1,323,455,650</u>

R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

NOTES TO ACCOUNTS

Assets and additions to tangible and intangible fixed assets by geographical area:

The following table shows the carrying amount of assets and additions to fixed assets and intangible assets by geographical area in which assets are located as at the year-end:

	Carrying amount of assets	Addition to fixed assets and intangible assets
	Rs.	Rs.
India	331,877,471	96,804,352
USA	337,330,862	35,000,001
South East Asia	115,559,297	644,721
Others	73,342,774	-
	<u>858,110,404</u>	<u>132,449,074</u>

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R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

NOTES TO ACCOUNTS

For the year ended December 31, 2005

(Amount in Rs.)

Particulars	Software development and customisation services	Business process outsourcing services	Eliminations	Corporate and Others	Total
REVENUE					
External sales	1,492,484,833	81,294,035	-	-	1,573,778,868
Inter-segment sales	-	-	-	-	-
Total revenue	1,492,484,833	81,294,035	-	-	1,573,778,868
RESULT					
Segment profit	137,050,441	9,775,948			146,826,389
Unallocated corporate expenses				1,711,252	1,711,252
Operating profit					145,115,136
Interest expenses				(6,597,353)	(6,597,353)
Interest income				1,416,984	1,416,984
Other income				4,253,102	4,253,102
Income taxes				(19,418,209)	(19,418,209)
Net profit					124,769,660
OTHER INFORMATION					
Segment assets	755,217,901	63,016,582	49,933,067		768,301,416
Unallocated corporate assets				156,066,328	156,066,328
Income tax assets				31,706,294	31,706,294
Total assets	755,217,901	63,016,582	49,933,067	187,772,622	956,074,038
Segment liabilities	238,416,818	64,641,566	49,933,067		253,125,317
Unallocated corporate liabilities				77,530,873	77,530,873
Income tax liabilities				12,252,597	12,252,597
Total liabilities	238,416,818	64,641,566	49,933,067	89,783,470	342,908,787
Capital expenditures	71,631,136	3,746,200			75,377,336
Depreciation and amortization	43,722,156	5,203,135			48,925,291
Other non-cash expenses	22,443,696	1,654,421			24,098,117

Revenue by geographical market

	Rs.
India	49,854,451
USA	1,181,712,896
South East Asia	153,666,222
Others	188,545,299
Total	1,573,778,868

R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

NOTES TO ACCOUNTS

Assets and additions to tangible and intangible fixed assets by geographical area:
The following table shows the carrying amount of assets and additions to fixed assets and intangible assets by geographical area in which assets are located as at the year-end:

	Carrying amount of assets	Addition to fixed assets and intangible assets
	Rs.	Rs.
India	427,969,816	57,783,090
USA	453,480,374	10,067,898
South East Asia	8,812,966	7,287,012
Others	65,810,882	239,337
Total	956,074,038	75,377,337

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

NOTES TO ACCOUNTS

4. Related party disclosure

(i) Names of related parties

Key management personnel

	Name of Person	Designation	Company
1	Lt. Gen. Baldev Singh(Retd)	Managing Director (as per Board of Directors resolution dated January 18, 2006 appointed Senior Executive Director)	R Systems International Limited
2	Avirag Jain	Alternate Director	R Systems International Limited
3	N. K. Garg	Alternate Director	R Systems International Limited
4	Raj Swaminathan	COO	Indus unit, R Systems International Limited
5	Satinder Singh Rekhi	Director	R Systems International Limited
		CEO and Director	R Systems Inc
		Director	R Systems (Singapore) Pte Ltd
		Director	Indus Software Inc.
6	O'Neil Nalavadi	Director	R Systems International Limited
		CFO	R Systems Inc
7	Sarvi Dhaliwal	Vice President	R Systems Inc
8	Mandeep Sodhi	Vice President	R Systems Inc
9	Thiru Dorai	Vice President	R Systems Inc
10	See Kwee Tong Peter	Director	R Systems (Singapore) Pte Ltd
		Director	ECnet Ltd
11	Harpreet Rekhi	Director	R Systems (Singapore) Pte Ltd
		Director	Indus Software Inc
		Director	R Systems Inc
12	LuKokWah	Director	ECnet Ltd
13	Subir Kumar Dikshit	Director	R Systems (Singapore) Pte Ltd
14	Tan Cant Wee	Director	ECnet Ltd
		Director	R Systems (Singapore) Pte Ltd
15	Tarun Shankar Mathur	Director	ECnet Ltd
		Director	R Systems (Singapore) Pte Ltd

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

NOTES TO ACCOUNTS

(Amount in Rs.)

Key managerial personnel	For the year ended December 31, 2005	For the year ended December 31, 2004
Remuneration		
Satinder Singh Rekhi	12,257,151	13,035,250
O` Neil Nalavadi	6,429,928	5,496,296
Sarvi Dhaliwal	4,303,632	3,853,900
Mandeep Sodhi	7,183,603	3,627,200
Thiru Dorai	3,522,483	3,762,857
Baldev Singh	1,337,363	1,126,174
Avirag Jain	1,195,100	934,051
N.K.Garg	-	1,253,401
Peter See Kwee Tong	15,547,381	9,712,326
Daniel Loh Hong Chye	-	3,886,911
Daniel Lu Kok Wah	3,018,013	2,522,516
Tan Cant Wee	2,022,032	-
Subir Kumar Dikshit	-	758,528
Tarun Shankar Mathur	2,685,476	-
Rent		
Satinder Singh Rekhi	4,764,461	5,304,780
Commission		
Subir Kumar Dikshit	-	55,816
Total	64,266,623	55,330,006

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R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

NOTES TO ACCOUNTS

5. Leases - In case of assets taken on lease

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

	Year ended December 31,2005 Rs.	Year ended December 31,2004 Rs.
Minimum Lease Payments:		
Not later than one year	21,294,507	21,655,551
Later than one year but not later than five years	14,050,955	31,825,518
Later than five years	Nil	Nil

6. Capital Commitments

Estimated amount of contracts remaining to be executed on capital account and not provided for.
Commitments for acquisition of fixed assets

	Year ended December 31,2005 Rs.	Year ended December 31,2004 Rs.
	25,979,161	370,001
	25,979,161	370,001

7. Contingent Liabilities not provided for

	Year ended December 31,2005 Rs.	Year ended December 31,2004 Rs.
(i) Guarantees and Counter guarantees given by the Company	4,775,000	3,800,000
Guarantee given by R Systems International Limited, India on behalf of R Systems Inc, USA	99,429,000	96,206,000
	104,204,000	100,006,000

(ii) The Company has export obligations under the Software Technology Park (STP) scheme. The Company has imported capital goods without payment of duties under the STP scheme for which agreements and bonds have been executed and Bank Guarantees given by the Company. The Company shall, if the obligations are not met, pay on demand an amount equal to such duties saved including interest and liquidated damages. As the Company has met all the requirements stipulated by STP and in future also expects to meet its commitment to earn the requisite revenue in the foreign exchange as per the norms prescribed by the STP authorities; and is using such imported capital goods for earning such revenue, the contingent liability on this account is unlikely.

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

R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

NOTES TO ACCOUNTS

9. Issued, subscribed and paid up capital includes:

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

10. (a) During the year ended December 31, 2004, the Company had acquired 98.59% shares in ECnet Limited, a Company incorporated in Singapore at total consideration of Rs.34,938,958 (including Rs. 24,495,721 towards goodwill). As at December 31, 2004, the Company had to pay balance amount of Rs.25,952,338 to the erstwhile shareholders of ECnet Limited, out of which Rs. 4,579,824 was payable on January 8, 2005 and the balance Rs. 21,372,514 was payable on January 8, 2006. Rs. 26,368,974 (Previous year Rs.4,579,824), being the amount payable within a year has been shown under 'current liabilities' and amount payable beyond a year at the previous year-end of Rs.21,372,514 had been disclosed separately as 'deferred payment liabilities'.

Considering that cash flows from the subsidiary are currently negative, Rs. 26,368,974 payable to the erstwhile shareholders of ECnet Limited has not been paid. The said erstwhile shareholders have no legal recourse to recover this amount other than instructing the Company to dispose of such number of shares in the subsidiary which shall permit Company to pay these liabilities, net of expenses incurred on such disposal. Management has no plans of disposal of shares of subsidiary and has neither received from the said erstwhile shareholder, any instructions to dispose any shares and believes that this liability shall be settled once the subsidiary's financial position improves.

During the year ended December 31, 2005, the Company has filed a petition with the Delhi High Court seeking its approval for writing down the goodwill value to Rs. Nil and adjusting the write off of Rs.24,495,721 against the Securities Premium Account as this is not represented by available assets. The above adjustment to the carrying value of goodwill and Securities Premium Account has been undertaken on the basis of the order of High Court of Delhi dated February 16, 2006.

Had such accounting treatment been undertaken in accordance with Accounting Standard – 21 "Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India, Securities Premium Account and Goodwill would have been higher by Rs.24,495,721

- (b) ECnet Limited had received government grant of Rs 2,136,800 which is being amortised over a period of three years, the current year being the third year balance unamortised amount of the grant has been recognised as other income.

R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

NOTES TO ACCOUNTS

(c) The details of assets acquired on acquisition of ECnet Limited are as under:

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

11 (a) R Systems International Limited- Year 2004 Employee Stock Option Plan

During the year 2004, the Company had instituted the 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, 2004. The eligible employees have an option to exercise it over a period up to August 31, 2014. The movement in the options during the years ended December, 2005 and December 31, 2004 is set out below:

	Year Ended December 31, 2005	Year Ended December 31, 2004
At the beginning of the year		
- Grants outstanding under the plan	887,200	-
- Grants pending determination by the compensation committee	110,300	52,800
	185,100	
Option issued to the employee during the year		944,700
	171,175	
Option lapsed or surrendered during the year		57,500
Option exercised during the year	38,050	-
At the end of the year		
- Grants outstanding under the plan	863,075	887,200
- Grants pending determination by the compensation committee	96,375	110,300
-Option exercised during the year	38,050	-

R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

NOTES TO ACCOUNTS

(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. 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 years ended December 31, 2005 and December 31, 2004 is set out below:

	Year Ended December 31, 2005	Year ended December 31, 2004
At the beginning of the year		
- Grants outstanding under the plan	25,308	41,172
- Grants pending determination by the compensation committee	181,514	165,650
Option issued to the employee during the year	-	-
Option lapsed or surrendered during the year	3,229	15,864
Option exercised during the year	10,178	-
At the end of the year		
- Grants outstanding under the plan	11,901	25,308
- Grants pending determination by the compensation committee	184,743	181,514
- Grants exercised at year-end	10,178	-

R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

NOTES TO ACCOUNTS

(c) R Systems International Limited – Year 2004 Employees Stock Option Plan –ECnet (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 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% each in 2nd, 3rd & 4th year) commencing from September 1, 2004. The eligible employees have an option to exercise it over a period up to August 31, 2014. The movement in the options during the years ended December 31, 2005 and December 31, 2004 is set out below:

	Year Ended December 31, 2005	Year ended December 31, 2004
At the beginning of the year		
- Grants outstanding under the plan	862,000	-
- Grants pending determination by the compensation committee	138,000	-
Option issued to the employee during the year	-	862,000
Option lapsed or surrendered during the year	277,200	-
Option exercised during the year		
At the end of the year	-	
- Grants outstanding under the plan		862,000
- Grants pending determination by the compensation committee	584,800	138,000

- (d) For the purpose of valuation of the options granted during earlier years, the management obtained fair value of the options at the date of grant under respective schemes from a firm of Chartered Accountants (N Maini & Co.), to determine accounting impact, if any, of options granted over the periods. In the considered opinion of the valuer (mentioned above), the fair value of option determined using ‘Black Scholes Valuation Model’ under each of above schemes is “Nil” and thus no accounting thereof is required.

R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

NOTES TO ACCOUNTS

The assumptions used for the purpose of determination of fair value are stated below:

Assumptions	Unit	Scheme (a) *	Scheme (b) **	Scheme (c)***	Comments by the valuer
Strike price	Rs.	42	154	26	
Current share price	Rs.	16	140	16	Taken on the basis of NAV and PECV method of valuation
Expected option life	No of Years	5	2.5	5	Being half of the maximum option life
Volatility	%	1	0.5	1	In case of unlisted shares, the volatility may be taken as zero. Verma committee also recommends this.
Risk free return	%	7	11.3	7	Zero coupon rate estimated from trading government securities for a maturity corresponding to expected life of option - taken from sites of NSE and / or BSE
Expected dividend Yield	%	-	15	-	Company has no set policy so dividend taken as zero In case of Indus plan, as the dividend had been paid by the erstwhile company, it has been assumed at 15%.

* : R Systems International Limited- Year 2004 Employee Stock Option Plan

** : Indus Software Employees Stock Option Plan – Year 2001

***: R Systems International Limited – Year 2004 Employees Stock Option Plan ECnet (the Plan)

- (e) For the purpose of valuation of the options granted during the year under R Systems International Limited- Year 2004 Employee Stock Option Plan, the management obtained fair value of the options at the date of grant from a firm of Chartered Accountants (N Maini & Co.), to determine accounting impact, if any, of options granted. In the considered opinion of the valuer (mentioned above), the fair value of these option determined using 'Black Scholes Valuation Model' is "Nil" and thus no accounting thereof is required.

The assumptions used for the purpose of determination of fair value are stated below:

Assumptions	Unit	Scheme	Comments by the valuer
Strike price	Rs.	42	
Current share price	Rs.	13.58	Taken on the basis of NAV and PECV method of valuation
Expected option life	No of Years	5	Being half of the maximum option life
Volatility	%	1	In case of unlisted shares, the volatility may be taken as zero. Verma committee also recommends this.
Risk free return	%	7.42	Zero coupon rate estimated from trading government securities for a maturity corresponding to expected life of option - taken from sites of NSE
Expected dividend Yield	%	-	Company has no set policy so dividend taken as zero

- (f) Subsequent to the year end, the Company has issued a bonus share to each existing shareholder by way of capitalisation of accumulated profits. The Board of Directors has suggested the compensation committee to consider the possibility of offering the same benefit to its option holders.

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

NOTES TO ACCOUNTS

14. Subsequent to the year-end, the Company has converted 495,667 warrants to equity shares of Rs.2 each and has allotted 388,021 shares of Rs 2 each to employees on exercise of options by them. The Company has consolidated five equity shares of Rs.2 each to one equity share of Rs.10 each and then issued a bonus share to each existing shareholder by way of capitalization of accumulated profits. Adjusting the shares data for the above changes, the Earnings per share would be as under:

Earnings / (Loss) per share	For the year ended December 31, 2005	For the year ended December 31, 2005
Basic [nominal value of share Rs10 (previous year Rs10)]	11.65	0.21
Diluted [nominal value of share Rs10 (previous year Rs10)]	11.65	0.21
Net profit after tax	124,769,660	2,290,630
Weighted average number of shares	25,892,587	26,582,116
Number of warrants converted into equity shares	495,667	495,667
Number of equity shares issued on exercise of ESOP	388,021	-
Number of shares after consolidation before bonus issue	5,355,255	5,415,557
Number of bonus shares issues	5,355,255	5,355,255
Number of share after bonus issue and consolidation	10,710,510	10,770,812

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R SYSTEMS INTERNATIONAL LIMITED (CONSOLIDATED FINANCIAL STATEMENTS)

NOTES TO ACCOUNTS

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

As per our report of even date For and on behalf of the Board of Directors of R Systems International Limited

For S. R. Batliboi & Associates
Chartered Accountants

per Pankaj Chadha
Partner

Membership No. 91813

Satinder Singh Rekhi
[Managing Director]

Lt. Gen. Baldev Singh (Retd)
[Senior Executive Director]

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

Place : New Delhi
Date : March 10, 2006