



The Engine Room for Software Products

Audited Financial Statements for 2003

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, 2003 and the Profit and Loss Account 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 Profit and Loss Account dealt with by this report are in agreement with the books of account;
 - iv. In our opinion, the attached Balance Sheet and Profit and Loss Account 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, 2003, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on December 31, 2003 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, 2003, and

- b) In the case of Profit and Loss Account, of the profit of the Company 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 26th, 2004

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

Re: R Systems International Limited

1. (a) The Company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) Fixed assets have been physically verified by management during the year. In our opinion, the frequency of physical verification is reasonable having regard to the size of the Company. 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.

2. The Company has no inventory and accordingly, paragraph 4(ii) is not applicable.
3. 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	15,504,000

In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions are not prima facie prejudicial to the interest of the Company and payment of the principal amount and interest are also regular, *except in the case of overdue interest payable of Rs. 105,998* which was due at the year end but has since been paid after the year end. The Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.

4. 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. During the course of our audit, no major weakness has been noticed in the internal controls.
5. 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.*
6. The Company has not accepted any deposits from the public.
7. The Company has an internal audit system commensurate with its size and the nature of its business.

8. 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.
9. According to the records of the Company, the Company is regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection 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.
10. 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.
11. 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.
12. 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.
13. In our opinion and according to the information and explanations given to us, the nature of activities of the Company does not attract any special statute applicable to chit fund and nidhi/ mutual benefit fund/societies.
14. The Company does not deal or trade in shares, securities, debentures and other investments.
15. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from any bank or financial institution.
16. Based on information and explanations given to us by the management, term loans were applied for the purpose for which the loans were obtained.
17. *The Company has availed a cash credit borrowing remaining outstanding at the year end for Rs 35,834,058 due to purchase of fixed assets of Rs 56,626,643 (net). Other than this, funds raised on short-term basis have not been used for long-term investment. Funds raised on a long-term basis have been so employed.*
18. The Company has not made any allotment of shares during the year.
19. The Company did not have any outstanding debentures during the year.
20. The Company has not raised any money through a public issue during the year.

21. 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 26th, 2004

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Balance Sheet as at December 31, 2003

	Schedules	As at December 31, 2003 Rs.	As at December 31, 2002 Rs.
SOURCES OF FUNDS			
Shareholders' Funds			
Capital	1	53,780,174	53,780,174
Reserve and Surplus	2	651,261,081	648,258,939
		705,041,255	702,039,113
Loan Funds			
Secured Loans	3	36,930,882	761,860
Unsecured Loans	4	15,609,998	-
		52,540,880	761,860
Deferred Tax Liabilities	5	5,634,975	-
TOTAL		763,217,110	702,800,973
APPLICATION OF FUNDS			
Fixed Assets	6		
Gross block		215,815,021	148,347,488
Less : Depreciation		56,068,570	34,565,257
Net Block		159,746,451	113,782,231
Capital work-in-progress including capital advances		15,144,596	28,250,711
		174,891,047	142,032,942
Incidental expenditure during construction (Pending Capitalization/Allocation)	7	-	2,287,747
Intangible asset (Product development costs)		1,786,135	-
Investments	8	301,628,332	318,404,840
Current Assets, Loans & Advances			
Sundry debtors	9	146,916,882	100,152,923
Cash and bank balances	10	32,988,413	35,174,455
Other current assets	11	53,722,586	20,776,701
Loans and advances	12	157,303,521	153,033,015
Less : Current Liabilities and Provisions			
Liabilities	13	93,138,476	48,475,786
Provisions	14	17,108,029	21,176,885
		110,246,505	69,652,671
Net Current Assets		280,684,897	239,484,423
Miscellaneous Expenditure (to the extent not written off or adjusted)	15	4,226,699	591,021
TOTAL		763,217,110	702,800,973

Notes to Accounts 20

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.Batliloi & Associates
Chartered Accountants

For and on behalf of the Board of Directors

per Pankaj Chadha
Partner
Membership No. 91813

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

Avirag Jain
[Director]

Nand Sardana
[General Manager (Finance)
& Company Secretary]

New Delhi
Date : March 26th, 2004

New Delhi
Date : March 26th, 2004

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

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

	Schedules	For the year ended December 31, 2003 Rs.	For the year ended December 31, 2002 Rs.
INCOME			
Sale of software products and rendering software development services		425,627,147	267,142,235
Other income	16	2,002,079	5,507,838
TOTAL		427,629,226	272,650,073
EXPENDITURE			
Personnel expenses	17	202,613,053	119,830,475
Operating and other expenses	18	176,770,654	95,991,958
Depreciation / amortisation	6	23,496,108	12,420,742
Finance expenses	19	1,559,800	2,097,395
Provision for diminution in value of long term investments (refer note 9 under Schedule 20)		16,774,508	-
Profit from continuing operations before tax		6,415,103	42,309,503
Provision for tax (net of excess provision of Rs. 2,566,064, previous year Rs. 1,023,184, related to earlier years)		(2,222,014)	7,000,000
Deferred tax		1,788,163	-
Total tax expense		(433,851)	7,000,000
Profit after tax		6,848,954	35,309,503
Balance brought forward from previous year		66,811,889	31,502,386
Less : Deferred tax liabilities as on January 1, 2003 [Refer note 2(b) under Schedule 20]		3,846,812	-
Balance carried to Balance Sheet		69,814,031	66,811,889
Earnings per share (refer note 16 under Schedule 20)			
Basic [Nominal value of shares Rs. 2 (previous year: Rs. 2)]		0.25	1.42
Diluted [Nominal value of shares Rs. 2 (previous year: Rs. 2)]		0.25	1.39

Notes to Accounts 20

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
[General Manager (Finance)
& Company Secretary]

New Delhi
Date : March 26th, 2004

New Delhi
Date : March 26th, 2004

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2003 Rs.	As at December 31, 2002 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	<u>53,780,174</u>	<u>53,780,174</u>
Total	<u>53,780,174</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 8 under Schedule 20).

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2003 Rs.	As at December 31, 2002 Rs.
Schedule 2: Reserves and Surplus		
Securities Premium Account		
Balance as per last account	581,447,050	954,091,492
Add: Share premium on allotment of equity shares	-	666,425,637
Less: Adjustment of share issue expenses	-	1,921,400
Less: Adjustment of investment as per High Court order in terms of section 78 of the Companies Act, 1956 (refer note 15 under Schedule 20)	-	523,381,468
Less: Adjustment of goodwill arisen out of amalgamation (refer note 15 under Schedule 20)	-	513,767,211
	581,447,050	581,447,050
Balance in Profit and Loss Account		
Balance as per last account	66,811,889	31,502,386
Add: Transferred from Profit & Loss Account	6,848,954	35,309,503
Less : Deferred tax liabilities as on January 1, 2003 [Refer note 2(b) under Schedule 20]	3,846,812	-
	69,814,031	66,811,889
	651,261,081	648,258,939

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2003 Rs.	As at December 31, 2002 Rs.
Schedule 3: Secured Loans		
Loans from banks		
Cash credit facilities (Secured by hypothecation of debtors)	35,834,058	-
For motor vehicles (Secured by hypothecation of underlying motor vehicles)	1,051,499	567,594
Other loan - motor vehicle (Secured by hypothecation of underlying motor vehicle)	45,325	194,266
	36,930,882	761,860

In case of motor vehicle loans, amount repayable within one year is Rs. 394,966 (Previous Year Rs.570,900)

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2003 Rs.	As at December 31, 2002 Rs.
Schedule 4: Unsecured Loans		
Other loan		
From a subsidiary company	15,504,000	-
Interest accrued and due	105,998	-
	15,609,998	-

Note:

Unsecured loan represent external commercial borrowing from a wholly owned subsidiary, R Systems (Singapore) Pte. Ltd, which is repayable in single instalment in 2008.

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2003 Rs.	As at December 31, 2002 Rs.
Schedule 5: Deferred Tax Liability		
Differences in depreciation and other differences in block of fixed assets as per tax books and financial books	5,634,975	-
	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	Buildings (1)	Computers	Office & electrical equipments	Furniture & fittings	Vehicles (2)	Total	Previous Year
Gross Block								
As at 1.1.2003	4,765,674	49,568,384	62,583,894	13,915,997	10,301,473	7,212,066	148,347,488	51,587,635
Additions	-	2,159,755	46,374,841	14,224,141	8,722,888	1,666,102	73,147,727	613,775,679 (3)
Deductions	-	-	1,332,620	211,049	2,563,132	1,573,393	5,680,194	517,015,826
At 31.12.2003	4,765,674	51,728,139	107,626,115	27,929,089	16,461,229	7,304,775	215,815,021	148,347,488
Depreciation / Amortisation								
As at 1.1.2003	-	1,440,185	26,510,161	1,977,016	2,191,082	2,446,813	34,565,257	7,985,609
For the year	-	850,987	17,616,155	2,468,865	1,941,261	618,840	23,496,108	28,221,941 (3)
Deletions / Adjustments	-	-	860,288	161,874	665,732	304,901	1,992,795	1,642,293
At 31.12.2003	-	2,291,172	43,266,028	4,284,007	3,466,611	2,760,752	56,068,570	34,565,257
For previous year (3)	-	1,002,542	22,404,349	1,463,502	1,365,318	1,986,230	28,221,941	4,553,087
Net Block								
At 31.12.2003	4,765,674	49,436,967	64,360,087	23,645,082	12,994,618	4,544,023	159,746,451	113,782,231
At 31.12.2002	4,765,674	48,128,199	10,321,770	11,938,981	8,110,391	4,765,253	113,782,231	43,602,026

Notes:

- (1) Includes amount paid towards Land and Building under a composite lease for which no separate values are assignable
- (2) Vehicles amounting to Rs. 1,956,281(Previous Year Rs. 2,946,063) are hypothecated against terms loans for vehicle finance from banks and others
- (3) Includes assets aggregating Rs.596,896,139 including goodwill of Rs. 513,767,211 and accumulated depreciation aggregating Rs.15,801,199 arising pursuant to amalgamation, consequent to the scheme of amalgamation of Indus Software Private Limited with the Company (also refer note 15 under Schedule 20).

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2003 Rs.	As at December 31, 2002 Rs.
Schedule 7: Incidental expenditure during construction period (Pending Capitalization/Allocation)		
Salaries, wages, bonus and perquisites	1,138,670	996,492
Contribution to provident fund and other statutory payments	62,473	56,910
Staff welfare expenses	98,909	104,478
Recruitment and training expenses	-	182,893
Consumable stores	13,039	8,840
Travelling	-	2,494
Insurance premium	21,514	606
Local conveyance	179,373	57,535
Communication Charges	1,227,779	673,884
Vehicle running and maintenance	43,093	1,888
Repair and maintenance - Others	40,762	136,857
Postage, telephone and telegram charges	23,869	20,819
Printing and stationery	10,032	2,540
Membership & Subscription Charges	45,751	-
Legal and professional expenses	-	5,500
Bank Charges	6,701	-
Miscellaneous expenses	115	36,011
	2,912,080	2,287,747
Add: incidental expenditure incurred upto previous year	2,287,747	-
	5,199,827	2,287,747
Less: Allocated / transferred to fixed assets	2,287,747	-
Less: Transferred to expense heads (refer note 13 under Schedule 20)	2,912,080	-
	-	2,287,747

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT
Schedules to the Accounts

	As at December 31, 2003 Rs.	As at December 31, 2002 Rs.
Schedule 8: Investments		
Long term investments (at cost)		
A. Other than trade		
<i>Government Securities</i>		
6 Year National Saving Certificate- VIII issue	-	2,000
<i>Shares, Debentures and Bonds</i>		
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 9 under Schedule 20)	<u>5,989,770</u>	
	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 (see note 9 under Schedule 20)	<u>10,784,738</u>	
	1,000	
	301,628,332	318,404,840
Aggregate amount of unquoted investments	301,628,332	318,404,840
The following investment was matured during the year:		
6 Year National Saving Certificate- VIII issue of Rs. 2,000		

R SYSTEMS INTERNATIONAL LIMITED**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT****Schedules to the Accounts**

	As at December 31, 2003 Rs.	As at December 31, 2002 Rs.
Schedule 9: Sundry Debtors		
Debts outstanding for a period exceeding more than six months		
Unsecured, considered good	3,380,315	3,911,577
Considered Doubtful	4,734,807	4,727,347
Other debts		
Unsecured, considered good	143,536,567	96,241,346
Considered doubtful	160,110	6,000
	151,811,799	104,886,270
Less : Provision for doubtful debts	4,894,917	4,733,347
	146,916,882	100,152,923

Included in Sundry Debtors are:

Dues from the wholly owned subsidiaries		
R Systems Inc.	-	521,277
R Systems (Singapore) Pte. Ltd.	703,242	970,645

Schedule 10: Cash and Bank Balances

Cash on hand	120,735	172,420
Balances with scheduled banks		
On current accounts	6,274,943	11,769,211
On deposit accounts	18,291,007	21,136,635
Balance with other bank		
On current account	8,301,728	2,096,189
	32,988,413	35,174,455

Notes:

- Balances with scheduled banks - on deposit accounts include receipts pledged with Banks and various Government Departments Rs. 1,203,000 (Previous year Rs. 2,715,214)
- Bank balance with other bank represent balance with California Bank Trust (Maximum balance during the year Rs. 18,445,687, previous year Rs. 2,104,263)

Schedule 11: Other current assets

Interest accrued on deposits	556,630	805,295
Unbilled revenue	55,502,242	19,813,116
Less: Anticipated cost to complete contracts	2,346,786	-
	53,155,456	19,813,116
Fixed assets held for disposal (at net book value or estimated net realisable value, whichever is lower)	10,500	158,290
	53,722,586	20,776,701

R SYSTEMS INTERNATIONAL LIMITED**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT****Schedules to the Accounts**

	As at December 31, 2003 Rs.	As at December 31, 2002 Rs.
Schedule 12: Loans and Advances		
(Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	14,957,558	12,066,307
Advance to R Systems Employees Stock Option Trust (also refer note 11 under Schedule 20)	115,142,450	115,132,450
Advance to Indus Software Employees Welfare Trust (also refer note 11 under Schedule 20)	3,382,792	3,382,792
Deposits - others	8,287,561	5,374,246
Income Tax receivable	15,533,160	17,077,220
Considered doubtful	4,000,000	4,000,000
	161,303,521	157,033,015
Less : Provision for Doubtful Advances	4,000,000	4,000,000
	157,303,521	153,033,015
Schedule 13: Liabilities		
Sundry creditors	45,283,120	40,339,525
Subsidiary companies	43,643,912	5,248,820
Advance from customers	1,435,869	2,202,381
Book overdraft with a bank	2,290,284	-
Security deposits	485,291	685,060
	93,138,476	48,475,786
Schedule 14: Provisions		
Provision for taxation - income tax	8,211,841	15,252,184
Provision for taxation - wealth tax	47,000	34,000
Provision for gratuity	4,260,453	2,775,070
Provision for leave encashment	4,588,735	3,115,631
	17,108,029	21,176,885

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December		As at December	
	31, 2003		31, 2002	
	Rs.		Rs.	
Schedule 15: Miscellaneous Expenditure				
a) Preliminary Expenses				
Balance as per last Balance Sheet	-		3,395	
Less : Written off	<u> </u>	-	<u>3,395</u>	-
b) Pre-Operational Expenses				
Balance as per last Balance Sheet	470,373		323	
Add: Additions in current year	42,586		347,686	
Add: On amalgamation	-		490,751	
Less : Written off	<u>195,863</u>	317,096	<u>368,387</u>	470,373
c) Fees for Increase in Share Capital				
Balance as per last Balance Sheet	120,648		180,972	
Less : Written off	<u>60,324</u>	60,324	<u>60,324</u>	120,648
d) Contract acquisition expenses				
Additions in current year (see note 12 under Schedule 20)	4,629,279		-	
Less : Written off	<u>780,000</u>	3,849,279	<u>-</u>	-
		4,226,699		591,021

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	For the year ended December 31, 2003 Rs.	For the year ended December 31, 2002 Rs.
Schedule 16: Other Income		
Interest		
Bank deposits (Gross, Tax deducted at source Rs. 151,069, previous year Rs. 703,565)	447,584	3,484,068
Income-tax refund	366,893	349,729
Others	45,325	57,700
Profit on sale of fixed assets (net)	-	199,941
Profit on sale of current non-trade quoted investment	-	9,071
Excess provisions written back, as no longer required	-	1,345,542
Miscellaneous income	1,142,277	61,787
	2,002,079	5,507,838
Schedule 17: Personnel expenses		
Salaries, wages and bonus	188,306,297	112,102,030
Contribution to provident fund and other statutory payments	7,291,541	4,745,171
Staff welfare expenses	7,015,215	2,983,274
	202,613,053	119,830,475
Schedule 18: Operating and other expenses		
Power and fuel	6,997,322	4,344,169
Rent - premises	5,098,385	5,040,846
Rent - equipments	4,308,272	3,996,084
Rates and taxes	625,635	180,697
Insurance	2,753,575	1,139,991
Repair and maintenance		
- Buildings	71,359	-
- Others	6,581,021	5,289,201
Advertising and sales promotion	1,736,392	1,467,331
Commission - others	12,214,902	5,103,843
Travelling and conveyance	60,443,479	23,416,109
Communication costs	23,769,707	12,331,047
Printing and stationery	1,047,255	676,132
Consumption of stores	570,961	314,707
Legal and professional fees	20,573,566	12,119,082
Directors' sitting fee	5,000	10,000
Auditor's remuneration		
- Audit fee	594,000	525,000
- Other services	226,800	220,500
- Out of pocket expenses	20,000	35,788
	840,800	781,288
Foreign exchange fluctuation (net)	5,898,134	752,685
Provision for doubtful debts and advances	161,569	4,635,002
Advances and other current assets written off	937,519	727,112
Loss on sale of fixed assets (net)	1,484,514	-
Fixed assets written off	241,019	720,933
Recruitment and training expenses	4,502,505	2,069,409
Management fees	9,600,000	7,200,000
Amortisation of miscellaneous expenditure	1,036,187	432,106
Anticipated costs to complete contracts	2,346,786	-
Miscellaneous expenses	2,924,790	3,244,184
	176,770,654	95,991,958

R SYSTEMS INTERNATIONAL LIMITED**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT****Schedules to the Accounts**

	For the year ended December 31, 2003 Rs.	For the year ended December 31, 2002 Rs.
Schedule 19: Financial expenses		
Interest		
- on fixed loans	193,517	944,412
- on prepayment of loans	-	391,700
- on banks	779,275	309,801
Bank charges	587,008	451,482
	1,559,800	2,097,395

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

Schedule 20: 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. During the year, the Company commenced offering BPO services to its customers in technical help desk and back-office transaction processing.

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 in accounting policy discussed more fully below, are consistent with those used in the previous year.

(b) Change in Accounting Policies

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

(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>
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 instruments, other than meridian phones.	20 years
UPS systems	12 years
Stand alone air conditioners and telephone instruments other than meridian phones.	6 years

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

Computer hardware and network installations	6 years
Computer softwares	3 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	8.33%	4.75%
Stand alone air conditioners, and telephone instruments.	16.66%	4.75%
Computer software	33.33%	16.21%

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 in the year when revenue from the product starts accruing.

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

(f) Leases

Where the Company is the lessee

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

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

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

(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 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.

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

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.

(i) Miscellaneous Expenditure

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

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

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

(j) Foreign currency translation

Foreign currency transactions

(i) Initial Recognition

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

(ii) Conversion

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

(iii) Exchange Differences

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

(k) 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.

(l) Income taxes

Tax expense comprises both current and deferred taxes.

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

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.

(m) Expenditure on new projects

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

(n) 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.

3. Leases

In case of assets taken on lease

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

	2003	2002
	Rs.	Rs.
Lease payments for the year	4,629,962	3,674,351
Minimum Lease Payments:		
Not later than one year	3,919,272	2,595,849
Later than one year but not later than five years	12,304,500	308,352
Later than five years	6,150,980	6,244,128

4. Capital Commitments

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

Commitments for acquisition of fixed assets

	2003	2002
	Rs.	Rs..
	40,804,678	1,878,028
	40,804,678	1,878,028

5. Contingent Liabilities not provided for

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

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

	2003 Rs.	2002 Rs.
6. Supplementary Statutory Information		
6.1 Directors' Remuneration		
Salaries	1,943,147	1,479,951
Allowances and perquisites	878,158	605,176
Contribution to Provident fund	147,830	110,176
	<u>2,969,135</u>	<u>2,195,303</u>
	2003 Rs.	2002 Rs.
6.2 Earnings in foreign currency (on accrual basis)		
Exports at F.O.B. Value	359,411,090	245,226,968
	<u>359,411,090</u>	<u>245,226,968</u>
6.3 Expenditure in foreign currency (on accrual basis)		
Travelling	18,241,032	12,967,390
Commission	12,197,107	4,951,423
Management fees	9,600,000	7,200,000
Salaries, consultancy and other miscellaneous expenses	3,954,307	20,233,113
Interest	105,998	-
	<u>44,098,444</u>	<u>45,351,926</u>
6.4 Value of imports calculated on CIF basis		
Capital goods	28,782,227	20,124,501
	<u>28,782,227</u>	<u>20,124,501</u>

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.

7. 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.
8. 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.
9. During the year, the management has provided Rs. 16,774,508 against the investment in two of the wholly owned subsidiary companies being decline in the value of these investments. Based on its review of the results and future projections of these subsidiary companies and considering the long term nature of relationship, the management is of the view that no further diminution of permanent nature exists in the value of investments in subsidiary companies.

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

10. The Company had advanced a loan of Rs. 4,778,200 to another company and its promoter under an agreement signed in August 2001 in terms of a Letter of Intent indicating the Company's intention to enter into a proposed transaction of amalgamation with the said another company. However, the proposed transaction, as envisaged in the Letter of Intent had been shelved and legal claims had been made for the recoveries from the said parties. During the year, the legal claims have been agreed upon and a payment plan has been agreed with the said parties. Considering the agreed amount to be lower than the original advance and the financial position of the said parties, the management is of the view that the provision of Rs. 4,000,000, created in an earlier year is sufficient at this stage.

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

The company had instituted the plan for all eligible employees in pursuance of the special resolution duly approved by the shareholders. The plan provides for the issuance of 997,500 options to eligible employees as recommended by the Compensation Committee constituted for this purpose. The Company has established "R Systems International Employees Stock Option Trust" ('the Trust') to administer the plan, as approved by the members, for the benefits of the Company's employees and has provided an interest free loan of Rs. 115,142,450 included under Schedule 12. Consequently, the Company has allotted 997,500 equity shares at a premium of Rs. 113.42 per equity share to the Trust to be further issued to the company's eligible employees on the exercise of the underlying options granted to them.

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

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

(b) Indus Software Employees Stock Option Plan – Year 2001 ('the plan'):

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

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

As a result of the merger of Indus with the Company, all employees had surrendered their options in favour of the Indus Trust to enable them to obtain options for shares in R Systems International Limited after the merger. Also, the Company had issued 206,822 equity shares of Rs. 2 each at a premium of Rs. 113.42 per share to the Indus Trust in exchange of 21,967 equity shares of Indus, apropos to the agreed swap ratio. The movement in the options (in equivalent number of shares of the Company) held by the Trust during the year ended December 31, 2003 and December 31, 2002 is set out below:

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

- (c) Considering the availability of 998,175 equity shares with the Trusts pending to be granted (i.e. 832,525 equity shares under 'R Systems International Limited – Employees Stock Option Plan' and 165,650 equity shares under 'Indus Software Employees Stock Option Plan'), the management has instructed the compensation committee to draw up plans to
- grant these equity shares to further employees, or
 - explore induction of third party vendors, etc. as eligible persons to the equity shares issued to the Trust.

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

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

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

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

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

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

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

	2003	2002
	Rs.	Rs.
Net profit as per profit and loss account	6,848,954	35,309,503
Weighted average number of equity shares in calculating basic EPS	26,890,087	24,891,544
Add: Weighted average number of equity shares which would be issued on the conversion of warrants	456,753	577,772
Weighted average number of equity shares in calculating diluted EPS	27,346,840	25,469,316
EPS - basic	0.25	1.42
EPS – diluted	0.25	1.39

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

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

As per our report of even date

For S. R. Batliboi & Associates
Chartered Accountants

For and on behalf of the Board of
Directors

per Pankaj Chadha
Partner
Membership No. 91813

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

Avirag Jain
[Director]

Nand Sardana
[General Manager (Finance)
& Company Secretary]

Place: New Delhi
Date: March 26th, 2004

Place: New Delhi
Date: March 26th, 2004