



Transforming Product Life Cycle Management



Audited Financial Statements for 2005

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, 2005 and also the Profit and Loss Account and Cash Flow Statement 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 (as amended) 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, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - iv. In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report 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, 2005, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on December 31, 2005 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 accounts 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 the Balance Sheet, of the state of affairs of the Company as at December 31, 2005,
 - b) in the case of the Profit and Loss Account, of the profit for the year ended on that date and;
 - c) in the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For S. R. Batliboi & Associates
Chartered Accountants

per Pankaj Chadha

Partner
Membership No: 91813
Place: New Delhi
Date: March 10, 2006

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

Re: R Systems International Limited

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) All fixed assets at the Noida branch and additions to fixed assets at the Pune branch have been physically verified by management during the previous year in accordance with a planned programme of verifying them once in two years which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. As informed, no material discrepancies were noticed on such verification.
- (c) There was no substantial disposal of fixed assets during the year.
- (ii) The Company has no inventory and therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company
- (iii) (a) The following are the particulars of loans granted by the Company to companies, firms and other parties covered in the Register maintained under Section 301 of the Companies Act, 1956:

Sl. No.	Name of Party	Relationship with Company	Maximum Amount Rs.	Year end Balance Rs.
1.	EC Net Ltd	Subsidiary	45,593,184	45,593,184

- (b) In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions for such loans are not prima facie prejudicial to the interest of the Company.
- (c) In respect of loans granted, repayment of the principal amount is as stipulated and payment of interest have been regular.
- (d) There is no overdue amount of loans granted to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.
- (e) 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	Maximum Amount Rs..	Year end Balance Rs.
1.	R Systems (Singapore) Pte Ltd.	Subsidiary	15,366,300	15,366,300

- (f) In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions for such loans are not prima facie prejudicial to the interest of the Company.

- (g) In respect of loans taken, the repayment is due on June 30, 2008.
- (iv) In our opinion and according to the information and explanations given to us, there is adequate internal control procedures system commensurate with the size of the Company and the nature of its business, for the purchase of fixed assets and for the sale of services. During the course of our audit, no major weakness has been noticed in the internal controls system in respect of these areas. Due to nature of Company's business, clause (iv) of the Companies (Auditor's Report) Order, 2003 (as amended) is not applicable to the company with respect to purchase of inventory and sale of goods.
- (v) (a) 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.
- (b) In respect of transactions with parties with whom transactions exceeding value of Rupees five lakhs have been entered into during the financial year, *the prevailing prices are not ascertainable considering the uniqueness of transactions and accordingly, we do not comment as to whether these transactions are entered at the prevailing market prices at the relevant time.*
- (vi) The Company has not accepted any deposits from the public.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- (viii) To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the Company.
- (ix) (a) Undisputed statutory dues including provident fund, employees' state insurance, income-tax, wealth-tax, service tax, customs duty, have generally been regularly deposited with the appropriate authorities *though there has been a slight delay in a few cases.* Due to the nature of its business, investor education and protection fund, sales tax, excise duty and cess are not applicable to the Company.
- (b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, employees' state insurance, income-tax, wealth-tax, service tax, customs duty and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable. Due to the nature of its business, investor education and protection fund, sales tax, excise duty and cess are not applicable to the Company.
- (c) According to the information and explanation given to us, there are no dues of income tax, sales-tax, wealth tax, service tax, income-tax, customs duty, wealth-tax, excise duty and cess which have not been deposited on account of any dispute. Due to the nature of its business, investor education and protection fund, sales tax, excise duty and cess are not applicable to the Company.
- (x) The Company has no accumulated losses at the end of the financial year and it has not incurred any cash losses in the current and immediately preceding financial year.

- (xi) Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to any bank. The Company did not have any dues from any financial institution or any outstanding debentures during the year.
- (xii) According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (xv) According to the information and explanations given to us, the Company has given guarantee for loans taken by its subsidiaries from bank or financial institutions, the terms and conditions whereof in our opinion are not prima-facie prejudicial to the interest of the Company.
- (xvi) Based on information and explanations given to us by the management, term loans were applied for the purpose for which the loans were obtained.
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment
- (xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.
- (xix) The Company did not have any outstanding debentures during the year.
- (xx) The Company has not raised any money through a public issue during the year.
- (xxi) Based upon the audit procedures performed by us for expressing our opinion on these financial statements and information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For S.R.Batliboi & Associates
Chartered Accountants

per Pankaj Chadha

Partner
Membership No: 91813
Place: New Delhi
Date: March 10, 2006

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

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	647,087,971	552,340,796
		700,077,957	603,712,326
Loan funds			
Secured loans	3	83,631,775	123,141,354
Unsecured loan	4	15,366,300	14,868,200
		98,998,075	138,009,554
Deferred payments liability (refer note 11(b) under schedule 19)		-	21,372,514
Deferred tax liability	5	11,407,449	7,939,368
TOTAL		810,483,481	771,033,763
APPLICATION OF FUNDS			
Fixed assets			
Gross block	6	315,767,880	286,552,877
Less : Accumulated depreciation / amortisation		114,134,022	83,042,787
Net block		201,633,858	203,510,090
Capital work-in-progress including capital advances		54,517,277	26,144,930
		256,151,135	229,655,020
Investments			
	7	310,071,569	334,567,290
Current assets, loans and advances			
Sundry debtors	8	278,164,190	247,507,887
Cash and bank balances	9	39,079,839	24,165,355
Other current assets	10	48,052,939	34,739,541
Loans and advances	11	89,424,486	56,788,558
Less : Current liabilities and provisions			
Current liabilities	12	180,832,888	140,835,508
Provisions	13	29,627,789	15,554,380
Net current assets		244,260,777	206,811,453
Miscellaneous expenditure (to the extent not written off or adjusted)	14	-	-
TOTAL		810,483,481	771,033,763
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 (Finance)
& Company Secretary]

New Delhi
Date : March 10, 2006

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

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

	Schedules	For the year ended December 31, 2005 Rs.	For the year ended December 31, 2004 Rs.
INCOME			
Sale of software products and rendering software development services		808,574,781	561,161,038
Other income	15	7,684,001	2,556,120
Total		816,258,782	563,717,158
EXPENDITURE			
Personnel expenses	16	402,594,005	283,289,956
Operating and other expenses	17	233,837,146	219,547,677
Depreciation / amortisation	6	31,741,364	28,384,704
Financial expenses	18	8,481,056	9,505,114
Provision for diminution in value of long term investments (refer note 11(a) under Schedule 19)		-	2,000,000
Profit before tax		139,605,211	20,989,706
Current tax (net of excess provision of Rs. 181,145, Previous year Rs. Nil, related to earlier years)		6,120,290	1,500,000
Fringe benefit tax		2,641,190	-
Deferred tax (net of prior period item of Rs. 2,380,094 , Previous year Rs. Nil)		3,468,081	2,304,393
Total tax expense		12,229,561	3,804,393
Profit after tax		127,375,650	17,185,313
Balance brought forward from previous year		86,999,344	69,814,031
Balance carried to Balance Sheet		214,374,994	86,999,344
Earnings per share (also refer note 13 under Schedule 19)			
Basic [Nominal value of shares Rs. 2 (Previous year: Rs. 2)]		4.92	0.65
Diluted [Nominal value of shares Rs. 2 (Previous year: Rs. 2)]		4.82	0.63

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 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

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
	Rs.	Rs.
A. Cash flow from operating activities		
Net profit before taxation	139,605,211	20,989,706
Adjustments for:		
Depreciation / amortisation	31,741,364	28,688,137
Miscellaneous expenditure written off	-	4,226,699
Provision for doubtful debts and advances	7,658,583	2,967,987
Bad debts and advances written off	3,345,418	307,474
Provision for diminution in value of investment	-	2,000,000
Loss on sale / discard of fixed assets(net)	654,517	793,436
Unrealised foreign exchange loss / (gain)	1,170,030	2,444,648
Interest income	(2,328,082)	(1,303,317)
Write back of provision for doubtful debts	(449,256)	-
Excess provisions written back	(212,429)	(294,291)
Interest expense	7,305,198	8,097,086
Operating profit before working capital changes	188,490,554	68,917,565
Movements in working capital :		
Decrease / (Increase) in sundry debtors	(41,843,564)	(107,095,576)
Decrease / (Increase) in other current assets	(12,730,323)	18,983,045
Decrease / (Increase) loans and advances	(26,882,796)	(29,457,471)
Increase / (Decrease) in provisions	5,453,365	4,835,794
Increase / (Decrease) in current liabilities	8,458,744	43,820,113
Cash generated from operations	120,945,980	3,470
Direct taxes paid (net of refunds)	(4,868,518)	2,701,370
Interest on income-tax refund	107,664	218,720
Net cash from operating activities	116,185,126	2,923,560
B. Cash flows used in investing activities		
Purchase of fixed assets	(56,579,728)	(80,964,578)
Proceeds from sale of fixed assets	791,946	202,800
Purchase of investments (net of deferred compensation to the erstwhile shareholders of EC Net Limited)	-	(8,825,231)
Interest received	2,301,388	1,084,597
Net cash used in investing activities	(53,486,394)	(88,502,412)
C. Cash flows from / (used in) financing activities		
Proceeds from borrowings	6,136,257	93,607,621
Repayment of borrowings	(45,645,836)	(7,397,149)
Proceeds from issue of equity shares, including share application money pending allotment	1,764,574	-
Share issue expenses	(2,390,943)	-
Interest paid	(7,305,198)	(8,203,084)
Net cash from / (used in) financing activities	(47,441,146)	78,007,388
Net increase in cash and cash equivalents (A + B + C)	15,257,586	(7,571,464)
Cash and cash equivalents at the beginning of the year	24,851,785	32,423,249
Cash and cash equivalents at the end of the year	40,109,371	24,851,785
Components of cash and cash equivalents as at	December 31, 2005	December 31, 2004
	Rs.	Rs.
Cash on hand	38,483	131,174
Balances with scheduled banks		
On current accounts	7,904,760	9,568,592
On EEFC accounts	4,959,507	2,241,103
On deposit accounts	16,011,748	1,776,976
Balance with other bank		
On current account	10,165,341	10,447,511
	39,079,839	24,165,356
Unrealised loss on foreign currency cash and cash equivalents	1,029,532	686,429
Net cash and cash equivalents	40,109,371	24,851,785

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 (Finance) &
Company Secretary]

New Delhi
Date : March 10, 2006

R SYSTEMS INTERNATIONAL LIMITED
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</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	1,995,000	1,995,000
997,500 (Previous Year 997,500) equity shares of Rs. 2 each fully paid-up		
Less: Advance to Indus Software Employees Welfare Trust (also refer note 12 (b) under Schedule 19)	393,288	413,644
Add: Share application money		-
	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) are issued for consideration other than cash. (See also note 10 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 write off of investment in ECnet Limited (also refer note 11 (c) 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 12 (b) under Schedule 19)	2,823,030	2,969,148
	432,712,977	465,341,452
<u>Balance in Profit and Loss Account</u>		
Balance as per last account	86,999,344	69,814,031
Add: Transferred from Profit and Loss Account	127,375,650	17,185,313
	214,374,994	86,999,344
	647,087,971	552,340,796

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2005 Rs.	As at December 31, 2004 Rs.
Schedule 3: Secured loans		
Loans 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
Term loan facilities (Secured by first charge over the immovable property, fixed assets and current assets)	33,379,359	40,345,930
For motor vehicles (Secured by hypothecation of underlying motor vehicles)	6,336,939	6,737,634
	83,631,775	123,141,354

Note:

In case of term loan facilities- the amount repayable within one 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
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December	As at December
	31, 2005	31, 2004
	Rs.	Rs.
Schedule 4: Unsecured loans		
Loan from a subsidiary company	15,366,300	14,868,200
	15,366,300	14,868,200

Note:

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

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December	As at December
	31, 2005	31, 2004
	Rs.	Rs.
Schedule 5: Deferred tax liability		
Differences in depreciation/amortisation and other differences in block of fixed assets as per tax books and financial books	11,407,449	7,939,368
	11,407,449	7,939,368

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

											Rs.	
Schedule 6: Fixed assets												
	Land - freehold	Land - leasehold	Building - freehold	Building - leasehold (1)	Computers	Office and electrical equipments	Furniture and fittings	Vehicles	Softwares	Product development costs	Total	Previous Year
Gross block												
As at January 1, 2005	4,765,674	10,005,968	30,991,162	33,376,251	101,190,877	31,219,185	21,559,395	14,197,553	35,189,630	4,057,182	286,552,877	215,815,021
Additions	-	-	-	384,600	18,628,648	2,212,702	2,530,346	2,847,483	5,371,860	-	31,975,639	73,448,011
Deductions	-	-	-	-	-	239,050	130,451	2,391,135	-	-	2,760,636	2,710,155
At December 31, 2005	4,765,674	10,005,968	30,991,162	33,760,851	119,819,525	33,192,837	23,959,290	14,653,901	40,561,490	4,057,182	315,767,880	286,552,877
Depreciation / amortisation												
As at January 1, 2005	-	120,554	1,640,725	1,677,027	37,329,733	6,357,824	5,315,652	3,508,500	26,670,149	422,623	83,042,787	56,068,570
For the year	-	163,097	509,757	547,185	17,163,954	2,422,320	2,022,757	1,416,272	6,481,722	1,014,300	31,741,364	28,688,137
Deletions / adjustments	-	-	-	-	-	58,510	14,554	577,065	-	-	650,129	1,713,920
At December 31, 2005	-	283,651	2,150,482	2,224,212	54,493,687	8,721,634	7,323,855	4,347,707	33,151,871	1,436,923	114,134,022	83,042,787
Depreciation / amortisation for previous year	-	120,554	486,374	479,399	15,000,146	2,217,000	1,997,830	988,768	6,975,443	422,623	28,688,137	23,496,108
Net block												
At December 31, 2005	4,765,674	9,722,317	28,840,680	31,536,639	65,325,838	24,471,204	16,635,435	10,306,194	7,409,619	2,620,259	201,633,858	203,510,090
At December 31, 2004	4,765,674	9,885,414	29,350,437	31,699,224	63,861,144	24,861,362	16,243,743	10,689,053	8,519,481	3,634,559		
Capital work in progress (including capital advances of Rs.6,618,354 (Previous year Rs.1,655,748))											54,517,277	26,144,930
											256,151,135	229,655,020

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) In the year ended 2004 ,depreciation Rs. 303,433 has been capitalised towards product development costs.

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2005 Rs.	As at December 31, 2004 Rs.
Schedule 7: Investments		
Long term investments (at cost)		
A. Other than trade		
Equity shares		
2,500 (Previous year 2,500) equity shares of Rs.10 each in The Saraswat Co-operative Bank Limited	25,000	25,000
B. In subsidiary companies:		
Unquoted, fully paid up		
10,000,000 (Previous year 10,000,000) shares of "no par" value in R Systems Inc., USA	203,418,532	203,418,532
4,070,000 (Previous year 4,070,000) ordinary shares of Sing \$1 each in R Systems (Singapore) Pte. Ltd.	104,173,570	104,173,570
Less: Provision for diminution in value (see note 11 (a) under Schedule 19)	<u>7,989,770</u>	<u>7,989,770</u>
	96,183,800	96,183,800
243,750 (Previous year 243,750) common stock of US\$1 each fully paid up in Indus Software Inc., USA	10,785,738	10,785,738
Less: Provision for diminution in value	<u>10,784,738</u>	<u>10,784,738</u>
	1,000	1,000
17,651,705 (Previous year 17,651,705) ordinary shares of Sing \$ 0.06 each in ECnet Limited, Singapore	34,938,958	
Less : Adjustment with securities premium as per order of High Court (also refer note 11(c) under Schedule 19)	<u>24,495,721</u>	
	10,443,237	34,938,958
	310,071,569	334,567,290
Aggregate amount of unquoted investments	310,071,569	334,567,290

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2005 Rs.	As at December 31, 2004 Rs.
Schedule 8: Sundry debtors		
Debts outstanding for a period more than six months		
Unsecured, considered good	8,624,154	9,376,786
Considered doubtful	9,230,762	7,084,704
Other debts		
Unsecured, considered good	269,540,036	238,131,101
Considered doubtful	3,187,939	-
	<u>290,582,891</u>	<u>254,592,591</u>
Less : Provision for doubtful debts	12,418,701	7,084,704
	<u>278,164,190</u>	<u>247,507,887</u>

Included in Sundry debtors are:

Dues from the subsidiary companies:

R Systems Inc.	26,526,887	39,138,018
ECnet Ltd.	8,427,498	6,080,273
R Systems (Singapore) Pte. Ltd.	2,048,979	176,056

Schedule 9: Cash and bank balances

Cash on hand	38,483	131,174
Balances with scheduled banks		
On current accounts	7,904,760	9,568,592
On EEFC accounts	4,959,507	2,241,103
On deposit accounts	16,011,748	1,776,976
Balance with other banks		
On current account with California Bank & Trust	10,165,341	10,447,511
(Maximum balance during the year Rs.38,103,385, (Previous year Rs. 25,533,491)		
	<u>39,079,839</u>	<u>24,165,355</u>

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
Interest accrued on staff advance		45,799		12,542
Unbilled revenue	50,279,000		35,063,982	
Less: Anticipated cost to complete contracts	3,088,802	47,190,198	1,316,148	33,747,834
Unamortised expense on forward cover contracts		-		712,041
Fixed assets held for disposal (at net book value or estimated net realisable value, whichever is lower)		674,545		10,500
		<u>48,052,939</u>		<u>34,739,541</u>

R SYSTEMS INTERNATIONAL LIMITED
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. 5,145,226 considered doubtful, Previous year Rs. 4,778,200)	27,371,435	21,990,409
Advance to R.System Inc.	381,896	-
Advance recoverable from ECnet Limited (a subsidiary company)	482,020	823,546
Loan to ECnet Limited(a subsidiary company)	45,593,184	26,189,707
Advance to R Systems (Singapore) Pte Ltd (a wholly owned subsidiary)	871,538	1,395,341
Deposits - others	10,200,210	6,225,408
Income-tax receivable	9,669,429	4,942,347
	94,569,712	61,566,758
Less : Provision for doubtful advances	5,145,226	4,778,200
	89,424,486	56,788,558
Schedule 12: Current liabilities		
Sundry creditors	71,028,434	52,607,225
Unamortised income on forward cover contracts	909,484	-
Payable to subsidiary companies	72,013,777	74,295,399
Deferred payment compensation to the shareholders of ECnet Limited (refer note 11 (b) under Schedule 19)	26,368,974	4,579,824
Advance from customers	2,556,916	2,285,112
Security deposits	1,247,834	1,132,403
Other liabilities	6,707,469	5,935,545
	180,832,888	140,835,508
Schedule 13: Provisions		
Provision for taxation - income tax	7,825,000	1,825,000
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	10,224,789	7,161,082
	29,627,789	15,554,380

R SYSTEMS INTERNATIONAL LIMITED
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December		As at December
	31, 2005		31, 2004
	Rs.		Rs.
Schedule 14: Miscellaneous expenditure			
(to extent not written off or adjusted)			
a) Pre-operational expenses			
Balance as per last accounts	-	317,096	
Less : Written off	-	317,096	-
b) Fees for increase in share capital			
Balance as per last accounts	-	60,324	
Less : Written off	-	60,324	-
c) Contract acquisition expenses			
Balance as per last accounts	-	3,849,279	
Less : Written off	-	3,849,279	-
		-	-

R SYSTEMS INTERNATIONAL LIMITED
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		
Interest on:		
Bank deposits (Gross of tax deducted at source Rs. 35,805 Previous year Rs. 72,147)	284,629	241,592
Income-tax refund	107,664	218,720
Others (interest on loan to ECnet Ltd)	1,935,789	843,005
Consultancy fee	4,155,054	539,543
Provision for doubtful debts written back	449,256	-
Excess provisions written back, as no longer required	212,429	294,291
Miscellaneous income	539,180	418,969
	7,684,001	2,556,120

Schedule 16: Personnel expenses

Salaries, wages and bonus	376,293,636	262,132,986
Contribution to provident fund and other payments	14,828,688	10,789,969
Staff welfare expenses	11,471,681	10,367,001
	402,594,005	283,289,956

Schedule 17: Operating and other expenses

Power and fuel	16,154,277	11,999,596
Rent - premises	6,325,674	4,638,272
Rent - equipments	5,774,836	2,840,722
Rates and taxes	386,485	57,607
Insurance	2,186,169	2,124,173
Repair and maintenance		
- Buildings	199,364	213,990
- Others	10,272,009	11,682,449
Advertising and sales promotion	1,024,796	1,642,236
Commission-others	38,345,823	25,108,668
Traveling and conveyance	65,909,251	74,513,935
Communication costs (Including prior period expenses Rs Nil , Previous year Rs 1,005,989)	27,190,304	32,880,782
Printing and stationery	1,208,527	1,156,249
Consumption of stores	413,650	574,572
Legal and professional fees	14,718,801	16,583,185
Directors' sitting fee	35,000	5,000
Auditor's remuneration		
- Audit fee	1,322,400	716,300
- Other services	330,600	307,900
- Out of pocket expenses	65,000	22,000
Foreign exchange fluctuation (net of prior period income of Rs. 538,160, Previous year Rs. Nil)	8,861,339	6,310,276
Provision for doubtful debts and advances	7,658,583	2,967,987
Bad debts and advances written off	3,345,418	307,474
Loss on sale / discard of fixed assets (net)	654,517	793,436
Recruitment and training expenses	6,274,974	4,181,591
Management fees	10,067,244	10,151,998
Amortisation of miscellaneous expenditure	-	4,226,699
Miscellaneous expenses	5,112,105	3,540,580
	233,837,146	219,547,677

Schedule 18: Financial expenses

Interest		
- on ECB	772,361	500,047
- on loans from banks	6,532,837	7,597,039
Bank charges	1,175,858	1,408,028
	8,481,056	9,505,114

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

Schedule 19: Notes to accounts

1. Nature of operations

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

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

2. Statement of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) 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 are consistent with those used in the previous year.

All figures are in Rupees except where expressly stated.

(b) 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.

(c) Depreciation

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

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

<u>Category of fixed assets</u>	<u>Estimated useful life</u>
Land – leasehold	Lease period
Buildings – freehold / 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
Computer hardware and network installations	6 years
Furniture and fittings	15 years
Vehicles	10 years

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

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

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

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

Depreciation on additions made to fixed assets on account of foreign exchange fluctuation, is provided for over the remaining useful life of such assets.

(d) 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 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 products 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.

(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) Impairment

The carrying amounts of assets 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 assets 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.

(g) Leases

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

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

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

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

(h) Investments

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

(i) Revenue recognition

Revenue is 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 / customization 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 year in which the revisions are determined. If a loss is projected on any contracts in process, the entire projected loss is recognised currently.

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

(j) Foreign currency translation

Foreign currency transactions

(i) Initial recognition

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

(ii) Conversion

Foreign currency monetary items are reported using the closing rate.

(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 capitalized as a part of fixed asset.

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

(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.

(k) Retirement benefits

- i. 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.
- 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 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 Company. Payments of current income 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 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 realized.

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.

(m) Earnings per share

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

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

(n) Provision

A provision is recognised when an enterprise 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 its present value and are determined based on management estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current management estimates.

(o) Segment reporting policies

Identification of segments :

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

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

Intersegment transfers :

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

Allocation of common costs :

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

Unallocated items :

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

(p) 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.

3. Segment information

Business segments :

The Company considers business segment as the basis for primary segmental reporting. The Company is organized into two business segments – software development and customization 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 Company reports secondary segmentation information on the basis of the geographical location of the customers. Although the Company's major operating divisions are managed on a worldwide basis, they operate in four principal geographical areas of the world which are: India, United States of America, South East Asian countries and Other areas.

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R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

The following table provides required information for the primary segments for the year ended December 31, 2005 and year ended December 31, 2004:

(Amount in Rs.)

Particulars	Software development & customisation services		Business process outsourcing services		Eliminations		Corporate and others		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
REVENUE										
External sales	727,280,746	489,076,804	81,294,035	72,084,234	-	-	-	-	808,574,781	561,161,038
Inter-segment sales	-	1,588,657	-	-	-	1,588,657	-	-	-	-
Total revenue	727,280,746	490,665,461	81,294,035	72,084,234	-	1,588,657	-	-	808,574,781	561,161,038
RESULT										
Segment result	140,035,489	34,729,523	11,631,100	5,283,981					151,666,589	40,013,504
Unallocated corporate expenses							11,778,496	13,482,830	11,778,496	13,482,830
Operating profit									139,888,093	26,530,674
Interest expenses							(7,305,198)	(8,097,086)	(7,305,198)	(8,097,086)
Interest income							2,328,082	1,303,317	2,328,082	1,303,317
Other income							4,694,234	1,252,802	4,694,234	1,252,802
Income taxes							(12,229,561)	(3,804,394)	(12,229,561)	(3,804,394)
Net profit									127,375,650	17,185,313
OTHER INFORMATION										
Segment assets	544,318,068	518,820,473	63,016,582	57,858,115	49,933,067	59,392,441			557,401,583	517,286,147
Unallocated corporate assets							453,873,147	405,195,156	453,873,147	405,195,156
Income tax assets							9,669,429	4,942,347	9,669,429	4,942,347
Total assets	544,318,068	518,820,473	63,016,582	57,858,115	49,933,067	59,392,441	463,542,576	410,137,503	1,020,944,159	927,423,650
Segment liabilities	164,321,218	148,221,445	64,641,566	67,374,609	49,933,067	59,392,441			179,029,717	156,203,613
Unallocated corporate liabilities							119,939,594	157,698,945	119,939,594	157,698,945
Income tax liabilities							21,896,891	9,808,766	21,896,891	9,808,766
Total liabilities	164,321,218	148,221,445	64,641,566	67,374,609	49,933,067	59,392,441	141,836,485	167,507,711	320,866,202	323,711,324
Capital expenditures	56,601,786	55,632,750	3,746,200	7,809,293				34,495,150	60,347,986	97,937,193
Depreciation and amortization	26,538,229	23,688,309	5,203,135	4,696,385					31,741,364	28,384,694
Other non-cash expenses	10,004,097	3,844,147	1,654,421	4,451,449					11,658,518	8,295,596

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

Geographical segments:

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

The geographical segments considered for disclosure are based on the sales within India and sales outside India on the basis of location of customers.

The following is the distribution of the Company's revenues by geographical market:

Revenue by geographical market

	Year ended December 31, 2005	Year ended December 31, 2004
		Rs.
India	49,854,451	42,662,958
USA	570,198,085	385,266,591
South East Asia	44,624,034	18,263,082
Others	143,898,211	114,968,407
Total	808,574,781	561,161,038

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

The following table shows the carrying amount of assets and addition to fixed assets and intangible assets by geographical area in which assets are located:

	Carrying amount of assets Year ended December 31, 2005	Carrying amount of assets Year ended December 31, 2004	Addition to fixed assets and intangible assets Year ended December 31, 2005	Addition to fixed assets and intangible assets Year ended December 31, 2004
	Rs.	Rs.	Rs.	Rs.
India	766,741,331	689,060,215	57,783,090	96,804,352
USA	179,516,305	177,053,932	2,564,896	1,132,841
South East Asia	21,538,743	15,573,462	-	-
Others	53,147,780	45,736,041	-	-
Total	1,020,944,159	927,423,650	60,347,986	97,937,193

4. Related party disclosure

(i) Names of related parties

Subsidiaries

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

Key management personnel (directors)

Lt. Gen. Baldev Singh (Retd), Managing Director (as per Board of Directors resolution dated January 18, 2006 appointed Senior Executive Director)
Avirag Jain, Alternate Director
Raj Swaminathan, COO (Indus unit)
N. K. Garg, Alternate Director

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

(ii) Details of transactions with related parties for the year ended December 31, 2005 and year ended December 31, 2004

(Amount in Rs.)

	Year ended December 31, 2005	Year ended December 31,2004
Sales to		
ECnet Ltd, Singapore	13,636,984	5,663,104
R Systems, Inc., USA	69,228,869	49,577,618
R Systems (Singapore) Pte Ltd	2,033,091	176,983
Total	84,898,944	55,417,705
Other income		
R Systems Inc., USA	488,750	340,400
Management fee, commission on sales and other expenses paid to		
ECnet Ltd, Singapore	334,913	NIL
R Systems, Inc., USA	51,382,389	44,397,556
R Systems (Singapore) Pte Ltd	162,648	16,899
Total	51,879,950	44,414,455
Interest received from		
ECnet Ltd., Singapore	1,935,789	843,005
Interest paid to		
R Systems (Singapore) Pte Ltd	772,361	500,057
Travel and other expenses reimbursed to		
ECnet Ltd, Singapore	917,297	NIL
R Systems, Inc., USA	19,982,249	23,115,765
Indus Software, Inc, USA	189,819	NIL
R Systems (Singapore) Pte Ltd	104,526	33,947
Total	21,193,891	23,149,712
Travel and other expenses paid by company on behalf of		
ECnet Ltd, Singapore	1,049,889	957,709
R Systems, Inc., USA	8,236,189	1,470,244
Total	9,286,078	2,427,953
Reimbursement for purchase of assets		
R Systems ,Inc., USA	3,855,410	726,734
Assets obtained on loan from		
R Systems, Inc., USA	2,117,255	535,160
R Systems (Singapore) Pte Ltd	-	157,753
Total	2,117,255	692,913
Guarantee given to		
R Systems, Inc., USA	99,429,000	96,206,000
Loan given to		
ECnet Ltd, Singapore	18,390,600	26,550,473
Remuneration to key management personnel		
-Baldev Singh	1,337,363	1,126,174
-Avirag Jain	1,195,100	934,051
-N.K.Garg	-	1,253,401
Total	2,532,463	3,313,626

R SYSTEMS INTERNATIONAL LIMITED

NOTES TO ACCOUNTS

Balance outstanding as at the year end		
Receivable-trade		
ECnet Ltd, Singapore	8,427,498	6,080,273
R Systems, Inc., USA	26,526,887	39,138,018
R Systems (Singapore) Pte Ltd	2,048,979	176,056
Total	37,003,364	45,394,347
Receivable-others		
ECnet Ltd, Singapore	482,020	570,353
R Systems, Inc., USA	381,896	-
R Systems (Singapore) Pte Ltd	871,538	1,395,341
Total	1,735,454	1,965,694
Payable		
ECnet Ltd, Singapore	1,265,447	85,176
R Systems, Inc., USA	69,155,361	72,852,556
Indus Software, Inc., USA	1,592,969	1,357,667
Total	72,013,777	74,295,399
Assets obtained on loan		
R Systems, Inc., USA	8,295,285	6,178,030
R Systems (Singapore) Pte Ltd	157,573	157,753
Total	8,452,858	6,335,783
Guarantee given		
R Systems, Inc., USA	99,429,000	96,206,000
Loan given		
ECnet Ltd, Singapore	45,593,184	26,442,900
Loan Taken		
R Systems (Singapore) Pte Ltd	15,366,300	14,868,200

5. Leases

In case of assets taken on lease

The Company has operating leases for office premises, etc.

	Year ended December 31, 2005 Rs.	Year ended December 31,2004 Rs.
Lease payments for the year	3,842,184	3,842,184
Minimum lease payments:		
Not later than one year	3,843,251	3,842,184
Later than one year but not later than five years	4,222,130	7,893,550
Later than five years	-	-

6. Capital commitments

Commitments for acquisition of fixed assets	25,979,161	370,001
	25,979,161	370,001

R SYSTEMS INTERNATIONAL LIMITED

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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 on behalf of wholly owned subsidiary	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. Supplementary statutory information	Year ended December 31, 2005 Rs.	Year ended December 31,2004 Rs.
8.1 Directors' remuneration		
Salaries	759,600	759,600
Allowances and perquisites	290,711	316,174
Incentive	236,652	-
Contribution to provident fund	50,400	50,400
	1,337,363	1,126,174
Alternate directors' remuneration		
Salaries	697,535	1,458,363
Allowances and perquisites	220,500	606,466
Incentive	216,585	-
Contribution to Provident fund	60,480	122,623
	1,195,100	2,187,452

Note:- As the future liability for gratuity and leave encashment is provided on an actuarial basis for the Company as a whole, the amount pertaining to the directors is not ascertainable and, therefore, not included above.

8.2 Earnings in foreign currency (on accrual basis)		
Exports at F.O.B. Value	758,720,330	518,498,080
Consultancy income	4,155,054	539,543
Interest	1,935,789	843,005
Reimbursement of Travel / Communication costs	34,126,264	24,910,750
	798,937,437	544,791,378
8.3 Expenditure in foreign currency (on accrual basis)		
Traveling	57,672,405	83,829,446
Commission	38,050,461	25,108,668
Management fees	10,067,240	10,151,998
Interest	772,361	500,057
Salaries, consultancy and other miscellaneous expenses	16,095,923	20,721,491
	122,658,390	140,311,660

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	Year ended December 31, 2005 Rs.	Year ended December 31, 2004 Rs.
8.4 Value of imports calculated on CIF basis		
Capital goods	<u>30,593,481</u>	<u>20,655,819</u>
	30,593,481	20,655,819

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.

9. Sundry creditors do not include any amounts payable to small scale and ancillary industrial undertakings, to the extent such parties have been identified by the management from available documents/information.
10. Issued, subscribed and paid up capital includes:
- 18,000,000 (Previous year 18,000,000) equity shares of Rs. 2 each, allotted as fully paid up bonus shares by way of capitalisation of accumulated profits.
 - 335,000 (Previous year 335,000) equity shares of Rs. 2 each, allotted at a premium of Rs. 2,167.55 per equity share pursuant to a contract for share swap with existing shareholders of R Systems Inc., USA after obtaining necessary regulatory approvals.
 - 3,596,869 (Previous year 3,596,869) equity shares of Rs. 2 each, allotted at a premium of Rs. 113.42 per equity share pursuant to a "Shareholders Agreement" resulting in share swap with specific shareholders of Indus Software Private Limited (or 'Indus') after obtaining necessary regulatory approvals.
 - 1,281,364 (Previous year 1,281,364) equity shares of Rs. 2 each, allotted at a premium of Rs. 113.42 per equity share to the remaining shareholders of Indus, pursuant to the approval of "Scheme of Amalgamation" relating to the amalgamation of Indus with the Company by the High Courts of Delhi and Mumbai.
11. (a) During the earlier years, a provision of Rs.7,989,770 had been made towards decline, in the value of the Company's investment in one of its wholly owned subsidiaries, R Systems (Singapore) Pte Ltd, which was considered as other than temporary by the management. During the year, the management has re-assessed this wholly owned subsidiary's future projections and budgets based on current year's actual performance being at par with that budgeted. Accordingly, the management is of the view that no diminution, other than temporary and other than already provided for, exists in the value of investments in this subsidiary company and hence no further provision on this account is required.
- (b) 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. 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 investment 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.

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(c) As referred in note 11(b) above, the Company had invested Rs. 34,938,958 towards acquisition of 98.59% shareholding in ECnet Limited, Singapore. The investee company is currently into losses and the net worth is fully eroded. During the year, the Company has filed a petition with the High Court of Delhi seeking its approval for writing down the investment value to Rs.10,443,237 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 investment 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 – 13 “Accounting for investments” issued by the Institute of Chartered Accountants of India, Securities Premium Account and Investment would have been higher by Rs.24,495,721.

12. (a) R Systems International Limited- Year 2004 Employee Stock Option Plan ('the 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 year ended December 31, 2005 and year ended December 31, 2004 is set out below:

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

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(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 over the years is set out below:

	Year ended December 31, 2005 Rs.	Year ended December 31,2004 Rs.
At the beginning of the years		
- 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 years		
- 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	-

(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% 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 year ended December 31, 2005 and year ended December 31, 2004 is set out below:

R SYSTEMS INTERNATIONAL LIMITED

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	Year ended December 31, 2005 Rs.	Year ended December 31,2004 Rs.
At the beginning of the years		
- 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 years		
- Grants outstanding under the plan	584,800	862,000
- Grants pending determination by the compensation committee	415,200	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.

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)

R SYSTEMS INTERNATIONAL LIMITED

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- (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.

- 13 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 to employees on exercise of options by them. The Company has also 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 capitalisation of accumulated profits. Adjusting the shares data for the above changes, the Earnings per share would be as under:

Earnings per share	For the year ended December 31, 2005	For the year ended December 31, 2004
Basic [nominal value of share Rs10 (previous year Rs10)]	11.89	1.60
Diluted [nominal value of share Rs10 (previous year Rs10)]	11.89	1.60
Net profit after tax	127,375,650	17,185,313
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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- 14** Previous year figures have been regrouped where necessary to make them comparable to the current 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 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]

Place : New Delhi
Date : March 10, 2006