

## Customer Success

Our Philosophy for Creating  
Stakeholder Value





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## Safe Harbor:

Certain Statements in this report concerning our future growth prospects are forward-looking statements, which involves a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding the success of our investments, risks and uncertainties regarding fluctuations in earnings, our ability to manage growth, intense competition in IT and consulting services including those factors which may affect our cost advantage, wage increases in India, our ability to attract and retain highly skilled professionals, time and cost overruns on fixed-price, fixed-time frame contracts, client concentration, restrictions on immigration, industry segment concentration, our ability to manage our international marketing and sales operations, reduced demand for technology and consulting services in our key focus areas, disruptions in telecommunication networks or system failures, our ability to successfully complete and integrate potential acquisitions, liability for damages on our service contracts and product warranty, the success of the companies in which the Company has made strategic investments, withdrawal of governmental fiscal incentives, political instability and regional conflicts, legal restrictions on raising capital or acquiring companies outside India, and unauthorized use of our intellectual property and general economic conditions affecting our industry. The Company may, from time to time, make additional written and oral forward-looking statements and does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company.



## Opportunities...

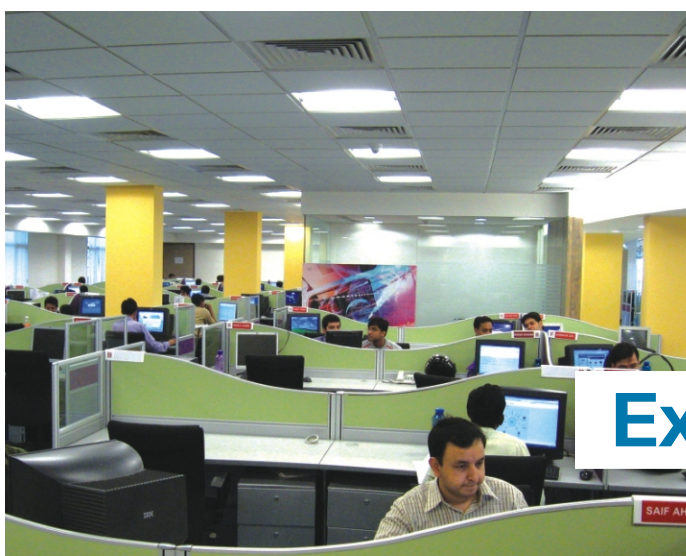
Global telecom networking that provides data and voice communication at economical prices has made the world flat. This along with Internet and software applications which are robust, scalable and secure have enabled businesses to tap a huge pool of global talent that until 20 years ago was not available. The world called this “Offshore Outsourcing.” The evolution in Offshore Outsourcing has been more dramatic than the genesis. Offshore outsourcing started with mundane work and tasks, however the speed of change is tremendous, and what was seemingly impossible earlier is now possible. A few years ago software products were primarily developed in the western world. Now, specialized companies such as R Systems, have made offshore product development and support a possibility with a huge value proposition of lowering costs and reducing the cycle time for development. According to NASSCOM-Mckinsey Report of 2005 just the outsourced product engineering market that was estimated at over US\$ 27 billion in 2006 is projected to double in next 4 to 5 years. R Systems, as one of the leaders in outsourced product development and support, is well positioned to take advantage of opportunities in this market space.



## Our Strategy...

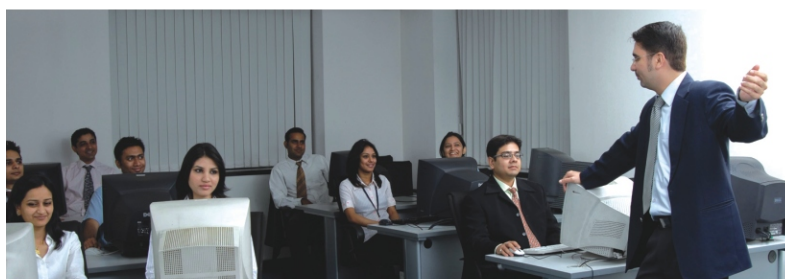
We are benefiting from the choices we made several years ago for focusing on certain niche areas and developing deep competency in them. Our chosen areas of expertise are Offshore Product Development and Support - what we call as **CPM Services** - Consumer Finance and Supply Chain Execution. Further, by relentlessly focusing on the customer needs and success and catering to entire customer needs in our chosen areas of competency, we have created a unique model of operating as an extended enterprise for our customers. Our relationships are deep and strategic that foster innovation, and provide an exciting environment for our employees to be enthusiastic and create opportunities for growth.





## Execution...

Our operating excellence is delivered by our people. They are amongst the best in the industry and they make the difference. Our ability to synthesize processes, technology, and people efforts proficiently enables us to deliver operating excellence on a consistent and predictable basis to all stakeholders. Our framework helps us to mitigate risks and deal with challenges to outperform. R Systems operating excellence in 2007 is underscored by our high repeat business and ability to enhance margins and earnings when US\$ depreciated by approx 9%.





## Chairman's Message

Dear Fellow Stakeholders,

I'm pleased to report to all stakeholders that our second year as a listed public company was great - a year in which we added several exciting new customers to our roster, and earned record revenues, profits, cash-flows and earnings per share. These superb achievements are a result of the collective hard work and commitment of all R System employees who are amongst the brightest in the industry. It is also the result of our relentless focus on understanding our customers' needs and delivering predictable tangible value and performance to them.

### Our Performance:

We earned record consolidated revenues of Rs. 247 crores - a growth of 21% in INR and 33% in US\$ terms, grew our profits 142% to Rs. 18.9 crores and earnings per share 126% to Rs. 13.97 per share. These impressive financial results were achieved against the background of a sharp and unexpected decline in the value of US\$ by 8.7% in 2007 which muted our revenues and margins. We strengthened our balance sheet through performance with shareholders funds of Rs. 142.5 crores or Rs.105.54 per share, cash and bank balances of Rs. 51.2 crores or Rs. 37.71 per share.

Our impressive operating performance this year and the strong financial position is also the result of our sound strategy. Our strategy is based on focusing in certain market segments, developing strong competencies in our chosen areas, creating global delivery model, working as an extended enterprises for our customers, providing an exciting environment for our employees and taking carefully measured risks for growth with a conservative financial strategy.

### Our Business:

R Systems is very uniquely positioned in the IT Services and Business Process Outsourcing industry ("BPO"). Our strategy is **iPLM** - Product Life Cycle Management - which comprises of software engineering and business process services for the high tech sector and R Systems products offerings in Retail Finance and Supply Chain.

Our primary offering, the **iPLM Services**, is designed to cater to the high technology sector. This ranges from strategic new software development to services such as product testing, maintenance, technical support and customer care. These services are delivered seamlessly through our global delivery platform using R Systems proprietary **iSuite** framework, and designed to give significant value to our customers. In the software product market the old paradigm of undertaking development and support in-house at any cost is giving away to relying on external partners, optimizing costs and focusing on customer relationships. This change is similar to the transformation in the hardware industry, which resulted in hardware companies focusing on brand, concept and customer relationships and outsourcing manufacturing to third party contract manufacturers and business processes to service providers. We are benefiting from a similar transformation in the software industry which is still in its early lifecycle.

At R Systems we have developed the proficiency to synthesize right skills in different locations, technology, and processes to deliver services in a seamless fashion to the technology sector, and protect our client's intellectual properties. Our end goal in serving the customers is old fashioned - to deliver performance and value for customer's success.

R Systems collective experience in **CPM** is impressive: 20+ million people hours working with over 150 products and 50+ referable clients. Our global platform for technical support and customer care is matchless with 18 languages that can serve customers in all major continents. Taking all these together gives us tremendous competitive advantage in our market place, and gives us the ability to focus on our customer's success.

In our products and components group our competency is in consumer finance and managing the supply chain between manufacturers and their trading partners on the supply as well as the demand side. Our solutions and offerings in these areas are robust and scalable and enable our customers to reliably execute millions of transactions per month. The strength of our solutions is underscored by the selection of R Systems products in consumer finance by three well known global finance companies over several global bidders in 2007. On the Supply Chain side, we are pioneers in delivering Supply Chain Software as a Service (SAAS), a business concept that is now evolving rapidly all over the world. This has been recently underscored by the fact that we have been selected by a global consumer electronics company as their sole vendor for their Electronic Procurement and Vendor Managed Inventory solutions.

### **Our Culture and Leadership:**

One of the biggest challenges in service industry is how to deliver performance when there are thousands of touch points with our customers. What makes R Systems different is our culture of empowerment, allowing employees to make decisions at all levels, analyze their own performance, trusting that individuals are best positioned to make their own decisions and our values of integrity. This system, along with our strategy of working as an extended enterprise for our customers, creates real leaders at all levels.

.Our customers and shareholders benefit from this system that unleashes our collective best effort, passion, imagination and matchless commitment.

However the above system by its very nature involves a certain degree of risk. We mitigate these risks by our rigorous processes and training for the sake of all our stakeholders. We continue to invest in and harness the best of breed quality models, proprietary frameworks, tools, practices and security standards to ensure that our clients' interests are protected and well served. Our quality models and security practices are amongst the best in the industry.

### **Looking Ahead:**

The year 2007 was challenging because the US\$ sank precipitously and it had the terrible potency to consume our earnings. We successfully dealt with it because of the resilience of our business, and we have entered 2008 with a strong momentum. However the question remains - whether we can sustain it because of the much feared recession in the US and the weaknesses in the global financial services industry. While this is a legitimate question, the true answer is that it is difficult to predict the impact. However, what I can confidently state is that we are well positioned to outperform in our chosen market segments for the following reasons:

- We undertake and manage critical processes for our clients at competitive prices and the value of our services is enhanced by our proprietary frameworks and methodologies;
- Looking ahead Our geographic concentration of revenues will be pretty broad - US: 60%, Europe: 25%, South-East Asian Countries: 7%, India: 4% and others: 4%;
- Our managers and employees are amongst the best in the industry;
- Most of our top ten customers are leaders in their space and they contribute almost 50% of our revenues;
- Our telephony infrastructure, delivery processes and product solutions are robust and scalable;
- R Systems balance sheet is strong with net shareholder funds of Rs. 142 crores (\$36 million) and cash and bank balances of Rs. 51 crores (\$13 million).

As we enter the new era of a flattening world I am extremely thankful to all our stakeholders who have enabled R Systems to be successful. I'm grateful to all our supporters in our journey - our customers, shareholders, bankers, the stock exchanges, Securities and Exchange Board of India, market makers, the software technology parks of India and various government organizations.

To my colleagues worldwide at R Systems, I am very proud of you and thankful. Our success has given us the confidence to dream bigger. Let us take our phenomenal enterprise to new glorious heights by competing with our past.

Sincerely,

Satinder Singh Rekhi  
(Chairman and Managing Director)



# Financial Highlights

(On the basis of Consolidated Financial Statements)

(Rs.In lacs)

Particulars	2007	2006	2005	2004	2003
Operating Revenue	<b>24,706</b>	20,395	15,779	13,235	12,247
Other Income	<b>571</b>	402	43	40	23
Exceptional Income	<b>145</b>	-	-	-	-
Total Income	<b>25,421</b>	20,797	15,822	13,274	12,269
EBITDA	<b>2,895</b>	2,179	2,002	657	314
EBT	<b>2,310</b>	1,391	1,442	69	(337)
EAT	<b>1,897</b>	782	1,248	23	(367)
Share Capital	<b>1,351</b>	1,351	514	514	514
Reserve and Surplus	<b>12,906</b>	11,473	5,602	4,586	4,699
Secured Loans	<b>63</b>	243	1,013	1,259	597
Fixed Assets (net)	<b>6,104</b>	5,549	2,821	2,821	2,109
Investments	<b>120</b>	135	16	16	17
Current Assets (net)	<b>8,446</b>	7,783	4,087	3,433	3,295

## KEY RATIOS

(On the basis of Consolidated Financial Statements)

Particulars	2007	2006	2005	2004	2003
Debt -equity ratio	<b>0.01</b>	0.04	0.17	0.29	0.11
Days Sales Outstanding	<b>78</b>	82	88	82	83
Current ratio	<b>2.93</b>	2.72	2.79	2.71	2.69
Cash and bank balances/ Total assets (%)	<b>26.88%</b>	29.54%	12.23%	11.26%	15.73%
Cash and bank balances/ Total income (%)	<b>20.15%</b>	25.57%	7.29%	7.28%	9.89%
EBITDA / Total income (%)	<b>11.39%</b>	10.48%	12.66%	4.95%	2.56%
EBT / Total income (%)	<b>9.09%</b>	6.69%	9.11%	0.52%	(2.75%)
EAT / Total income (%)	<b>7.46%</b>	3.76%	7.89%	0.17%	(2.99%)
Return on Avg. Equity (%)	<b>14.01%</b>	8.26%	22.22%	0.45%	(6.09%)
Return on Avg. Capital Employed (%)	<b>16.95%</b>	14.03%	21.98%	2.67%	(5.14%)
Earning Per Share (Rs.)					
- Basic	<b>13.97</b>	6.17	11.65	0.21	(3.39)
- Diluted	<b>13.78</b>	6.17	11.65	0.21	(3.39)
Dividend Per Share (Rs.)	<b>1.80</b>	1.20	-	-	-
Book Value Per Share (Rs.)	<b>105.54</b>	94.93	59.66	49.64	50.32

\* Figures for the year 2003 to 2005 have been reworked or reclassified to give effect to consolidation of five equity shares of Rs. 2 each into one equity share of Rs.10 each and then issue of 1:1 bonus share for each share held in 2006.

### Note

EBITDA - Earnings before interest, tax, depreciation, amortisation, exceptional item and prior period expenses.

EBT - Earnings Before Tax

EAT - Earnings After Tax

EBIT - Earnings before interest and tax

Debt Equity ratio = Long Term Debt/ Equity

Days Sales Outstanding = Average Trade Receivables/ Net Credit Sales\*360

Current Ratio = Current Assets/ Current Liabilities

Return on Avg. Equity (%) = Net Profit after tax / Average Equity

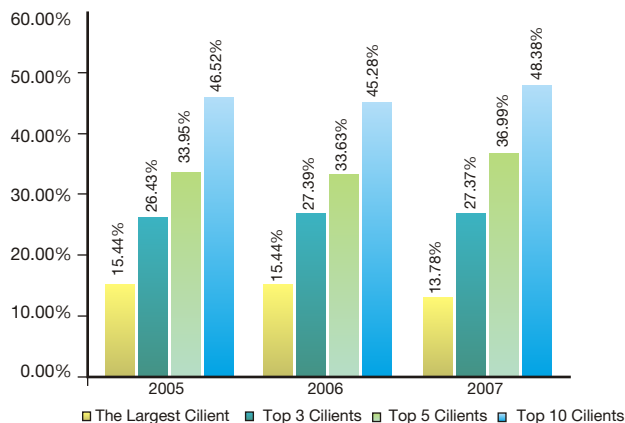
Return on Avg. Capital Employed (%) = EBIT / Average Capital Employed



### Client Concentration

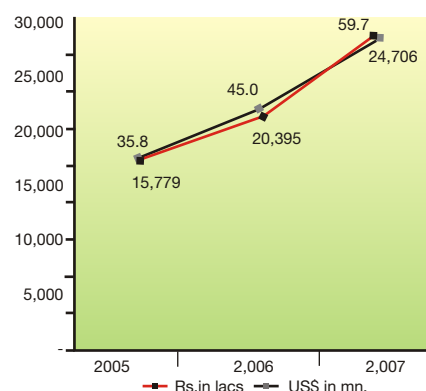
R Systems top ten clients include customers who are global leaders in their space. The contribution from the largest client, top three, top five and top ten customers is given below. The total contribution from the top ten customers increased from Rs 9,236 lacs or 45.28% of total revenues in 2006 to Rs.11,952 lacs or 48.38% of total revenues in 2007

(On the basis of consolidated revenues)



### Growth in Consolidated Operating Revenue

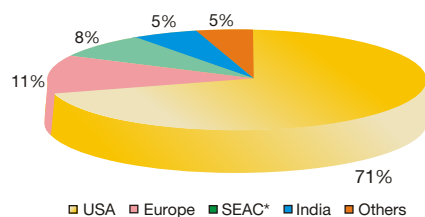
During the year 2007, operating revenue grew 21.14% to Rs 24,706 lacs as compared to Rs 20,395 lacs in 2006 and 32.70% from US\$45.00 million in 2006 to US\$ 59.74 million in 2007 in terms of US\$. The growth rate when translated to INR was lower on account of the sharp appreciation of the INR against the USD. The CAGR for last three years was 25%.



### Revenue Split Geography

R Systems earns revenue from various geographic territories, mainly the United States of America, Europe, South-East Asian countries ("SEAC"), India and others countries. Revenues from USA decreased from 73.22% during the year 2006 to 70.53% in 2007 mainly due to increase in revenues from Europe.

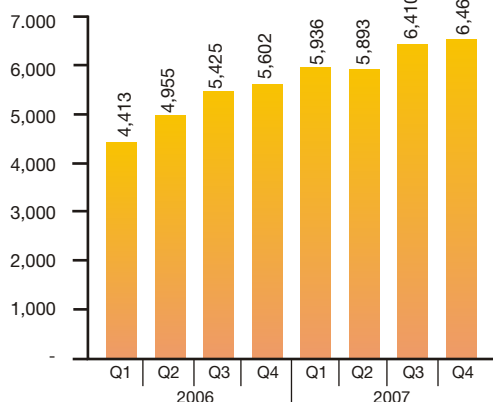
### Consolidated Revenue by Geography 2007



\*SEAC means South East Asian Countries

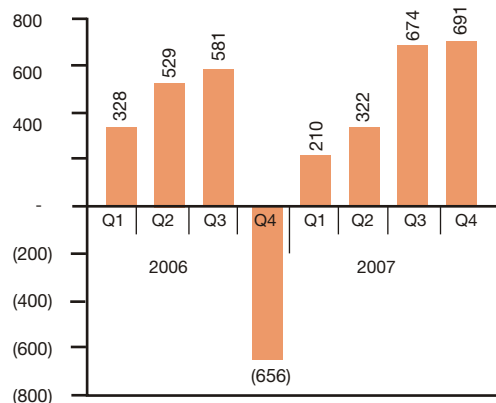
### Q-Q Growth in Consolidated Operating Revenue

(Rs.in lacs)



### Q-Q Growth in Consolidated Profits/(Loss) After Taxes

(Rs.in lacs)



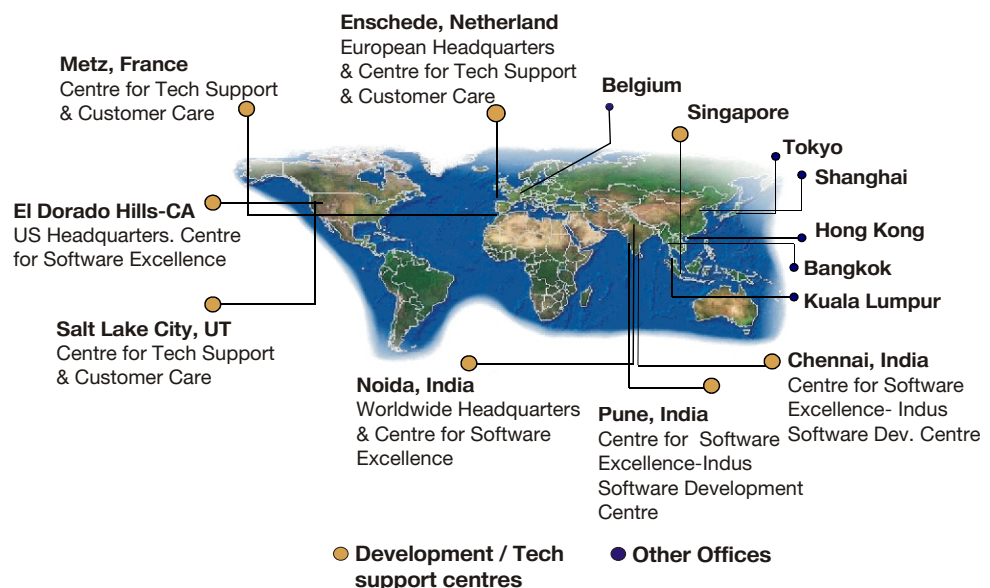
Q4-2006 earnings were impacted by non-recurring and one time items.



# Delivering Value

Through Customer Success

R Systems International Limited founded in 1993, is one of the leading provider of outsourced product development and customer support services. We help companies accelerate the speed to market for their products and services with a high degree of time and cost predictability by using our proprietary pSuite execution framework. Clients can choose services specific to their needs from R Systems iPLM suite of services. We help companies build scalable, configurable and secure products and applications; and help our clients to support their customers for products and services using our global delivery model. R Systems rapidly growing customer list includes a variety of Fortune 1000, government and mid-sized organizations across a wide range of industry verticals including Banking and Finance, High Technology and Independent Software Vendors, Government, Health Care, Manufacturing and Logistic Industries. R Systems maintains eight development and service centres and using our global delivery model we serve customers in the US, Europe, South America, the Far East, the Middle East and Africa.



## OUR OFFERINGS

### iPLM Services

We are one of the largest off-shore based IT services companies that focuses on the special needs of organizations that build scaleable, configurable, secure products for both businesses and consumers. Using our iPLM suite of services, software product and service companies typically enter into multiple year contracts with us to help develop, sustain, and support their products. We use our pSuite framework to provide best of breed services to our clients under these contracts. The services are rendered using a combination of on-site, onshore and offshore services. Proprietary project tracking and reporting tools help in creating a collaborative environment that provide our clients complete visibility into our product development teams based in our global development centres just as effectively as the teams located at client locations. An overview of the services provided and drivers that enable us to successfully execute on our iPLM services are provided below.

#### Schematic:



R Systems iPLM suite of Services and its pSuite execution methodology have been designed to meet the specific needs of outsourced software product development companies. Our customers benefit by using our iPLM services by (a) getting products to market faster thereby generating additional revenues (b) Providing a competitive advantage and greater flexibility in

resource deployment (c) Lowering costs (d) Improved quality.

Starting in 1999, we have served over 200 customers and we have made a positive impact on over 150 products for our customers. Among our customers are well known global leaders, market leaders and category leaders in digital media, internet security, health care, banking, financial services and enterprise software.

### BPO Services

R Systems BPO service offerings are either an integral part of iPLM service offerings or leverage our domain competencies. As part of the iPLM suite we offer customer care and technical support services to the high technology sector.





R Systems services are offered through a seamlessly integrated global hybrid delivery model concurrently using our service centres in India, US, Europe and Singapore. R Systems voice network is based on IP telephony supported by a global leader and MPLS network that provides multisite disaster recovery and helps us to seamlessly handle the technical support and customer care processes of our global clients from multiple locations in 18 languages. R Systems hybrid delivery model helps our clients to mitigate perceived risks such as lack of proximity to customers or disaster planning, offers a choice to clients who prefer to use onshore services for strategic reasons, and gives a significant cost advantage.

R Systems BPO offerings also include revenue cycle management in health care and other back office services such as data processing and document management. The expertise for these services is gained from our domain knowledge in iPLM services or the products group in financial services and supply chain.

We have over 20 customers who currently use our services. Among our customers are a Fortune 500 manufacturer of telephone handsets and telecom equipment, a global leader in electronics, one of world's largest manufacturers of monitors, an internet security company, and mobility applications organization.

### **Enterprise Application Services**

R Systems Enterprise Application Services is designed for organizations that look to improve their operations by using IT as a strategic tool. This includes implementation of solutions such as Supply Chain Management, Business Intelligence, and Enterprise Portal Solutions. R Systems, in partnership with industry leading vendors such as Microsoft, IBM, Oracle and BEA Systems, provide these solutions along with long term offshore support services. We have a large pool of trained functional and technical consultants who assist enterprises with implementing these solutions either on-site or offshore.

We have over twenty customers in this space including various departments of the State of California and Oregon.

### **R Systems Products Group**

#### *Indus® Lending Solutions - Product Description*

“Lending solution from the Indus Lending Solutions Business” is a modular and parameter driven, n-tier application that helps automate the customer acquisition lifecycle for multiple retail products offered through multiple business channels. It allows customers to launch new products and schemes; change rules on-the-fly and customize product offerings based on their individual needs. The product is equipped with tools to evaluate risk and improve decision-making. It

will track the repayment schedules of the customer and can come with a powerful customer-servicing module. Delinquent accounts can be tracked all the way from early collections to accounts that need to be resolved through legal means. The lending solutions from the Indus Lending Solutions Business contain three modules - 'Indus Loan Origination', 'Indus Loan Servicing' and 'Indus Collections'.

### 1. Indus Loan Origination

The Indus Loan Origination module is an integrated multi portfolio solution that adapts to customer's business model. It manages loan processing from application entry, credit appraisal, sanction to disbursement. The Indus Loan Origination Module reduces the turn around time from application capture to underwriting time by automating the application approval process. Its robust credit-scoring engine increases the speed of credit decisions and ensures that risk is minimized. The Indus Loan Origination Module provides the user the ability to capture comprehensive customer data. It will identify potential duplication and provides workflow management with features to manage and assign cases. It can interface with external credit bureaus, internal negative databases, the telephone directories, and external agencies for conducting field investigation or verification. The Loan Origination Module can also interface with a Core Banking System or a General Ledger.

### 2. Indus Loan Servicing

The Indus Loan Servicing Module is the second module from Lending Solutions from the Indus Lending Solutions Business. This module tracks and manages the repayment processes. It supports the accounting of receivables and allows multiple modes of repayment. It has a comprehensive customer servicing capability. The Indus Loan Servicing module provides the facility to manage the repayment of the loan that is offered by financial institutions and banks. It will interface with any kind of host banking system or accounting system as well as delinquency management systems. The communication and flow of information between this Module and the other external application can happen in an online mode or batch mode. It handles several activities as part of the repayment processes of a loan application. The system allows definition of the various payment modes specific to each client with the ability to track and change the payment modes. There is also a provision for insurance of the collateral and life of the borrower.



### 3. Indus Collections

The Indus Collections is the third module of Lending Solutions from Indus. It is a result of our extensive research on industry best practices. Indus Collections is a fully internationalized web-based product that provides a highly configurable and scalable solution for managing delinquencies across multiple portfolios. The module supports pre-emptive follow-up through early collections to late and legal collections.

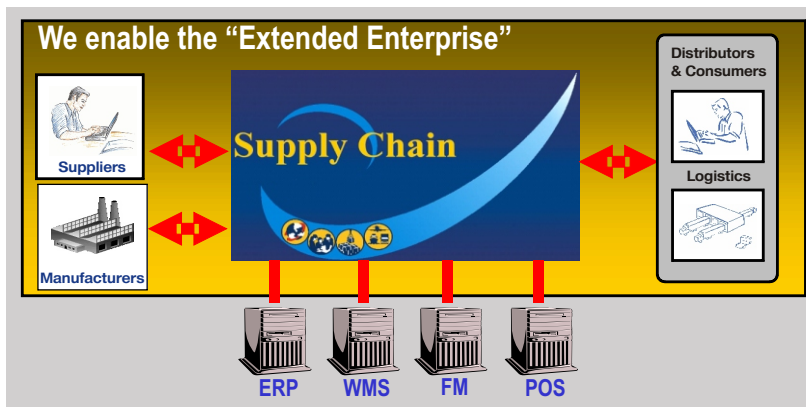


This workflow driven module can handle all the business processes of collections, be it automated dunning letter generation at user-defined triggers or rule-based queuing and allocation of cases to different profiles of collectors. At the same time, it is flexible enough to plug-in additional customer or country-specific functionality. Critical business objectives of “End-user Productivity” and “Better Control on Processes” have been the guiding force in the design of this product. Some of the most exciting product features include the ability to action multiple cases in a single user-action, view the inventory of cases in list mode, apply user-definable filters to view specific cases, re-allocation based on runtime parameters, parallel follow-up with co-allocation and portfolio-specific overview screens. Additionally, the product has ancillary modules that include modules for temporary receipt management, commission and incentive calculations, repossession workflow and collateral & document tracking.

R Systems has over 30 customers for its Indus Lending Solutions Products. These customers are large banking and financial services organizations and R Systems engagement model involves a license sale of the product, services for customization and a maintenance support service for the software.

### ECnet® Supply Chain Execution

ECnet is our manufacturing vertical involved in providing total solutions to the manufacturing industry with a focus primarily on integrating enterprise with its trading partners and logistic providers. These range of products and services are offered to the market under the ECnet brand. ECnet G5 Solution, an integrated suite that aims to reduce all supply chain costs through improved collaboration, optimization and holistic management of the complex interaction between an organization and its trading partners and logistic providers. The ECnet solution leverages on the existing legacy investments and provide a very powerful, cost effective, productivity enhancing solution to our customers.



R Systems customers for ECnet products include some of the leading and world class electronic manufacturing companies. R Systems services are provided under a hosted solution model under which both the client and their trading partners pay a monthly fee.



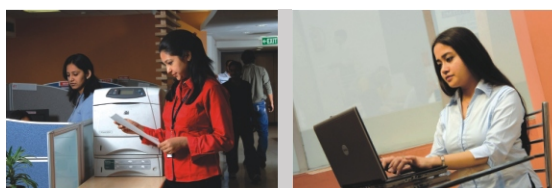
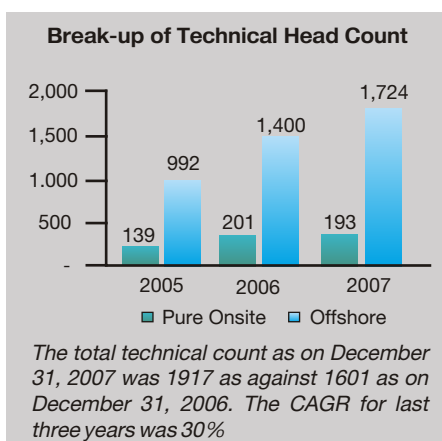
## Mobilising Talent

To Create Customer Success

R Systems emphasizes a commitment to good people practices. This focus provides our employees a culture that encourages ethical behavior, respect for fellow employee, and performing their jobs with responsibility, honesty and integrity. The ethos promotes professionalism in the interactions of employees with colleagues, customers and other stakeholders.

R Systems has cultivated an organisational culture of empowering its people to make decisions. It is decentralised and gives adequate exposure and encouragement to its teams to arrive at their task related decisions without undue dependence on senior management. This functional autonomy strengthens their capability across ranks and roles and translates into better responsiveness to customers. Our people are conscious that they make all the difference to the customer's experience of our products and support, and it is they who achieve customer satisfaction for the Company.

At R Systems we recognize that our employees make the difference and collectively power us to reach for more ambitious goals. The working environment encourages creativity, openness, excellence, courage, performance and agility. We help grow careers through training, counseling, workshops that build technical, teamwork, business and leadership skills in our employees. We are constantly improving the facilities keeping pace with best practices in the industry.





## Raising Competence

For Customer Success

R Systems makes continual investments in organization behavior and management processes to ensure that these certified industry standards are continually adhered to. As on date Noida global development centre is ISO 9001:2000, SEI CMMi level 5 and ISO 27001:2005 certified, Noida BPO centre is ISO 9001:2000 and ISO 27001:2005 certified. Pune and Chennai development centres are SEI CMM Level 5 and ISO 9001:2000 certified.

In the IT and ITES industry, attracting, developing, deploying and retaining talent is critical and the Company has defined and implemented a People Management Initiative which is in line with industry best practices and People CMM. It effectively manages the Employee Life Cycle so that individuals are committed, have pride and show proactiveness on the job.

The continuing compliance with these standards demonstrates the rigor of R Systems processes and differentiates us to keep our competitive edge in service offering.







## Getting Acclaims...

On Creating Customer Success



“Revionics” Executives  
with R Systems Executives

“Panasonic” Executives With  
R Systems Executives



“DADA.com” Executives  
with R Systems Executives



## Acclaims Galore...

Hi guys,  
The D500. For the KPN-UI is looking very promising!!!  
Thank you for the excellent work!!!!!! Please extend my regards to the entire team!!!!

**Hugo Duerholt** (Nokia Siemens Network)

Hi Jai  
R Systems have done a superb job of determining requirements. Thinking through all of the “gotchas” and coming up with an elegant solution. I’m confident we are going to have a rock-solid, intuitive, and highly functional product to provide our customers.

**Jon Pierce** (Victor Medical Company)

I would like to take this opportunity to thank the R Systems development team in India that has been working on the Revionics project. The team has been very diligent and has worked very hard to meet the tight deadlines we had for this very important initiative. The application that was delivered was spot-on in regards to the expectations for the application.

We are excited to move forward with this dedicated team under the ODC structure, and look forward to many more successful projects and a rewarding relationship for both companies.

**Jeff Smith** (Revionics, Inc.)

I would like to echo Jack’s congratulations. This is definitely the best looking, and most usable application I have seen at ESPRE.

I know there has been long hours from the R system team to accomplish this, and I am sure many challenges working with the new engine. Your persistence and dedication are much appreciated

**Nancy Korman** (Espre Solutions)

## Corporate Information

### Board of Directors

As on April 05, 2008

- Mr. Satinder Singh Rekhi  
(Chairman and Managing Director)
- Mr. O'Neil Nalavadi  
(Director Finance and Chief Financial Officer)
- Lt. Gen. Baldev Singh (Retd.)  
(President and Senior Executive Director)
- Mr. Raj Swaminathan  
(Director and Chief Operating Officer)
- Mr. Raj Kumar Gogia  
(Non Executive Independent Director)
- Mr. David Richard Sanchez  
(Non Executive Independent Director)
- Mr. Gurbax Singh Bhasin  
(Non Executive Independent Director)
- Mr. Suresh Paruthi  
(Non Executive Independent Director)

### Committees of the Board of Directors

#### Audit Committee

- Mr. Raj Kumar Gogia  
(Chairman)
- Mr. David Richard Sanchez  
(Member)
- Mr. Gurbax Singh Bhasin  
(Member)
- Mr. Suresh Paruthi  
(Member)
- Mr. O'Neil Nalavadi  
(Member)

### Shareholders / Investors Grievance Committee

- Mr. Raj Kumar Gogia  
(Chairman)
- Mr. Suresh Paruthi  
(Member)
- Mr. Satinder Singh Rekhi  
(Member)
- Lt. Gen. Baldev Singh (Retd.)  
(Member)

### Remuneration Committee

- Mr. Raj Kumar Gogia  
(Chairman)
- Mr. David Richard Sanchez  
(Member)
- Mr. Gurbax Singh Bhasin  
(Member)
- Mr. Suresh Paruthi  
(Member)

### Compensation Committee

- Mr. Raj Kumar Gogia  
(Chairman)
- Mr. David Richard Sanchez  
(Member)
- Mr. Suresh Paruthi  
(Member)
- Lt. Gen. Baldev Singh (Retd.)  
(Member)

### Company Secretary and Vice President Finance

- Mr. Nand Sardana

### Registered Office

B - 104A, Greater Kailash - I,  
New Delhi - 110 048.

### Corporate Office

C - 40, Sector - 59,  
Noida - 201 307.

### Statutory Auditors

S. R. Batliboi & Associates  
Chartered Accountants

### Registrar & Share Transfer Agent

M/s Intime Spectrum  
Registry Limited  
A-40, 2nd Floor,  
Naraina Industrial Area,  
Phase - II, Near Batra  
Banquet Hall,  
New Delhi - 110 028.

### Bankers to the Company

- 1 State Bank of India
- 2 ICICI Bank Limited
- 3 HDFC Bank Limited
- 4 UTI Bank
- 5 Oriental Bank of Commerce
- 6 Syndicate Bank
- 7 Canara Bank
- 8 ABN Amro Bank
- 9 Citibank NA
- 10 Vijaya Bank
- 11 State Bank of Bikaner & Jaipur
- 12 Punjab National Bank
- 13 California Bank & Trust, USA

### Listed At

National Stock Exchange of India  
Limited &  
Bombay Stock Exchange Limited

### Subsidiaries of R Systems International Limited

1. R Systems (Singapore) Pte. Limited, Singapore
2. R Systems, Inc., USA
3. Indus Software, Inc., USA
4. ECnet Limited, Singapore
5. R Systems Solutions, Inc., USA
6. R Systems NV, Belgium
7. Sento Europe B.V., Netherland  
(w.e.f. January 23, 2008)
8. Sento S.A.S., France (w.e.f. January 23, 2008)

### Subsidiaries of ECnet Limited

9. ECnet (M) SDN. BHD, Malaysia
10. ECnet, Inc., USA
11. ECnet (Hong Kong) Limited, Hong Kong
12. ECnet Systems (Thailand) Co. Ltd., Thailand
13. ECnet Kabushiki Kaisha, Japan
14. ECnet (Shanghai) Co. Ltd., People's Republic of China



## DIRECTORS' REPORT

Dear Shareholders,

Your directors have great pleasure in presenting the Fourteenth Annual Report on the business and operations of R Systems International Limited ("R Systems" or the "Company") together with the audited statements of accounts for the year ended December 31, 2007.

### 1. Financial Results

#### a. Standalone financial results of R Systems

Particulars	Financial Year ended (Rs. in lacs)	
	31.12.2007	31.12.2006
Gross revenues	16,467.65	12,247.29
Profit before depreciation and tax	3,360.47	1,710.87
Less: Depreciation	534.49	453.12
<b>Profit before tax</b>	<b>2,825.98</b>	<b>1,257.75</b>
Less: Current tax	315.88	144.38
Less : MAT credit entitlement	(49.81)	-
Less: Fringe benefit tax	66.79	54.26
Less: Deferred tax	75.98	54.24
<b>Profit after tax (available for appropriation)</b>	<b>2,417.14</b>	<b>1,004.87</b>
Proposed final dividend	244.49	162.99
Corporate dividend tax on final dividend	41.55	27.70
Transfer to general reserve	181.29	25.12
<b>Balance carried forward to Balance Sheet</b>	<b>1,949.81</b>	<b>789.06</b>

#### b. Consolidated financial results of R Systems and its subsidiaries

Particulars	Financial Year ended (Rs. in lacs)	
	31.12.2007	31.12.2006
Gross revenues	25,421.12	20,796.66
Profit before depreciation and tax	3,014.26	1,982.07
Less: Depreciation	704.11	591.24
<b>Profit before tax</b>	<b>2,310.15</b>	<b>1,390.83</b>
Less: Current tax	328.11	155.23
Less : MAT credit entitlement	(49.80)	-
Less: Fringe benefit tax	66.79	54.26
Less: Deferred tax	67.91	398.91
<b>Profit after tax (available for appropriation)</b>	<b>1,897.14</b>	<b>782.43</b>
Proposed final dividend	244.49	162.99
Corporate dividend tax on final dividend	41.55	27.70
Transfer to general reserve	181.29	25.12
<b>Balance carried forward to Balance Sheet</b>	<b>1,429.81</b>	<b>566.61</b>

## DIRECTORS' REPORT

### 2. Results of Operations

#### Standalone Accounts

- Gross revenues for the year 2007 increased to Rs. 16,467.65 lacs as against Rs. 12,247.29 lacs during the year 2006, a growth of 34.46%.
- Profit after taxes was Rs. 2,417.14 lacs during the year 2007 as compared to Rs. 1,004.87 lacs during 2006, a growth of 140.54%.
- Basic earnings per share was Rs. 17.80 for the financial year 2007 as compared to earnings per share of Rs. 7.92 for the financial year 2006, a growth of 124.75%.

#### Consolidated Accounts

- Consolidated gross revenues for the year 2007 increased to Rs. 25,421.12 lacs as against Rs. 20,796.66 lacs during the year 2006, a growth of 22.24%.
- Profit after taxes was Rs. 1,897.14 lacs during the year 2007 as compared to Rs. 782.43 lacs during 2006, a growth of 142.47%.
- Basic earnings per share was Rs. 13.97 for the financial year 2007 as compared to earnings per share of Rs. 6.17 for the financial year 2006, a growth of 126.42%.

### 3. Appropriations and Reserves

#### Dividend

Taking into consideration the profits for 2007 and positive outlook for future, the Board of Directors (the "Board") is pleased to recommend a final dividend of Rs. 1.80 per equity share, being 18% on the par value of Rs. 10 per share (previous year Rs. 1.20 per share, being 12% on the par value of Rs. 10 per share), to be appropriated from the profits of the Company for the financial year 2007 subject to the approval of the shareholders at the ensuing Annual General Meeting. The dividend, if approved, will be paid to all those equity shareholders whose names appear in the Register of Members of the Company as at the opening business hours on April 25, 2008 after giving effect to all valid share transfers in physical form which would be received by the Company's registrar and share transfer agent M/s Intime Spectrum Registry Limited up to the end of business hours on April 24, 2008 and to those whose names appear as beneficial owners in the records of National Securities Depository Limited ("NSDL") and Central Depository Services (India) Limited ("CDSL") as on the said date.

The register of members and share transfer books shall remain closed from April 25, 2008 to May 02, 2008, both days inclusive.

#### Transfer to Reserves

It is proposed to transfer a sum of Rs. 18,128,529 (Rupees One crore eighty one lacs twenty eight thousand five hundred twenty nine only) to the general reserves being 7.5% of the current year's profit in accordance with the Companies (Transfer of Profits to Reserves) Rules, 1975.

### 4. Business

#### iPLM Services Group

R Systems founded in 1993 is one of the leading providers of outsourced product development and customer support services. We help companies accelerate the speed to market for their products and services with a high degree of time and cost predictability by using our proprietary pSuite execution framework. Our clients can choose services specific to their needs from R Systems iPLM suite of services. We help companies build scalable, configurable and secure products and applications; and help our clients to support their customers for products and services using our global delivery model.

#### Products Group

In the Products Group, R Systems has a range of products that caters to the banking, finance, manufacturing and logistics industry. The banking and consumer finance solutions are sold under the Indus<sup>®</sup> brand name and the supply chain solutions for manufacturing and logistics industry are sold under the ECnet<sup>®</sup> brand name.

#### Customers and Delivery Centres

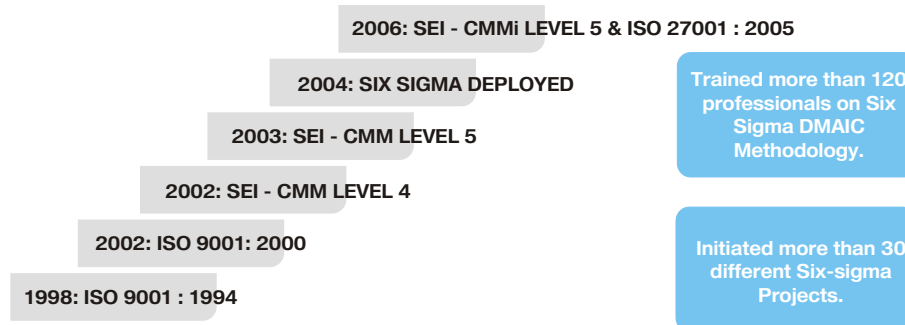
R Systems rapidly growing customer list includes a variety of Fortune 1000, government and mid-sized organizations across a wide range of industry verticals including Banking and Finance, High Technology and Independent Software Vendors, Government, HealthCare, Manufacturing and Logistic Industries. R Systems maintains eight development and service centres and using our global delivery model we serve customers in the US, Europe, South America, the Far East, the Middle East and Africa.



## DIRECTORS' REPORT


### 5. Quality

R Systems has continuously invested in processes, people, training, information systems, quality standards, frameworks, tools and methodologies to mitigate the risks associated with execution of projects. Adoption of quality models and practices such as the Software Engineering Institute's Capability Maturity Model Integrated (SEI-CMMi) and Six Sigma practices for processes have ensured that risks are identified and mitigated at various levels in the planning and execution process. R Systems journey for various quality certifications / standards for the development and service centres in India are given below:



In November 2006, R Systems Noida IT and BPO Centres were awarded ISO 27001 : 2005 certification by Intertek Quality Registrar. With the said certification, R Systems joins a select group of service companies worldwide to have achieved the ISO 27001 standards. This process maturity helps R Systems in creating value for its customers by consistently delivering high quality services through very integrated and secure processes, technologies and techniques. It also enables R Systems to meet the stringent information security and statutory compliance requirements of the clients. This certification process provides the necessary tools for monitoring and controlling the effectiveness of the control measures and ensures that information security practices fulfill all business and legal requirements on a continuing basis.

As on the date of this report Noida IT centre is ISO 9001 : 2000, SEI - CMMi level 5 and ISO 27001 : 2005 certified, Noida BPO centre is ISO 9001 : 2000 and ISO 27001 : 2005 certified. Pune and Chennai development centres are SEI - CMM level 5 and ISO 9001 : 2000 certified.

To maintain and strengthen competitive strengths, R Systems continues to make investments in its unique and proprietary  work with best practices, tools and methodologies for flawless execution and consistent delivery of high quality software. The pSuite framework offers services along the entire software lifecycle that includes technology consulting, architecture, design and development, professional services, testing, maintenance, customer care and technical support. R Systems expects that its technology focus, investment in processes, talent and methodologies will enable it to distinguish itself from competition as it seeks to provide services to technology / product companies.

### 6. Acquisitions

During the year ended December 31, 2007, the Company signed an "Assets Purchase Agreement" with XtraSource Acquisition, Inc., USA and Sento Corporation, USA (the holding company of XtraSource Acquisition, Inc., USA) to acquire 100% shares of two wholly owned subsidiaries (Sento B.V., Netherlands and Sento S.A.S, France) of XtraSource Acquisition, Inc. (collectively referred to as Sento Europe). The above transaction was completed on January 23, 2008.

Sento Europe was founded during the years 1999 and 2000, having its headquarter in Enschede, Netherlands. It provides a wide range of integrated, multi-channel communications for customer interaction, self-help support sites, integrated chat/email, CRM applications, technical expertise and a variety of other customer services in 18 European languages. Sento Europe provides a wide range of services in relation to Customer Relationship Management which includes technical support and after sale services to the customers of its clients. The matrix of customer support includes self help devices (self-help portal, Interactive Voice Response (IVR) and online customer forums) and live support which includes agent assisted e-mail, chat, toll free and payphone systems which helps in resolving customer issues in relation to billing information, refunds, claims, shipping, satisfaction surveys, complaint resolution, tracking, account status information and warranty registrations. Sento Europe achieved revenues of approximately US\$14.85 million during the year ended March 2007.

### 7. Directors

During the year under review, following changes took place in the office of directors of R Systems:

Mr. Raj Kumar Gogia and Lt. Gen. Baldev Singh (Retd.) were reappointed as directors of R Systems at the previous annual general meeting held on May 01, 2007.

Mr. Suresh Paruthi and Mr. Raj Swaminathan were regularized as directors of R Systems at the previous annual general meeting held on May 01, 2007.

## DIRECTORS' REPORT

Lt. Gen. Baldev Singh (Retd.) was reappointed as President and Senior Executive Director of R Systems by the Board at its meeting held on October 28, 2007 for a period of one year and three months i.e. w.e.f January 01, 2008 to April 01, 2009.

At the ensuing Annual General Meeting Mr. David Richard Sanchez and Mr. Gurbax Singh Bhasin, directors of the Company are liable to retire by rotation in accordance with the provisions of Section 255 and 256 of the Companies Act, 1956 and being eligible, both of them offer themselves for reappointment as the directors of R Systems.

None of the directors of R Systems is disqualified as per the provisions of Section 274(1) (g) of the Companies Act, 1956. The directors of R Systems have made necessary disclosures, as required under various provisions of the Act and Clause 49 of the Listing Agreement.

### 8. Employees Stock Options Plans

The industry in which R Systems operates is people intensive and R Systems believes that human resources play a pivotal role in the sustainability and growth of the Company. R Systems has always believed in rewarding its employees with competitive compensation packages for their dedication, hard work, loyalty and contribution towards better performance of the Company. To enable more and more employees to be a part of the financial success of the Company, retain them for future growth and attract new employees to pursue growth, R Systems has set up employees stock option plans / schemes from time to time for its employees and for the employees of its subsidiaries. As on the date of this report the prevailing stock option plans of R Systems are as follows:

- A. R Systems International Ltd. - Year 2004 Employee Stock Option Plan: For the employees of R Systems and its subsidiaries other than ECnet Limited.
- B. R Systems International Ltd. - Year 2004 Employee Stock Option Plan- ECnet: For the employees of ECnet Limited, a subsidiary of R Systems.
- C. Indus Software Employees Stock Option Plan - Year 2001: Initially formulated for the employees of Indus Software Private Limited which got amalgamated with R Systems and the plan continues as per the scheme of amalgamation approved by the Hon'ble High Court of Delhi and Mumbai. As on the date of this report no stock options are in force under this plan.
- D. R Systems International Limited Employee Stock Option Scheme 2007: For the employees of R Systems and its subsidiaries.

As required under Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme), Guidelines, 1999, details relating to the options approved, granted, vested, exercised, lapsed, in force etc. under the prevailing employees stock option plans / schemes during the year ended December 31, 2007 after making the required adjustments for consolidation of each of the 5 equity shares of Rs. 2 each into 1 equity share of Rs. 10 each are as follows:

#### A. R Systems International Ltd.- Year 2004 Employee Stock Option Plan

a.	Total number of shares covered under the plan as approved by the shareholders	199,500
b.	Pricing Formula	Prevailing Price once the Company's shares are listed and at the Fair Market Value as per the terms of R Systems International Ltd. - Year 2004 Employees Stock Option Plan on the date such option is granted when the Company's shares are not listed.
c.	Options granted during the year	NIL
d.	Options vested during the year	36,825
e.	Options exercised during the year	NIL
f.	The total number of shares arising as a result of exercise of options during the year	NIL
g.	Options lapsed during the year	12,480
h.	Variation of terms of options during the year	NIL
i.	Money realized by exercise of options during the year (Rs.)	NIL
j.	Total number of options in force at the end of the year	94,480
k.	Employee wise details of options granted to (during the year);	
	(i) Senior managerial personnel;	NIL
	(ii) Any other employee who receives a grant in any one year of options amounting to 5% or more of options granted during that year;	NIL
	(iii) identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant.	NIL
l.	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options.	17.56

No stock options were granted under the plan during the year ended December 31, 2007.



## DIRECTORS' REPORT

### B. R Systems International Ltd. - Year 2004 Employee Stock Option Plan - ECnet

a.	Total number of shares covered under the plan as approved by the shareholders	200,000
b.	Pricing Formula	Prevailing Price once the Company's shares are listed and at the Fair Market Value as per the terms of R Systems International Ltd. - Year 2004 Employees Stock Option Plan - ECnet on the date such option is granted when the Company's shares are not listed.
c.	Options granted during the year	NIL
d.	Options vested during the year	5,880
e.	Options exercised during the year	NIL
f.	The total number of shares arising as a result of exercise of options during the year	NIL
g.	Options lapsed during the year	29,000
h.	Variation of terms of options during the year	NIL
i.	Money realized by exercise of options during the year (Rs.)	NIL
j.	Total number of options in force at the end of the year	17,801
k.	Employee wise details of options granted to (during the year);	
	(i) Senior managerial personnel;	NIL
	(ii) Any other employee who receives a grant in any one year of options amounting to 5% or more of options granted during that year;	NIL
	(iii) identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant.	NIL
l.	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options.	17.56

No stock options were granted under the plan during the year ended December 31, 2007.

### C. Indus Software Employees Stock Option Plan - Year 2001

a.	Total number of shares covered under the plan	73,898
b.	Pricing Formula	As approved under the "Scheme of Amalgamation" of Indus Software Private Limited with the Company by the Hon'ble High Courts of Delhi and Mumbai.
c.	Options granted during the year	NIL
d.	Options vested during the year	NIL
e.	Options exercised during the year	NIL
f.	The total number of shares arising as a result of exercise of options during the year	NIL
g.	Options lapsed during the year	NIL
h.	Variation of terms of options during the year	NIL
i.	Money realized by exercise of options during the year (Rs.)	NIL
j.	Total number of options in force at the end of the year	NIL
k.	Employee wise details of options granted to (during the year);	
	(i) Senior managerial personnel;	NIL
	(ii) Any other employee who receives a grant in any one year of options amounting to 5% or more of options granted during that year;	NIL
	(iii) identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant.	NIL
l.	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options.	17.56

All options granted under this plan are either vested and exercised or lapsed.

During the year ended December 31, 2007 R Systems has not granted any options under any of the aforementioned plans. For options granted in the previous years R Systems has used the fair value of the stock options for calculating the employees compensation cost.



## DIRECTORS' REPORT

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, to determine accounting impact, if any, of options granted over the periods. In the considered opinion of the valuer, 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 by the valuer 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	26	154	
Current share price	Rs.	16	16	140	Taken on the basis of NAV and PECV method of valuation.
Expected option life	No. of Years	5	5	2.5	Being half of the maximum option life.
Volatility	%	1	1	0.5	In case of unlisted shares, the volatility may be taken as zero. Verma committee also recommends this.
Risk free return	%	7	7	11.3	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 Ltd. - Year 2004 Employee Stock Option Plan under which the price was based on Rs. 2 per share.

\*\* R Systems International Ltd. - Year 2004 Employee Stock Option Plan - ECnet under which the price was based on Rs. 2 per share.

\*\*\* Indus Software Employees Stock Option Plan - Year 2001 under which originally the price was based on Rs. 10 per share for 21,967 shares. As a result of amalgamation of Indus Software Private Limited into R Systems, R Systems had issued 206,822 equity shares of Rs. 2 each pursuant to the swap ratio approved by Hon'ble High Court of Delhi and Mumbai.

The above information is based on Rs. 2 per share prior to consolidation of 5 equity shares of Rs. 2 each into one equity share of Rs.10 and subsequent allotment of bonus shares in the ratio of 1 : 1.

Further, for the purpose of valuation of the options granted during the year 2005 under R Systems International Ltd. - 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, to determine accounting impact, if any, of options granted. In the considered opinion of the valuer, the fair value of these option determined using 'Black Scholes Valuation Model' is "Nil" and thus no accounting thereof is required.

The assumptions used by the valuer 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.

The above information is based on Rs. 2 per share prior to consolidation of 5 equity shares of Rs. 2 each into one equity share of Rs.10 and subsequent allotment of bonus shares in the ratio of 1 : 1.



## DIRECTORS' REPORT

### D. R Systems International Limited Employee Stock Option Scheme 2007

During the year ended December 31, 2007 R Systems had instituted and implemented a new stock option plan for the employees of R Systems and its subsidiaries for grant of up to 650,000 options of Rs. 10 each. The details relating to the options approved, granted, vested, exercised, lapsed, in force etc. during the year ended December 31, 2007 are as follows:

a.	Total number of shares covered under the plan as approved by the shareholders	650,000
b.	Pricing Formula	<b>“Exercise Price”</b> means the market price which is payable for exercising the options and <b>“Market Price”</b> means the latest available closing price, prior to the date of the meeting of the Board of Directors / Compensation Committee, in which options are granted, on the stock exchange on which the shares of the Company are listed. If the shares are listed on more than one stock exchange, then the stock exchange where there is highest trading volume on the said date shall be considered.
c.	Options granted during the year	632,500
d.	Options vested during the year	NIL
e.	Options exercised during the year	NIL
f.	The total number of shares arising as a result of exercise of options during the year	NIL
g.	Options lapsed during the year	22,000
h.	Variation of terms of options during the year	NIL
i.	Money realized by exercise of options during the year (Rs.)	NIL
j.	Total number of options in force at the end of the year	610,500
k.	Employee wise details of options granted to (during the year);	
	(i) Senior managerial personnel;	As listed below
	(ii) Any other employee who receives a grant in any one year of options amounting to 5% or more of options granted during that year;	NIL
	(iii) identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant.	NIL
l.	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options	17.56

Employee wise details of options granted to directors and senior managerial personnel are as follows:

S. No.	Name	Options Granted
1.	Mr. Raj Swaminathan (Director and Chief Operating Officer)	60,000
2.	Mr. Mandeep Sodhi	25,000
3.	Mr. Ashok Bhatia	25,000
4.	Mr. Vinay Narjit Singh Behl	25,000
5.	Mr. Avirag Jain	25,000
6.	Mr. Nand Sardana	20,000
7.	Mr. Sidhartha Shankar Dubey	20,000
8.	Mr. Shankar Seetharaman	16,000
9.	Mr. Ajit Srinivasan	9,000

For the purpose of valuation of the options granted during the year ended December 31, 2007 under R Systems International Limited Employee Stock Option Scheme 2007, the compensation cost relating to Employee Stock Options, calculated as per the intrinsic value method is Nil.

The management obtained fair value of the options at the date of grant from a firm of Chartered Accountants. In the considered opinion of the valuer, the fair value of these options determined using 'Black Scholes Valuation Model' is "Rs. 50.73" per option.

## DIRECTORS' REPORT

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

Assumptions	Unit	Scheme	Comments by the valuer
Strike price	Rs.	120.70	
Current share price	Rs.	118.50	Price on the date of grant by Board of Directors i.e. closing price on July 11, 2007.
Expected option life	No. of Years	4	Being the vesting period.
Volatility	%	44	On the basis of industry average.
Risk free return	%	7	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	%	0.86	Company has declared dividend of 12% in the past. Assuming that it will continue declaring similar dividends in future.

The stock based compensation cost calculated as per the intrinsic value method for the financial year 2007 is Nil. If the stock based compensation cost was calculated as per fair value method prescribed by SEBI, the total cost to be recognized in the financial statements for the year 2007 would be Rs. 7,689,451. The effect of adopting the fair value method on the net income and earnings per share is presented below:

### Pro Forma adjusted Net Income and Earnings Per Share

Particulars	Year ended December 31, 2007 (Amount in Rs.)
Net Income as reported	241,713,718
<b>Add</b> : Intrinsic Value Compensation Cost	-
<b>Less</b> : Fair Value Compensation Cost	7,689,451
<b>Adjusted Pro Forma Net Income</b>	<b>234,024,267</b>
<b>Earnings Per Share : Basic</b>	
As reported	17.80
Adjusted Pro Forma	17.23
<b>Earnings Per Share : Diluted</b>	
As reported	17.56
Adjusted Pro Forma	17.00

### Weighted average exercise price of options granted during the year

Scheme A : R Systems International Ltd. - Year 2004 Employee Stock Option Plan.

Scheme B : R Systems International Ltd. - Year 2004 Employee Stock Option Plan - ECnet.

Scheme C : Indus Software Employees Stock Option Plan-Year 2001.

Scheme D : R Systems International Limited Employee Stock Option Scheme 2007.

S. No.	Particulars	Scheme A	Scheme B	Scheme C	Scheme D
1.	Exercise price equals market price	N.A.	N.A.	N.A.	Rs. 120.70
2.	Exercise price is greater than market price	N.A.	N.A.	N.A.	N.A.
3.	Exercise price is less than market price	N.A.	N.A.	N.A.	N.A.

As no options are granted during the year under Scheme A, Scheme B and Scheme C hence the required information is not applicable.



## DIRECTORS' REPORT

### Weighted average fair value of the options granted during the year

S. No.	Particulars	Scheme A	Scheme B	Scheme C	Scheme D
1.	Weighted Average Fair Value of Options	Nil	Nil	Nil	Rs. 50.73

### 9. Liquidity and Borrowings

The consolidated cash and cash equivalent as on December 31, 2007 were Rs. 5,040.78 lacs as against Rs. 5,239.29 lacs as on December 31, 2006.

Net cash provided by consolidated operating activities was Rs. 1,491.42 lacs for the year ended December 31, 2007 as against Rs. 1,318.62 lacs for the year ended December 31, 2006. The increase in cash from operating activities during the year ended 2007 is due to growth in business activities and profitability of the Company. Cash flow from operating activities is the significant source of funding for investing and financing activities. The cash in hand per share was Rs. 37.71 as on December 31, 2007 as compared to Rs. 39.15 as on December 31, 2006.

During the year, R Systems consolidated operations invested Rs. 1,216.51 lacs in fixed assets. R Systems had paid Rs. 386.99 lacs and Rs. 54.66 lacs as deferred payment compensation to the erstwhile shareholders of R Systems Solutions, Inc. (formerly named as WebConverse, Inc.) and ECnet Ltd. respectively. The interest received from investing activities during 2007 was Rs. 327.89 lacs as against Rs. 127.33 lacs in 2006.

Cash flow from financing activities during the year 2007 was an outflow of Rs. 398.14 lacs mainly due to an outflow of Rs. 173.04 lacs for repayment of borrowing net of fresh borrowings, payment of Rs. 34.41 lacs as interest over borrowings, Rs. 162.99 lacs pertaining to the dividend declared in the year 2006 and Rs. 27.70 lacs for the dividend tax paid on it.

Our policy is to maintain sufficient liquidity to fund the anticipated capital expenditures, operational expenses and investments for strategic initiatives.

R Systems has lines of credits from State Bank of India amounting to Rs. 500 lacs and R Systems, Inc., has lines of credit from California Bank & Trust, USA of US\$ 2.2 million (Rs. 867.57 lacs). The total borrowings outstanding under these lines of credit as of December 31, 2007 were Nil as against Rs. 154.79 lacs as on December 31, 2006. R Systems primary bankers in India are State Bank of India, ICICI Bank Limited, HDFC Bank Limited and UTI Bank Limited while in USA and Singapore the bankers are California Bank & Trust and Citibank N.A. respectively.

### 10. Changes in the Capital Structure

There were no changes in the capital structure during the year under review.

### 11. Stock Exchanges where the securities of R Systems are listed

The equity shares of R Systems have been listed and are traded on the following stock exchanges:

#### National Stock Exchange of India Limited ("NSE")

"Exchange Plaza",  
Bandra Kurla Complex,  
Bandra - (E),  
Mumbai - 400 051

#### Bombay Stock Exchange Limited ("BSE")

Phiroze Jeejeebhoy Towers,  
Dalal Street,  
Mumbai - 400 001

The annual listing fee for the year 2007 - 08 was paid within the scheduled time to NSE and BSE. The annual listing fee for the year 2008 - 09 has fallen due on March 31, 2008 and will be paid before April 30, 2008 as prescribed under the listing Agreement.

### 12. Material changes affecting the financial position of the Company

In January 2008 i.e. subsequent to the close of financial year 2007, R Systems completed the acquisition of Sento Europe B.V., a Netherlands corporation and Sento S.A.S., a French corporation (collectively known as Sento Europe) from Sento Corporation, USA.

Sento Europe with operations in Enschede, Netherlands and Metz, France provides a wide range of integrated technical support and customer care services through multiple channels in 18 European languages and 24 countries. Sento Europe primarily focuses on the technology sector and amongst its clients are the world's leading consumer electronic companies. Sento Europe achieved revenues of approximately US\$ 14.85 million during the year ended March 2007.

Except as detailed above there were no other significant events after the end of the financial year 2007 which would materially affect the financial position of R Systems.

## DIRECTORS' REPORT

### 13. Particulars of conservation of energy, technology absorption and foreign exchange earnings and outgo

The particulars as prescribed under Section 217 (1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the report of the Board of Directors) Rules, 1988 for the year ended December 31, 2007 are as follows:

#### A. Conservation of Energy

During the year ended December 31, 2007 R Systems has initiated action plans to curtail the energy bills by adopting various energy conservation options / technologies as identified by Federation of Indian Chambers of Commerce & Industry ("FICCI") through a detailed Energy Audit carried out by FICCI for R Systems Noida operations. Significant measures are taken to reduce energy consumption by using energy efficient equipments and devices. R Systems constantly evaluates new technologies and makes appropriate investments to be energy efficient. Currently the Company uses CFL fittings and electronic ballasts to reduce power consumption of fluorescent tubes. The air is conditioned with energy efficient compressors for central air conditioning and with split air conditioning for localized areas. However R Systems being in a software industry, energy costs constitute a very small portion of the total cost and the financial impact of these measures is not material.

Form A is not applicable to the software industry.

#### B. Technology Absorption

The particulars with respect to Technology Absorption are given below:

##### (a) Research and development (R & D)

1. Specific areas in which R & D carried out by the Company  
Software product development in outsourced projects and in our own products.
2. Benefits derived as a result of the above R & D  
Product quality has improved and new products have been introduced.
3. Future plan of action  
The Company continues to focus its efforts on innovations in software development processes.
4. Expenditure on R & D  
The Company's R & D activities are part of its normal software development process. There is no separate R & D department and hence there is no specific capital or recurring R & D expenditure. It is not practicable to identify R & D expenditure out of the total expenditure incurred by the Company.

##### (b) Technology absorption, adaptation and innovation

1. Efforts made towards technology absorption, adaptation and innovation  
The Company is focused on innovation. It has established practice streams in specific technologies. These steps will lead to greater innovation and adaptation of new technologies.
2. Benefits derived as a result of the above efforts  
High product quality and increased business potential
3. Technology imported during the last 5 years  
Not applicable, as no technology has been imported by the Company.

#### C. Foreign Exchange Earnings and Outgo (Accrual Basis)

A significant percentage of R Systems revenues are generated from exports. The development and service centres in Noida, Pune and Chennai are registered with the Software Technology Park of India in their respective areas as 100% Export Oriented Undertakings.

The total foreign exchange used and earned by R Systems during the year as compared with the previous year is as follows:

Particulars		Financial Year ended (Rs. in lacs)	
		31.12.2007	31.12.2006
(a)	Earnings (Accrual Basis)	14,881.89	11,517.59
(b)	Outgo (Accrual Basis)*	2,496.00	1,857.04

\* Excluding share issue expenses incurred in foreign currency of Rs. Nil in the year 2007 and Rs. 41.30 lacs in year 2006.

### 14. Subsidiaries

During the year ended December 31, 2007 R Systems had invested an amount of US\$ 1.00 million equivalent to Rs. 43,852,500 in its wholly owned subsidiary R Systems Solutions, Inc. Further the Company had invested US\$ 0.50 million equivalent to Rs. 19,940,000 in its wholly owned subsidiary R Systems, Inc.

On August 28, 2007 R Systems had incorporated a wholly owned subsidiary in Belgium named as R Systems NV with an investment of Euro 62,000 equivalent to Rs. 3,471,640. The principal activities of R Systems NV are to carry on the business of software development and rendering of consultancy services.



## DIRECTORS' REPORT

After the aforesaid establishment, R Systems had twelve subsidiaries as on December 31, 2007. The names and country of incorporation of those subsidiaries are as follows:

S. No.	Name of the Subsidiaries	Country of Incorporation
1.	R Systems (Singapore) Pte. Limited	Singapore
2.	R Systems, Inc.	USA
3.	Indus Software, Inc.	USA
4.	ECnet Limited	Singapore
5.	R Systems Solutions, Inc.	USA
6.	R Systems NV	Belgium
7.	ECnet (M) SDN. BHD #	Malaysia
8.	ECnet, Inc. #	USA
9.	ECnet (Hong Kong) Limited #	Hong Kong
10.	ECnet Systems (Thailand) Co. Ltd. #	Thailand
11.	ECnet Kabushiki Kaisha #	Japan
12.	ECnet (Shanghai) Co. Ltd. #	People's Republic of China

# wholly owned subsidiaries of ECnet Limited, Singapore being the 98.59% subsidiary of R Systems.

All the aforementioned twelve subsidiaries are incorporated and based outside India. In addition to providing services to various international clients these subsidiaries also help to generate revenues for R Systems. The Board of Directors of R Systems regularly reviews the affairs of these subsidiaries.

The holding company is required to attach the documents relating to its subsidiaries as prescribed under Section 212 of the Companies Act, 1956 along with its annual report. R Systems has applied and has been exempted by the Ministry of Corporate Affairs vide its letter no. 47/405/2007-CL-III dated November 02, 2007 from attaching the balance sheet, profit & loss account, directors' report, auditors' report etc. in respect of the subsidiaries. Accordingly, the annual report of R Systems does not contain the financial statements of its subsidiaries, but contains the consolidated audited financial statement of the Company and its subsidiaries. Further as directed by the Ministry of Corporate Affairs, information in aggregate in respect of key items such as (a) capital (b) reserves (c) total assets (d) total liabilities (e) details of investments (except in case of investments in subsidiaries) (f) turnover (g) profit before taxation (h) provisions for taxation (i) profit after taxation and (j) proposed dividend for each subsidiary has been disclosed in brief abstract forming part of the balance sheet.

Further, the annual accounts of the subsidiaries and the related detailed information will be made available to the investors of the holding company and its subsidiaries seeking such information at any point of time. Annual accounts of the subsidiaries will also be available for inspection during business hours at the Company's registered office and in the offices of the subsidiaries.

Subsequent to the close of the financial year December 31, 2007 R Systems had successfully completed the acquisition of Sento Europe B.V., a Netherlands corporation and Sento S.A.S., a French corporation (collectively known as Sento Europe) from Sento Corporation, USA. After the said recent acquisition R Systems has in aggregate fourteen subsidiaries.

### 15. Particulars of employees

As required under the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of employees) Rules, 1975, as amended, the names and other particulars of employees are set out in the annexure to this report.

### 16. Directors' responsibility statement

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to directors' responsibility statement, your directors hereby confirm that:

- (i) In the preparation of the annual accounts for the financial year ended December 31, 2007, the applicable accounting standards had been followed along with proper explanation relating to material departures, wherever applicable;
- (ii) The directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review;
- (iii) The directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) The directors had prepared the annual accounts for the financial year ended December 31, 2007 on a going concern basis.

## DIRECTORS' REPORT

### 17. Auditors

M/s S. R. Batliboi & Associates, Chartered Accountants, the auditors of R Systems retire at the conclusion of this Annual General Meeting and have confirmed their eligibility and willingness to accept the office of the auditors, if reappointed.

The statutory auditors in their audit report for the year ended December 31, 2007 have mentioned that the Company has not obtained any valuations of its shares to determine the additional benefit, if any, being offered to the existing option holders consequent to changes in the existing stock option plans due to which the auditors are unable to assess the benefit, if any, not accounted for and the consequent impact on the financial statements. The Board hereby submits that during the year ended December 31, 2006, the Company had consolidated each of its five equity shares of Rs. 2 each into one equity share of Rs.10 each and thereafter made a bonus issue in the ratio of 1:1 to each of the then existing shareholders by utilization of securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956. Considering these changes in the capital structure, the management had adjusted the number of options vesting to its employees and exercise price to preserve the benefits intended to be made available under the plan i.e. instead of five options of Rs. 2 per share, the employees' entitlement had been adjusted to one option of Rs. 10 per share and accordingly calculated the price of the options after taking into consideration the consolidation and bonus issue of shares. The aforesaid statement made by the statutory auditors is resultant of the said calculation which is necessary for determining the number of options and exercise price and is in accordance with the terms and conditions of the employees' stock option plans and guidelines issued by SEBI in this behalf. Further the Board hereby submits that the said treatment does not result into any additional benefits and also does not amount to changes in the stock option plans requiring valuation and the treatment is just and equitable to preserve the benefit of employees which is intended to be made available to them under the plan as prescribed under SEBI guidelines. Since there is no extra benefit given to option holders it does not require any accounting and it has no impact on the financial statements.

### 18. Audit committee

The audit committee of R Systems consists of the following directors Mr. Raj Kumar Gogia as the Chairman and the following four directors as the members, Mr. David Richard Sanchez, Mr. Gurbax Singh Bhasin, Mr. Suresh Paruthi and Mr. O'Neil Nalavadi. The audit committee is constituted in accordance with the provisions of the Companies Act, 1956 and in accordance with the Listing Agreement entered into with the stock exchanges.

The terms of reference and role of the audit committee are as per the guidelines set out in the Listing Agreement with the stock exchanges read with Section 292A of the Companies Act, 1956 and includes such other functions as may be assigned to it by the Board from time to time. The audit committee has adequate powers to play an effective role as required under the provisions of the statute and Listing Agreement.

### 19. Corporate Governance

As required under the Listing Agreement entered into with the stock exchanges the detailed report on corporate governance is given as annexure to this report elsewhere. Further the disclosures required to be made as per Clause C of Part II of Schedule XIII to the Companies Act, 1956 and in terms of Clause 49 of the Listing Agreement entered into with the stock exchanges for all the directors is as follows:

1.	Name of the Director	Mr. Satinder Singh Rekhi
Elements of remuneration package paid during the year 2007		
(a)	Annual salary (fixed) in Rs.	11,203,063
(b)	Annual retention bonus (fixed) in Rs.	890,000
(c)	Annual perquisites (fixed) in Rs.	NIL
(d)	Stock options granted	NIL
(e)	Pension	As per the applicable policy for employees
	Service contract	Five Years
	Notice period	Thirty Six Months
	Severance fees	Salary in lieu of the notice period
	Shareholding in R Systems as on the date of this report	90,600 equity shares of Rs. 10 per share in his own name and 1,921,718 equity shares of Rs. 10 per share as trustee of Satinder & Harpreet Rekhi Family Trust.



## DIRECTORS' REPORT

2.	Name of the Director	Mr. O'Neil Nalavadi
Elements of remuneration package paid during the year 2007		
(a)	Annual salary (fixed) in Rs.	7,441,462
(b)	Annual retention bonus (fixed) in Rs.	1,335,000
(c)	Annual perquisites (performance linked) in Rs.	NIL
(d)	Stock options granted	NIL
(e)	Pension	As per the applicable policy for employees
	Service contract	Three Years
	Notice period	Twelve Months
	Severance fees	Compensation in lieu of the notice period
	Shareholding in R Systems as on the date of this report	240,000 equity shares of Rs. 10 per share
3.	Name of the Director	Lt. Gen. Baldev Singh (Retd.)
Elements of remuneration package paid during the year 2007		
(a)	Annual salary (fixed) in Rs.	2,106,000
(b)	Annual retention bonus (fixed) in Rs.	3,333,333*
(c)	Annual perquisites (fixed) in Rs.	600,000
(d)	Provident fund	144,000
(e)	Stock options granted	As detailed below **
(f)	Pension	As per the applicable policy for employees
	Service contract	Two Years #
	Notice period	Three Months
	Severance fees	Compensation in lieu of the notice period
	Shareholding in R Systems as on the date of this report	78,808 equity shares of Rs. 10 per share

\* Includes an amount of Rs. 2,233,333 which was approved by the Central Government for the year 2006.

\*\* Lt. Gen. Baldev Singh (Retd.) was awarded with 27,700 stock options of Rs. 2 per share on September 01, 2004 under R Systems International Ltd. - Year 2004 Employee Stock Option Plan, exercisable at a price at par with other employees covered under the plan. The granted options shall vest over a period of 4 years in equal installments and vested options can be exercised over a period of 10 years from the date of grant. On January 30, 2006 R Systems had consolidated each of its 5 equity shares of Rs. 2 each into 1 equity share of Rs. 10 each. Consequently the balance options also stand revised from Rs. 2 each to Rs. 10 each. As on December 31, 2007, 75% of the total options granted (i.e. 4,155 stock options) was already vested, 50% of the total options granted (i.e. 2,770 stock options) was already exercised and balance 50% of the total options granted (i.e. 2,770 stock options) of Rs. 10 each is in force.

# Reappointed by the Board at its meeting held on October 28, 2007 for a term of one year and three months i.e. w.e.f January 01, 2008 to April 01, 2009.

4.	Name of the Director	Mr. Raj Swaminathan
Elements of remuneration package paid during the year 2007		
(a)	Annual salary (fixed) in Rs.	3,350,884
(b)	Annual incentive (fixed) in Rs.	1,202,880
(c)	Annual allowances and perks (fixed) in Rs.	871,424
(d)	Provident fund	9,360
(e)	Stock options granted	As detailed below *
(f)	Pension	As per the applicable policy for employees
	Service contract	Three Years
	Notice period	Two Months
	Severance fees	Salary in lieu of the notice period
	Shareholding in R Systems as on the date of this report	NIL

\* 60,000 stock options have been granted to Mr. Raj Swaminathan under R Systems International Limited Employees Stock Option Scheme 2007 on July 11, 2007. These Options are exercisable at a price at par with other employees covered under the



## DIRECTORS' REPORT

plan. The granted options shall vest over a period of 4 years in equal installments and vested options can be exercised over a period of 10 years from the date of grant.

All the non-executive independent directors of R Systems i.e. Mr. Raj Kumar Gogia, Mr. David Richard Sanchez, Mr. Gurbax Singh Bhasin and Mr. Suresh Paruthi are provided with sitting fees for attending the Board and committee meetings. As on the date of this report none of the aforementioned non-executive independent directors except Mr. David Richard Sanchez holds any shares or options in R Systems.

Mr. David Richard Sanchez holds 4,000 equity shares of Rs. 10 each in R Systems as on the date of this report.

**Details of sitting fee paid to the non-executive directors during the year ended December 31, 2007 is as follows:**

S. No.	Name of the Director	Sitting fee paid (Rs.)
1.	Mr. Raj Kumar Gogia	150,000
2.	Mr. Suresh Paruthi	150,000
3.	Mr. David Richard Sanchez	15,000
4.	Mr. Gurbax Singh Bhasin	15,000
	<b>Total</b>	<b>330,000</b>

### 20. Deposits

R Systems has neither invited nor accepted any deposits from public within the meaning of Section 58A of the Companies Act, 1956 and as such, no amount of principal or interest was outstanding on the date of the balance sheet.

### 21. Customer and employee relations

R Systems recognizes that the customers have choice of service providers and the directors would like to place on record their gratitude on behalf of the Company for the business provided by them.

R Systems is inspired by its customers and its employees transform that inspiration and customers needs into value for all stakeholders. We thank all R Systems employees world wide for their hard work, unparalleled commitment, dedication and vision that empowers us to reach new heights and set more ambitious goals for R Systems.

We thank our shareholders for their continuous support and confidence in R Systems. We are conscious of our responsibilities to shareholders to provide full visibility of operations, corporate governance and creating superior shareholder value and we promise to fulfill that.

### 22. Management discussion and analysis report

In terms of Clause 49 of the Listing Agreement entered into with the stock exchanges, management discussion and analysis report forms annexure to this report elsewhere.

### 23. Acknowledgments

Your directors once again take this opportunity to thank the employees, investors, clients, vendors, banks, business associates, regulatory authorities including stock exchanges, Software Technology Park of India, the Central Government, State Government of Uttar Pradesh, Maharashtra, Tamil Nadu for the business, support, valuable assistance and co-operation continuously extended to R Systems. Your directors gratefully acknowledge the trust and confidence and look forward for their continued support in the future.

**On behalf of the Board  
For R Systems International Limited**

**Satinder Singh Rekhi  
Chairman and Managing Director**

**Place : EDH, CA, USA  
Date : April 05, 2008**



## DIRECTORS' REPORT

### Annexure to the directors' report Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of employees) Rules, 1975 and forming part of the directors' report for the year ended December 31, 2007 Employed for full financial year

Sl. No.	Name	Designation	Qualification	Age (Years)	Date of Joining	Experience (Years)	Gross Remuneration (Rs.)	Previous employment and designation
1.	Satinder Singh Rekhi	Chairman & Managing Director	Bachelor of Technology from IIT; MBA from California State University, Sacramento; Senior management programs from University of Berkeley and Harvard Business School	57	January 1, 2006*	21	12,093,063	Digital Information Systems Corporation Sr. Management personnel
2	O'Neill Nalavadi	Director Finance and Chief Financial Officer	Chartered Accountant with Honor Roll; Bachelors of Commerce and Economics degree with First Class Honors from the University of Bombay	48	January 1, 2006*	21	8,776,462	UBIOS, Inc. Sr. VP, CFO and Director
3	Lt. Gen Baldev Singh (Retd.)	President & Senior Executive Director	Masters in Military Sciences Madras University	67	September 1, 1997	42	6,183,333**	Indian Army, Ministry of Defence Lt. General
4	Rej Swaminathan	Director & Chief Operating Officer	MBA - XLRI	48	May 1, 2006	24	5,434,548	GE - Capital; Vice-President (Technology)
5	Avirag Jain	Executive Vice President and Chief Technology Officer	BSc, MBA specialization in Finance and International Marketing	42	October 1, 1997	20	3,352,154	Modi Olivitti Ltd. Project Manager
6	Shankar Seetharaman	Senior Vice President	B. Com, Chartered Accountant	46	May 2, 2000	22	2,758,772	Skycell Communications Ltd. Chennai GM- Revenue Assurance & Collections
7	Mukesh Bindal	Vice President - IT	BE in Computer Science	42	October 18, 2002	19	2,983,090	Newtron IT Labs, Vice President
8	Ashok Bhatia	Sales Director - Govt. Solutions	BE, PGDM from SPCCM, Mumbai	41	January 1, 2006*	17	10,183,186	ACT Inc., Pittsburgh, PA Vice President - Marketing
9	Rajiv Dondle	Client Services-Director	Bachelors and a Masters degree in Economics, MBA with major in Finance and MIS	53	January 1, 2006*	16	3,660,549	Vantage Med Corp., CIO, Corporate HIPAA Officer & Executive Team Manager.
10	Thiru Dorai	VP- Strategic Solutions	Bachelors Degree in Engineering from University of Bangalore and post graduate diploma in Marketing & Sales Management as well as Electronic Commerce from Bangalore	46	January 1, 2006*	23	4,444,551	HCL Delux Pvt. Ltd., Head- EPS Line of Business.
11	Debraj Ganguly	Market Research Analyst	MBA - IIM Calcutta, B.Tech - IIT Kharagpur,	35	February 3, 2005	12	4,335,401	iHealthcare Services India Ltd., Vice President- Business Development.
12	Supriyo Sanyal	Market Research Analyst	IIT, Kharagpur	42	August 8, 2005	20	5,137,636	ICICI OneSource USA, Vice President- Marketing & Business Development

#### Employed for part of the year

Sl. No.	Name	Designation	Qualification	Age (Years)	Date of Joining	Experience (Years)	Gross Remuneration (Rs.)	Previous employment and designation
1	Navneet Narula	Director-Strategic Projects	Bachelor in Intl. Business Mktg., MBA	28	15-Dec-06	8	3,240,998	Extentia, Management Executive
2	Harsh Verma	VP Global Innovative Research	BE(Hons) in Electrical & Electronics Engineering, MS and PhD in Computer Science from BITS, Pilani, Executive Mgmt Prog from IIM, Ahmedabad, Post-Doctoral Res Prog, UC Berkeley	48	19-Feb-07	24	4,333,983	Glocol, Inc., California, USA, VP-R&D and Director

## DIRECTORS' REPORT

No.	Name	Designation	Qualifications	Age	Joining Date	Experience	Current Salary	Previous Salary
3	Kenneth J. Morris	Director Business Development	BSEE, MMS, MBA	47	2-Apr-07	24	3,251,772	Xoriant Corporation, Sunnyvale, California Director Business Development
4	Prashant Singh	Market Research Analyst	MBA(Drexel University, Philadelphia), MMS (Master of Management Science, DAVV, Indore), BMS (Bachelor Of Management Science, DAVV, Indore)	31	May 1, 2007*	7	2,508,841	AMC Theaters, New Jersey, USA, Manager
5	Anand Jankiraman	Technical Architect	BS(Computer Science)	34	May 1, 2007*	13	2,076,600	Trisoft Systems, Development Head
6	Charan Shiv Prasad	Market Research Analyst	MBA, (The University of findlay, Ohio), PGDMM, PGDSM, BBM	29	May 1, 2007*	7	2,502,866	Jain Software Consulting, Illinois US, World Space India
7	Vijay Kumar G. Kale	Project Manager	BE(Computers)	36	8-Jan-07	10	1,825,902	Infosys Technologies Ltd., Project Manager
8	Ravi Madugala	Director - Information Systems	MSc. in Computer Science, University of Dayton, Ohio	42	July 1, 2007*	15	1,929,958	University of Dayton, Internship
9	Chattanya Kumta	Market Research Analyst	B. Pharm, SCS College, Gulbarga	45	April 19, 2001	22	369,534	Xerox India Limited Sales Manager - Channels

\* Prior to joining R Systems International Limited these employees were working with R Systems, Inc the US subsidiary of the company. The date of joining in the subsidiary, of these employees is given hereunder.

Name	Date of Joining
Satinder Singh Rekhi	April 1, 1993
O'Neil Nalavadi	January 17, 2000
Ashok Bhattia	December 11, 2000
Rajiv Dondre	March 31, 2005
Thiru Dorai	May 17, 2000
Prashant Singh	July 5, 2005
Anand Jankiraman	May 23, 2005
Charan Shiv Prasad	August 1, 2005
Ravi Madugala	February 16, 1996

\*\* Includes an amount of Rs. 2,233,333 which was approved by the Central Government for the year 2006.

Note:

- The remuneration includes basic salary, allowances and taxable value of perquisites.
- Mr. Satinder Singh Rekhi and Lt. General Baldev Singh (Retd.) are related to each other. None of the other employee is related to any director of the company.
- None of the employee owns more than 2% of the outstanding shares of the company as on December 31, 2007.
- Nature of employment is contractual in all the above cases.

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

Satinder Singh Rekhi  
[Managing Director]      O'Neil Nalavadi  
[Director Finance & CFO]      Lt. Gen. Baldev Singh (Retd.)  
[Senior Executive Director]      Nand Sardana  
[Vice President (Finance) & Company Secretary]

Place: EDH, CA, USA      Place: EDH, CA, USA      Place: NOIDA  
Date : February 24, 2008      Date : February 24, 2008      Date : February 24, 2008



## CORPORATE GOVERNANCE

### Report of Corporate Governance

#### 1. Company's Philosophy on Corporate Governance

R Systems International Limited ("R Systems" or the "Company") is committed to conduct its business strictly in compliance with the applicable laws, rules and regulations and with highest standards of business ethics. We at R Systems believe that good Corporate Governance is a key contributor to sustainable corporate growth and creating superior value for our stakeholders. It is primarily concerned with transparency, accountability, fairness, professionalism, social responsiveness, complete disclosure of material facts and independence of Board. R Systems will use its best endeavor to constantly comply with these aspects in letter and spirit in addition to the statutory compliances as required under Clause 49 of the Listing Agreement.

#### 2. Board of Directors

(i) R Systems has an optimum combination of executive and non-executive directors on its Board. The board of directors of R Systems (the "Board") comprised of eight directors i.e. the executive chairman, three executive directors and four non-executive independent directors. Independent directors are not less than 50% of the total strength of the Board at all the times during the year. None of the directors of R Systems is a director or a committee member or a chairperson of any other company in India. The names and categories of the directors on the Board and their attendance at the Board meetings held during the year are as follows :

Name of Director	Category of Director	Designation	No. of Board Meetings held during the year	No. of Board Meetings attended	Attendance at the last Annual General Meeting	No. of directorship in bodies corporate outside India
Mr. Satinder Singh Rekhi	Promoter & Executive Director	Chairman & Managing Director	9	2+5*	Yes	9
Mr. O'Neil Nalavadi	Executive Director	Director Finance & Chief Financial Officer	9	1 + 8*	Yes	1
Lt. Gen. Baldev Singh (Retd.)	Executive Director	President & Senior Executive Director	9	9	Yes	Nil
Mr. Raj Swaminathan	Executive Director	Director & Chief Operating Officer	9	5 + 4*	Yes	Nil
Mr. Raj Kumar Gogia	Non Executive Independent Director	Director	9	9	Yes	Nil
Mr. David Richard Sanchez	Non Executive Independent Director	Director	9	1 + 7*	Yes	3
Mr. Gurbax Singh Bhasin	Non Executive Independent Director	Director	9	1 + 5*	Yes	7
Mr. Suresh Paruthi	Non Executive Independent Director	Director	9	9	Yes	Nil

\* Attendance by teleconference

Independent director has the meaning as defined under Clause 49 of the Listing Agreement.

Details with respect to the directors whose appointment or re-appointment or remuneration is proposed at the ensuing Annual General Meeting are as follows:

#### A. Mr. David Richard Sanchez (Non Executive Independent Director)

**Mr. David Richard Sanchez** aged about 56 years is M.A. Political Science and M. Philosophy Honors. He has over 23 years experience of working with various big concerns including J.P. Morgan & Company (New York), Bankers Trust Company (New York), Merrill Lynch International (California), Bear Stearns & Company (California), Sanchez Global Advisors, Inc. (California). He joined R Systems as an additional director on July 09, 2002; since then he is continuously providing his guidance and advice on the Board of R Systems.

As on the date of this report

- Mr. David Richard Sanchez holds the following offices in bodies corporate outside India i.e. Stonehaven LLC as Managing Director, Singular Global Advisors, Inc. as President and Arrowsmith LLC as Director.
- No stock options have been granted to him under the prevailing stock option plans of the Company.
- He holds 4,000 equity shares of Rs. 10 each being 0.03% of the total paid up share capital in R Systems.

## CORPORATE GOVERNANCE

### B. Mr. Gurbax Singh Bhasin (Non Executive Independent Director)

**Mr. Gurbax Singh Bhasin** aged about 51 years is Bachelor of Engineering. He has been involved in the textile/fashion apparel industry for over 25 years and understands well the intricacies of the apparel industry. Mr. Bhasin's wide diversification and experience helps R Systems to attain even higher levels in customer satisfaction by constantly striving to be the best in all it does through a combination of product excellence, creativity and technological innovation.

As on the date of this report

- Mr. Gurbax Singh Bhasin holds the following offices in bodies corporate outside India i.e. Prego, Inc. (USA) as President, Newlands Capital, Inc. (USA) as President, Shivam Investments, LLC as Director, Grupo Laxmi, S.A. DE C.V. (Mexico) as President, Bonneville Holdings Ltd. (Belize) as President, Grand Quinby, Inc. (USA) as President and Yakima Filters, Inc. (USA) as CEO.
- No stock options have been granted to him under the prevailing stock option plans of the Company.
- He doesn't hold any shares in R Systems.

### C. Lt. Gen. Baldev Singh (Retd.) (President and Senior Executive Director)

**Lt. Gen. Baldev Singh (Retd.)** aged about 67 years has more than 41 years of experience, including handling top managerial, diplomatic and human resource development related assignments. Mr. Singh has a Masters in Military Sciences from the prestigious Madras University in India and attended two short courses at University of California at Berkeley, in Strategic Account Management and Marketing. He joined the Board of R Systems on September 01, 1997. Since then he is continuously providing his guidance and support on the Board. Presently Mr. Singh is heading the entire Noida IT and BPO Operations and his presence is crucial for the effective and efficient operations of the business. He is related to Mr. Satinder Singh Rekhi.

As on the date of this report

- Lt. Gen. Baldev Singh (Retd.) is not a director on the board of any other company.
- Lt. Gen. Baldev Singh (Retd.) was awarded with 27,700 stock options of Rs. 2 per share on September 01, 2004 under R Systems International Ltd. - Year 2004 Employee Stock Option Plan, exercisable at a price at par with other employees covered under the plan. The granted options shall vest over a period of 4 years in equal installments and vested options can be exercised over a period of 10 years from the date of grant. On January 30, 2006 R Systems had consolidated each of its 5 equity shares of Rs. 2 each into 1 equity share of Rs. 10 each. Consequently the balance options also stand revised from Rs. 2 each to Rs. 10 each. As on December 31, 2007, 75% of the total options granted (i.e. 4,155 stock options) was already vested. 50% of the total options granted (i.e. 2,770 stock options) was already exercised and balance 50% of the total options granted (i.e. 2,770 stock options) of Rs. 10 each is in force.
- He holds 78,808 equity shares of Rs. 10 each being 0.58% of the total paid up share capital in R Systems.

### D. Mr. Raj Swaminathan (Director and Chief Operating Officer)

**Mr. Raj Swaminathan** aged about 48 years has over 23 years experience in IT & Financial Services Industry. He has done his MBA from Xavier Labour Relations Institute, Jamshedpur after his Bachelor of Engineering from Bangalore University. Prior to joining R Systems, Raj has had a distinguished 11 years career at GE where he was Vice President and CIO at GE-Countrywide, India and part of the senior Global Consumer Finance corporate IT team. Earlier in his career, Raj also headed the IT function at Standard Chartered Bank for the consumer, corporate banking and treasury businesses.

As on the date of this report

- Mr. Raj Swaminathan is not a director on the board of any other company.
- 60,000 stock options have been granted to him under R Systems International Limited Employees Stock Option Scheme 2007 on July 11, 2007. These options are exercisable at a price at par with other employees covered under the plan. The granted options shall vest over a period of 4 years in equal installments and vested options can be exercised over a period of 10 years from the date of grant.
- He doesn't hold any shares in R Systems.

### E. Mr. Satinder Singh Rekhi (Chairman and Managing Director)

**Mr. Satinder Singh Rekhi** aged about 57 years founded R Systems in 1993. With over 25 years of experience, Mr. Singh is one of the leading figures in the information technology industry. Prior to R Systems, Mr. Singh held senior management positions with HCL Technologies and DISC (now Synergex) in the United States, Singapore and India. Mr. Singh received a Bachelor of Technology from IIT, Kharagpur, India and a Masters in Business Administration from California State University, Sacramento. Mr. Satinder Singh Rekhi has attended several senior management programs from University of Berkeley and Harvard Business School. As a Chairman and Managing Director, Mr. Rekhi is responsible for the overall business development and working of the Company.



## CORPORATE GOVERNANCE

As on the date of this report

- Mr. Satinder Singh Rekhi is holding the office of director in the following nine bodies corporate, which are incorporated and based outside India i.e. R Systems, Inc., R Systems (Singapore) Pte. Ltd., RightMatch Holdings Ltd., Indus Software, Inc., ECnet Systems (Thailand) Co. Ltd., ECnet, Inc., R Systems Solutions, Inc., R Systems NV and Sento Europe B. V.
  - No stock options have been granted to him under the prevailing stock option plans of the Company.
  - Mr. Rekhi holds 90,600 equity shares (being 0.67% of the total paid up share capital) of the Company in his own name and 1,921,718 equity shares (being 14.15% of the total paid up share capital) of the Company as a trustee of Satinder & Harpreet Rekhi Family Trust.
- (ii) As per Listing Agreement, the Board must meet at least four times a year with a maximum gap of not more than four months between any two meetings. During the financial year 2007, the Board met nine times on the following dates :

S. No.	Date of the Meeting
1.	March 03, 2007
2.	April 05, 2007
3.	April 28, 2007
4.	May 23, 2007
5.	July 11, 2007
6.	July 30, 2007
7.	October 28, 2007
8.	December 22, 2007
9.	December 27, 2007

The gap between any of the aforesaid two Board meetings did not exceed four months.

The Board has laid down a code of conduct for all Board members and senior management personnel of the Company, which is available on R Systems website at <http://www.rsystems.com/investors/corporategovernance.asp>

The Company has obtained the confirmation for the compliance with the said code from all its Board members and senior management personnel for the year ended December 31, 2007. A declaration to that effect given by the Chief Executive Officer of R Systems Mr. Satinder Singh Rekhi is given at the end of this report.

### R Systems has formulated the following committees of its directors

- Audit Committee
- Remuneration Committee
- Compensation Committee
- Shareholders / Investors Grievance Committee

### 3. Audit Committee

R Systems has a qualified and independent Audit Committee comprising of five directors with non-executive independent director as the Chairman, director finance and three other non-executive independent directors as the members of the Committee.

The terms of reference and role of the Audit Committee are as per the guidelines set out in the Listing Agreement entered into with the stock exchanges read with section 292A of the Companies Act, 1956 and includes such other functions as may be assigned to it by the Board from time to time. The Audit Committee has adequate powers to play an effective role as required under the provisions of the statute and Listing Agreement and has reviewed the mandatory applicable informations.

#### Composition of the Audit Committee as on December 31, 2007, its meetings and attendance during the year

Composition of the Audit Committee	Category of Director	Chairman/ Member	Total meetings during the year	Attendance at the meetings
Mr. Raj Kumar Gogia	Non Executive Independent Director	Chairman	5	5
Mr. David Richard Sanchez	Non Executive Independent Director	Member	5	1 + 3*
Mr. Gurbax Singh Bhasin	Non Executive Independent Director	Member	5	1 + 3*
Mr. Suresh Paruthi	Non Executive Independent Director	Member	5	5
Mr. O'Neil Nalavadi	Executive Director (Director Finance and CFO)	Member	5	1 + 4*

\* Attendance by teleconference

## CORPORATE GOVERNANCE

R Systems Audit Committee invites such of the executives, as it considers appropriate to be present at its meetings. The Director Finance and Chief Financial Officer is a member of the Audit Committee. The statutory auditors and internal auditors are invited to these meetings. The Company Secretary of the Company acts as the Secretary of the Audit Committee.

### Powers of the Audit Committee

1. To investigate any activity within its terms of reference.
2. To seek information from any employee.
3. To obtain outside legal or other professional advice.
4. To secure attendance of outsiders with relevant expertise, if it considers necessary.

### Terms of reference of the Audit Committee

1. Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to:
  - a. Matters required to be included in the Directors' Responsibility Statement to be included in the Board's report in terms of Clause (2AA) of Section 217 of the Companies Act, 1956 ;
  - b. Changes, if any, in accounting policies and practices and reasons for the same;
  - c. Major accounting entries involving estimates based on the exercise of judgement by management;
  - d. Significant adjustments made in the financial statements arising out of audit findings;
  - e. Compliance with listing and other legal requirements relating to financial statements;
  - f. Disclosure of any related party transactions;
  - g. Qualifications in the draft audit report.
5. Reviewing, with the management, the quarterly financial statements before submission to the Board for approval.
6. Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter.
7. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
8. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
9. Discussion with internal auditors on any significant findings and follow up there on.
10. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
11. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
12. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
13. To review the functioning of the Whistle Blower mechanism.
14. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

## 4. Remuneration Committee

### Brief description and terms of reference

The Remuneration Committee presently consists of only non-executive independent directors. Under the terms of reference of the Committee, it evaluates and finalises among other things, compensation and benefits of R Systems executive directors. The Committee recommends / approves the remuneration package of executive directors to the Board after taking into consideration the financial position of the Company, the executive director's performance, qualifications and experience,



## CORPORATE GOVERNANCE

comparable industry compensation packages, trend in the industry, past remuneration drawn by the proposed appointee and the compensation package of the proposed appointee with a view to provide a package which is appropriate for the responsibilities involved.

### Composition of the Remuneration Committee as on December 31, 2007, its meetings and attendance during the year

Composition of the Remuneration Committee	Category of Director	Chairman /Member	Total meetings during the year	Attendance at the meetings
Mr. Raj Kumar Gogia	Non Executive Independent Director	Chairman	2	2
Mr. David Richard Sanchez	Non Executive Independent Director	Member	2	1*
Mr. Gurbax Singh Bhasin	Non Executive Independent Director	Member	2	1*
Mr. Suresh Paruthi	Non Executive Independent Director	Member	2	2

\* Attendance by teleconference

### Remuneration policy

Remuneration policy of R Systems is based on the following objectives:

- To determine and recommend to the Board the remuneration package of the Managing Director and the Whole-time Directors;
- To approve in the event of loss or inadequate profits in any year the minimum remuneration payable to the Managing Director and the Whole-time Directors considering the limits and subject to the parameters as prescribed under the provisions of the Companies Act, 1956;
- To create a performance-oriented culture in R Systems which is beneficial to its employees and the business as well;
- To ensure that reward, benefit and increment system is performance based and motivational to employees;
- To encourage and support learning and development by identifying the scope and need of the same;
- Such other functions as required or recommended by the Board or under the provisions of the Listing Agreement.

### Details of remuneration paid to the directors during the year ended December 31, 2007

(Rs. in lacs)

Particulars	Mr. Satinder Singh Rekhi	Mr. O'Neil Nalavadi	Lt. Gen. Baldev Singh (Retd.)	Mr. Raj Swaminathan	Total
Salary	112.03	74.41	21.06	33.51	241.01
Incentive	8.90	13.35	33.33*	12.03	67.61
Provident Fund	-	-	1.44	0.09	1.53
Allowances & Perks	-	-	6.00	8.72	14.72
<b>Total</b>	<b>120.93</b>	<b>87.76</b>	<b>61.83</b>	<b>54.35</b>	<b>324.87</b>

\* Includes an amount of Rs. 22.33 lacs which was approved by the Central Government for the year 2006.

The aforementioned remuneration has been approved by the Remuneration Committee, the Board, the shareholders in the general meeting and by the Central Government, wherever applicable, as required under the provisions of the Companies Act, 1956.

### Employees Stock Options

During the year ended December 31, 2007, 60,000 stock options were granted to Mr. Raj Swaminathan, Director and Chief Operating Officer under R Systems International Limited Employees Stock Option Scheme 2007. No other stock options were granted under the prevailing stock option plans of R Systems to any other director during the year ended December 31, 2007.

### Sitting Fee paid to the Non-Executive Directors

The sitting fee paid to the non-executive directors during the year ended December 31, 2007 is as follows:

S. No.	Name of the Director	Sitting fee paid (Rs.)
1.	Mr. Raj Kumar Gogia	150,000
2.	Mr. Suresh Paruthi	150,000
3.	Mr. David Richard Sanchez	15,000
4.	Mr. Gurbax Singh Bhasin	15,000
	<b>Total</b>	<b>330,000</b>



## CORPORATE GOVERNANCE

### 5. Compensation Committee

The Compensation Committee consists of four directors out of which three directors are non-executive independent directors and one director is an executive director. The Compensation Committee is responsible for the formulation, implementation and administration of all the stock option plans which inter-alia includes formulation of the employees stock option plans, determination of eligibility criteria, maximum number of options or shares to be offered to each employee and the aggregate number of options or shares to be offered during the period covered under each scheme, identification of classes of employees entitled to participate in the scheme, framing a detailed pricing formula, mode or process of exercise of the option, conditions under which the options may lapse etc. for the employees, directors and senior management personnel of R Systems and its subsidiaries.

#### Composition of the Compensation Committee as on December 31, 2007, its meetings and attendance during the year

Composition of the Compensation Committee	Category of Director	Total meetings during the year	Attendance at the meetings
Mr. Raj Kumar Gogia	Non Executive Independent Director	2	2
Mr. David Richard Sanchez	Non Executive Independent Director	2	2*
Lt. Gen. Baldev Singh (Retd.)	Executive Director (President and Senior Executive Director)	2	2
Mr. Suresh Paruthi #	Non Executive Independent Director	-	-

\* Attendance by teleconference

# Introduced as the member of the Compensation Committee w.e.f. July 30, 2007.

### 6. Shareholders / Investors Grievance Committee

The Shareholders / Investors Grievance Committee of R Systems is comprised of four directors with non-executive independent director as its Chairman. The Shareholders / Investors Grievance Committee looks into and investigates investors' complaints like transfer, transmission, dematerialisation and rematerialisation of shares, issue of duplicate share certificates, resolution of shareholders grievances relating to non-receipt of annual report, declared dividend and other shareholders and investors matters and takes necessary steps for redressal thereof.

#### Composition of the Shareholders / Investors Grievance Committee as on December 31, 2007, its meetings and attendance during the year

Composition of the Committee	Category of Director	Chairman/ Member	Total meetings during the year	Attendance at the meetings
Mr. Raj Kumar Gogia	Non Executive Independent Director	Chairman	33	33
Mr. Suresh Paruthi	Non Executive Independent Director	Member	33	31
Mr. Satinder Singh Rekhi	Executive Director (Chairman and Managing Director)	Member	33	6+24*
Lt. Gen. Baldev Singh (Retd.)	Executive Director (President and Senior Executive Director)	Member	33	29 + 4*

\* Attendance by teleconference

(i)	Name and designation of compliance officer	Mr. Nand Sardana Company Secretary and Compliance Officer
(ii)	Number of shareholders' complaints received during the year ended December 31, 2007	37
(iii)	Number of complaints not resolved to the satisfaction of shareholders	NIL
(iv)	Number of pending complaints	NIL

### 7. Share Transfers in Physical Mode

In order to expedite the process of share transfers, the members of the Shareholders / Investors Grievance Committee conduct its meetings more frequently to the extent of weekly meetings of the Committee.



## CORPORATE GOVERNANCE

### 8. General Body Meetings

#### I. Details for the last three Annual General Meetings (“AGM”)

1. The eleventh AGM for the financial year 2004 was held on Friday, June 24, 2005 at 11.30 A.M. at the Registered Office of the Company at B -104A, Greater Kailash - I, New Delhi - 110 048. Following special resolutions were passed at the said meeting:
  - Approval for alteration in the Articles of Association of the Company.
  - Approval for reappointment and remuneration of Lt. Gen. Baldev Singh (Retd.) as the Managing Director of the Company.
  - Approval for the appointment and remuneration of Mr. Avirag Jain as alternate director to Mr. O'Neil Nalavadi.
2. The twelfth AGM for the financial year 2005 was held on Monday, April 17, 2006 at 11.30 A.M. at the Registered Office of the Company at B - 104A, Greater Kailash - I, New Delhi - 110 048. Following special resolutions were passed at the said meeting:
  - Approval for the appointment of Mr. Avirag Jain as the alternate director to Mr. O'Neil Nalavadi.
  - Approval for the appointment and remuneration of Mr. Satinder Singh Rekhi as Chairman and Managing Director of the Company.
  - Approval for the appointment and remuneration of Mr. O'Neil Nalavadi as Director Finance of the Company.
  - Approval for the appointment and remuneration of Lt. Gen. Baldev Singh (Retd.) as President and Senior Executive Director of the Company.
3. The thirteenth AGM for the financial year 2006 was held on Tuesday, May 01, 2007 at 09.30 A.M. at Air Force Auditorium, Subroto Park, New Delhi - 110 010. Following special resolutions were passed at the said meeting:
  - Appointment and remuneration of Mr. Raj Swaminathan as the Director and Chief Operating Officer of the Company.
  - Modification of the terms of employment of Mr. O'Neil Nalavadi, Director Finance and Chief Financial Officer of the Company.
  - Approval for the enhanced sitting fee payable to the non-executive directors for attending the Board and/or Committee Meetings.
  - Appointment and remuneration of Mr. Sartaj Singh Rekhi as the Executive Manager of R Systems, Inc. wholly owned subsidiary of R Systems International Limited.
  - Adoption and approval of R Systems International Limited Employees Stock Option Scheme 2007.
  - Extension of benefits under R Systems International Limited Employees Stock Option Scheme 2007 to the employees of R Systems subsidiaries.
  - Redistribution of the funds requirement as stated in the Prospectus.
  - Temporarily investment of surplus funds in fixed / term deposits with Scheduled Banks in addition to Nationalized Banks.

#### II. Details for the last three Extra Ordinary General Meetings (“EGM”)

1. At the EGM held on Wednesday, January 25, 2006 at 11.30 A.M. at the Corporate Office of the Company at C-40, Sector-59, Noida-201 307, following special resolutions were passed:
  - Approval for increase in annual bonus limits of Lt. Gen. Baldev Singh (Retd.) as the Managing Director of the Company.
  - Approval for the appointment of Mr. Satinder Singh Rekhi as the Chairman and Managing Director of the Company.
  - Approval for the appointment of Mr. O'Neil Nalavadi as the Director Finance of the Company.
  - Approval for the appointment of Lt. Gen. Baldev Singh (Retd.) as President and Senior Executive Director of the Company.
  - Approval for the appointment of Mr. Avirag Jain as alternate director to Mr. O'Neil Nalavadi.
  - Approval for the conversion of warrants held by Intel and GE into equity shares of the Company.
  - Approval for the increase in the authorised share capital from Rs. 10 Crores to Rs. 20 Crores and thereafter consolidation of 5 equity shares of Rs. 2 each into 1 equity share of Rs. 10 each of R Systems .
  - Approval for issue of bonus shares in the ratio of 1:1.
  - Approval for alteration in the Articles of Association of the Company.
  - Approval for making an initial public offer by the Company.
2. At the EGM held on Monday, July 11, 2005 at 11.30 A.M. at the Registered Office of the Company at B -104A, Greater Kailash - I, New Delhi - 110 048, following special resolution was passed:
  - Approval for reduction in the security premium account.

## CORPORATE GOVERNANCE

3. At the EGM held on Monday, August 23, 2004 at 11.30 A.M. at the Registered Office of the Company at B - 104A, Greater Kailash - I, New Delhi - 110 048, no special resolution was passed.
- III. The special resolutions moved at the last AGM were passed on a show of hands by the shareholders present at the meeting and no resolution was put to vote by postal ballot.
- IV. No special resolution is proposed to be conducted through Postal Ballot.
- V. A procedure for postal ballot shall be as laid down in Companies (Passing of the Resolutions by Postal Ballot) Rules, 2001.

### 9. Disclosures

#### Related Party Transactions

Related Party Transactions are defined as transactions of the Company of material nature, with Company's subsidiaries, promoters, directors or the management or their relatives or companies controlled by them etc. which may have potential conflict with the interest of the Company at large.

Details on materially significant related party transactions are shown in note no. 4 of Schedule 19 in the standalone and consolidated financial results for the financial year ended December 31, 2007.

#### Statutory Compliance, Penalties and Strictures

There were no penalties imposed on R Systems for any non-compliance by Stock Exchanges, SEBI or any other statutory authority on matters related to capital markets during the last three years.

#### Whistle Blower Policy

R Systems has in place a mechanism for employees to report concerns about unethical behaviors, actual or suspected fraud, violation of code of conduct of the Company etc. The mechanism also provides for adequate safeguards against victimization of employees who avail of the mechanism and also provides for direct access to the Whistle Blower to the Chairman of the Audit Committee. We affirm that during the financial year ended December 31, 2007, no employee has been denied access to the Audit Committee.

#### Compliance with mandatory requirements and adoption of non-mandatory requirements of Clause 49 of the Listing Agreement

Clause 49 of the Listing Agreement mandates to obtain a certificate either from the auditors or practicing company secretaries regarding compliance of the conditions of corporate governance as stipulated in part VII of Clause 49 and annex the certificate with the Directors' Report, which is sent annually to all shareholders. The Company has complied with the mandatory requirements of Clause 49 of the Listing Agreement including CEO / CFO certification. As required under Clause 49, a certificate signed by CEO and CFO of the Company has been placed before the Board and the same has been provided elsewhere in this report. Further, as per the requirements of Clause 49, a certificate obtained from the practicing Company Secretary certifying the compliance with the conditions of Corporate Governance under the said clause has also been provided elsewhere in this report. Clause 49 also requires disclosures of adoption by the Company of non-mandatory requirements specified in the said clause, the implementation of which is discretionary on the part of the Company. Accordingly, the adoption of non-mandatory requirements is given below:

#### Remuneration Committee

The Company has a Remuneration Committee consisting of only non-executive directors. A detailed note on the Remuneration Committee is provided elsewhere in this report.

#### Whistle Blower Policy

The Company has formulated the whistle blower policy for establishing a mechanism for employees to report concerns about unethical behaviors, actual or suspected fraud, violation of code of conduct of the Company etc. A detailed note on the whistle blower policy is provided elsewhere in this report.

#### Risk Management Policy

The Company has formulated a risk management policy to identify the present and potential risks involved in the business. The same is periodically reviewed and considered by the Audit Committee and the Board. The risk management report forms part of this annual report and provided elsewhere.

### 10. Means of Communication

#### Quarterly results

- a) The quarterly, half-yearly and full year audited and unaudited results are published in the Financial Express and Jansatta during the year ended December 31, 2007.
- b) The financial results and other corporate information are displayed on R Systems website [www.rsystems.com](http://www.rsystems.com). The website also displays official news releases.
- c) The presentation made to institutional investors or to the industry analysts is also put on the website of the Company.



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### 11. General Shareholder Information

#### i) Annual General Meeting

Date and Time : May 02, 2008, at 10.00 A.M.  
 Venue : **FICCI Auditorium,**  
 Tansen Marg,  
 New Delhi - 110 001

#### ii) Financial year

R Systems follows January 01 to December 31 as its financial year. The results for every quarter are declared in the month following each quarter except for the last quarter in which the results are declared along with the annual financial results within three months from the end of the financial year.

#### iii) Date of Book closure

April 25, 2008 to May 02, 2008 (both days inclusive)

#### iv) Dividend Payment Date

Within 30 days from the date of Annual General Meeting

#### v) Listing on Stock Exchanges

At present the equity shares of R Systems are listed on the following Stock Exchanges :

Name of Stock Exchanges	Stock / Scrip Code	ISIN With NSDL & CDSL
<b>National Stock Exchange of India Limited ("NSE")</b> "Exchange Plaza", Bandra Kurla Complex, Bandra - (E), Mumbai - 400 051	RSYSTEMS	INE411H01024
<b>Bombay Stock Exchange Limited ("BSE")</b> Phiroze Jeejeebhoy Towers, Dalal Street , Mumbai - 400 001	532735	INE411H01024

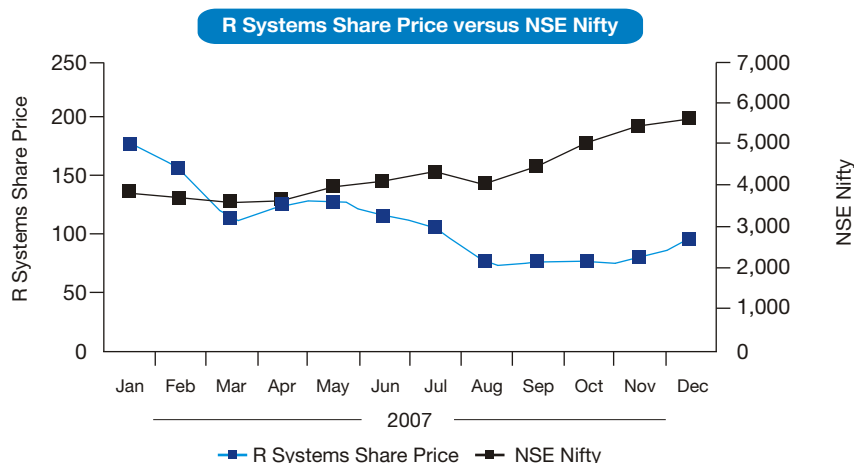
The annual listing fee for the year 2007-08 has been paid within the scheduled time to NSE and BSE. The annual listing fee for the year 2008 - 09 has fallen due on March 31, 2008 and will be paid within the scheduled time as prescribed under the provisions of Listing Agreement.

#### vi) Market Price Data: High, Low during each month in last financial year

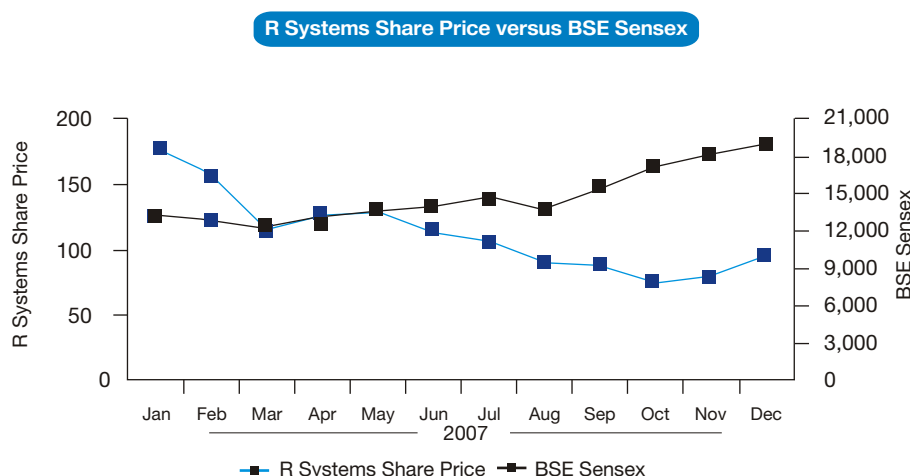
The monthly high and low quotations of R Systems equity shares traded on NSE and BSE during each month in the previous financial year ended December 31, 2007 in comparison with NSE Nifty and BSE Sensex are as follows:

Month 2007	NSE				BSE			
	SHARE PRICE		NIFTY		SHARE PRICE		SENSEX	
	High (Rs.)	Low (Rs.)	High	Low	High (Rs.)	Low (Rs.)	High	Low
Jan	214.00	178.10	4,167.15	3,833.60	214.00	179.00	14,325.92	13,303.22
Feb	217.75	155.00	4,245.30	3,674.85	217.50	155.25	14,723.88	12,800.91
Mar	176.00	114.55	3,901.75	3,554.50	172.00	115.00	13,386.95	12,316.10
Apr	153.00	125.15	4,217.90	3,617.00	152.80	127.30	14,383.72	12,425.52
May	146.90	130.15	4,306.75	3,981.15	146.80	130.50	14,576.37	13,554.34
Jun	135.00	114.90	4,362.95	4,100.80	135.00	115.00	14,683.36	13,946.99
Jul	124.00	105.05	4,647.95	4,304.00	124.20	105.30	15,868.85	14,638.88
Aug	111.50	75.60	4,532.90	4,002.20	111.00	89.55	15,542.40	13,779.88
Sep	107.90	75.75	5,055.80	4,445.55	107.85	88.15	17,361.47	15,323.05
Oct	103.00	76.00	5,976.00	5,000.95	102.50	75.00	20,238.16	17,144.58
Nov	94.90	79.40	6,011.95	5,394.35	95.00	80.00	20,204.21	18,182.83
Dec	136.05	94.00	6,185.40	5,676.70	136.40	94.90	20,498.11	18,886.40

## CORPORATE GOVERNANCE



The above chart is based on the monthly low prices of the shares of R Systems and monthly low of NSE Nifty.



The above chart is based on the monthly low prices of the shares of R Systems and monthly low of BSE Sensex.

### vii) Registrar and Share Transfer Agent

M/s Intime Spectrum Registry Limited  
A-40, 2nd Floor, Naraina Industrial Area, Phase - II,  
Near Batra Banquet Hall, New Delhi - 110 028

### viii) Share Transfer System

Applications for transfer of shares held in physical form are received at the office of the registrar and share transfer agent of the Company M/s Intime Spectrum Registry Limited. They attend to share transfer formalities at least once in a week and forward the same to R Systems for the Shareholders / Investors Grievance Committee approval. In order to expedite the process of share transfers in physical mode, the members of the Shareholders / Investors Grievance Committee conduct the meetings more frequently to the extent of weekly meetings of the Committee.

Shares held in dematerialised form are electronically traded in the depository and the registrar and share transfer agent of R Systems periodically receive from the depository the beneficiary holdings so as to update the records for sending all corporate communications and other matters.

Physical shares received for dematerialisation are processed and completed within a period of 21 days from the date of receipt, provided they are in order in every respect. Bad deliveries are immediately returned to the depository participants under advice to the shareholders.



## CORPORATE GOVERNANCE

### ix) Transfer of unclaimed dividend to Investor Education and Protection Fund

Pursuant to the provisions of Section 205A (5) of the Companies Act, 1956, dividend which remains unpaid or unclaimed for a period of seven years from the date of its transfer to unpaid dividend account, is required to be transferred by the Company to the Investor Education and Protection Fund ('IEPF') established by the Central Government under the provisions of Section 205C of the Companies Act, 1956. Shareholders are advised to claim the unclaimed dividend lying in the unpaid dividend account of the Company before the due date. Given below is the date of declaration of dividend and corresponding date when unclaimed dividend is due for transfer to IEPF :

Date of declaration / payment of dividend	Dividend for the year	Due date for transfer to IEPF
May 01, 2007	2006	May 31, 2014

### x) Distribution of Shareholdings as on December 31, 2007

Shareholding of nominal value of (Rs.)	No. of Shareholders	% to Total No.s	Share Capital Amount (Rs.)	% to Total Amount
1 - 2,500	22,309	90.353	14,671,490	10.802
2,501 - 5,000	1,274	5.160	4,936,210	3.634
5,001 - 10,000	577	2.337	4,486,830	3.303
10,001 - 20,000	282	1.142	4,127,240	3.039
20,001 - 30,000	64	0.259	1,611,380	1.186
30,001 - 40,000	32	0.130	1,150,720	0.847
40,001 - 50,000	37	0.150	1,717,270	1.264
50,001 - 1,00,000	54	0.219	3,903,470	2.874
Above 1,00,000	62	0.251	99,222,450	73.051
<b>TOTAL</b>	<b>24,691</b>	<b>100.000</b>	<b>135,827,060</b>	<b>100.000</b>

## CORPORATE GOVERNANCE

### xi) Category wise Shareholdings as on December 31, 2007

Category	Category of Shareholder	No. of shares	Percentage
<b>(A)</b>	<b>Promoters &amp; Promoter Group</b>		
1	Indian	1,972,678	14.52
2	Foreign	3,721,551	27.40
	<b>Sub Total (A)</b>	<b>5,694,229</b>	<b>41.92</b>
<b>(B)</b>	<b>Public Shareholding</b>		
<b>1</b>	<b>Institutions</b>		
(a)	Mutual Funds / UTI	1,210,000	8.91
(b)	Financial Institutions / Banks	50	0.00
(c)	Foreign Institutional Investors	4,100	0.03
	<b>Sub Total (B)(1)</b>	<b>1,214,150</b>	<b>8.94</b>
<b>2</b>	<b>Non-institutions</b>		
(a)	Bodies Corporate	1,486,093	10.94
(b)	Individual shareholders holding nominal share capital up to Rs 1 lakh	2,971,091	21.87
(c)	Individual shareholders holding nominal share capital in excess of Rs. 1 lakh	1,769,999	13.03
(d)	Any Other <b>(Clearing Member)</b>	371,821	2.74
(e)	Any Other <b>(Trust)</b>	75,323	0.55
	<b>Sub-Total (B)(2)</b>	<b>6,674,327</b>	<b>49.14</b>
	<b>Total Public Shareholding (B) (1) + (B) (2)</b>	<b>7,888,477</b>	<b>58.08</b>
	<b>Grand Total</b>	<b>13,582,706</b>	<b>100.00</b>

### xii) Dematerialisation of shares and liquidity

About 59.14% of the shares are in dematerialised form as on December 31, 2007. The equity shares of the Company are traded on NSE and BSE.

### xiii) Outstanding GDRs / ADRs / Warrants or any Convertible instruments, conversion date and likely impact on equity

R Systems has not issued any GDRs / ADRs. There were no outstanding convertible warrants as on December 31, 2007 except stock options granted under the prevailing employees stock option plans as detailed elsewhere in the directors' report.

### xiv) Development Centres

#### 1. Noida Office

C-40 & C-1, Sector-59,  
Noida (U.P.) - 201 307

#### 2. Pune Offices

(a) S. No. 303/2/2, Bavdhan (BK)  
Mumbai Bangalore Highway (Bypass)  
Pune - 411 021

(b) Survey No. 127, Plot A-1,  
3rd & 5th Floor, Gopal House,  
Above Hotel Kimaya,  
Pune - 411 029

#### 3. Chennai Office

Ground Floor, 141,  
Old Mahabalipuram Road, (Opposite YMCA Church)  
Chennai - 600 041



## CORPORATE GOVERNANCE

### Development / Technical Support centres at the offices of R Systems subsidiaries

4. R Systems, Inc., USA  
5000, Windplay Drive, Suite 5,  
EL Dorado Hills, CA 95762, USA
5. R Systems Solutions, Inc., USA  
Metro Annex Building 9, Suite B,  
1193 West 2400 South,  
West Valley City, UT 84119
6. ECnet Limited, Singapore  
17, Changi Business Park Central 1,  
#05-01, Singapore 486073
7. Sento B.V., Netherland  
Korte Hengelosestraat 1 in Enschede,  
Netherland  
(Became the wholly owned subsidiary w.e.f. January 23, 2008)
8. Sento S.A.S., France  
9, rue Thomas Edison, 57070 Metz,  
France  
(Became the wholly owned subsidiary w.e.f. January 23, 2008)

### Other Offices of R Systems and its subsidiaries

9. U. K. Branch Office  
75, Westow Hill,  
London, SE 19 1 TX, UK
10. USA Branch Office  
5000, Windplay Drive, Suite 5  
EL Dorado Hills, CA 95762, USA
11. R Systems Solutions, Inc., USA  
Suite # 100, 4984 El Camino Real,  
Los Altos, California, 94022.
12. R Systems NV., Belgium  
Diestseweg 32 C, B-2440, Geel,  
Belgium
13. Indus Software, Inc.  
5000, Windplay Drive, Suite 5  
EL Dorado Hills, CA 95762, USA
14. R Systems (Singapore) Pte. Ltd.  
17, Changi Business Park Central 1,  
#05-01, Singapore 486073
15. ECnet (M) SDN. BHD, Malaysia  
Level 12, Suiet 12.05 Menara Summit,  
Persiaran Kewajipan, USJ1,  
47600 UEP Subang Jaya,  
Selangor Darul Ehsan, Malaysia
16. ECnet Systems (Thailand) Co. Ltd., Thailand  
2/3 Moo 14, Bangna Tower - A, 2nd Floor,  
Room No. 205 Bangna-Trad Rd. K.M. 6.5, Bangkaew,  
Bangplee, Samutprakarn, Thailand-10540
17. ECnet (Shanghai) Co. Ltd., People's Republic of China  
Rm H, 20th Floor, Foresight Mansion, No. 768,  
Xie Tu Rd, Shanghai 200023,  
People's Republic of China
18. ECnet, Inc., USA  
Corporation Trust Center 1209 Orange Street,  
Wilmington, New Castle, DE 19801, USA
19. ECnet (Hong Kong) Limited, Hong Kong  
Room 1903, 19/F, World-Wide House,  
19 Des Voeux Road Central, Hong Kong
20. ECnet Kabushiki Kaisha, Japan  
1-6-17 Godo Build. 6 F,  
Kaji-cho, Chiyoda-ku,  
Tokyo Japan 101-0044



## CORPORATE GOVERNANCE

### xv) Address for correspondence

For any assistance regarding dematerialisation of shares, share transfers, transmissions, change of address, non-receipt of dividend or any other query relating to shares:

#### Registrar and Share Transfer Agent

##### M/s Intime Spectrum Registry Limited

A-40, 2nd Floor,  
Naraina Industrial Area, Phase - II,  
Near Batra Banquet Hall,  
New Delhi - 110 028  
Tele : 011 - 41410592 - 94  
Fax : 011 - 41410591

For general correspondence:

##### R Systems International Limited

###### Corporate Office

C - 40, Sector - 59,  
Noida (U.P.) - 201 307  
E-mail : investors@india.rsystems.com  
Tele : 0120 - 4303500  
Fax : 0120 - 2587123

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### CODE OF CONDUCT DECLARATION

I, Satinder Singh Rekhi, Chief Executive Officer of R Systems International Limited, to the best of my knowledge and belief, hereby declare that all Board members and senior management personnel have affirmed compliance with the Company's Code of Conduct for the year ended December 31, 2007.

Satinder Singh Rekhi  
(Chief Executive Officer)

Place : EDH, CA, USA  
Date : February 24, 2008

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### CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER OF R SYSTEMS INTERNATIONAL LIMITED

We, Satinder Singh Rekhi, Managing Director and Chief Executive Officer and O'Neil Nalavadi, Director Finance and Chief Financial Officer hereby certify that:

- a. We have reviewed the financial statements and the cash flow statement of the Company for the year ended December 31, 2007 and that to the best of our knowledge and belief:
  - i. these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
  - ii. these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- b. There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or violative of the Company's Code of Conduct.
- c. We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or proposed to take to rectify these deficiencies.
- d. We have indicated wherever applicable, to the auditors and to the Audit Committee
  - i) significant changes in internal control over financial reporting during the year;
  - ii) significant changes in accounting policies during the year, if any and that the same have been disclosed in the notes to the financial statements; and
  - iii) instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system over financial reporting.

Satinder Singh Rekhi  
(Chief Executive Officer)

O'Neil Nalavadi  
(Chief Financial Officer)

Place : EDH, CA, USA  
Date : February 24, 2008



## CORPORATE GOVERNANCE

### CERTIFICATE ON CORPORATE GOVERNANCE COMPLIANCE

To

The Members of  
R Systems International Limited  
B - 104A, Greater Kailash - I,  
New Delhi - 110 048

We have examined the compliance of conditions of Corporate Governance by **M/s R Systems International Limited** (the "Company"), for the year ended December 31, 2007, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchange(s).

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the said Clause of the above mentioned Listing Agreement(s).

As per the records of the Company, there were no investor complaints / grievances remaining unattended for a period exceeding 21 days against the Company.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

**For SKP & Co.,  
Company Secretaries**

**(CS. Sundeep K. Parashar)**

**Prop.**

**M. No. 18715**

**C.P. No. 6575**

**Date : April 05, 2008**

**Place : Delhi**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### MANAGEMENT'S DISCUSSION AND ANALYSIS ON FINANCIAL PERFORMANCE AND POSITION OF R SYSTEMS INTERNATIONAL LTD. ("R SYSTEMS" OR THE "COMPANY") FOR THE CALENDAR YEAR 2007.

#### Forward-Looking and Cautionary Statements

Investors are cautioned that this discussion contains forward-looking statements that involve risks and uncertainties. When used in this discussion, the words "anticipate", "believe", "estimate", "intend", "will" and "expect" and other similar expressions as they relate to the Company or its business are intended to identify such forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether because of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such forward-looking statements. Factors that could cause or contribute to such differences include those described under the heading 'Risk Factors' in the Prospectus filed with the Securities and Exchange Board of India (SEBI) as well as risk factors discussed elsewhere in this report. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of their dates. The following discussion and analysis should be read in conjunction with the Company's financial statements included in this report and the notes thereto. Investors may also note that this analysis compares the performance of the current year with that of the previous year only, which may have been regrouped or reclassified.

#### OVERVIEW

R Systems financial statements have been prepared in compliance with the requirements of the Companies Act, 1956, and Generally Accepted Accounting Principles (GAAP) in India. Our management accepts responsibility for the integrity and objectivity of these financial statements, as well as for various estimates and judgments used therein. The estimates and judgments relating to the financial statements have been made on a prudent and reasonable basis, in order that the financial statements reflect in a true and fair manner the form and substance of transactions, and reasonably present our state of affairs, profits and cash flows for the year.

#### Industry Structure And Developments

##### Worldwide Sourcing Trends in 2007

According to "NASSCOM Strategic Review 2008", worldwide technology products and related services sector spends are estimated to have grown at 7.3 per cent to nearly reach USD 1.7 trillion in 2007 – overcoming concerns of budgetary cutbacks due to an economic slowdown in the US and its spill-over effects on other key markets. IT-BPO services, growing at an above-sector-average rate of nearly 8 per cent, remain the largest category, accounting for an increasing share of the worldwide technology sector revenue aggregate. Outsourcing continues to be the primary growth driver, albeit sustained by gradual shifts in regional spending patterns—with increasing traction in Europe and Asia Pacific offsetting a marginal decline in share of the Americas.

The global sourcing of technology related services is estimated to have grown by about 30 per cent to reach USD 70-76 billion in 2007. Increasing emphasis on innovation-led growth added to the secular trend in technology related spending, with IT-enablement and global delivery now being recognized as complementary means of effectively increasing productivity, reducing time-to-market and thereby increasing the returns on innovation investment.

##### Indian IT industry

Strong fundamentals of a large talent pool, sustained cost competitiveness and an enabling business environment have helped establish India as the preferred sourcing destination. Despite attempts by the governments in several other locations, to replicate the factors and policies that have contributed to India's success—superior execution has ensured that India remains the distinct leader in the global sourcing arena. India continues to deliver a significant cost advantage, driven by a wide differential in wages and other lower factor costs, and enhanced through productivity gains.

Further, during 2007, the industry has successfully countered sharp appreciation of the INR against the USD, financial sector crisis in USA and existing supply side constraints through steady expansion into newer service-lines and increased geographic penetration world over which resulted in maintenance of double-digit revenue growth.

According to NASSCOM, the overall Indian IT-BPO revenue aggregate is expected to grow by over 33 per cent and reach USD 64 billion by the end of the current fiscal year (FY2008). Over the same period, direct employment in the sector is expected to reach nearly 2 million, an increase of about 375,000 professionals over the previous year. As a proportion of national GDP, the Indian technology sector revenues have grown from 1.2 per cent in FY1998 to an estimated 5.5 percent in FY2008. Net value-added by this sector, to the economy, is estimated at 3.3-3.9 per cent for FY2008.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Exports market :** According to NASSCOM, exports remain the mainstay of the Indian IT-BPO growth story contributing 64 per cent to the overall revenue aggregate. Software and services exports, accounting for over 98 per cent of the total exports, are expected to cross USD 40 billion and directly employ nearly 1.6 million professionals, in FY2008 -- a commendable achievement over just about two decades.

**Exports by geography :** While the US and the UK remain the largest export markets (accounting for about 61 per cent and 18 per cent respectively, in FY2007), the industry footprint is steadily expanding to other geographies. Exports to Continental Europe in particular have witnessed notable gains, growing at a CAGR of more than 55 per cent over FY2004-2007.

**Exports by vertical market :** The industry's vertical market exposure is well diversified across several mature and emerging sectors. Banking, Financial Services and Insurance (BFSI) remains the largest vertical market for Indian IT-BPO exports, followed by High-technology and Telecom. These sectors together accounted for nearly 60 per cent of the Indian IT-BPO exports in FY2007. Manufacturing and Retail followed, contributing 23 per cent to the aggregate. Other key segments include Media, Healthcare, Airlines and Transportation, and Utilities.

**Exports by service-segment :** Broad-based growth, across all the segments of IT services, BPO, product development and engineering services, is reinforcing India's leadership as the key sourcing location for a wide range of technology related services. Further, being able to demonstrate credible scale across a wider service portfolio is helping firms deepen relationships with existing clients as well as drive access to previously untapped opportunities. IT services (excluding BPO, product development and engineering services), contributing 57 per cent of the total exports, remains the dominant segment and is expected to cross USD 23 billion, a growth of 28 per cent in FY2008.

**Domestic market :** Domestic IT services spends are estimated to be growing at about 43 per cent in FY2008, and are showing strong signs of increasing sophistication as building enterprise IT infrastructures and applications, networking and communication become key priorities for India Inc. Software and BPO spending growth in the domestic market is being supported by increasing adoption, and is expected to grow by over 37 per cent and 43 per cent, respectively as per NASSCOM Strategic Review 2008.

**India's IT-BPO Value Proposition:** India offers a unique combination of attributes that have established it as the preferred offshore destination for IT-BPO. Over FY2001-2006, India's share in global sourcing is estimated to have grown from 62 per cent to 65 per cent for IT and 39 per cent to 45 per cent for BPO according to Department of Information Technology, India (Annual Report 2006-07). With the BPO going strong for the past few years, the Knowledge Process Outsourcing (KPO) -- which maybe be called the highest level of the BPO -- is still at a nascent stage of development in the country. This evolution of the market to the KPO will drive trends that will ensure very high-value services, in off-shoring. These opportunities in the KPO will help the Indian market climb the global value and knowledge chain.

With a large pool of skilled manpower -- chartered accountants, doctors, MBAs, lawyers, research analysts -- India would be able to add value to the global KPO business and its high-end processes like valuation research, investment research, patent filing, legal and insurance claims processing online teaching, media content supply, among others. Skilled manpower and multi lingual capabilities combined with the advantages of lower costs can help the country emerge as a front runner in KPO globally.

### Opportunities And Threats

R Systems founded in 1993, is one of the leading provider of outsourced product development and customer support services. We help companies accelerate the speed to market for their products and services with a high degree of time and cost predictability by using our proprietary pSuite execution framework. Clients can choose services specific to their needs from R Systems **iPLM** suite of services. We help companies build scalable, configurable and secure products and applications; and help our clients support their customers for products and services using our global delivery model.

In the Products Group, R Systems has a range of products that caters to the banking, finance, manufacturing and logistics industry. The banking and consumer finance solutions are sold under the Indus® brand name and the supply chain solutions for manufacturing and logistics industry are sold under the ECnet® brand name.

We believe that the following aspects of our business help to differentiate us from some of our competitors:

#### iPLM Services Group

R Systems has over 20 million people hours of experience in product development, technical support and customer care and over a period of 14 years we have been involved with over 150 software products or productized applications globally. R Systems has been involved in a wide array of products and applications including core banking, ERP products, digital media, Internet security, mobile applications, health care, optimization tools, supply chain, and embedded software products and tools.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The nature of our engagements with our clients results in long enduring relationships whereby we work as an extended organization for our clients. R Systems competitive advantage in product development and support is further enhanced by its global delivery capabilities, multi-language support capabilities and agile development methodologies supported by R Systems proprietary pSuite Framework.

### Products Group

**Indus** Lending solutions is a modular and parameter driven, n-tier application that helps automate the Customer Acquisition Lifecycle for multiple retail products offered through multiple business channels. It allows customers to launch new products and schemes; change rules on-the-fly and customize product offerings based on their individual needs. The product is equipped with tools to evaluate risk and improve decision-making. It will track the repayment schedules of the customer and can come with a powerful customer-servicing module. Delinquent accounts can be tracked all the way from early collections to accounts that need to be resolved through legal means. The lending solutions from the Indus Lending Solutions Business contain three modules-- 'Indus Loan Origination', 'Indus Loan Serving' and 'Indus Collections'. R Systems has over 26 referable clients that includes world class banks.

**ECnet** Supply chain products provide solutions for holistic management of the complex interaction between an organization and its trading partners. The integrated solution aims to reduce all supply chain costs through improved collaboration and optimization. The solutions are robust and scalable and give measurable ROI to clients within one year. R Systems has over 25 global manufacturing companies as referable clients.

R Systems core competencies in outsourced product development and support, lending solutions and supply chain execution services with a global presence in five countries- India, USA, Netherlands, France and Singapore positions the Company extremely well in an environment where companies embracing outsourcing to gain competitive advantages. Despite the strengths of R Systems the market is competitive and the Company has to reckon with threats from competitors including their disruptive tactics, intense demand for global talent, attrition of employees, sudden and rapid changes in foreign currency rates, and economic cycles. R Systems is cognizant of risks and uncertainties which is managed proactively through risk mitigation processes and strategies.

### Segment-wise Performance

Detailed information about segment wise performance has been given in Consolidated Financial Statements. See Consolidated Financial Statements -- Schedule 19 : Notes to accounts.

### Performance and Outlook

The calendar year 2007 started with an unprecedented and unexpected challenge of a rapidly depreciating US\$ which was likely to compress R Systems margins. R Systems mitigated the impact of currency fluctuation on its margins by a combination of measures that included improving utilization and achieving better price realization. Through a relentless focus on understanding customer needs and exceeding their expectations, managing the operating metrics of people dependent business providing an exciting environment for employees, R Systems earned record consolidated revenues of Rs. 24,705.75 lacs (a growth of 21% in INR and 33% in US\$), along with record profits of Rs. 1,897.14 lacs (a growth of 142% in INR and 165% in US\$). The record net profits resulted in basic earnings of Rs. 13.97 per share, up 126% percent from the previous year's Rs. 6.17 per share.

During the year under review R Systems executed agreements for the acquisition of Sento Europe which provides a wide range of integrated technical support and customer care services through multiple channels in 18 European languages. The acquisition was completed in January 2008.

With strong core competencies, excellent roster of clients, highly driven and talented employees R Systems is committed to building a company that creates value to all stakeholders.

### Risk and Concern

At R Systems risk management is a dynamic process with an attempt to constantly identify all the emerging risks and propose solutions to manage these. This is explained in detail in Risk Management Report.

### Material Development in Human Resources / Industrial Relations Front / Including Number of People employed

In the IT and ITeS industry, attracting, developing, deploying and retaining talent is critical and the Company has defined and implemented a People Management Initiative which is in line with industry best practices and People CMM. It effectively manages the Employee Life Cycle so that individuals are committed, have pride and show proactiveness on the job. We have 2,195 head count globally as at December 31, 2007.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Internal Control Systems and Their Adequacy

R Systems has adequate internal control systems and procedures commensurate with its size and nature of business. All areas of the Company's operations are covered by such internal control systems including revenue from rendering services and sale of software, purchase of fixed assets and equipments, other purchases, expenditures such as payroll, subcontracting charges, travel, utility expenses, insurance etc. Independent firms of Chartered Accountants have been appointed as the Internal Auditors of the Company for all the business units in India and the Audit Committee has accepted their reports and the recommendations, wherever feasible, have been implemented.

Further, R Systems has taken the initiative to have critical non financial areas such as security infrastructure, quality models, development processes and delivery models reviewed and certified by independent organizations. R Systems makes continual investments in organization behavior and management processes to ensure that these certified industry standards are continually adhered to. As on the date of this report Noida IT centre is ISO 9001:2000, SEI CMMi level 5 and ISO 27001: 2005 certified, Noida BPO centre is ISO 9001:2000 and ISO 27001: 2005 certified. Pune and Chennai development centres are SEI CMM Level 5 and ISO 9001 : 2000 certified. The continuing compliance with these standards demonstrates the rigor of R Systems processes and differentiates us to keep our competitive edge in service offering.

### MANAGEMENT'S DISCUSSION AND ANALYSIS ON THE CONSOLIDATED FINANCIAL POSITION OF R SYSTEMS AS ON DECEMBER 31, 2007

#### 1. Share Capital

(Rs in Lacs)

Particulars	December 31,	
	2007	2006
Authorized Share Capital	2,000.00	2,000.00
Issued Subscribed & Paid up Capital	1358.27	1358.27
Less: Advance to Indus Software Employee welfare Trust	7.39	7.39
	1,350.88	1,350.88

R Systems has only one class of shares -- equity shares of par value Rs. 10 each. R Systems authorized share capital is Rs. 2,000 lacs, divided into 200 lacs equity shares of Rs. 10 each and remained unchanged from the previous year 2006.

The issued subscribed and paid up capital was Rs.1,350.88 lacs after adjusting Rs.7.39 lacs advance to Indus Software Employee Welfare Trust in compliance with guidance note issued by the Institute of Chartered Accountants of India.

During 2007, there was no movement in share capital except the Company had granted 632,500 options on July 11, 2007 to eligible employees under R Systems International Limited Employee Stock Option Scheme 2007.

#### 2. Reserves and Surplus

R Systems global reserves increased by 12.49 % to Rs 12,905.83 lacs as on December 31, 2007 from Rs 11,472.55 lacs as on December 31, 2006. The increase is mainly on account of profits earned during 2007 net of dividend payouts as offset by decline in foreign currency translation reserve of Rs. 177.82 lacs. The decline in foreign currency translation reserve was primarily due to sharp appreciation of rupee against US\$ during 2007.

#### 3. Secured Loan

The total amount of secured loans (including finance lease obligations) stood at Rs 63.14 lacs at end of the year 2007 in comparison to Rs 242.58 lacs at the end of the year 2006. The decrease in secured loan funds is mainly attributable to non utilization of cash credit facilities due to strong cash position of the R Systems at the end of the year 2007.

#### 4. Deferred Payment Liability

Deferred payment liability represents the amount payable by R Systems to erstwhile shareholders of R Systems Solutions, Inc. (formerly known as Web Converse, Inc.) which will accrue after 12 months from December 31, 2007. The total amount payable after one year has decreased from Rs. 223.35 lacs as on December 31, 2006 to Rs. 106.30 lacs as on December 31, 2007 as a result of payment and reclassification of amount payable within 12 months in current liabilities. The amount payable to erstwhile shareholders within a year is shown under "Current Liabilities" amounting to Rs. 209.22 lacs as on December 31, 2007 against Rs. 516.64 lacs as on December 31, 2006. The total amount paid during 2007 was Rs. 386.99 lacs.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 5. Deferred Tax Liability(net)

R Systems recognizes deferred tax in compliance with the Accounting Standard -22 issued by the Institute of Chartered Accountants of India. The Company has accounted for the deferred tax asset of Rs 129.37 lacs in 2007 against Rs 95.00 lacs in 2006, on account of provision for leave encashment and gratuity. Further, the Company recognized deferred tax liability of Rs. 373.66 lacs in 2007 against Rs. 271.94 lacs in 2006, mainly on account of timing differences in depreciation of fixed assets. The net deferred tax liability increased from Rs. 176.94 lacs in 2006 to Rs. 244.30 lacs in 2007.

### 6. Fixed Assets

The gross block of fixed assets as at December 31, 2007 decreased to Rs 8,040.78 lacs as compared to Rs. 8,207.63 lacs as at December 31, 2006. The additions to fixed assets were Rs. 956.02 lacs and deletions or adjustments were Rs. 1,122.88 lacs during the year.

The additions in gross block were mainly on account of the expansion of development and service centers and purchases of computer hardware, software and networking items. Deletions or adjustments during the year were on account of write-off of old fixed assets which had already been fully depreciated.

Capital work-in-progress ("Capex WIP") increased to Rs. 497.58 lacs as at December 31, 2007 from Rs. 106.13 lacs as at December 31, 2006. Capex WIP includes Rs.126.35 lacs for expansion of Noida global development center, Rs.216.12 lacs for up-gradation of networking equipment in our BPO operations to create a globally seamless and scalable telecom infrastructure and Rs.155.11 lacs for development of new Indus loan origination and repayment management product.

The estimated amount of contracts remaining to be executed on capital account and not provided for as at December 31, 2007 was Rs. 183.19 lacs as against Rs. 88.43 lacs as at December 31,2006. This was primarily on account of expansion of Noida global development center.

### 7. Investments

The investments are shown at lesser of cost or realizable value at the end of each year. There was no movement in the investments during the year under review. The decrease in investment from Rs. 134.63 lacs as at December 31, 2006 to Rs 120.36 lacs as at December 31, 2007 was on account of currency fluctuation caused primarily by the depreciation of US\$ against rupee during the year.

### 8. Sundry Debtors

Sundry debtors (net of provisions) increased from Rs 4,833.71 lacs as at December 31, 2006 to Rs. 6,135.15 lacs as at December 31, 2007. The increase in debtors was primarily on account of increase in the scale of business operations. The days sales outstanding ("DSO") measured by average trade receivables divided by net credit sales for 2007 was 78 days as against 82 days for 2006. The improvement in DSO was on account of disciplined account and relationship management with customers.

### 9. Cash and Bank Balance

Cash and bank balance, including bank deposits, as on December 31, 2007 was Rs. 5,121.47 lacs compared to Rs. 5,317.41 lacs as on December 31, 2006, which included unspent amount of IPO funds of Rs. 2,093.07 lacs (previous year Rs. 2,528.48 lacs). The cash and bank balance per share as on December 31, 2007 was Rs. 37.71 as against Rs. 39.15 as on December 31, 2006. The treasury policy of R Systems is to invest surplus funds with highly rated banking institutions at minimal risk with short and medium term maturities depending on future requirement of funds.

### 10. Other Current Assets

The main components of other current assets consist of unbilled revenue (net of anticipated cost to complete the contracts) and accrued interest on deposits. Unbilled receivables are stated net of anticipated costs for completion, and constitute amounts not billed to customers at the end of each accounting period, and which are expected to be billed in due course in accordance with the contracts with the customers.

The other current assets have decreased from Rs 1,415.67 lacs as on December 31, 2006 to Rs 837.34 lacs as on December 31, 2007. The decrease in other current assets can be attributed to decrease in unbilled revenue (net of anticipated cost to complete the contracts) from Rs. 1,305.68 lacs in 2006 to Rs. 766.93 lacs in 2007.

### 11. Loans and Advances

Loans and advances are short term loans advanced during the course of business recoverable in cash or kind. The total loans and advances as on December 31, 2007 was Rs. 737.95 lacs compared to Rs. 753.51 lacs as on December 31, 2006 net of provisions for unrecoverable advances.

### 12. Current Liabilities

Current liabilities are liabilities likely to fall due for payment within a period of twelve months. The total current liabilities of R Systems as on December 31, 2007 was Rs. 3,090.57 lacs as compared to Rs. 3,373.17 lacs as on December 31, 2006. The changes was primarily on account of write back of liability amounting to Rs 144.52 lacs towards deferred payment compensation to erstwhile shareholders of ECnet Limited and payment made during the year to erstwhile shareholders of ECnet Limited and R Systems Solutions, Inc. (formerly known as Web Converse Inc). This was offset by increase of Rs. 412.37 lacs in deferred revenue on account of non-refundable license fee of US\$ 1 million received under a



## MANAGEMENT'S DISCUSSION AND ANALYSIS

global license agreement for Indus Lending Solution with a financial services customer. The deferred revenues will be accounted as revenues once the solution is implemented over a period of time.

### 13. Provisions

During the year 2007, the provisions increased to Rs.1,294.93 lacs as against Rs. 1,163.97 lacs in 2006. This is mainly on account of increase in provisions for income tax, long term compensated absences and gratuity benefits as a result of growth in business and increase in provision for proposed dividend of 2007 offset by the decline in provision for long term compensated absences due to changes in leave policy during 2007.

### 14. Liquidity

The cash and cash equivalent as on December 31, 2007 were Rs. 5,040.78 lacs as against Rs. 5,239.29 lacs as on December 31, 2006. Net cash provided by operating activities was Rs 1,491.42 lacs and Rs 1,318.62 lacs for the year ended December 31, 2007 and 2006 respectively. The increase in cash from operating activities during the year ended 2007 is due to growth in business activities and profitability of the Company.

During the year, R Systems invested Rs. 1,216.51 lacs in fixed assets. The Company paid Rs 386.99 lacs and Rs 54.66 lacs as deferred payment compensation to the erstwhile shareholders of R Systems Solution Inc (formerly named as Web Converse Inc.) and EC Net Ltd respectively. The interest earned on surplus cash balances during 2007 was Rs. 327.89 lacs as against Rs. 127.33 lacs in 2006.

Cash flow from financing activities during the year 2007 resulted in net outflow of Rs 398.14 lacs mainly due to an outflow of Rs. 173.04 lacs for reduction of net borrowings, payment of Rs. 34.41 lacs as interest on borrowings, Rs 162.99 lacs for payment of FY 2006 dividends and Rs 27.70 lacs for dividend taxes.

Our policy is to maintain sufficient liquidity to fund the anticipated capital expenditures, operational expenses and investments for strategic initiatives.

The initial public offer ("IPO") of R Systems International Limited had closed on March 31, 2006 and its equity shares got listed with the National Stock Exchange of India Limited and Bombay Stock Exchange Limited w.e.f. April 26, 2006. Pursuant to initial public offer the Company gathered Rs. 7,062.50 lacs (net of selling shareholders' proceeds), details of utilisation of IPO proceeds are as follows:

(Rs. in lacs)

Object	Original IPO (1)	Revised as on 1.05.2007* (2)	Proposed for Revision# (3)	Utilised till 31.12.2007 (4)	Balance Unutilised (5)
Upgradation and expansion of existing infrastructure	3,150.00	3,265.43	2,299.93	2,143.12	156.81
Repayment of outstanding loans	365.50	365.50	365.50	365.50	-
Financing general working capital requirements	1,795.10	1,795.10	1,795.10	863.24	931.86
General corporate purposes	621.90	617.52	1,590.60	586.20	1,004.40
Meeting offer expenses	1,130.00	1,018.95	1,011.37	1,011.37	-
<b>Total</b>	<b>7,062.50</b>	<b>7,062.50</b>	<b>7,062.50</b>	<b>4,969.43</b>	<b>2,093.07</b>

\* Downward revision in issue expenses of Rs. 111.05 lacs and in general corporate expenses of Rs. 4.38 lacs aggregating to Rs. 115.43 lacs is proposed to be utilised for upgrading & expansion of existing infrastructure as approved by shareholders in the annual general meeting held on May 1, 2007.

# The Company is seeking approval from the share holders at forthcoming annual general meeting to transfer Rs. 965.50 lacs from upgradation and expansion of existing infrastructure and Rs. 7.58 lacs from meeting offer expenses towards general corporate purposes.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED OPERATING PERFORMANCE FOR THE YEAR ENDED DECEMBER 31, 2007

The following section discusses in detail the composition of different items that affect the result of operations of the Company. The discussion is based on the consolidated financials of R Systems International Ltd and its subsidiaries.

The following table sets forth certain financial information as a percentage of our total income for the years as indicated:

	(Rs. in lacs)				
	Year ended December 31,2007	% of Total income	Year ended December 31,2006	% of Total Income	Growth %
<b>Income</b>					
Operating income	24,705.75	97.19%	20,394.58	98.07%	21.14%
Write back of deferred payment to erstwhile shareholders of ECnet Limited	144.52	0.57%	-	-	100.00%
Other income	570.84	2.25%	402.08	1.93%	41.97%
<b>Total income</b>	<b>25,421.11</b>	<b>100.00%</b>	<b>20,796.66</b>	<b>100.00%</b>	<b>22.24%</b>
<b>Expenditure</b>					
Personnel expenses	15,217.75	59.86%	12,702.99	61.08%	19.80%
Operating and other expenses	7,137.85	28.08%	5,895.77	28.35%	21.07%
Depreciation /amortisation	704.11	2.77%	591.24	2.84%	19.09%
Financial expenses	60.10	0.24%	56.94	0.27%	5.55%
<b>Total expenditure</b>	<b>23,119.81</b>	<b>90.95%</b>	<b>19,246.94</b>	<b>92.55%</b>	<b>20.12%</b>
<b>Net profit before tax and prior period items</b>	<b>2,301.30</b>	<b>9.05%</b>	<b>1,549.72</b>	<b>7.45%</b>	<b>48.50%</b>
Prior period expense/ (Income)	(8.85)		158.89		
<b>Net profit before tax</b>	<b>2,310.15</b>	<b>9.09%</b>	<b>1,390.83</b>	<b>6.69%</b>	<b>66.10%</b>
Current tax	328.11		155.23		
MAT credit entitlement	(49.80)		-		
Deferred tax	67.91		398.91		
Fringe benefit tax	66.79		54.26		
<b>Total tax expense</b>	<b>413.01</b>	<b>1.62%</b>	<b>608.40</b>	<b>2.93%</b>	<b>(32.12%)</b>
<b>Net profit after tax</b>	<b>1,897.14</b>	<b>7.46%</b>	<b>782.43</b>	<b>3.76%</b>	<b>142.47%</b>
<b>Appropriations</b>					
Proposed final dividend	244.49		162.99		
Tax on proposed final dividend	41.55		27.70		
Transfer to general reserve	181.28		25.12		
<b>Surplus carried to balance sheet</b>	<b>1,429.82</b>	<b>5.62%</b>	<b>566.62</b>	<b>2.72%</b>	<b>152.34%</b>

#### 1. Income

##### A. Operating Income

R Systems derives operating income principally from software development and customization services and to a lesser extent from the business process outsourcing services. Operating income 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.

During the year 2007, operating income grew 21.14% to Rs 24,705.75 lacs as compared to Rs 20,394.58 lacs in 2006. In terms of US\$ the operating income grew by 32.70% from US\$45.00 mn. to US\$59.74 mn.

During the year under review there was a sharp appreciation of the INR against the USD which impacted growth rate of operating income when translated to INR. Revenues from existing clients were approximate 89% which reflects the effectiveness of client retention.

R Systems derives its revenue from two business segments viz software development and customization services and business process outsourcing services. The revenue from software development and customization services increased from Rs.18,226.25 lacs in 2006 to Rs. 21,152.79 lacs in 2007 registering a growth of 16.06 % year on year ("yoy"). The revenue from business process outsourcing services increased from Rs 2,168.33 lacs in 2006 to Rs 3,552.96 lacs in 2007 registering a growth of 63.86% yoy. Revenue break up percentage from Software development and customization services and business process outsourcing services during year ended December 31, 2007 and 2006 was as follows :

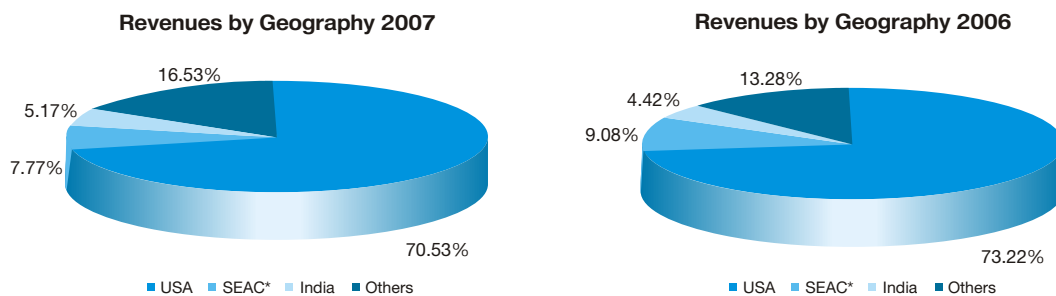


## MANAGEMENT'S DISCUSSION AND ANALYSIS

(Rs. in lacs)

	Year Ended December 31, 2007	%	Year Ended December 31, 2006	%	Growth %
Software development and customization services	21,152.79	85.62	18,226.25	89.37	16.06%
Business process outsourcing services	3,552.96	14.38	2,168.33	10.63	63.86%
<b>Total Revenue</b>	<b>24,705.75</b>	<b>100.00</b>	<b>20,394.58</b>	<b>100.00</b>	<b>21.14%</b>

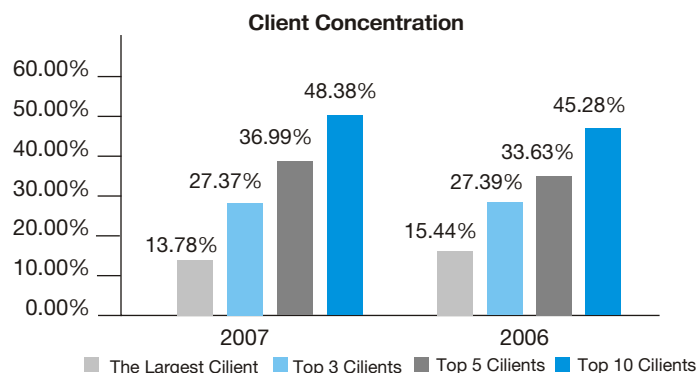
R Systems earns income from four principal geographic territories, namely the United States of America, South East Asian countries ("SEAC"), India and other countries. A significant proportion of our revenues are derived from clients located in the United States of America. The geographic break-down of our income is given below:



\* SEAC means South East Asian Countries

Revenues from USA decreased from 73.22% during the year 2006 to 70.53% in 2007 mainly due to increase in revenues from Europe reported under "Others".

The breakdown of R Systems revenue on the basis of client concentration for 2007 and 2006 is as follows:-



Revenues from services provided to the GE group, R Systems biggest client, as a percentage of R Systems total revenues decreased from 15.44 % in 2006 to 13.78 % in 2007 due to increase in revenues from services provided to other clients.

### B. Write Back of deferred payment to erstwhile shareholders of ECnet Limited

During the year 2007, R Systems renegotiated and settled the deferred payment compensation in respect of the ECnet acquisition at a lower amount with certain erstwhile shareholders and as a result there was a write back of deferred payment compensation of Rs. 144.52 lacs. (Refer note 10 (a) of Schedule 19 of consolidated financial statements.)

### C. Other Income

The global other income amounted to Rs 570.84 lacs during the year 2007 as compared to Rs 402.08 lacs in 2006 registering a growth of 41.97 % yoy. During the year under review other income primarily comprised of the following:

- Interest Income on account of deposits with banks Rs 372.01 lacs.
- Provision for doubtful debts and advances written back Rs 43.07 lacs resulting from realization of debts earlier considered as doubtful.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- Net foreign exchange gain of Rs 98.12 lacs mainly on accounts of forward covers obtained by the Company against foreign currency exposure to its debtors.
- Excess provision written back of Rs 4.38 lacs.
- Miscellaneous income of Rs. 52.38 lacs including Rs. 27.71 lacs as an early termination penalty received from a client and Rs.18.55 lacs on accounts of relinquishment of share warrant earlier received from a client.

### 2. Expenditures

#### A. Personal Expenses

Personnel expenses consist primarily of salaries, wages, bonus, commissions and perquisites paid to employees and contribution to provident and other funds and staff welfare expenses.

Personnel expenses increased from Rs. 12,702.99 lacs in 2006 to Rs.15,217.75 lacs in 2007, registering a growth of 19.80% yoy.

The increase in personnel cost has been driven primarily by an increase in the number of employees during the year from 1,843 at the end of 2006 to 2,195 at the end of 2007 resulting from increased scale of operations along with wage hike during 2007 and inclusion of whole year results of R Systems Solutions, Inc. against 4 months results during 2006 offset by decline in provision of long term compensated absences due to change in leave policy during 2007.

Further, as a percentage of total income, personnel expenses decreased from 61.08% in 2006 to 59.86% in 2007 on account of higher utilization of personnel in the provision of services.

#### B. Operating and Other Expenses

Operating and other expenses includes expenses on traveling and conveyance, legal and professional expenses including sub-contractors costs, recruitment and training, communication, provision for doubtful debts and advances, rent of premises, equipment rental, audit fees, repairs and maintenance, commission, insurance premium and other miscellaneous items.

Operating expenses increased by Rs 1,242.09 lacs or 21.1% to Rs.7,137.85 lacs in 2007 from Rs.5,895.77 lacs in 2006.

The components and movements of operating expenses are explained below:-

	(Rs. in lacs)				
	Year Ended December 31, 2007	%	Year Ended December 31, 2006	%	Growth %
<b>Operating income</b>	<b>24,705.75</b>	<b>100.0%</b>	<b>20,394.58</b>	<b>100.0%</b>	<b>21.1%</b>
<b>Operating and other expenses</b>					
Traveling and conveyance	2,158.36	8.7%	1,586.68	7.8%	36.0%
Legal and professional expenses including audit fees	2,321.25	9.4%	1,992.83	9.8%	16.5%
Communication costs	693.13	2.8%	496.98	2.4%	39.5%
Repair and maintenance	272.61	1.1%	224.72	1.1%	21.3%
Rent - premises and equipments	501.78	2.0%	383.47	1.9%	30.9%
Provision for doubtful debts and advances written off	296.80	1.2%	437.29	2.1%	(32.1%)
Recruitment and training expenses	140.26	0.6%	157.63	0.8%	(11.0%)
Power and fuel	289.14	1.2%	256.03	1.3%	12.9%
Rates and taxes	40.87	0.2%	20.66	0.1%	97.9%
Loss on sale/discard of fixed assets (net)	25.52	0.1%	10.26	0.1%	148.7%
Others	398.14	1.6%	329.23	1.6%	20.9%
<b>Total</b>	<b>7,137.85</b>	<b>28.9%</b>	<b>5,895.77</b>	<b>28.9%</b>	<b>21.1%</b>

Increase in operating expenses such as traveling, legal and professional charges including subcontracting expenses, communication costs, recruitment and training costs, power and fuel were on account of increase in business volume along with inclusion of whole year results of R Systems Solutions, Inc. against inclusion for 4 months results during 2006. During the year under review operating expenses benefited by decline in non-recoverable accounts receivables and provision for doubtful debts and advances by Rs.140.49 lacs.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### C. Finance Expenses

Finance expenses consists principally of interest expenses on our lines of credits from banks and other bank charges. The financial expenses marginally increased from Rs.56.94 lacs in 2006 to Rs 60.10 lacs in 2007 on account of increase in the scale of business operations.

### D. Depreciation/Amortisation

The depreciation provided for the year 2007 was Rs 704.11 lacs in comparison to Rs. 591.24 lacs for 2006 representing 2.77% and 2.84% of total income for the year 2007 and 2006 respectively. The increase in depreciation is primarily due to full year provisions in 2007 on the expansion and up-gradation of Noida development centre completed during 2006.

### E. Prior Period Expenses

Prior period income during 2007 was Rs. 8.85 lacs as against prior period expense of Rs.158.89 lacs for 2006. The prior period income in 2007 includes reversal of excess provisions related to employee's salaries and wages of Rs. 22.89 lacs net off of prior period legal and professional expenses of Rs. 14.05 lacs.

### F. Net Profit Before Taxation

Net profit before taxation increased to Rs. 2,310.15 lacs or 9.09% of total income in 2007 from Rs.1,390.83 lacs or 6.69% of total income in 2006. The increase in net profits before taxes is attributable to reasons given earlier.

### G. Provision for Tax

Tax expense comprises of current, deferred and fringe benefit tax net of MAT (Minimum Alternate Tax) credits.

The Company in respect of operations in India enjoys tax benefits under section 10A of the Income Tax Act, 1961 to the extent of taxable income attributable to services exported from designated 'Software Technology Parks (STP). The benefit under section 10A will be available up to March 31, 2009. Deferred tax is recognised after eliminating timing differences, which reverse during the tax holiday period.

During the year, the provision for taxation was at Rs 413.01 lacs as compared to Rs 608.40 lacs in 2006. The decrease in provision for taxation is mainly due to one time adjustment of Rs 227.20 lacs in the US subsidiary net of deferred tax assets recognised during the year 2006 offset by increase in current taxes net of MAT credit of Rs. 123.08 lacs resulting from increase in domestic revenues.

### H. Profit after Tax

Profit after tax increased to Rs. 1,897.14 lacs or 7.46% of revenue in 2007 from Rs. 782.43 lacs or 3.76% of revenue in 2006 registering a robust growth of 142.47 % yoy. The increase in net profits after taxes is attributable to reasons given earlier.

### I. Dividend

The Board of Directors have recommended a dividend of Rs. 1.80 per equity share or 18% on the par value of Rs. 10 per share, a 50% increase compared to 2006, to be appropriated from the profits of the Company for the financial year 2007 subject to the approval of the shareholders at the forthcoming annual general meeting. The total payout of the dividend for the year 2007 is proposed to be Rs. 244.49 lacs in comparison to Rs 162.99 lacs in the year 2006. The total payout for corporate dividend tax attributable to such dividend during the year 2007 will be Rs. 41.55 lacs as provided in the accounts in comparison to Rs 27.70 lacs in 2006.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING PERFORMANCE ON STANDALONE FINANCIALS AS ON DECEMBER 31 2007

The following table sets forth certain financial information as a percentage of our total income for the years as indicated:

(Rs. in lacs)

	Year Ended December 31, 2007	% of total Income	Year Ended December 31, 2006	% of total Income	Growth %
<b>Income</b>					
Operating income	15,556.68	94.47%	11,754.13	95.97%	32.35%
Provision for diminution in value of long term investments written back	104.42	0.63%	79.90	0.65%	30.70%
Write back of deferred payment to erstwhile shareholders of ECnet Limited	40.10	0.24%	-	0.00%	100.00%
Other income	766.44	4.65%	413.26	3.37%	85.46%
<b>Total income</b>	<b>16,467.65</b>	<b>100.00%</b>	<b>12,247.29</b>	<b>100.00%</b>	<b>34.46%</b>
<b>Expenditure</b>					
Personnel expenses	9,071.65	55.09%	6,649.79	54.30%	36.42%
Operating and other expenses	3,996.25	24.27%	3,568.98	29.14%	11.97%
Depreciation /amortisation	534.49	3.25%	453.12	3.70%	17.96%
Financial expenses	48.13	0.29%	54.33	0.44%	(11.42%)
Provision for diminution in value of long term investments	-	-	104.42	0.85%	(100.00%)
<b>Total expenditure</b>	<b>13,650.52</b>	<b>82.89%</b>	<b>10,830.64</b>	<b>88.43%</b>	<b>26.04%</b>
<b>Net profit before tax and prior period items</b>	<b>2,817.13</b>	<b>17.11%</b>	<b>1,416.65</b>	<b>11.57%</b>	<b>98.86%</b>
Prior period expense/ (income)	(8.85)		158.89		
<b>Net profit before tax</b>	<b>2,825.98</b>	<b>17.16%</b>	<b>1,257.75</b>	<b>10.27%</b>	<b>124.68%</b>
Current tax	315.88		144.38		
MAT credit entitlement	(49.80)		-		
Deferred tax	75.98		54.24		
Fringe benefit tax	66.79		54.26		
<b>Total tax expense</b>	<b>408.84</b>	<b>2.48%</b>	<b>252.88</b>	<b>2.06%</b>	<b>61.68%</b>
<b>Net profit after tax</b>	<b>2,417.14</b>	<b>14.68%</b>	<b>1,004.88</b>	<b>8.20%</b>	<b>140.54%</b>
<b>Appropriations</b>					
Proposed final dividend	244.49		162.99		
Tax on proposed final dividend	41.55		27.70		
Transfer to general reserve	181.29		25.12		
<b>Surplus carried to balance sheet</b>	<b>1,949.81</b>	<b>11.84%</b>	<b>789.06</b>	<b>6.44%</b>	<b>147.11%</b>



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 1. Income

#### A. Operating Income

R Systems recorded an operating income of Rs. 15,556.68 lacs in the year 2007 as compared to Rs. 11,754.13 lacs in the year 2006, a yoy growth of 32.35%. The growth of income on yoy basis from software development and customization services and business process outsourcing was 31.46% and 38.46% respectively. Further, the contribution from business process outsourcing services to the total operating income has increased to 13.36 % during the year 2007 as against 12.77% in the year 2006.

(Rs. in lacs)

Particulars	Year Ended December 31, 2007	%	Year Ended December 31, 2006	%	Growth %
Software development and customization services	13,477.68	86.64	10,252.58	87.23	31.46%
Business process outsourcing services	2,079.00	13.36	1,501.55	12.77	38.46%
<b>Total Revenue</b>	<b>15,556.68</b>	<b>100.00</b>	<b>11,754.13</b>	<b>100.00</b>	<b>32.35%</b>

#### Geographic Breakdown of Operating Income

The geographic break-down of the operating income is given below:

Revenues by Geographies	Year Ended	
	Dec 31, 07	Dec 31, 06
USA	68.59%	69.55%
SEAC ( South East Asia )	2.42%	4.97%
India	8.21%	7.67%
Others	20.78%	17.81%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

The share of revenue from "Others" has increased from 17.81 % in 2006 to 20.78% in 2007 mainly on account of increase in revenues from Europe during the year.

#### B. Provision for diminution in value of long term investments

During 2006, a provision of Rs.104.42 lacs was made for decline in the value of the investment in ECNet which had been considered as other than temporary.

During the year 2007, R Systems renegotiated and settled the deferred payment compensation in respect of ECnet acquisition at a lower amount with certain erstwhile shareholders and as a result there was a write back of Rs. 144.52 lacs. Out of above, Rs 104.42 lacs has been adjusted against the value of the investment and provision against diminution in value of EC Net investment was subsequently written back. (Refer note 11 (a) of Schedule 19 of standalone financial statements).

#### C. Write back of deferred payment to erstwhile shareholders of ECNet Ltd.

During the year 2007, R Systems renegotiated and settled the deferred payment compensation in respect of ECnet acquisition at a lower amount with certain erstwhile shareholders and as a result there was a write back of Rs. 144.52 lacs out of which Rs 104.42 lacs has been adjusted against the value of the investment and the remaining amount of Rs 40.10 lacs is shown as write back of deferred payment to erstwhile shareholders of EC Net Ltd. . (Refer note 11 (a) of Schedule 19 of standalone financial statements).

#### D. Other Income

The share of other income in total income increased from 3.37% in the year 2006 to 4.65 % in the year 2007. The increase was mainly attributable to increase in interest earned on the bank deposits by Rs 142.5 lacs and increase in write-back of provision for doubtful debts and advances by Rs 147.76 lacs as a result of the subsequent recovery of the debts.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 2. Expenditures

#### A. Personal Expenses

Personal costs increased from Rs. 6,649.79 lacs in 2006 to Rs. 9,071.65 lacs in 2007. As a percentage of total income personal cost increased to 55.09% in the year 2007 from 54.30% in 2006 mainly due to increase in the total number of employees and increases in compensation which was offset by decline in provision of long term compensated absences due to change in leave policy during 2007.

#### B. Operating and Other Expenses

Operating expenses increased to Rs. 3,996.25 lacs in the year 2007 as against Rs. 3,568.98 lacs in the year 2006.

The components and movements of operating expenses are explained below:-

(Rs. in lacs)

	Year Ended December 31, 2007	%	Year Ended December 31, 2006	%	Growth %
<b>Operating income</b>	<b>15,556.68</b>	<b>100.0%</b>	<b>11,754.13</b>	<b>100.0%</b>	<b>32.35%</b>
<b>Operating and other expenses</b>					
Traveling and conveyance	1,781.08	11.4%	1,223.28	10.4%	45.60%
Legal and professional expenses including audit fees	334.28	2.1%	261.37	2.2%	27.89%
Communication costs	425.14	2.7%	327.46	2.8%	29.83%
Repair and maintenance	216.10	1.4%	170.75	1.5%	26.56%
Rent - premises and equipments	261.77	1.7%	196.23	1.7%	33.40%
Provision for doubtful debts and advances written off	292.19	1.9%	792.02	6.7%	(63.11%)
Recruitment and training expenses	71.63	0.5%	112.03	1.0%	(36.06%)
Power and fuel	266.70	1.7%	236.68	2.0%	12.69%
Rates and taxes	22.12	0.1%	24.64	0.2%	(10.24%)
Loss on sale/discard of fixed assets (net)	25.79	0.2%	10.31	0.1%	150.22%
Others	299.44	1.9%	214.22	1.8%	39.78%
<b>Total</b>	<b>3,996.25</b>	<b>25.7%</b>	<b>3,568.98</b>	<b>30.4%</b>	<b>11.97%</b>

Increase in operating expenses such as traveling, legal and professional charges including subcontracting expenses, communication costs, recruitment and training costs, power and fuel were on account of increase in business volume. During the year under review operating expenses benefited by decline in provision for doubtful debts and advances, and debts written-off by Rs.499.83 lacs.

#### C. Finance Expenses

The financial expenses decreased to Rs 48.13 lacs in 2007 as against Rs. 54.33 lacs in 2006. The decrease in financial expenses was mainly on account of lesser reliance on borrowed funds after the Company's IPO in 2006.

#### D. Depreciation/Amortisation

The depreciation provided for the fiscal year 2007 was Rs. 534.49 lacs as against Rs. 453.12 lacs in the fiscal year 2006. The increase in depreciation is primarily due to full year provisions in 2007 on the expansion and up-gradation of Noida development centre completed during 2006.

#### E. Prior Period Income / Expenses

Prior period income during 2007 was Rs. 8.85 lacs as against prior period expense of Rs.158.89 lacs for 2006. The prior period income in 2007 includes reversal of excess provisions related to employee's salaries and wages of Rs. 22.89 lacs net off of prior period legal and professional expenses of Rs. 14.05 lacs.

#### F. Net Profit Before Taxation

Net profit before taxation increased to Rs. 2,825.98 lacs in 2007 from Rs.1,257.57 lacs in 2006 registering a growth of 124.68% yoy. This represents 17.16% and 10.27% of total income for the year 2007 and 2006 respectively. The increase in net profits before taxes is attributable to reasons given earlier.

#### G. Provision for Tax

Tax expense comprises of current, deferred and fringe benefit tax net of MAT credit recognised.

The Company in respect of operations in India enjoys tax benefits under section 10A of the Income Tax Act, 1961 to the extent of taxable income attributable to services exported from designated 'Software Technology Parks (STP). The benefit under section 10A will be available up to March 31, 2009. Deferred tax is recognised after eliminating timing differences, which reverse during the tax holiday period.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

During the year, the provision for taxation was at Rs 408.84 lacs as compared to Rs 252.88 lacs in 2006. The increase in provision for taxation was mainly due to increase in interest income from Rs. 228.88 lacs in 2006 to Rs. 371.38 lacs in 2007 and increase in domestic revenue from Rs. 901.48 lacs in 2006 to Rs 1,277.00 lacs in 2007.

### H. Profit After Tax

Profit after tax increased to Rs. 2,417.14 lacs during the year 2007 from Rs.1,004.88 lacs in fiscal year 2006 or to 14.68% of total income in 2007 from 8.20% of total income in 2006. The yoy growth was 140.54%. The increase in net profits after taxes is attributable to reasons given earlier.

### I. Dividend

The Board of Directors have recommended a dividend of Rs. 1.80 per equity share or 18% on the par value of Rs. 10 per share, a 50% increase compared to 2006, to be appropriated from the profits of the Company for the financial year 2007 subject to the approval of the shareholders at the forthcoming annual general meeting. The total payout of the dividend for the year 2007 is proposed to be Rs. 244.49 lacs in comparison to Rs 162.99 lacs in the year 2006. The total payout for corporate dividend tax attributable to such dividend during the year 2007 will be Rs. 41.55 lacs as provided in the accounts in comparison to Rs 27.70 lacs in 2006.



## RISK MANAGEMENT REPORT

Risk Management is a dynamic process which should constantly be able to identify all the emerging risks and propose solutions to manage them. The risk perception also constantly varies depending on the size of the business, business segment, location, scale of business. The essence of risk management strategy at R Systems lies in maximizing areas of control over outcome and minimizing areas where the Company has no control over outcome. R Systems recognizes that business conditions are constantly changing, evolving, and entering into cycles. As an integral part of R Systems business model, we constantly strive to identify areas of potential risks, understand the risks, devise, mitigate and manage the risks. At R Systems, we remain cautious in our risk appetite while reminding ourselves that without risks there are no rewards. The R Systems management process involves translating the designated risk limits into operational behavior through policies, procedures, internal controls and regular assessment of those controls. Compliance with all applicable laws, rules and regulations, as well as internal policies and procedures is part of R Systems risk management process.

Risk management is an integral part of the charter of the Board of Directors at R Systems. The Board is responsible for monitoring risk levels on various parameters and to suggest measures to address the same. The day to day management of the risk is entrusted to the management team of R Systems. Within R Systems management structure, certain personnel are designated with responsibility of managing risks including ensuring compliance with laws, rules and regulations with the assistance of both internal and external resources. Further, formal reporting, escalation of risk events and control mechanisms ensure timely communication, response and proactive management of the risks.

### Discussion on Risks Experienced by R Systems and the Company's Response to the Risks

The Management cautions readers that the risks outlined below are not exhaustive, are for information purposes only and may contain forward looking statements, the results of which may differ materially from those reflected. Investors and readers are requested to exercise their own judgment in assessing various risks associated with the Company.

The following risks are identified by the Company and it monitors parameters corresponding to them on a regular basis.

#### 1. Business

- Client Concentration
- Geographical Concentration
- Client Risks
- Competition
- Acquisitions
- Credit Risk

#### 2. Delivery

- Execution Risk
- Disaster Prevention and Recovery
- Technological Obsolescence
- Fixed Price Contracts
- Talent Acquisition & Retention

#### 3. Financial

- Foreign Currency Rate Fluctuations
- Inflation and Cost Structure

#### 4. Legal and Statutory

- Contractual Liabilities
- Statutory Compliance
- Directors' & Officers' Liability Risks
- Failure to protect Intellectual Property Rights
- Transfer Pricing Arrangements



## RISK MANAGEMENT REPORT

### 5. Political

- Change in Government Policy
- Visa Regulations/Restrictions

### 1. Business Risks

#### Client Concentration

R Systems revenues are dependent to a considerable extent upon relationships with a limited number of customers and retaining those customers. The percentage of total consolidated revenues during fiscal 2005, 2006 and 2007 that R Systems derived from contracts with **our top 5 customers** is as follows:

Fiscal year	% of total revenue
2005	33.95%
2006	33.63%
<b>2007</b>	<b>36.99%</b>

Further, R Systems centers at Pune, Chennai and Salt Lake City are dependent on revenues primarily from a single customer at each location. Concentration of revenues from a limited number of customers deepens our relationship with those customers but at the same time imposes a risk of dependence. Customer's vendor management strategies and business risks radiate on to R Systems through fluctuations in utilization, pricing for services and service level demands. All these factors could potentially impact revenues and profitability of R Systems.

R Systems business model and strategy involves serving the clients in a manner that they get measurable tangible benefits. When clients see value in the services that R Systems provides, we believe that client relationships can be nurtured into the long term. Further with our proactive strategy of adding new clients, we attempt to reduce our dependency on a smaller number of customer relationships.

#### Geographical Concentration

R Systems has traditionally derived most of its revenues from the US, given the technology focus and specialized product engineering services offered by it. During the year 2007, 70.53% of R Systems consolidated revenues were from clients located in the US as against 73.22% in 2006. Consequently, if there is an economic slowdown in the US, it may in turn lower the demand for our services and negatively affect our revenues and profitability.

In order to mitigate the risk of geographical concentration, R Systems has stepped up its business activities in other geographic areas like Europe and South East Asia and recent acquisition in Europe is the part of this strategy. However, since most of the potential clients for software product engineering and support services are located in US, dependence on US markets may not significantly reduce.

Revenues by Geographies	Year Ended		
	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
USA	70.53%	73.22%	75.15%
SEAC (South East Asian Countries)	7.77%	9.08%	9.74%
India	5.17%	4.42%	3.16%
Others	16.53%	13.28%	11.95%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

#### Client Risks

A significant component of R Systems revenues are derived from services provided to software product companies. R Systems clients fall in all stages of the life cycle including early-stage, middle-stage and late-stage companies. The software product companies, depending on their life cycle, are vulnerable to slow down in technology spending, consolidation, attrition of key personnel, obsolescence in technology and continuing financial support of key investors. A significant change in any of these factors may affect the performance and financial position of an R Systems client and prove detrimental to the stability or profitability of revenues from that relationship. R Systems strategy and organizational behavior is to recognize the existence of these risks and mitigate them by proactively increasing the number of clients and building a strong relationship with each client so that we can anticipate risks and take appropriate preemptive steps to minimize the risks and their consequences.

## RISK MANAGEMENT REPORT

### Competition

The IT & ITES sector is a highly competitive sector. Our competitors include IT outsourcing firms in India as well as in other countries, national and multinational consulting and technology firms, Indian IT services firms, software firms and in-house IT departments of large companies. R Systems offers end-to-end high technology solutions and services to independent software vendors and technology service providers. R Systems with its unique and proprietary (IP)LM & (S)M framework with best practices, tools and methodologies for flawless execution and consistent delivery of high quality software, offers services along with the entire software lifecycle that includes technology consulting, architecture, design & development, professional services, testing, maintenance, customer care and technical support. R Systems expects that its technology focus, investment in processes, talent, and methodologies will enable it to distinguish itself from the competitor as it seeks to provide services to technology/product companies. R Systems has a reputation for excellence in delivery among product engineering companies and it proposes to leverage on this to grow its business. R Systems however expects competition to be very intense in the future which could adversely impact its ability to win new customers and retain and grow existing customers.

### Acquisitions

R Systems growth strategy in future may involve future strategic acquisitions, partnerships and exploration of mutual interests with other parties. These future acquisitions may not contribute to our profitability, and we may be required to incur or assume debt, or assume contingent liabilities, as part of any acquisition. We could have difficulty in assimilating the personnel, operations, software assets and technology of the acquired company. These difficulties could disrupt our ongoing business, distract our management and employees and increase our expenses.

We will remain sharply focused on those acquisitions and partnerships that add to the competitive strengths of our business. Specific transactions are evaluated in detail with experienced internal personnel and external advisors, wherever relevant, before consummating any transaction. Deal teams conduct technical, operational, marketing due diligence and build detailed financial model to evaluate the risks and benefits of any transaction. Further contractual agreements are negotiated with the advice of legal counsel to protect company interests.

### Credit Risk

As part of R Systems business practice, the payment collection process may extend over a period of time. Customers budgeting constraints can impact their ability to make the required payments. In addition, the creditworthiness of our clients may deteriorate over time and we can be adversely affected by bankruptcies or other business failures of our customers.

R Systems undertakes suitable credit assessments to secure itself from credit defaults and bad debts on account of such customers. The Company has suitably streamlined its processes to develop a more focused and aggressive receivables management systems to ensure timely collections.

## 2. Delivery

### Execution Risks

A significant number of R Systems clients are software product, large banking, and manufacturing companies. These clients need high quality and timely delivery of services with very stringent services level agreements. Any failure in delivery, quality, meeting service level bench agreements, product features and functionalities could adversely affect R Systems relationship with its clients, which could potentially impact R Systems revenues and profitability.

R Systems has continuously invested in processes, people, training, information systems, quality standards, frameworks, tools and methodologies to mitigate the risks associated with execution of projects. Adoption of quality models and practices such as the Software Engineering Institute's - Capability Maturity Model Integrated (SEI-CMMi) and Six Sigma have ensured that risks are identified and mitigated at various levels in the planning and execution process. Further, senior management personnel, project managers and process leaders are entrusted with the responsibility to meet the project and service level expectations on various engagements. Planned intervention and escalation systems are further deployed to minimize risks.

### Disaster Prevention and Recovery

The IT industry is very sensitive to security risk and a real or perceived threat of a risk to the security and integrity of information available to us may adversely affect customer perception, give rise to litigation and reduce our customer base, thereby negatively affecting R Systems revenues and profit margins. The contracts entered into by R Systems typically hold us solely responsible for maintaining satisfactory standards of personnel competency, conduct and integrity and for taking required disciplinary action.



## RISK MANAGEMENT REPORT

R Systems has adopted industry-standard security precautions such as ensuring that our employees and strategic partners enter into non-disclosure and confidentiality agreements with us, verifying that there is no information leakage through test procedures, carrying out background checks and verifications, creating and maintaining data back-ups, and maintaining an adequate disaster recovery plan. As on the date of this report Noida IT center is ISO 9001:2000 & SEI CMMi level 5 and ISO 27001: 2005 certified, Noida BPO center is ISO 9001 : 2000 & ISO 27001: 2005 certified. Pune and Chennai development centres are SEI CMM Level 5 and ISO 9001:2000 certified. The continuing compliance with these standards demonstrates the rigor of R Systems processes and differentiates us to keep our competitive edge in service offering.

### Technological obsolescence

The IT and ITES sector is characterized by technological changes at a rapid rate, evolution of existing products and introduction of new products. R Systems makes investments in R&D, with a view to keep pace with the latest developments in the technology space. Further, R Systems regularly hires, trains and nurtures domain and market specialists, and continuously evaluates increasing the portfolio of technology alliances and partnerships to enrich our product and service mix. However, this risk cannot be fully mitigated despite the proactive investments made by R Systems.

### Risks Associated with Fixed Price Contracts

While most of our assignments are on the basis of time and material task orders, some proportion of the services provided by us is in the nature of fixed price task order assignments. There can be no assurance that we will be able to execute fixed-cost projects within the anticipated timeframe without incurring cost overruns. In the event of cost overruns, our profitability will be adversely affected.

We have our internal processes to ensure accuracy in the estimation of the time required to execute fixed price projects, and processes to implement and monitor the progress of such projects. Further the experience gained from such projects is used for new projects. Currently the Company derives a small portion of its revenues from fixed price contracts. However given the very nature of the fixed price projects, cost overruns and delayed deliveries cannot be ruled out.

### Talent acquisition & retention

The IT and BPO sector is highly competitive in terms of hiring strategy and incentives. R Systems is highly dependent on its employees at various levels of the organization to provide leadership and manage the business, and to provide services and execute complex projects for the clients. These skilled professionals are in high demand by other organizations and if R Systems is unable to attract and retain the skilled people, it will affect R Systems ability to grow and provide services to its customers.

R Systems has extensive recruitment teams in the markets that operate to continuously recruit skilled personnel at various levels in the organization. In addition, R Systems conducts a rigorous training program at the entry level to train new professionals and develop next generation of managers and leaders. R Systems deploys modern HR practices by offering competitive compensation and benefit packages and exciting work environment to attract and retain talent. Further, R Systems tries to mitigate the impact of attrition in the continuity of services to the clients by using its proprietary **pSuite Framework** that allows the project teams to seamlessly share knowledge and collaborate on projects.

## 3. Financial

### Foreign Currency Rate Fluctuations

Managing an equilibrium state in the light of the unfavourable movements in exchange rates involved in earnings and expenditure in foreign currency continues to be one of the challenges when exposed to global markets. A significantly large percentage of R Systems consolidated revenues are either foreign currency denominated or derived from export earnings. Whereas a major portion of the R Systems expenses in India are incurred in Indian rupees. As a result, operating profits will be highly impacted by foreign currency rate fluctuations. While depreciation of the Indian rupee would have a favorable bottom-line impact, an appreciation would affect R Systems profitability adversely.

In fiscal year 2007, we saw a relatively volatile Rupee, with the conversion rates from USD to Rupee varying from Rs.44.12 on January 1, 2007 to a high of Rs.44.69 and a low of Rs.39.23 and closing at Rs.39.44 per USD on December 31, 2007 with an average rate of Rs.41.36 for the year 2007 as against Rs.45.32 for the year 2006. R Systems attempts to minimize currency fluctuation risks on export earnings by taking forward covers on Rupee USD exchange rate based on anticipated revenues and debtors at periodic intervals. These hedging strategies have provided some protection against currency fluctuation risks in the past, however there can be no assurance that they will mitigate the risks in the future. Forward cover contracts could also prove to be detrimental to R Systems profitability if the actual currency conversion rates move in the direction opposite to those anticipated by R Systems.

## RISK MANAGEMENT REPORT

### Inflation and Cost Structure

Our cost structure consists of salary and other compensation expenses, depreciation, overseas travel, and other general costs. Rapid economic development in India and increasing demand for global delivery may have a significant impact on these costs and the rate of inflation as relevant to the IT & ITES services industry. This is compounded by the fact that overseas competitors may treat their India strategy as a cost center and develop the same regardless of the cost incurred and its impact on their profitability.

R Systems major costs are wage and benefit cost that it incurs on employees. These costs may have a tendency to escalate faster than the rate of inflation because of the demand for skilled and experienced professionals. R Systems attempts to mitigate the risks associated with wage inflation by obtaining increased price from clients, increasing bench mark prices for new business, enhancing productivity, increasing utilization and inducting fresh graduates and training them. Further, R Systems has implemented robust processes and information systems to enable personnel to make the right decisions for revenue realization and cost optimization to minimize the risks of changes in wage cost structure.

### 4. Legal and Statutory

#### Contractual Liabilities

The primary contractual risks that R Systems faces pertain to obligations of R Systems to provide services with full adherence to contracted terms of quality, time deadlines, output per hour, protection of confidential information, protection of intellectual property rights, patents, and copyrights. R Systems has a rigorous process to evaluate the legal risks involved in a contract, ascertains its legal responsibilities under the applicable law of the contract and tries to restrict its liabilities to the maximum extent possible. As a policy R Systems attempts to protect itself with “no consequential losses” and “maximum liability” clauses. R Systems also ensures that risks are protected through various insurances like professional liability, workers compensation, directors' and officers' liability insurance. The Company's past record in this regard has been good and there has been no significant damages awarded against the Company that has resulted in material adverse impact on our financial position. R Systems also has an escalation process to immediately involve senior management personnel in case R Systems customers or contractors make any assertion of breach of contract.

#### Statutory Compliance

R Systems has trans-national operations. The Company operates in various geographies and it has to ensure compliance of various applicable rules and regulations in those countries. R Systems is exposed to penalties and other liabilities related to non-compliance or inadequate compliance in those countries.

R Systems uses independent legal counsel to advise the Company on compliance issues with respect to the laws of various countries in which the Company has its business activities and to ensure that R Systems is not in violation of the laws applicable. R Systems has a compliance management system with qualified managers entrusted with compliance of various laws including the listing laws and regulations applicable to public companies in India.

#### Directors and Officers Liability Risks

The directors and officers of R Systems are required to take material decisions in the best interest of the Company. Such decisions might result in errors and omission and R Systems might be sued by the other counter part. To mitigate this risk, the directors and officers take legal and expert advice when required and have taken various insurance policies outlined earlier including professional liability and directors and officer's liability insurance.

Although the Company attempts to limit its contractual liability for damages arising from negligent acts, errors, mistakes or omissions by directors and officers in rendering services, there can be no assurance that the limitations of liability set forth in its service contracts will be enforceable in all instances or will otherwise protect the Company from liability for damages. Though the Company maintains general liability insurance coverage, including coverage for errors or omissions -going forward, there can be no assurance that such coverage will be available on reasonable terms and in sufficient amount to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. The successful assertion of one or more large claims against the Company could adversely affect the Company's results of operations and financial condition.

#### Failure to protect Intellectual Property Rights

We have not registered some of our intellectual property under the relevant intellectual property laws and we are in the process of applying for the same. We have applied for the registration of the following three marks as our trade mark - **iPLM, Products FOREMOST, pSuite FRAMEWORK** and all of them are still pending for registration.

Further during the year ended December 31, 2007 we have received the registration certificate from the office of the Registry of Trade Mark for registration of R Systems logo as reproduced below w.e.f 30th May 2000.



## RISK MANAGEMENT REPORT



We also rely on a combination of confidentiality agreements with employees and non-disclosure and contractual confidentiality obligations imposed on our customers, vendors and strategic partners, to protect our proprietary intellectual property rights. A misappropriation of our intellectual property rights would harm the competitive advantage we enjoy in relation to those intellectual property rights.

The Company has controls in place to ensure that it is not exposed to risks associated with the misuse of intellectual property or technology products owned by third parties.

### **Transfer Pricing Arrangements**

R Systems has entered into certain transfer pricing agreements with its subsidiaries. Such transfer pricing agreements contain clauses relating to transfer pricing that the Company believes are at par with the prices that would be charged by unrelated parties sharing an arm's length relationship. While R Systems believes that it operates in compliance with all applicable transfer pricing laws in all applicable jurisdictions, the Company cannot assure that these transfer pricing agreements will not be challenged as not capturing an arm's length relationship. If they are so challenged, the Company may be required to re-determine the transfer prices, which could result in an increased tax liability and thereby adversely affect the Company's profit margins.

## **5. Political**

### **Change in Government Policy**

The Government of India has been favorably disposed towards the IT and BPO industry in India though there are recent changes that will end the tax holidays over a period of time. Such changes in government policies may affect the performance and cost advantage of IT and BPO companies in India. Further, we operate in multiple countries of which the US is a major market. While most governments in the countries where we operate are in favor of free trade, we cannot be immune to changes in policies that may discourage off-shoring to protect local employment.

### **Visa Restrictions and Regulations**

The majority of the employees of R Systems are Indian nationals. The ability of R Systems to render its services in the US, Europe and other countries depends on the ability to obtain visas and work permits. Immigration to US, Europe and other countries are subject to legislative changes as well as variations in standards of application and enforcement due to political forces and economic conditions. It is difficult to predict the political and economic events that could affect immigrations laws or the restrictive impact they could have on obtaining or monitoring work visas. The reliance on visas makes R Systems vulnerable to such changes and variations as it affects the ability of the Company to staff projects with employees who are not citizens of the country where the work is to be performed. As a result, R Systems may not be able to get a sufficient number of visas for employees or may encounter delays or additional costs all of which may affect profitability.

R Systems monitors the status of visa availability and requirements on a regular basis in consultation with external legal counsel. In house legal personnel are entrusted with the responsibility for compliance with the immigrations laws which is validated by periodic independent audit.

## 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, 2007 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. *The Company had not obtained any valuations of its shares to determine the additional benefit, if any, being offered to the existing option holders consequent to changes in the existing stock option plans as explained in note 12(a) and 12(c) of Schedule 19. Considering this, we are unable to assess the benefit if any, not accounted for and the consequent impact on these financial statements.*
5. 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, 2007, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on December 31, 2007 from being appointed as a Director in terms of clause (g) of Sub Section (1) of Section 274 of the Companies Act, 1956;
  - vi. *Subject to our comments in para 4 above, relating to additional benefit, if any, being offered to the existing option holders consequent to changes in existing stock options, consequential impact of which is not determinable*, 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, 2007,
    - 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 : Gurgaon

Date : February 24, 2008



## ANNEXURE TO AUDITORS' REPORT

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 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(ii) 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.	ECnet Limited, Singapore	Subsidiary	40,916,100	40,916,100

- (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	15,000,800	-

- (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, repayment of the principal amount was scheduled for June 30, 2008. The loan has been prepaid during the year and there is no loan outstanding at the year end. Payment of interest has been regular.
- (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 our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements exceeding value of Rupees five lakhs have been entered into during the financial year at prices which are reasonable having regard to 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.



## ANNEXURE TO AUDITORS' REPORT

- (ix) (a) Undisputed statutory dues including provident fund, employees' state insurance, income-tax, wealth-tax, service tax, sales tax, customs duty, investor education and protection fund have generally been regularly deposited with the appropriate authorities. As explained to us, this clause is not applicable to excise duty and cess which 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, service tax, sales tax, customs duty, investor education and protection fund 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. As explained to us, this clause is not applicable to excise duty and cess which are not applicable to the Company.
- (c) According to the information and explanation given to us, there are no dues of income tax, wealth tax, service tax, sales tax and customs duty, which have not been deposited on account of any dispute. As explained to us, this clause is not applicable to excise duty and cess which 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 had during the year 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) We have verified that the end use of money raised by public issues is as disclosed in the notes to the financial statements.
- (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 : Gurgaon

Date : February 24, 2008



## BALANCE SHEET AS AT DECEMBER 31, 2007

(All amounts are in Rupees unless otherwise stated)

	Schedules	As at December 31, 2007	As at December 31, 2006
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' funds</b>			
Share capital	1	135,088,080	135,088,080
Reserve and surplus	2	1,478,747,829	1,265,638,069
		<b>1,613,835,909</b>	1,400,726,149
<b>Loan funds</b>			
Secured loans	3	6,083,942	23,387,588
Unsecured loan	4	-	15,000,800
		<b>6,083,942</b>	38,388,388
<b>Deferred payments liability (refer note 11(c) under schedule 19)</b>		<b>10,630,002</b>	22,335,309
<b>Deferred tax liability (net)</b>	5	<b>24,429,549</b>	16,831,920
<b>TOTAL</b>		<b>1,654,979,402</b>	1,478,281,766
<b>APPLICATION OF FUNDS</b>			
<b>Fixed assets</b>			
Gross block	6	573,007,951	508,436,909
Less : Accumulated depreciation / amortisation		181,574,630	132,628,589
Net block		391,433,321	375,808,320
Capital work-in-progress including capital advances		28,146,373	10,613,123
		<b>419,579,694</b>	386,421,443
<b>Investments</b>			
	7	507,679,330	440,415,190
<b>Current assets, loans and advances</b>			
Sundry debtors	8	452,264,749	320,446,629
Cash and bank balances	9	438,184,986	471,470,775
Other current assets	10	54,995,205	99,920,798
Loans and advances	11	116,382,235	103,108,572
<b>(A)</b>		<b>1,061,827,175</b>	994,946,774
<b>Less : Current liabilities and provisions</b>			
Current liabilities	12	216,551,987	243,250,237
Provisions	13	117,554,810	100,251,404
<b>(B)</b>		<b>334,106,797</b>	343,501,641
<b>Net current assets (A-B)</b>		<b>727,720,378</b>	651,445,133
<b>TOTAL</b>		<b>1,654,979,402</b>	1,478,281,766
<b>Notes to accounts</b>	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** For and on behalf of the Board of Directors of R Systems International Limited  
Chartered Accountants

**per Pankaj Chadha**  
Partner  
Membership No. 91813

Satinder Singh Rekhi  
[Managing Director]

O'Neil Nalavadi  
[Director Finance & CFO]

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

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

Place : Gurgaon  
Date : February 24, 2008

Place: EDH, CA, USA  
Date : February 24, 2008

Place: EDH, CA, USA  
Date : February 24, 2008

Place: NOIDA  
Date : February 24, 2008

Place: NOIDA  
Date : February 24, 2008

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2007

(All amounts are in Rupees unless otherwise stated)

	Schedules	For the year ended December 31, 2007	For the year ended December 31, 2006
<b>INCOME</b>			
Sale of software products and rendering software development services (refer note 11(b) under schedule 19)		<b>1,555,668,414</b>	1,175,412,966
Provision for diminution in value of long term investments written back		<b>10,442,237</b>	7,989,770
Deferred payment compensation to erstwhile shareholders of ECnet Limited written back (refer note 11(a) under schedule 19)		<b>4,009,985</b>	-
Other income	14	<b>76,644,142</b>	41,326,127
<b>TOTAL</b>		<b>1,646,764,778</b>	1,224,728,863
<b>EXPENDITURE</b>			
Personnel expenses	15	<b>907,164,653</b>	664,978,983
Operating and other expenses	16	<b>399,624,870</b>	356,897,750
Depreciation / amortisation	6	<b>53,449,466</b>	45,312,442
Financial expenses	17	<b>4,812,512</b>	5,432,837
Provision for diminution in value of long term investments		-	10,442,237
<b>TOTAL</b>		<b>1,365,051,501</b>	1,083,064,249
<b>Profit before tax and prior period items</b>		<b>281,713,277</b>	141,664,614
Prior period income/(expenses)	18	<b>884,829</b>	(15,889,350)
<b>Profit for the year before tax and after prior period items</b>		<b>282,598,106</b>	125,775,264
Current tax (Including tax related to earlier year Rs. 759,520 (net of excess provision written back Rs. 329,812), Previous year Rs. Nil)		<b>31,588,306</b>	14,437,676
MAT credit entitlement		<b>(4,980,214)</b>	-
Fringe benefit tax		<b>6,678,667</b>	5,425,536
Deferred tax		<b>7,597,629</b>	5,424,471
<b>Total tax expense</b>		<b>40,884,388</b>	25,287,683
<b>Profit available for appropriation</b>		<b>241,713,718</b>	100,487,581
<b>Appropriations</b>			
Proposed final dividend		<b>24,448,871</b>	16,299,247
Tax on proposed final dividend		<b>4,155,087</b>	2,770,057
Transfer to general reserve		<b>18,128,529</b>	2,512,190
<b>Surplus carried to Balance Sheet</b>		<b>194,981,231</b>	78,906,087
Earnings per share (also refer note 13 under Schedule 19)			
Basic [Nominal value of shares Rs. 10 (Previous year: Rs. 10)]		<b>17.80</b>	7.92
Diluted [Nominal value of shares Rs. 10 (Previous year: Rs. 10)]		<b>17.56</b>	7.92
<b>Notes to accounts</b>	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** For and on behalf of the Board of Directors of R Systems International Limited  
Chartered Accountants

**per Pankaj Chadha**  
Partner  
Membership No. 91813

Satinder Singh Rekhi  
[Managing Director]

O'Neil Nalavadi  
[Director Finance & CFO]

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

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[Vice President (Finance)  
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## CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2007

(All amounts are in Rupees unless otherwise stated)

	For the year ended December 31, 2007	For the year ended December 31, 2006
<b>A. Cash flow from operating activities</b>		
<b>Net profit before taxation</b>	<b>282,598,106</b>	125,775,264
Adjustments for:		
Depreciation /amortisation	53,449,466	45,312,442
Provision for doubtful debt	19,612,796	44,982,345
Provision for doubtful advances	9,550,013	33,947,774
Bad debts and advances written off	56,377	271,392
Provision for diminution in value of investment	-	10,442,237
Deferred payment compensation to erstwhile shareholders of ECnet Limited written back (refer note 11(a) under schedule 19)	(4,009,985)	-
Loss on sale / discard of fixed assets(net)	2,579,476	1,030,898
Unrealised foreign exchange loss / (gain)	(11,803,297)	(9,097,141)
Interest income	(39,740,799)	(26,295,057)
Write back of provision for doubtful debts	(18,130,412)	(3,354,899)
Excess provisions written back	(438,285)	(3,121)
Provision for diminution in value of long term investments written back	(10,442,237)	(7,989,770)
Interest expense	3,003,079	4,269,559
<b>Operating profit before working capital changes</b>	<b>286,284,298</b>	219,291,923
Movements in working capital :		
Decrease / (Increase) in sundry debtors	(136,199,197)	(82,469,585)
Decrease / (Increase) in other current assets	40,967,626	(41,056,891)
Decrease / (Increase) loans and advances	(13,779,694)	(33,754,800)
Decrease / (Increase) in margin money deposit	(1,520,982)	4,807,730
Increase / (Decrease) in provisions	4,907,663	36,124,285
Increase / (Decrease) in current liabilities	10,959,263	(8,241,622)
Cash generated from operations	191,618,977	94,701,040
Direct taxes paid, net of refunds	(22,050,166)	(13,323,799)
Interest on income-tax refund	86,830	57,638
<b>Net cash from operating activities</b>	<b>169,655,641</b>	81,434,879
<b>B. Cash flows used in investing activities</b>		
Purchase of fixed assets	(75,987,972)	(174,824,535)
Proceeds from sale of fixed assets	1,856,202	1,025,587
Investment in subsidiary (R Systems Solutions, Inc. (Formerly known as Webconverse, Inc.) (also refer note 11 (c) under Schedule 19)	(43,852,500)	-
Deferred payment compensation to the erstwhile shareholders of R Systems Solutions, Inc. (formerly known as Webconverse, Inc.) (also refer note 11 (c) under Schedule 19)	(38,698,900)	(54,803,268)
Deferred payment compensation to the erstwhile shareholders of ECnet Limited (refer note 11(a) under Schedule 19)	(5,466,240)	-
Investment in subsidiary R Systems NV, Belgium (also refer note 11 (e) under Schedule 19)	(3,471,640)	-
Investment in subsidiary R Systems, Inc.	(19,940,000)	-
Interest received	35,236,432	15,426,451
<b>Net cash used in investing activities</b>	<b>(150,324,618)</b>	(213,175,765)
<b>C. Cash flows from / (used in) financing activities</b>		
Proceeds from borrowings	2,501,868	4,703,770
Repayment of borrowings	(34,806,314)	(64,947,960)
Proceeds from issue of equity shares	-	722,211,814
Share issue expenses	-	(92,030,667)
Interest paid	(3,003,079)	(4,032,482)
Dividends paid	(16,299,247)	-
Tax on dividend paid	(2,770,057)	-
<b>Net cash from / (used in) financing activities</b>	<b>(54,376,829)</b>	565,904,475

## CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2007

(All amounts are in Rupees unless otherwise stated)

	For the year ended December 31, 2007	For the year ended December 31, 2006
<b>Net increase in cash and cash equivalents (A + B + C)</b>	<b>(35,045,806)</b>	434,163,589
<b>Cash and cash equivalents at the beginning of the year</b>	<b>458,261,212</b>	24,097,623
<b>Cash and cash equivalents at the end of the year</b>	<b>423,215,406</b>	458,261,212
<b>Components of cash and cash equivalents as at</b>	<b>December 31, 2007</b>	December 31, 2006
Cash on hand	158,976	214,107
Balances with scheduled banks		
On current accounts	13,559,048	12,158,091
On cash credit account	9,260,471	3,986,468
On EEFC accounts	24,280,699	14,759,683
On deposit accounts	355,242,097	431,307,934
Less: Margin money deposit	(12,725,000)	(11,204,018)
Balance with other bank		
On current account	35,683,695	9,044,492
	<b>425,459,986</b>	460,266,757
Unrealised loss/(gain) on foreign currency cash and cash equivalents	(2,244,580)	(2,005,545)
<b>Net cash and cash equivalents</b>	<b>423,215,406</b>	458,261,212

**Note:**

The cash flow statement has been prepared under the indirect method as set out in the Accounting Standard 3 "Cash Flow Statement" issued by the Institute of Chartered Accountants of India

As per our report of even date.

**For S.R. BATLIBOI & ASSOCIATES** For and on behalf of the Board of Directors of R Systems International Limited  
**Chartered Accountants**

**per Pankaj Chadha**  
**Partner**  
Membership No. 91813

Satinder Singh Rekhi  
[Managing Director]

O'Neil Nalavadi  
[Director Finance & CFO]

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

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

Place : Gurgaon  
Date : February 24, 2008

Place: EDH, CA, USA  
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Date : February 24, 2008



## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	As at December 31, 2007	As at December 31, 2006
<b>Schedule 1: Share capital</b>		
<b>Authorised</b>		
20,000,000 (Previous year 20,000,000 ) equity shares of Rs. 10 each	<b>200,000,000</b>	200,000,000
<b>Issued, subscribed and paid up</b>		
13,782,206 (Previous year 13,782,206) equity shares of Rs. 10 each fully paid-up (also refer note 10 under Schedule 19)	<b>137,822,060</b>	137,822,060
Less: Equity shares buy-back 997,500 (Previous year 997,500) equity shares of Rs. 2 each fully paid-up (Refer Note 2 below)	<b>1,995,000</b>	1,995,000
Less: Advance to Indus Software Employees Welfare Trust (also refer note 12 (b) under Schedule 19)	<b>738,980</b>	738,980
	<b>135,088,080</b>	135,088,080

### Notes :

- 1) Includes 495,667 (Previous year 495,667) equity shares of Rs.10 each issued upon conversion of warrants under the shareholders agreement dated February 16, 2002.
- 2) 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.
- 3) Also refer note 12 under Schedule 19

### Schedule 2: Reserves and surplus

<b>Securities premium account</b>		
Balance as per last account	<b>981,687,568</b>	435,536,007
Add : Amount received on issue of equity shares	-	693,320,578
Less: Utilised for issue of bonus shares	-	53,552,550
Less: Utilised for share issue expenses *	-	93,616,467
	<b>981,687,568</b>	981,687,568
Less: Advance to Indus Software Employees Welfare Trust (also refer note 12 (b) under Schedule 19)	<b>2,282,728</b>	2,282,728
	<b>979,404,840</b>	979,404,840
<b>General Reserve</b>		
Balance as per last account	<b>2,512,190</b>	-
Add: Transferred from Profit and Loss Account	<b>18,128,529</b>	2,512,190
	<b>20,640,719</b>	2,512,190
<b>Profit and Loss Account</b>		
Balance as per last account	<b>283,721,039</b>	214,374,994
Less: Increased liability in accordance with 'AS-15 (Revised) Employee benefits'	-	9,560,042
Add: Transferred from Profit and Loss Account	<b>194,981,231</b>	78,906,087
	<b>478,702,270</b>	283,721,039
	<b>1,478,747,829</b>	1,265,638,069

\* net of Rs. Nil (Previous year Rs. 2,795,944) recovered as proportionate expense borne on behalf of certain selling shareholders.

## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	As at December 31, 2007	As at December 31, 2006
<b>Schedule 3: Secured loans</b>		
Loans from banks		
Cash credit facilities (Secured by first charge over current assets and collateral charge over the immovable property and fixed assets)	-	15,478,841
For motor vehicles (Secured by hypothecation of underlying motor vehicles)	<b>6,083,942</b>	7,908,747
	<b>6,083,942</b>	23,387,588

**Note:**

In case of motor vehicle loans, amount repayable within one year is Rs.3,363,465 (Previous year Rs. 3,434,298)

**Schedule 4: Unsecured loan**

Loan from a subsidiary company	-	15,000,800
	-	15,000,800

**Schedule 5: Deferred tax liability (net)**

<b>Deferred tax liability</b>		
Differences in depreciation/amortisation and other differences in block of fixed assets as per tax books and financial books	<b>37,366,217</b>	26,331,661
<b>Gross deferred tax liability</b>	<b>37,366,217</b>	26,331,661
<b>Deferred tax assets</b>		
Provision for gratuity	<b>6,995,694</b>	4,646,339
Provision for leave encashment	<b>5,940,974</b>	4,853,402
<b>Gross deferred tax assets</b>	<b>12,936,668</b>	9,499,741
<b>Net deferred tax liability</b>	<b>24,429,549</b>	16,831,920



## SCHEDULES

### Schedule 6 : Fixed assets

(All amounts are in Rupees, unless otherwise stated)

	Land- freehold	Land- leasehold	Building freehold	Building leasehold (1)	Leasehold improvements	Computers equipment	Office and electrical equipments	Furniture and fittings	Vehicles	Softwares	Product development costs	Total	Previous Year
<b>Gross block</b>													
As at January 1, 2007	4,765,674	10,005,968	30,991,162	82,311,369	336,731	178,646,634	70,706,494	68,745,613	19,862,475	38,007,607	4,057,182	508,436,909	315,767,880
Additions	-	-	-	1,696,131	1,682,778	27,827,509	13,276,604	5,895,849	4,996,537	18,134,737	-	73,510,145	221,543,389
Deductions	-	-	-	547,800	-	2,638,014	1,575,793	774,245	3,403,251	-	-	8,939,103	28,874,360
<b>At December 31, 2007</b>	<b>4,765,674</b>	<b>10,005,968</b>	<b>30,991,162</b>	<b>83,459,700</b>	<b>2,019,509</b>	<b>203,836,129</b>	<b>82,407,305</b>	<b>73,867,217</b>	<b>21,455,761</b>	<b>56,142,344</b>	<b>4,057,182</b>	<b>573,007,951</b>	<b>508,436,909</b>
<b>Depreciation / amortisation</b>													
As at January 1, 2007	-	446,749	2,660,239	3,046,536	41,669	62,380,459	11,763,278	14,304,383	4,734,346	30,799,707	2,451,223	132,628,589	114,134,022
For the year	-	163,097	509,756	1,356,086	291,006	29,967,435	4,820,635	5,063,456	1,932,636	8,331,069	1,014,290	53,449,466	45,312,442
Deletions / adjustments	-	-	-	21,445	-	1,572,801	500,276	541,835	1,867,068	-	-	4,503,425	26,817,875
<b>At December 31, 2007</b>	<b>-</b>	<b>609,846</b>	<b>3,169,995</b>	<b>4,381,177</b>	<b>332,675</b>	<b>90,775,093</b>	<b>16,083,637</b>	<b>18,826,004</b>	<b>4,799,914</b>	<b>39,130,776</b>	<b>3,465,513</b>	<b>181,574,630</b>	<b>132,628,589</b>
Depreciation / amortisation for previous year	-	163,098	509,757	822,324	41,669	23,306,617	3,350,154	7,149,402	1,734,345	7,220,776	1,014,300	45,312,442	31,741,364
<b>Net block</b>													
<b>At December 31, 2007</b>	<b>4,765,674</b>	<b>9,396,122</b>	<b>27,821,167</b>	<b>79,078,523</b>	<b>1,686,834</b>	<b>113,061,036</b>	<b>66,323,668</b>	<b>55,041,213</b>	<b>16,655,847</b>	<b>17,011,568</b>	<b>591,669</b>	<b>391,433,321</b>	<b>375,808,320</b>
At December 31, 2006	4,765,674	9,559,219	28,330,923	79,264,833	295,062	116,266,175	58,943,216	54,441,230	15,128,129	7,207,900	1,605,959	28,146,373	10,613,123
Capital work in progress (including capital advances of Rs. 5,431,645 (Previous year Rs.5,564,580))												<b>419,579,694</b>	<b>386,421,443</b>

#### 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 16,863,326 (Previous year Rs. 16,373,713) are hypothecated against terms loans for vehicle finance from banks.
- (3) Capital work in progress include Product development cost in progress amounting to Rs. 15,510,771 (Previous year Rs. 4,534,053)
- (4) Exchange differences included in the assets capitalised is Rs. Nil (Previous year Rs. 94,111)



## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	As at December 31, 2007		As at December 31, 2006	
<b>Schedule 7: Investments</b>				
<b>Long term investments (at cost)</b>				
<b>A. Other than trade- unquoted</b>				
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>B. In subsidiary companies:</b>				
Unquoted, fully paid up				
(i) 2,000 (Previous year 1,000) shares of "no par" value in R Systems, Inc., USA		223,358,532		203,418,532
(ii) 4,070,000 (Previous year 4,070,000) ordinary shares of "no par" value in R Systems (Singapore) Pte. Ltd.		104,173,570		104,173,570
(iii) 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>	1,000	<u>10,784,738</u>	1,000
(iv) 17,651,502 (Previous year 17,651,502) ordinary shares of "no par" value in ECnet Limited, Singapore) (also refer note 11(a) under Schedule 19)	34,938,958		34,938,958	
Less : Provision for diminution in value	-		10,442,237	
Less : Adjustment with securities premium as per order of High Court	<u>24,495,721</u>		<u>24,495,721</u>	
	10,443,237		1,000	
Less : Adjustment on settlement of deferred payment compensation of erstwhile shareholders	<u>10,442,237</u>	1,000	-	1,000
(v) Investment in R Systems Solutions, Inc (formerly known as WebConverse, Inc) (also refer note 11(c) under Schedule 19)				
8,666,884 (Previous year 8,666,884) Series A convertible preferred stock of "no par" value		132,796,088		132,796,088
10,335,833 (Previous year 10,335,833) common stock of "no par" value		43,852,500		-
1,000,000 (Previous year Nil) common stock of "no par" value				
(vi) 200 (Previous year Nil) shares of Euro 310 each fully paid up in R Systems NV, Belgium		3,471,640		-
		<b>507,679,330</b>		440,415,190
Aggregate amount of unquoted investments		<b>507,679,330</b>		440,415,190
Aggregate amount of quoted investments		-		-



## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	As at December 31, 2007	As at December 31, 2006
<b>Schedule 8: Sundry debtors</b>		
Debts outstanding for a period more than six months		
Unsecured, considered good	34,200,782	20,063,785
Considered doubtful	38,240,648	36,486,569
Other debts		
Unsecured, considered good	418,063,967	300,382,844
Considered doubtful	14,071,701	17,592,774
	<b>504,577,098</b>	374,525,972
Less : Provision for doubtful debts	52,312,349	54,079,343
	<b>452,264,749</b>	320,446,629
Included in Sundry debtors are :		
Dues from companies under the same management :		
R Systems, Inc., USA	50,842,861	63,200,086
ECnet Limited, Singapore [including Rs. Nil considered doubtful, (Previous year Rs. 15,426,235)]	-	15,426,235
R Systems (Singapore) Pte. Ltd.	-	147,414
R Systems Solutions, Inc. (formerly known as WebConverse, Inc), USA	-	5,747,680
<b>Schedule 9: Cash and bank balances</b>		
Cash on hand	158,976	214,107
Balances with scheduled banks		
On current accounts	13,559,048	12,158,091
On cash credit account	9,260,471	3,986,468
On EEFC accounts	24,280,699	14,759,683
On deposit accounts	355,242,097	431,307,934
Balance with other banks		
On current account with California Bank & Trust (Maximum balance during the period Rs. 65,257,436, (Previous year Rs. 43,894,909))	35,683,695	9,044,492
	<b>438,184,986</b>	471,470,775

### Notes :

- Balances with scheduled banks - on deposit accounts include receipts pledged with Banks and various Government departments Rs. 12,725,000 (Previous year Rs. 11,204,018).
- Also refer note 17 of Schedule 19.

### Schedule 10: Other current assets

Interest accrued on deposits		7,013,023	10,961,473
Interest accrued on staff advance		28,174	37,691
Unbilled revenue	56,359,410		95,561,419
Less: Anticipated cost to complete contracts	8,405,402	47,954,008	6,639,785
		<b>54,995,205</b>	99,920,798

## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	As at December 31, 2007	As at December 31, 2006
<b>Schedule 11: Loans and advances</b>		
(Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received (including Rs. 5,585,493 considered doubtful, Previous year Rs. 5,015,225)	<b>48,554,250</b>	44,799,456
Advances and loans to subsidiaries :		
a) Advance recoverable R Systems, Inc.	<b>51,512,070</b>	36,132,931
b) Advance recoverable from ECnet Limited	<b>157,082</b>	1,438,811
c) Advance recoverable from R Systems Solutions, Inc (formerly known as WebConverse, Inc)	<b>2,373,373</b>	189,143
d) Advance recoverable R Systems (Singapore) Pte Ltd	<b>29,919</b>	2,215,425
e) Loan to ECnet Limited [including Rs. 40,916,100 considered doubtful, (Previous year Rs. 33,947,775)]	<b>40,916,100</b>	36,824,704
MAT credit receivable	<b>4,980,214</b>	-
Deposits - others	<b>14,360,820</b>	20,471,102
	<b>162,883,828</b>	142,071,572
Less : Provision for doubtful loans and advances	<b>46,501,593</b>	38,963,000
	<b>116,382,235</b>	103,108,572
<b>Included in loans and advances are :</b>		
Dues from companies under the same management- (Maximum amount outstanding during the year)		
R Systems, Inc., USA	<b>69,963,920</b>	36,132,931
ECnet Limited, Singapore	<b>40,916,100</b>	54,639,764
R Systems Solutions, Inc (formerly known as WebConverse, Inc)	<b>2,403,805</b>	-
R Systems (Singapore) Pte. Ltd., Singapore	<b>1,469,767</b>	849,158
<b>Schedule 12: Current liabilities</b>		
Sundry creditors	<b>101,049,251</b>	110,598,932
Unamortised income on forward contracts	<b>2,998,572</b>	1,213,010
Payable to subsidiary companies	<b>18,038,877</b>	32,007,184
Deferred payment compensation to the erstwhile shareholders of ECnet Limited (refer note 11 (a) under Schedule 19)	<b>7,345,396</b>	27,953,223
Deferred payment compensation to the erstwhile shareholders of R Systems Solutions, Inc (refer note 11 (c) under Schedule 19)	<b>20,922,415</b>	51,664,498
Deferred revenue	<b>50,233,092</b>	9,237,437
Security deposits	<b>1,973,613</b>	1,958,025
Other liabilities	<b>13,990,771</b>	8,617,928
	<b>216,551,987</b>	243,250,237
a) Total outstanding dues of micro enterprises and small enterprises included in Sundry creditors (also refer note 9 under Schedule 19)	<b>Nil</b>	Nil
b) Total outstanding dues other than micro enterprises and small enterprises included in Sundry creditors	<b>101,049,251</b>	110,598,932



## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	As at December 31, 2007	As at December 31, 2006
<b>Schedule 13: Provisions</b>		
Employee bonus	15,733,333	15,690,148
Income tax (net of advance taxes amounting to Rs. 42,425,367 (Previous year Rs. 16,215,014))	9,912,825	6,079,703
Fringe benefit tax (net of advance taxes amounting to Rs. 14,558,895 (Previous year Rs. 6,908,195))	307,690	1,279,723
Proposed final dividend	24,448,871	16,299,247
Tax on proposed final dividend	4,155,087	2,770,057
Gratuity	23,306,788	16,885,862
Long term compensated absences	39,690,216	41,246,664
	<b>117,554,810</b>	<b>100,251,404</b>
<b>Schedule 14: Other income</b>		
Interest on :		
- Bank deposits (Gross of tax deducted at source Rs. 9,096,324 (Previous year Rs. 2,667,457))	37,138,192	22,887,675
- Income-tax refund	86,830	57,638
- Interest on loan to ECnet Limited	2,515,777	3,349,744
Provision for doubtful debts and advances written back	18,130,412	3,354,899
Excess provisions written back, as no longer required	438,285	3,121
Foreign exchange fluctuation (net)	13,964,670	6,169,666
Miscellaneous income	4,369,976	5,503,384
	<b>76,644,142</b>	<b>41,326,127</b>
<b>Schedule 15: Personnel expenses</b>		
Salaries, wages and bonus	855,092,277	626,920,314
Contribution to provident fund and other payments	31,206,804	22,385,630
Staff welfare expenses	20,865,572	15,673,039
	<b>907,164,653</b>	<b>664,978,983</b>
<b>Schedule 16: Operating and other expenses</b>		
Power and fuel	26,670,006	23,667,572
Rent - premises	20,647,093	13,071,785
Rent - equipments	5,530,160	6,551,559
Rates and taxes	2,211,801	2,464,230
Insurance	2,965,708	3,195,345
Repair and maintenance		
- Buildings	1,010,314	1,634,438
- Others	20,599,735	15,440,788
Advertising and sales promotion	3,726,859	2,844,322
Commission-others	8,347,199	4,207,003
Traveling and conveyance	178,108,027	122,328,156
Communication costs	42,514,310	32,745,754
Printing and stationery	4,640,906	3,607,987

## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	For the year ended December 31, 2007	For the year ended December 31, 2006
Legal and professional fees	30,062,627	23,731,630
Directors' sitting fee	330,000	145,000
Auditors' remuneration		
- Statutory audit fee	1,573,040	1,346,880
- Quarterly audit fee	1,348,440	-
- Limited reviews	-	561,200
- Other services	336,960	448,960
- Out of pocket expenses	<u>106,652</u>	<u>48,254</u>
	<b>3,365,092</b>	<b>2,405,294</b>
Provision for doubtful debts	19,612,796	44,982,345
Provision for doubtful advances	9,550,013	33,947,774
Bad debts and advances written off	56,377	271,392
Loss on sale / discard of fixed assets (net)	2,579,476	1,030,898
Recruitment and training expenses	7,162,928	11,202,532
Watch and ward expenses	4,153,590	2,841,140
Membership and subscription	2,730,585	2,131,145
Miscellaneous expenses	3,049,268	2,449,661
	<b>399,624,870</b>	<b>356,897,750</b>
<b>Schedule 17: Financial expenses</b>		
Interest		
- on ECB from R Systems (Singapore) Pte Ltd.	615,421	998,538
- on loans from banks	2,387,658	3,033,945
- others	-	237,076
Bank charges	1,809,433	1,163,278
	<b>4,812,512</b>	<b>5,432,837</b>
<b>Schedule 18: Prior period income/(expenses)</b>		
Salaries, wages and bonus	2,289,329	(15,332,452)
Legal and professional fees	(1,404,500)	(556,898)
	<b>884,829</b>	<b>(15,889,350)</b>



## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

### Schedules : 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 Notified accounting standard by Companies Accounting Standards Rules, 2006 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 as 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 and impairment losses, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use.

##### (c) Depreciation

Depreciation is provided on Straight Line method over the 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	20 years
- office and electrical equipments other than i) UPS systems, ii) stand alone air conditioners and iii) telephone instruments, other than meridian phones.	
UPS systems	12 years
Stand alone air conditioners and telephone instruments other than meridian phones.	6 years
Computer hardware and network installations	6 years
Furniture and fittings	15 years
Vehicles	10years

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

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

Individual assets costing upto Rs. 5000 are fully depreciated in the year of put to use.

## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

### (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 software*

Costs relating to acquired production software 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

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.

### (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 and maintenance services and projects comprise income from time-and-material and fixed-price contracts.

Revenue associated with software development and maintenance services / customization of products and business process outsourcing services 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. In terms of contracts excess/shortfall of revenue over the billed as at the year-end is carried in financial statement as unbilled revenue/deferred revenue separately. 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.



## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

### (j) Foreign currency translation

#### *Foreign currency transaction*

(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. Exchange differences arising in respect of fixed assets acquired from outside India on or before accounting period commencing after December 7, 2006 are capitalized as a part of fixed asset.

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

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

(v) Translation of Integral foreign operation

The financial statements of an integral foreign operation are translated as if the transactions of the foreign operation have been those of the Company itself.

### (k) Employee benefits

(i) Retirement benefits in the form of Provident Fund is a defined contribution scheme and the contributions are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective trusts.

(ii) Gratuity liability is a defined benefit obligation and is provided for on the basis of an actuarial valuation made at the end of each financial year on projected unit credit method. The gratuity plan is not funded.

(iii) Long term compensated absences are provided for based on actuarial valuation. The actuarial valuation is done as per projected unit credit method.

(iv) Actuarial gains/losses are immediately taken to Profit and Loss Account and are not deferred.

(v) Bonus paid to employees / directors of the Company, wherein the amount becomes proportionately recoverable in case the employee/director do not complete the stipulated period of service, is expensed off proportionately over the period stipulated / agreed with the respective employee.

### (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.

At each balance sheet date the Company re-assesses unrecognized deferred tax assets. It recognizes unrecognized deferred tax assets to the extent that it has become reasonably certain or virtually certain, as the case may be that sufficient future taxable income will be available against which such deferred tax assets can be realized.



## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

MAT credit is recognised as an asset only when and to the extent there is convincing evidence that the company will pay normal income tax during the specified year. In the year in which the Minimum Alternative Tax (MAT) credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in guidance Note issued by the Institute of Chartered Accountants of India, the said asset is created by way of a credit to the profit and loss account and shown as MAT Credit Entitlement. The Company reviews the same at each balance sheet date and writes down the carrying amount of MAT Credit Entitlement to the extent there is no longer convincing evidence to the effect that Company will pay normal Income Tax during the specified year.

### (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. The weighted average numbers of equity shares outstanding during the period are adjusted for events of bonus issue, bonus element in a rights issue to existing shareholders, share split and reverse share split (consolidation of shares).

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 recognized 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.

#### *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) Derivative instruments

The Company uses derivative financial instruments such as forward exchange contracts to hedge its risks associated with foreign currency fluctuations. Accounting policy for forward exchange contracts is given in note 2 (j) (iv) above.

### (q) 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.

### (r) Employee Stock Compensation Cost

Measurement and disclosure of the employee stock option plan is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the Institute of Chartered Accountants of India. The Company measures compensation cost relating to employee stock options using the intrinsic value method. Compensation expense is amortized over the vesting period of the option on a straight line basis.

## 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.



## SCHEDULES

The following table provides required information for the primary segments for the year ended December 31, 2007 and December 31, 2006:

(All amounts are in Rupees unless otherwise stated)

	Software development & customisation services		Business process outsourcing services		Eliminations		Corporate and others		Total	
	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2007	Year ended December 31, 2006
<b>REVENUE</b>										
External sales	1,347,767,967	1,025,258,252	207,900,447	150,154,714	-	-	-	-	1,555,668,414	1,175,412,966
Revenue	1,347,767,967	1,025,258,252	207,900,447	150,154,714	-	-	-	-	1,555,668,414	1,175,412,966
<b>RESULT</b>										
Segment result	232,952,737	106,194,632	24,022,355	19,111,403	-	-	-	-	256,975,092	125,306,035
Unallocated corporate expenses	-	-	-	-	-	-	44,339,859	41,219,089	44,339,859	41,219,089
Operating profit	-	-	-	-	-	-	-	-	212,635,233	84,086,946
Interest expenses	-	-	-	-	-	-	(3,003,079)	(4,269,559)	(3,003,079)	(4,269,559)
Interest income	-	-	-	-	-	-	39,740,799	26,295,057	39,740,799	26,295,057
Other income	-	-	-	-	-	-	33,225,153	19,662,820	33,225,153	19,662,820
Income taxes	-	-	-	-	-	-	(40,884,388)	(25,287,683)	(40,884,388)	(25,287,683)
Net profit	-	-	-	-	-	-	-	-	241,713,718	100,487,581
Segment assets	944,495,911	817,705,502	69,767,827	88,282,607	21,233,046	38,214,214	-	-	993,030,692	867,773,895
Unallocated corporate assets	-	-	-	-	-	-	996,055,507	954,009,512	996,055,507	954,009,512
Total assets	944,495,911	817,705,502	69,767,827	88,282,607	21,233,046	38,214,214	996,055,507	954,009,512	1,989,086,199	1,821,783,407
Segment liabilities	250,453,184	207,458,896	40,879,745	74,906,245	21,233,046	38,214,214	-	-	270,099,883	244,150,927
Unallocated corporate liabilities	-	-	-	-	-	-	66,345,256	149,944,928	66,345,256	149,944,928
Income tax liabilities	-	-	-	-	-	-	38,805,151	26,961,403	38,805,151	26,961,403
Total liabilities	250,453,184	207,458,896	40,879,745	74,906,245	21,233,046	38,214,214	105,150,407	176,906,331	375,250,290	421,057,258
Capital expenditures	88,041,540	169,502,965	3,001,855	8,136,270	-	-	-	-	91,043,395	177,639,235
Depreciation and amortization	46,647,620	39,078,101	6,801,846	6,234,341	-	-	-	-	53,449,466	45,312,442
Other non-cash expenses	24,604,553	78,309,974	7,194,109	1,922,435	-	-	-	-	31,798,662	80,232,409

## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

### *Geographical segments :*

The Company reports secondary segment 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:

	<b>For the Year ended December 31, 2007</b>	For the Year ended December 31, 2006
<b>India</b>	<b>127,700,176</b>	90,148,207
<b>USA</b>	<b>1,067,039,915</b>	817,477,689
<b>South East Asia</b>	<b>37,599,754</b>	58,456,298
<b>Others</b>	<b>323,328,569</b>	209,330,772
<b>Total</b>	<b>1,555,668,414</b>	1,175,412,966

The Company has common assets for its operations. Management believes that it is currently not practical to provide segment disclosures relating to the carrying amount and addition of fixed assets.

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## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

### 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 R Systems Solutions, Inc., (formerly known as Web Converse Inc.), USA R Systems NV, Belgium (incorporated on August 28, 2007)
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Key management personnel (directors)	Satinder Singh Rekhi , Chairman and Managing Director Lt. Gen. Baldev Singh (Retd), President and Senior Executive Director O'Neil Nalavadi, Director Finance and Chief Financial Officer Avirag Jain, Executive Vice President and Chief Technology Officer Raj Swaminathan, Director & Chief Operating Officer
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#### (ii) Details of transactions with related parties for the Year ended December 31, 2007 and year ended December 31, 2006

	Year ended December 31, 2007	Year ended December 31, 2006
<b>Sales to</b>		
ECnet Ltd, Singapore [excluding revenue derecognized Rs. 15,726,585, (Previous year Rs. Nil) (Refer Note 11 (b))]	<b>4,359,068</b>	22,469,031
R Systems, Inc., USA	<b>89,918,775</b>	81,795,426
R Systems (Singapore) Pte Ltd, Singapore	<b>213,608</b>	2,296,927
R Systems, Solutions, Inc., USA	-	685,978
<b>Total</b>	<b>94,491,451</b>	107,247,362
<b>Other income</b>		
R Systems Inc., USA	<b>2,144,187</b>	4,046,024
<b>Commission on sales and other expenses paid to</b>		
ECnet Ltd., Singapore	<b>2,005,177</b>	-
R Systems, Inc., USA	<b>7,720,452</b>	7,312,581
R Systems (Singapore) Pte Ltd, Singapore	-	171,589
<b>Total</b>	<b>9,725,629</b>	7,484,170
<b>Interest received from</b>		
ECnet Ltd., Singapore	<b>2,515,777</b>	3,349,744
<b>Interest paid to</b>		
R Systems (Singapore) Pte Ltd, Singapore	<b>615,421</b>	998,538
<b>Travel and other expenses reimbursed to</b>		
ECnet Ltd, Singapore	<b>661,560</b>	1,875,886
R Systems, Inc., USA	<b>61,033,101</b>	58,259,701
R Systems (Singapore) Pte Ltd, Singapore	-	80,118
<b>Total</b>	<b>61,694,661</b>	60,215,705
<b>Travel and other expenses paid by company on behalf of</b>		
ECnet Ltd, Singapore	<b>1,411,477</b>	646,245
R Systems, Inc., USA	<b>14,516,801</b>	11,517,218
R Systems Solutions, Inc., USA	-	1,383,737
R Systems (Singapore) Pte Ltd, Singapore	<b>2,300</b>	-
<b>Total</b>	<b>15,930,578</b>	13,547,200
<b>Reimbursement for purchase of assets</b>		
R Systems, Inc., USA	<b>293,008</b>	590,413
<b>Assets obtained on loan from</b>		
R Systems, Inc., USA	<b>2,450,403</b>	5,780,261
<b>Guarantee given to</b>		
R Systems, Inc., USA	<b>86,757,000</b>	-

## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	Year ended December 31, 2007	Year ended December 31, 2006
<b>Additional Investment in</b>		
R Systems, Inc., USA	19,940,000	-
R Systems Solutions, Inc., USA	43,852,500	132,796,088
<b>Loan repaid</b>		
R Systems (Singapore) Pte. Ltd, Singapore	15,000,800	-
<b>Loan given to</b>		
ECnet Ltd, Singapore	8,979,746	5,508,000
<b>Repayment of loan received from</b>		
ECnet Ltd, Singapore	2,876,930	1,7438,220
<b>Remuneration to key management personnel</b>		
- Satinder Singh Rekhi	12,093,063	13,005,452
- O'Neil Nalavadi	8,776,462	8,415,060
- Lt. Gen. Baldev Singh (Retd)	6,183,333	5,438,893
- Raj Swaminathan	5,434,548	3,357,665
- Avirag Jain	3,352,154	2,465,337
<b>Total</b>	<b>35,839,560</b>	<b>32,682,407</b>

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## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	Year ended December 31, 2007	Year ended December 31, 2006
<b>Balance outstanding as at the year end</b>		
<b>Receivable-trade</b>		
ECnet Ltd, Singapore [including considered doubtful Rs.Nil, (Previous year Rs. 15,426,235)]	-	15,426,235
R Systems, Inc., USA	<b>50,842,861</b>	63,200,086
R Systems (Singapore) Pte Ltd, Singapore	-	147,414
R Systems Solutions, Inc., USA	-	5,747,680
<b>Total</b>	<b>50,842,861</b>	84,521,415
<b>Receivable-others</b>		
ECnet Ltd, Singapore	<b>157,082</b>	1,438,811
R Systems, Inc., USA	<b>51,512,070</b>	36,132,931
R Systems (Singapore) Pte Ltd, Singapore	<b>29,919</b>	2,215,425
R Systems Solutions, Inc., USA	<b>2,373,373</b>	189,143
<b>Total</b>	<b>54,072,444</b>	39,976,310
<b>Payable</b>		
ECnet Ltd, Singapore	<b>836,683</b>	1,623,770
R Systems, Inc., USA	<b>16,307,550</b>	27,068,347
Indus Software, Inc., USA	<b>894,644</b>	1,766,855
R Systems (Singapore) Pte. Ltd, Singapore	-	1,548,212
<b>Total</b>	<b>18,038,877</b>	32,007,184
<b>Assets obtained on loan</b>		
R Systems, Inc., USA	<b>16,525,948</b>	14,075,545
R Systems (Singapore) Pte. Ltd, Singapore	<b>157,573</b>	157,573
<b>Total</b>	<b>16,683,521</b>	14,233,118
<b>Guarantee given</b>		
R Systems, Inc., USA	<b>86,757,000</b>	-
<b>Loan given</b>		
ECnet Ltd, Singapore	<b>40,916,100</b>	36,824,704
<b>Loan Taken</b>		
R Systems (Singapore) Pte. Ltd, Singapore	-	15,000,800

### 5. Leases

#### In case of assets taken on lease

The Company has operating leases for office premises, etc. The future minimum payments required under non-cancelable operating leases at year-end are as follows

	Year ended December 31, 2007	Year ended December 31, 2006
Lease payments for the year	<b>14,363,700</b>	9,374,269
Minimum lease payments :		
Not later than one year	<b>7,624,700</b>	14,628,430
Later than one year but not later than five years	<b>6,610,218</b>	6,286,745
Later than five years	-	-

### 6. Capital commitments

Commitments for acquisition of fixed assets	<b>18,318,527</b>	8,842,917
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## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

### 7. Contingent liabilities not provided for:

	Year ended December 31, 2007	Year ended December 31, 2006
Performance guarantees given to DOT for Domestic & International OSP license	51,000,000	-
Guarantee given on behalf of wholly owned subsidiary	86,757,000	-
<b>TOTAL</b>	<b>137,757,000</b>	-

Also refer note 11 (a) and (c) below

### 8. Supplementary statutory information

#### 8.1 Directors' remuneration

	Year ended December 31, 2007	Year ended December 31, 2006
Salaries, wages and bonus	32,334,046	28,018,532
Contribution to provident fund	153,360	143,392
	<b>32,487,406</b>	<b>28,161,924</b>
Alternate directors' remuneration		
Salaries	-	190,411
Contribution to Provident fund	-	10,703
	-	<b>201,114</b>

#### Note:

- (i) 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)

	Year ended December 31, 2007	Year ended December 31, 2006
Exports at F.O.B. Value	1,427,968,238	1,098,125,098
Interest	2,515,777	3,349,744
Reimbursement of Travel / Communication costs	55,560,660	46,237,657
Miscellaneous income	2,144,187	4,046,024
	<b>1,488,188,862</b>	<b>1,151,758,523</b>

#### 8.3 Expenditure in foreign currency (on accrual basis)

	Year ended December 31, 2007	Year ended December 31, 2006
Traveling and conveyance*	139,485,844	103,745,842
Commission-others	7,490,354	4,131,810
Interest	615,421	998,538
Salaries, wages and bonus	78,450,545	59,701,092
Consultancy and other miscellaneous expenses**	23,558,013	17,126,821
	<b>249,600,177</b>	<b>185,704,103</b>

\* excluding share issue expenses incurred in foreign currency of Rs. Nil (Previous year Rs. 3,753,171)

\*\* excluding share issue expenses incurred in foreign currency of Rs. Nil (Previous year Rs. 376,575)

#### 8.4 Value of imports calculated on CIF basis

	Year ended December 31, 2007	Year ended December 31, 2006
Capital goods	32,378,131	75,822,035
	<b>32,378,131</b>	<b>75,822,035</b>



## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

**8.5** 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.** During the year ended December 31, 2006, Government of India has promulgated an Act namely The Micro, Small and Medium Enterprises Development Act, 2006 which comes into force with effect from October 2, 2006. As per the Act, the Company is required to identify the Micro, Small and Medium suppliers and pay interest on overdue amount to the Micro and Small enterprises beyond the specified period irrespective of the terms agreed with the suppliers. For the purpose of identification of such suppliers, the company has sent confirmations to all its suppliers. Based upon the confirmations received so far and the supplier profile available with the Company, there are no dues to such suppliers.

**10.** The Issued, subscribed and paid up capital of the Company as on December 31, 2005, included the following :

- 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 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 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 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.

During the year ended December 31, 2006,

- The Company had consolidated each of its five equity shares of Rs.2 each to one equity share of Rs.10 each and accordingly the above shares had been consolidated.

- 53,55,255 equity shares of Rs.10 each had been allotted as fully paid up bonus shares by utilization of Securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956.

**11.(a)** During earlier years, the Company had acquired 98.59% shares in ECnet Limited, a Company incorporated in Singapore at total consideration of Rs. 34,938,958, out of which Rs. 27,953,223 had been lying payable to the erstwhile shareholders of ECnet Limited since January 8, 2006. Further, the Company had based upon an order of High Court of Delhi written down the investment value to Rs. 10,443,237 and adjusted the write off of Rs. 24,495,721 against the Securities Premium Account as this had not been represented by available assets. Further, a provision of Rs.10,442,237 had been made towards decline in the value of the Company's investment which had been considered as other than temporary by the management.

The cash flows from the investment have been negative and the Company has not paid the erstwhile shareholders of ECnet Limited. During the year ended December 31, 2006, certain erstwhile shareholders had filed a case against the Company to recover its dues of Singapore Dollars (SGD) 414,096, aggregating Rs. 11,913,111. The management had filed its submission, contending that the 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.

During the year, the Company has settled the deferred payment compensation towards certain erstwhile shareholders. As a result thereof, the deferred payment compensation of Rs. 14,452,222 has been released, as considered appropriate by the management. Out of above, 10,442,237 has been adjusted against the value of the investment. Consequently, the provision of Rs. 10,442,237 made towards decline in the value of the Company's investment during earlier years is no longer required and hence been reversed.

(b) The cash flows from the investment in ECnet Limited (as referred in Note 11(a) above) continues to be negative and in accordance with the Accounting Standard 9 on Revenue Recognition, revenues aggregating Rs.15,726,585 from the subsidiary has been derecognised for the year ended December 31, 2007, given the uncertainties to expect ultimate collection from the subsidiary.

(c) During the year ended December 31, 2006 the Company had completed the acquisition and integration of R Systems Solutions, Inc. (formerly known as WebConverse Inc), a technical support company based in the USA The company has acquired 8,666,884 Series A convertible preferred stock of "no par" value and 10,335,833 common stock of no par value from the erstwhile shareholders of R Systems Solutions, Inc. (formerly known as WebConverse, Inc). The maximum purchase consideration for the above acquisition is US\$ 10.34 million i.e. Rs.428,312,517 (Previous year Rs.463,420,783), including consideration determined as contingent of future earn-outs and offshore activities amounting to US\$7.49 million i.e. Rs.295,516,429 (Previous year Rs.330,624,695). The Company had recognized the investment at value of US\$ 2.85 million i.e. Rs. 132,796,088 which represents the consideration assessed as probable to be paid. Out of such payables,



## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

Rs. 54,803,268 had been paid at time of acquisition and further Rs. 38,698,900 has been paid during the year ended December 31, 2007. The remaining payable within one year Rs. 20,922,415 (Previous year Rs. 51,664,498) from the year-end is shown under 'current liabilities' and balance amount payable after one year Rs.10,630,002 (Previous year Rs. 22,335,309) has been disclosed separately as 'deferred payment liabilities'.

During the year, the Company invested an additional amount of US\$ 1.00 million i.e. Rs. 43,852,500 towards acquisition of additional 1,000,000 common stock of "no par" value in R Systems Solutions, Inc. (formerly known as WebConverse, Inc).

- (d) As per audited accounts of R System Inc, USA subsidiary, R Systems Solutions Inc, USA Subsidiary and R Systems Singapore Pte Limited, Singapore subsidiary available with the managements, these subsidiaries have net book worth of USD 3,647,020, USD 2,920,817 and SGD 3,435,281 at the year-end, against the recorded investment value of Rs. 223,358,532, Rs.176,648,588 and Rs.104,173,570 respectively. These subsidiaries are meeting their short term funding requirements through the parent and the fellow subsidiaries. The management will extend its continual financial support during the financial year 2008 to enable these subsidiaries to meet its working capital and other financing requirements. The management plans to pursue these subsidiaries more rigorously. Accordingly, the management is of the view that the diminution is other than permanent and there is no need to carry any provision against these investments.
- (e) During the year ended 31 December, 2007 the company has invested Euro 62,000 i.e. Rs. 3,471,640 for acquisition of 100% share capital of the newly incorporated subsidiary company viz. R Systems NV, Belgium.
- (f) During the year ended December 31, 2007 the Company has signed an "Assets Purchase Agreement" with XtraSource Acquisition, Inc., USA and Sento Corporation, U.S.A (the holding company of XtraSource Acquisition Inc, U.S.A.) to acquire 100% of shares of two wholly owned subsidiaries (Sento B.V., Netherlands and Sento S.A.S, France) of XtraSource Acquisition, Inc. The above transaction was completed on January 23, 2008.

### 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".

During the year ended December 31, 2006, the Company had consolidated each of its five equity shares of Rs. 2 each into one equity share of Rs.10 each and then issued 1:1 bonus share to each of the then existing shareholder (excluding the option holders) by utilization of Securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956. Considering these changes in the capital structure, the management had adjusted the number of options vesting to its employees and exercise price to preserve the benefits intended to be made available under the plan i.e. instead of five options of Rs. 2 per share, the employees' entitlement had been adjusted to one option of Rs. 10 per share and instead of earlier exercise price of Rs. 42 per share for each Rs. 2 share, the exercise price had been accordingly adjusted to Rs. 105 per equity share. The management believes that by these adjustments the Company is being fair to the employees and does not result in any additional benefit being offered to the employees.

The vesting period is 4 years (25% in each year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2007 and year ended December 31, 2006 is set out below:

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## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	Year ended December 31, 2007 (Nos.)	Year ended December 31, 2006 (Nos.)
<u>At the beginning</u>		
- Grants outstanding under the plan (Rs.2 per share)	-	863,075
- Grants outstanding under the plan (Rs. 10 per share)	<b>106,960</b>	-
- Grants pending determination by the compensation committee (Rs.2 per share)	-	96,375
- Grants pending determination by the compensation committee (Rs.10 per share)	<b>37,705</b>	-
- Option issued to the employees (Rs.2 per share)	-	-
- Option issued to the employees (Rs.10 per share)	-	-
Option exercised ( Rs.2 per share)	-	114,174
Option exercised ( Rs.10 per share)	-	-
<u>Before reverse share split (consolidation of shares from Rs.2 to Rs.10)</u>		
- Grants outstanding under the plan (Rs.2 per share)	-	748,901
- Grants pending determination by the compensation committee (Rs.2 per share)	-	96,375
<u>After reverse share split (consolidation of shares from Rs.2 to Rs.10)</u>		
- Grants outstanding under the plan (Rs.10 per share)	-	149,780
- Grants pending determination by the compensation committee (Rs.10 per share)	-	19,275
Option exercised (Rs.10 per share)	-	24,390
Option lapsed or surrendered (Rs. 10 per share)	<b>12,480</b>	18,430
<u>At the end of the year</u>		
- Grants outstanding under the plan (Rs.10 per share)	<b>94,480</b>	106,960
- Grants pending determination by the compensation committee (Rs.10 per share)	<b>50,185</b>	37,705

(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 company had consolidated each of its five equity shares of Rs. 2 each into one equity share of Rs. 10 each on January 30, 2006 and then issued 1:1 bonus share to each of the then existing shareholder by utilization of Securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956, consequently total number of shares issued are now 73,898 equity shares of Rs. 10 each.

The movement in the options (in equivalent number of shares of the Company) held by the Trust over the years ended December 31, 2007 and the year ended December 31, 2006 is set out below:

## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	Year ended December 31, 2007 (Nos.)	Year ended December 31, 2006 (Nos.)
<u>At the beginning</u>		
- Grants outstanding under the plan (Rs.2 per share)	-	11,901
- Grants outstanding under the plan (Rs.10 per share)	-	-
- Grants pending determination by the compensation committee (Rs.2 per share)	-	184,743
- Grants pending determination by the compensation committee (Rs.10 per share)	<b>73,898</b>	-
- Allotment of Bonus Shares in the ratio of 1 : 1 (Rs. 10 per share)	-	36,949
Option issued to the employees (Rs.2 per share)	-	-
Option issued to the employees (Rs.10 per share)	-	-
Option exercised ( Rs.2 per share)	-	11,901
Option exercised ( Rs.10 per share)	-	-
<u>Before reverse share split (consolidation of shares from Rs.2 to Rs.10)</u>		
- Grants outstanding under the plan (Rs.2 per share)	-	-
- Grants pending determination by the compensation committee (Rs.2 per share)	-	184,743
<u>After reverse share split(consolidation of shares from Rs.2 to Rs.10)</u>		
- Grants outstanding under the plan (Rs.10 per share)	-	-
- Grants pending determination by the compensation committee (Rs.10 per share)	-	73,898
Option exercised (Rs.10 per share)	-	-
Option lapsed or surrendered (Rs.10 per share)	-	-
<u>At the end of the year</u>		
- Grants outstanding under the plan (Rs.10 per share)	-	-
- Grants pending determination by the compensation committee (Rs.10 per share)	<b>73,898</b>	73,898

(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".

During the year ended December 31, 2006, the Company had consolidated each of its five equity shares of Rs.2 each into one equity share of Rs.10 each and then issued 1:1 bonus share to each of the then existing shareholder (excluding the option holders) by utilization of Securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956. Considering these changes in the capital structure, the management had adjusted the number of options vesting to its employees and exercise price to preserve the benefits intended to be made available under the plan i.e. instead of five options of Rs. 2 per share, the employees' entitlement had been adjusted to one option of Rs. 10 per share and instead of earlier exercise price of Rs. 26 per share for each Rs.2 share, the exercise price had been accordingly adjusted to Rs. 65 per equity share. The management believes that by these adjustments the Company is being fair to the employees and does not result in any additional benefit being offered to the employees.

The vesting period is 4 years (40% in 1st year & 20% in 2nd, 3rd & 4th year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2006 and year ended December 31, 2007 is set out below:



## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	Year ended December 31, 2007 (Nos.)	Year ended December 31, 2006 (Nos.)
<u>At the beginning</u>		
- Grants outstanding under the plan (Rs. 2 per share)	-	584,800
- Grants outstanding under the plan (Rs. 10 per share)	<b>46,801</b>	-
- Grants pending determination by the compensation committee (Rs. 2 per share)	-	415,200
- Grants pending determination by the compensation committee (Rs. 10 per share)	<b>83,240</b>	-
Option issued to the employees (Rs. 2 per share)	-	-
Option issued to the employees (Rs. 10 per share)	-	-
Option exercised (Rs. 2 per share)	-	235,797
Option exercised (Rs. 10 per share)	-	-
<u>Before reverse share split (consolidation of shares from Rs. 2 to Rs. 10)</u>		
- Grants outstanding under the plan (Rs. 2 per share)	-	349,003
- Grants pending determination by the compensation committee (Rs. 2 per share)	-	415,200
<u>After reverse share split (consolidation of shares from Rs. 2 to Rs. 10)</u>		
- Grants outstanding under the plan (Rs. 10 per share)	-	69,801
- Grants pending determination by the compensation committee (Rs. 10 per share)	-	83,040
Option exercised (Rs. 10 per share)	-	22,800
Option lapsed or surrendered (Rs. 10 per share)	<b>29,000</b>	200
<u>At the end of year</u>		
- Grants outstanding under the plan (Rs. 10 per share)	<b>17,801</b>	46,801
- Grants pending determination by the compensation committee (Rs. 10 per share)	<b>112,240</b>	83,240

(d) R Systems International Limited Employee Stock Option Scheme 2007 ('the plan')

During the year 2007, 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 650,000 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 Rs. 120.70 being the latest available closing price, prior to the date of the meeting of the Board of Directors/ Compensation Committee held on July 11, 2007 in which options are granted, on the stock exchange on which the shares of the Company are listed. Accordingly, the intrinsic value of Employee Stock Option is taken as Rs. Nil.

The vesting period is 4 years (25% in each year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2007:

	Year ended December 31, 2007 (Nos.)	Year ended December 31, 2006 (Nos.)
Option issued to the employee (Rs. 10 per share)	<b>632,500</b>	NA
Option exercised (Rs. 10 per share)	-	NA
Option lapsed or surrendered (Rs. 10 per share)	<b>22,000</b>	NA
<u>At the end</u>		
- Grants outstanding under the plan (Rs. 10 per share)	<b>610,500</b>	NA
- Grants pending determination by the compensation committee (Rs. 10 per share)	<b>39,500</b>	NA

## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

(e) 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)

Further, for the purpose of valuation of the options granted during the year 2005 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.



## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

- (f) For the purpose of valuation of the options granted during the year ended December 31, 2007 under R Systems International Limited Employee Stock Option Scheme - 2007, the compensation cost relating to Employee Stock Options, calculated as per the intrinsic value method is Nil.

The management obtained fair value of the options at the date of grant from a firm of Chartered Accountants (N Maini & Co.). In the considered opinion of the valuer (mentioned above), the fair value of these options determined using 'Black Scholes Valuation Model' is "Rs. 50.73" per option.

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

Assumptions	Unit	Scheme	Comments by the valuer
Strike price	Rs.	120.70	
Current share price	Rs.	118.50	Price on the date of grant by Board of Directors i.e. closing price on July 11, 2007
Expected option life	No of Years	4	Being the vesting period.
Volatility	%	44	On the basis of industry average.
Risk free return	%	7	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	%	0.86	Company has declared Dividends of 12% in the past. Assuming that it will continue declaring similar dividends in future

In March 2005 the ICAI has issued a guidance note on "Accounting for Employees Share Based Payments" applicable to 'employee share based plan' the grant date in respect of which falls on or after April 1, 2005. The said guidance note requires the Proforma disclosures of the impact of the fair value method of accounting of employee stock compensation in the financial statements. Since the enterprise used the intrinsic value method the impact on the reported net profit and earnings per share by applying the fair value based method is as follows:

	Year ended December 31, 2007	Year ended December 31, 2006
Net Income as reported	241,713,718	N.A.
Less:- Fair Value Compensation Cost	7,689,451	N.A.
<b>Adjusted Pro-forma Net Income</b>	<b>234,024,267</b>	N.A.
<b>Earning Per Share</b>		
<b>Basic</b>		
- As reported	17.80	N.A.
- Proforma	17.23	N.A.
<b>Diluted</b>		
- As reported	17.56	N.A.
- Proforma	17.00	N.A.

- (g) Finance Act 2007 requires payment of Fringe Benefit Tax (FBT) on ESOP benefit provided to employees. FBT is payable on the date when ESOP is exercised by employees based on fair market value on the date of vesting. The managements view is that the obligating event occurs at the date of exercise and hence FBT on ESOPs will be provided for at the date of exercise when the liability arises.

## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

### 13. Earning per share\*

During the year ended December 31, 2006, the Company has consolidated each of its five equity shares of Rs. 2 each to one equity share of Rs.10 each and then issued 1:1 bonus share to each existing shareholder by utilization of Securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956. For the purpose of computation of earnings per share for the year ended December 31, 2006, the number of shares has been accordingly adjusted.

	Year ended December 31, 2007	Year ended December 31, 2006
Basic [nominal value of share Rs.10 (previous year Rs10)]	17.80	7.92
Diluted [nominal value of share Rs.10 (previous year Rs10)]	17.56	7.92
Net profit after tax	241,713,718	100,487,581
Weighted average number of equity shares for calculating Basic EPS	13,582,706	12,687,426
Add : Equity shares for no consideration arising on grant of stock options under ESOP	180,658	-
Weighted average number of equity shares for calculating Diluted EPS	13,763,364	12,687,426

\*Also refer Note 12 (f) above

### 14. Post employment benefits

The Company has an unfunded defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on separation equal to 15 days salary (last drawn salary) for each completed year of continuous service or part thereof in excess of six months subject to a maximum of Rs. 350,000.

The following table summaries the components of net benefit expense recognized in the Profit and Loss Account.  
Net employee benefit expense recognized under Salary, wages and bonus

Particulars	For the year ended December 31, 2007	For the year ended December 31, 2006
Current service cost	7,055,846	5,099,206
Interest cost on benefit obligation	1,263,865	916,465
Expected return on plan assets	-	-
Net actuarial( gain) / loss recognised in the year	(87,429)	(1,187,307)
Past service cost	-	-
Net benefit expense	8,232,282	4,828,364

#### Details of defined benefit gratuity plan

Particulars	For the year ended December 31, 2007	For the year ended December 31, 2006
Defined benefit obligation	-	-
Fair value of plan assets	-	-
Present value of unfunded obligations	23,306,788	16,885,862
Less: Unrecognised past service cost	-	-
Plan asset / (liability)	23,306,788	16,885,862

#### Changes in the present value of the defined benefit gratuity plan are as follows :

Particulars	For the year ended December 31, 2007	For the year ended December 31, 2006
Opening defined benefit obligation	16,885,862	13,230,425
Interest cost	1,263,865	916,465
Current service cost	7,055,846	5,099,206
Benefits paid	(1,811,356)	(1,172,927)
Actuarial (gains) / losses on obligation	(87,429)	(1,187,307)
Closing defined benefit obligation	23,306,788	16,885,862



## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

The principal assumptions used in determining defined benefit gratuity plan obligations is shown below:

Particulars	For the Year ended December 31, 2007 %	For the Year ended December 31, 2006 %
Discount rate	7.85% p.a.	7.80% p.a.
Expected rate of return on plan assets	Not applicable	Not applicable
Salary Escalation Rate	10.0% p.a. for first 3 years and 7% p.a. thereafter	10.0% p.a. for first 4 years and 7% p.a. thereafter
Attrition rate:	As per table below	As per table below

Attrition rate used for the year ended December 31, 2007 and year ended December 31, 2006 are as per the table below:

Age (Years)	Rates
21 - 30	15%
31 - 34	10%
35 - 44	5%
45 - 50	3%
51 - 54	2%
55 - 59	1%

The estimates of future salary increases takes into account the inflation, seniority, promotion and other relevant factors.

Amounts for the current and previous four periods are as follows

### Gratuity

Particulars	December 31, 2007	December 31 2006	December 31 2005	December 31 2004	December 31 2003
Defined benefit obligation	23,306,788	16,885,862	13,230,425	-	-
Plan assets Surplus / (deficit)	(23,306,788)	(16,885,862)	(13,230,425)	-	-
Experience adjustments on plan liabilities	461,423	231,590	-	-	-
Experience adjustments on plan assets	-	-	-	-	-

During the year ended December 31, 2006, the Company had gone for early adoption of Accounting Standard 15 (Revised 2005), which had otherwise become mandatory for accounting periods commencing from December 7, 2006. In accordance with the transitional provision, Rs.9,560,042 had been adjusted to the Reserve and Surplus.

During the year, the Council of Institute of Chartered Accountants of India has provided a one time option to the enterprises (including enterprises, which have followed the earlier treatment) to expense of the additional liability arising upon first application of the Accounting Standard 15 (Revised 2005) over a period upto five years with a disclosure of unrecognized amount. The Company has decided not to exercise this option and continued with accounting undertaken during year ended December 31, 2006.



## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

### 15. Derivative instruments and unhedged foreign currency exposure

Particulars of derivatives	Purpose
Forward contract outstanding as at Balance Sheet date	
Sell US \$9,900,000 (Previous year US \$ 5,200,000)	Hedge of debtors

### Particulars of unhedged foreign currency exposure as at December 31, 2007 and at December 31, 2006:

Liabilities	Currency	Foreign Currency Amount		Closing Foreign Exchange Rate		Amount	
		December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Unsecured loan from subsidiary company	USD	-	340,000	-	44.12	-	15,000,800
Deferred compensation							
	SGD	269,285	971,634	27.28	28.77	7,345,396	27,953,223
	USD	800,112	1,677,240	39.44	44.12	31,552,417	73,999,807
Foreign currency creditors							
	SGD	30,627	110,256	27.28	28.77	835,399	3,171,982
	USD	484,073	653,563	39.44	44.12	19,089,437	28,835,201
Advances from customers							
	USD	17,656	12,775	39.44	44.12	696,264	563,636
	GBP	-	680	-	86.44	-	58,777
<b>Assets</b>							
Investments* (Gross)							
	USD	10,416,961	7,864,922	39.44	44.12	410,792,858	34,700,358
	SGD	5,099,433	4,835,333	27.28	28.77	139,112,528	139,112,528
	EURO	59,773	-	58.08	-	3,471,640	-
Debtors							
	USD	1,207,810	2,430,269	39.44	44.12	47,629,974	107,221,261
	SGD	-	48,134	-	28.77	-	1,384,781
	CAD	-	93	-	37.86	-	3,511
	GBP	774	20,679	78.76	86.44	60,924	1,787,383
	AUD	13,972	36,000	34.57	34.83	483,065	1,253,707
	EURO	198,160	3,906	58.08	58.25	11,509,490	227,526
Loans and advances							
	SGD	6,855	23,192	27.28	28.77	187,000	667,213
	USD	1,396,056	318,911	39.44	44.12	55,053,487	14,070,371
Unbilled revenue							
	USD	452,368	1,704,061	39.44	44.12	17,839,115	75,183,159
	SGD	-	14,490	-	28.77	-	416,867
Loans to subsidiary company	SGD	1,500,000	1,280,000	27.28	28.77	40,916,100	36,824,704

\* Foreign currency amounts represent the balances derived using closing foreign exchange rate.

### 16. Details of loans given to subsidiary (ECnet Limited)

Balance as at December 31, 2007 is Rs. 40,916,100 (Previous year Rs. 36,824,704)

Maximum amount outstanding during the year is Rs. 40,916,100 (Previous year: Rs. 54,639,764)

Loan is repayable on demand.



## SCHEDULES

(All amounts are in Rupees unless otherwise stated)

17. During the previous year:

- (a) The Company had made Initial Public Offering (IPO) of 4,408,361 equity shares of Rs. 10 each for cash at premium of Rs. 240 per share comprising of fresh issue of 2,825,006 equity shares by the Company and 1,583,355 equity shares offered for sale by the selling shareholders.
- (b) Expenses of Rs. 101,895,339 net of recovery from certain selling shareholders Rs. 2,795,944 incurred in connection with the public issue of the Company had been adjusted against Securities Premium Account in terms of Section 78 of the Companies Act, 1956.
- (c) Pursuant to initial public offer the Company gathered Rs. 706,250,060 (net of selling shareholders' proceeds), details of utilisation of IPO proceeds are as follows :

Object	Total Estimated Project Cost*	Amount incurred till December 31, 2007	Amount incurred till December 31, 2006
Up gradation and expansion of existing infrastructure	315,000,000	214,311,302	174,879,074
Repayment of outstanding loans	36,550,000	36,550,000	36,550,000
Financing working capital requirements	179,510,000	86,324,290	86,324,290
General corporate purpose	62,190,000	58,619,823	57,086,651
Issue expenses	113,000,000	101,137,175	98,562,497
<b>Total</b>	<b>706,250,000</b>	<b>496,942,590</b>	<b>453,402,512</b>

\* Downward revision in issue expenses of Rs. 11,104,661 and saving in General Corporate Expenses of Rs. 438,689 aggregating to Rs. 11,543,350 is proposed to be utilized for Upgrading & Expansion of existing infrastructure as approved by shareholders in the Annual General Meeting held on May 1, 2007.

Unspent amount of Rs. 209,307,410 (Previous year Rs. 252,847,488) is lying in the fixed deposits and is shown under Cash and bank balance.

18. 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** For and on behalf of the Board of Directors of R Systems International Limited  
**Chartered Accountants**

**per Pankaj Chadha**  
**Partner**  
Membership No. 91813

Satinder Singh Rekhi  
[Managing Director]

O'Neil Nalavadi  
[Director Finance & CFO]

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

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

Place : Gurgaon  
Date : February 24, 2008

Place: EDH, CA, USA  
Date : February 24, 2008

Place: EDH, CA, USA  
Date : February 24, 2008

Place: NOIDA  
Date : February 24, 2008

Place: NOIDA  
Date : February 24, 2008





Statement Pursuant to Section 212 of the Companies Act, 1956, Relating to Subsidiary Companies

		(Rs. in lacs)											
1	Name of the Subsidiary	R Systems (Singapore) Pte Limited, Singapore	R Systems, Inc., USA	Indus Software, Inc., USA	R Systems Solutions Inc., USA	R Systems NV, Belgium (1)	ECnet Limited, Singapore	ECnet (M) SDN BHD, Malaysia	ECnet, Inc., USA	ECnet. (Hong Kong) Limited Hong Kong	ECnet Systems (Thailand) Co. Ltd. Thailand	ECnet Kabushiki Kaisha, Japan	ECnet (Shanghai) Co. Ltd. China
2	The financial year of the subsidiary ended on	December 31, 2007	December 31, 2007	December 31, 2007	December 31, 2007	December 31, 2007	December 31, 2007	December 31, 2007	December 31, 2007	December 31, 2007	December 31, 2007	December 31, 2007	December 31, 2007
3	Holding company's Interest	100%	100%	100%	100%	100%	98.59%	98.59%	98.59%	98.59%	98.59%	98.59%	98.59%
4	Shares held by the holding company in the subsidiary (including its nominees in the subsidiary)	100% of 4,070,000 ordinary shares of no par value	100% of 2,000 common shares of no par value	100% of 243,750 common shares of no par value	100% of 11,335,833 common shares of no par value and 8,666,884 series A preferred stock of no par value	100% of 200 common shares of Euro 310 each	98.59% of 17,904,335 ordinary shares of no par value	98.59% of 200,000 ordinary shares of RM 1 each	98.59% of 1,000 shares of US\$ 2 each	98.59% of 2 ordinary shares of HK \$1 each	98.59% of 400,000 ordinary shares of 5 THB each	98.59% of 200 shares of 50,000 Yen each	98.59% of shares of no par value
5	Capital	1,110.19	264.56	96.12	1,313.19	36.01	21,600.69	23.81	0.79	0.00	26.49	35.13	89.50
6	Reserves	(173.13)	1,173.64	(271.84)	(161.36)	(5.76)	(21,719.89)	(126.59)	(1,260.05)	(40.28)	81.45	(298.54)	(248.77)
7	Total assets	1,002.32	3,319.19	152.96	1,616.40	30.60	1,264.97	77.21	270.20	8.80	122.50	14.43	43.53
8	Total liabilities	65.27	1,880.99	328.67	464.57	0.35	1,384.17	179.99	1,529.46	49.08	14.56	277.84	202.81
9	Details of Investments	-	120.11	-	-	-	-	-	-	-	-	-	-
10	Turnover	196.96	6,555.56	352.50	1,405.45	0.06	1,358.52	361.85	-	30.54	139.49	19.96	143.18
11	Profit/(Loss) before taxation	(22.57)	(308.32)	(2.44)	(131.19)	(5.76)	(231.64)	65.35	(4.59)	2.36	24.31	7.32	(57.57)
12	Provisions for taxation/benefit	2.47	(61.32)	(0.65)	(13.31)	-	14.75	-	-	-	4.33	-	-
13	Profit/(loss) after taxation	(25.04)	(247.00)	(1.80)	(117.89)	(5.76)	(246.39)	65.35	(4.59)	2.36	19.98	7.32	(57.57)
14	Proposed dividend, if any	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
15	Material change between the end of the financial year of the subsidiary company and the Company's financial year ended December 31, 2007												
a	Fixed assets	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
b	Investments	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
c	Money lent	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
d	Money borrowed other than those for meeting current liabilities	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Note :

- 1 Subsidiary w.e.f 28th August 2007.
- 2 Rupee equivalents have been given on the basis of conversion of foreign currency into rupee using closing rate as on 31 December 2007.

1 USD = Rs	27.28
1 USD = Rs	39.44
1 EURO = Rs	58.08
1 RM = Rs	11.91
1 HKD = Rs	5.05
1 THB = Rs	1.32
1 YEN = Rs	0.35
1 CNY = Rs	5.41

Disclaimer

We have translated the foreign currency amounts in the financial data derived from our subsidiaries' financial statements at the closing rate as on December 31, 2007. The translation should not be considered as a representation that such foreign currency amounts have been, could have been or could be converted into rupees, at any particular rate, rates states above, or at all.

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

Satinder Singh Rekhi  
[Managing Director] O'Neil Malavadi  
[Director Finance & CFO] Lt. Gen. Baldev Singh (Retd.)  
[Senior Executive Director] Nand Sardana  
[Vice President (Finance) & Company Secretary]

Place: EDH, CA, USA  
Date : February 24, 2008

Place: EDH, CA, USA  
Date : February 24, 2008

Place: NOIDA  
Date : February 24, 2008

**Statement Pursuant to Section 212 of the Companies Act, 1956, Relating to Company's Interest in Subsidiary Companies**

Name of the Subsidiary	R Systems (Singapore) Pte Limited, Singapore	R Systems, Inc., USA	Indus Software, Inc., USA	R Systems Solutions Inc., USA	R Systems NV, Belgium	E Cnet Limited, Singapore	E Cnet (M) SDN BHD, Malaysia	Ecnet, Inc., USA	E Cnet (Hong Kong) Limited Hong Kong	E Cnet Systems (Thailand) Co. Ltd. Thailand	E Cnet Kabushiki Kaisha, Japan	E Cnet (Shanghai) Co. Ltd. China
1	The financial year of the subsidiary ended on	December 31, 2007	December 31, 2007	December 31, 2007	December 31, 2007	December 31, 2007	December 31, 2007	December 31, 2007	December 31, 2007	December 31, 2007	December 31, 2007	December 31, 2007
2	Date from which it became Subsidiary Company	September 19, 2000	April 1, 2002	August 24, 2006	August 28, 2007	January 8, 2004	January 8, 2004	January 8, 2004	January 8, 2004	January 8, 2004	January 8, 2004	January 8, 2004
3a	Shares held by the holding company in the subsidiary (including its nominees in the subsidiary)	4,070,000 ordinary shares of no par value	243,750 common shares of no par value	11,335,833 common shares of no par value and 8,666,884 series A preferred stock of no par value	200 common shares of Euro 310 each	17,904,335 ordinary shares of no par value	200,000 ordinary shares of RM 1 each	1,000 shares of US\$ 2 each	2 ordinary shares of HK\$1 each	400,000 ordinary shares of THB 5 each	200 shares of 50,000 Yen each	Shares of No par value
3b	Extent of interest of holding company at the end of the financial year of the Subsidiary Company	100%	100%	100%	100%	98.59%	98.59%	98.59%	98.59%	98.59%	98.59%	98.59%
4	The net aggregate amount of the Subsidiary Company Profit/(Loss) so far as it concerns the members of the Holding Company											
a	Not dealt with in the Holding Company's accounts											
i)	For the financial year ended December 31, 2007	Loss USD 91,798 i.e. Rs. 25.04 lacs	Loss USD 44,560 i.e. Rs. 1.80 lacs	Loss USD 298,936 i.e. Rs. 117.89 lacs	Loss Euro 9,923 i.e. Rs. 5.76 lacs	Loss SGD 890,552 i.e. Rs. 242.92 lacs	Profit RM 541,216 i.e. Rs. 64.43 lacs	Loss USD 11,464 i.e. Rs. 4.52 lacs	Profit HKD 46,089 i.e. Rs. 2.33 lacs	Profit THB 1,487,107 i.e. Rs. 19.70 lacs	Profit Yen 2,053,564 i.e. Rs. 7.21 lacs	Loss RMB 1,049,827 i.e. Rs. 56.76 lacs
ii)	For the previous financial years of the Subsidiary Company since it became the Holding Company's Subsidiary	Loss SGD 348,200 i.e. Rs. 100.17 lacs	Loss USD 334,471 i.e. Rs. 158.41 lacs	Loss USD 110,247 i.e. Rs. 48.64 lacs	N/A	Loss SGD 2,111,947 i.e. Rs. 580.22 lacs	Loss RM 55,607 i.e. Rs. 10.63 lacs	Loss USD 11,839 i.e. Rs. 5.27 lacs	Profit HKD 641,331 i.e. Rs. 37.37 lacs	Profit THB 4,392,947 i.e. Rs. 48.85 lacs	Loss Yen 11,099,231 i.e. Rs. 44.70 lacs	Loss RMB 3,186,664 i.e. Rs. 175.98 lacs
b	Dealt with in Holding Company's accounts											
i)	For the financial year ended December 31, 2007	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
ii)	For the previous financial years of the Subsidiary Company since it became the Holding Company's Subsidiary	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL

**Note :**

1 Refer note 2 under statement pursuant to section 212 of the Companies Act, 1956 relating to subsidiary companies for conversion of foreign currency into rupees in respect of current year profit/(loss)

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

Satinder Singh Rekhi  
[Managing Director]

O'Neil Nalavadi  
[Director Finance & CFO]

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

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

Place: EDH, CA, USA  
Date : February 24, 2008

Place: EDH, CA, USA  
Date : February 24, 2008

Place: NOIDA  
Date : February 24, 2008

Place: NOIDA  
Date : February 24, 2008



## AUDITORS' REPORT

on Consolidated Financial Statements

To,

Board of Directors

R Systems International Limited

B-104A Greater Kailash - I

New Delhi- 110048

1. We have audited the attached Consolidated Balance Sheet of R Systems International Limited (the Company) and its subsidiaries (as per the list appearing at Note 2 under Schedule 19 to the consolidated financial statements) as at December 31, 2007, and also the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year ended on that date annexed thereto, prepared in accordance with accounting principles generally accepted in India. These financial statements are the responsibility of the R Systems International Limited's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. These financial statements of Company's subsidiaries have been prepared in accordance with accounting policies generally accepted in their respective countries and have been audited by other auditors prepared under generally accepted auditing standards of their respective countries. The management has converted these audited financial statements of the Company's subsidiaries to accounting principles generally accepted in India. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the 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. *The Company had not obtained any valuations of its shares to determine the additional benefit, if any, being offered to the existing option holders consequent to changes in the existing stock option plans as explained in note 11(a) and 11(c) of Schedule 19. Considering this, we are unable to assess the benefit if any, not accounted for and the consequent impact on these financial statements.*
4. We did not audit the financial statements of certain subsidiaries, whose financial statements reflect:
  - (i) in relation to R Systems, Inc., US subsidiary, total assets (net) of Rs.143,820,234 (US\$3,647,020) as at December 31, 2007, the total revenues of Rs.686,163,504 (US\$16,591,234) and cash flows amounting to Rs.8,766,069 (US\$211,961) for the year then ended.
  - (ii) in relation to the R System (Singapore) Pte Ltd., Singapore subsidiary, total assets (net) of Rs.93,705,534 (Sing\$3,435,281) as at December 31, 2007, the total revenues of Rs.19,818,479 (Sing\$722,072) and cash flows (negative) amounting to Rs.72,459 (Sing\$2,640) for the year then ended.
  - (iii) in relation to Indus Software, Inc., US subsidiary, total liabilities (net) of Rs.17,571,250 (US\$445,575) as at December 31, 2007, the total revenues of Rs.36,968,457 (US\$893,887) and cash flows amounting to Rs.1,326,112 (US\$32,065) for the year then ended.
  - (iv) in relation to EC Net Limited, Singapore subsidiary, total liabilities (net) of Rs.75,574,301 (Sing \$2,770,583) as at December 31, 2007, the total revenues of Rs.162,264,652 (Sing\$5,911,998) and cash flows (negative) amounting to Rs.2,631,422 (Sing\$95,874) for the year then ended.
  - (v) in relation to R Systems Solutions, Inc.,(formerly know as Webconverse,Inc.) US subsidiary, total assets (net) of Rs.115,182,418 (US\$2,920,817) as at December 31, 2007 the total revenues of Rs.147,395,171 (US\$3,563,972) and cash flows amounting to Rs.13,319,515 (US\$322,062) for the year then ended.
  - (vi) in relation to R Systems, NV, Belgium subsidiary, total assets (net) of Rs.3,024,726 (EURO52,077) as at December 31, 2007 the total revenues of Rs.Nil (EURONil) and cash flows (negative) amounting to Rs.627,845 (EURO11,033) for the year then ended.
5. These financial statements of Company's subsidiaries have been prepared in accordance with accounting policies generally accepted in their respective countries and have been audited by other auditors who have submitted their audit opinions, prepared under generally accepted auditing standards of their respective countries, to the shareholders of the respective companies, copies of which have been provided to us by the Company. The management has converted these audited financial statements of the Company's subsidiaries to accounting principles generally accepted in India. Our opinion thus, insofar it relates to amounts included in respect of these subsidiaries, is based solely on the reports of the other auditors under the accounting policies generally accepted in respective countries and our audit of the conversion process followed by management.

## AUDITORS' REPORT

on Consolidated Financial Statements

6. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of R Systems International Limited and its subsidiaries included in the consolidated financial statements.
7. *Subject to our comments in para 3 above, relating to additional benefit, if any, being offered to the existing option holders consequent to changes in existing stock options, consequential impact of which is not determinable*, on the basis of our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components and to the best of our information and according to the explanations given to us, we are of the opinion that the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:
  - (a) in the case of the Consolidated Balance Sheet, of the state of affairs of R Systems International Limited and its subsidiaries as at December 31, 2007;
  - (b) in the case of the Consolidated Profit and Loss Account, of the consolidated results of operations of R Systems International Limited and its subsidiaries for the year then ended and
  - (c) in the case of the Consolidated Cash Flow Statement, of the consolidated cash flows of R Systems International Limited and its subsidiaries for the year ended on that date .

**For S.R. BATLIBOI & ASSOCIATES**

**Chartered Accountants**

**per Pankaj Chadha**

**Partner**

Membership No. 91813

Place : Gurgaon

Date : February 24, 2008



## CONSOLIDATED BALANCE SHEET

(All amounts are in Rupees unless otherwise stated)

	Schedules	As at December 31, 2007	As at December 31, 2006
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' funds</b>			
Share capital	1	135,088,080	135,088,080
Reserve and surplus	2	1,290,582,814	1,147,254,654
		<b>1,425,670,894</b>	<b>1,282,342,734</b>
<b>Minority interest</b>	3	-	-
<b>Loan funds</b>			
Secured loans	4	6,314,471	24,257,700
		<b>6,314,471</b>	<b>24,257,700</b>
<b>Deferred payments liability (refer note 10(c) under Schedule 19)</b>		<b>10,630,002</b>	<b>22,335,309</b>
<b>Deferred tax liability (net)</b>	5	<b>24,429,549</b>	<b>17,693,843</b>
<b>TOTAL</b>		<b>1,467,044,916</b>	<b>1,346,629,586</b>
<b>APPLICATION OF FUNDS</b>			
<b>Fixed assets</b>			
Gross block	6	804,077,599	820,762,913
Less : Accumulated depreciation / amortisation		243,467,096	276,525,303
Net block		560,610,503	544,237,610
Capital work-in-progress including capital advances		49,758,326	10,613,124
		<b>610,368,829</b>	<b>554,850,734</b>
<b>Investments</b>	7	<b>12,035,915</b>	<b>13,462,849</b>
<b>Current assets, loans and advances</b>			
Sundry debtors	8	613,515,362	483,371,250
Cash and bank balances	9	512,146,612	531,741,117
Other current assets	10	83,733,812	141,566,747
Loans and advances	11	73,794,569	75,351,235
<b>(A)</b>		<b>1,283,190,355</b>	<b>1,232,030,349</b>
<b>Less : Current liabilities and provisions</b>			
Current liabilities	12	309,056,941	337,317,351
Provisions	13	129,493,242	116,396,995
<b>(B)</b>		<b>438,550,183</b>	<b>453,714,346</b>
<b>Net current assets (A-B)</b>		<b>844,640,172</b>	<b>778,316,003</b>
<b>TOTAL</b>		<b>1,467,044,916</b>	<b>1,346,629,586</b>
<b>Notes to accounts</b>	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** For and on behalf of the Board of Directors of R Systems International Limited  
Chartered Accountants

per **Pankaj Chadha**  
Partner  
Membership No. 91813

Satinder Singh Rekhi  
[Managing Director]

O'Neil Nalavadi  
[Director Finance & CFO]

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

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

Place : Gurgaon  
Date : February 24, 2008

Place: EDH, CA, USA  
Date : February 24, 2008

Place: EDH, CA, USA  
Date : February 24, 2008

Place: NOIDA  
Date : February 24, 2008

Place: NOIDA  
Date : February 24, 2008



## CONSOLIDATED PROFIT AND LOSS ACCOUNT

(All amounts are in Rupees unless otherwise stated)

	Schedules	For the year ended December 31, 2007	For the year ended December 31, 2006
<b>INCOME</b>			
Sale of software products and rendering software development services		2,470,575,007	2,039,458,343
Deferred payment compensation to erstwhile shareholders of ECnet Limited written back (refer note 10(a) under schedule 19)		14,452,222	-
Other income	14	57,084,320	40,207,989
<b>TOTAL</b>		<b>2,542,111,549</b>	<b>2,079,666,332</b>
<b>EXPENDITURE</b>			
Personnel expenses	15	1,521,774,904	1,270,299,269
Operating and other expenses	16	713,785,444	589,576,882
Depreciation /amortisation	6	70,410,977	59,123,941
Financial expenses	17	6,010,034	5,694,247
<b>TOTAL</b>		<b>2,311,981,359</b>	<b>1,924,694,339</b>
<b>Profit before tax and prior period items</b>		<b>230,130,190</b>	<b>154,971,993</b>
Prior period expenses/ (income)	18	(884,829)	15,889,350
<b>Profit for the year before tax and after prior period items</b>		<b>231,015,019</b>	<b>139,082,643</b>
Current tax (Including tax related to earlier year Rs. 759,520 (Net of excess provision written back Rs. 329,812) Previous year Rs. Nil)		32,811,331	15,523,136
MAT credit entitlement		(4,980,214)	-
Deferred tax		6,791,168	39,890,987
Fringe benefit tax		6,678,667	5,425,536
<b>Total tax expense</b>		<b>41,300,952</b>	<b>60,839,659</b>
<b>Profit available for appropriation</b>		<b>189,714,067</b>	<b>78,242,984</b>
<b>Appropriations</b>			
Proposed final dividend		24,448,871	16,299,247
Tax on proposed final dividend		4,155,087	2,770,057
Transfer to general reserve		18,128,529	2,512,190
<b>Surplus carried to Balance Sheet</b>		<b>142,981,580</b>	<b>56,661,490</b>
Earnings per share (refer note 12 under Schedule 19)			
Basic [Nominal value of shares Rs.10 (Previous year: Rs.10)]		13.97	6.17
Diluted [Nominal value of shares Rs.10 (Previous year: Rs.10)]		13.78	6.17
<b>Notes to accounts</b>	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** For and on behalf of the Board of Directors of R Systems International Limited  
Chartered Accountants

per Pankaj Chadha  
Partner  
Membership No. 91813

Satinder Singh Rekhi  
[Managing Director]

O'Neil Nalavadi  
[Director Finance & CFO]

Lt. Gen. Baldev Singh (Retd)  
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Place : Gurgaon  
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## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	For the year ended December 31, 2007	For the year ended December 31, 2006
<b>A. Cash flow from operating activities</b>		
<b>Net profit before taxation</b>	<b>231,015,019</b>	139,082,643
Adjustments for:		
Depreciation / amortization	70,410,977	59,123,941
Debts and advances provided / written off	29,679,843	43,728,875
Loss on sale / discard of fixed assets	2,551,999	1,025,975
Unrealised foreign exchange loss / (gain)	(8,579,616)	(5,058,245)
Interest income	(37,288,028)	(23,601,857)
Write back of provision for doubtful debts	(4,307,325)	(8,467,013)
Deferred payment compensation to erstwhile shareholders of ECnet Limited written back (refer note 10(a) under schedule 19)	(14,452,222)	-
Excess provisions written back	(438,285)	(3,121)
Interest expense	3,440,690	3,853,002
<b>Operating profit before working capital changes</b>	<b>272,033,052</b>	209,684,200
Movements in working capital :		
Decrease / (Increase) in sundry debtors	(179,743,764)	(67,499,245)
Decrease / (Increase) in other current assets	48,470,663	(65,071,412)
Decrease / (Increase) in loans and advances	5,672,239	(35,503,537)
Decrease / (Increase) in margin money deposit	(1,520,982)	4,807,730
Increase / (Decrease) in provisions	1,550,184	34,670,891
Increase / (Decrease) in current liabilities	24,724,034	64,555,290
Cash generated from operations	171,185,426	145,643,917
Direct taxes paid (net of refund)	(22,129,761)	(13,839,248)
Interest on income-tax refund	86,830	57,638
<b>Net cash from operating activities</b>	<b>149,142,495</b>	131,862,307
<b>B. Cash flows used in investing activities</b>		
Purchase of fixed assets	(121,651,309)	(188,030,955)
Proceeds from sale of fixed assets	3,847,388	952,587
Purchase of investment	-	(12,178,136)
Deferred payment compensation to erstwhile shareholders of R System Solutions, Inc (formerly Web Converse Inc) (refer note 10(c) under schedule 19)	(38,698,900)	(53,530,826)
Deferred payment compensation to erstwhile shareholders of ECnet Limited (refer note 10(a) under schedule 19)	(5,466,240)	-
Interest received	32,789,048	12,733,253
<b>Net cash used in investing activities</b>	<b>(129,180,013)</b>	(240,054,077)
<b>C. Cash flows from/(used in) financing activities</b>		
Proceeds from borrowings	2,501,868	4,703,770
Proceeds from issue of equity shares	-	722,211,814
Share issue expenses	-	(92,030,667)
Repayment of borrowings	(19,805,514)	(95,424,477)
Interest paid	(3,440,690)	(3,852,871)
Dividends paid	(16,299,247)	-
Tax on dividend paid	(2,770,057)	-
<b>Net cash from / (used in) financing activities</b>	<b>(39,813,640)</b>	535,607,569
<b>Net increase in cash and cash equivalents (A + B + C)</b>	<b>(19,851,158)</b>	427,415,799
<b>Cash and cash equivalents at the beginning of the year</b>	<b>523,928,880</b>	96,513,081
<b>Cash and cash equivalents at the end of the year</b>	<b>504,077,722</b>	523,928,880

## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

### Components of cash and cash equivalents as at

	December 31, 2007	December 31, 2006
Cash and cheques on hand	351,421	379,476
Balances with scheduled banks		
on current accounts	13,559,048	12,158,092
on cash credit accounts	9,260,471	3,986,468
on EEFC accounts	24,280,699	14,759,683
on deposit accounts	355,242,097	431,307,934
Less: Margin money deposit	(12,725,000)	(11,204,018)
Balances with other banks		
on current accounts	109,452,876	69,149,464
	<b>499,421,612</b>	520,537,099
Unrealised loss/ (gain) on foreign currency cash and cash equivalents	4,656,110	3,391,781
<b>Net cash and cash equivalents</b>	<b>504,077,722</b>	523,928,880

As per our report of even date.

**For S.R. BATLIBOI & ASSOCIATES** For and on behalf of the Board of Directors of R Systems International Limited  
Chartered Accountants

**per Pankaj Chadha**  
Partner  
Membership No. 91813

Satinder Singh Rekhi  
[Managing Director]

O'Neil Nalavadi  
[Director Finance & CFO]

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

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

Place : Gurgaon  
Date : February 24, 2008

Place: EDH, CA, USA  
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Place: NOIDA  
Date : February 24, 2008

Place: NOIDA  
Date : February 24, 2008



## CONSOLIDATED BALANCE SHEET

(All amounts are in Rupees unless otherwise stated)

	As at December 31, 2007	As at December 31, 2006
<b>Schedule 1: Share capital</b>		
<b>Authorised</b>		
20,000,000 (Previous year 20,000,000) equity shares of Rs. 10 each	<b>200,000,000</b>	200,000,000
<b>Issued, subscribed and paid up capital</b>		
13,782,206 (Previous year 13,782,206) equity shares of Rs. 10 each fully paid-up (also refer note 9 under Schedule 19)	<b>137,822,060</b>	137,822,060
Less: Equity shares buy-back (refer note 2 below)	<b>1,995,000</b>	1,995,000
997,500 (Previous Year 997,500) equity shares of Rs. 2 each fully paid-up	<b>738,980</b>	738,980
Less: Advance to Indus Software Employees Welfare Trust (also refer note 11 (b) under Schedule 19)	<b>738,980</b>	738,980
	<b>135,088,080</b>	135,088,080

Notes:

- 1) Includes 495,667 (Previous year 495,667) equity shares of Rs.10 each issued upon conversion of warrants under the shareholders agreement dated February 16, 2002.
- 2) 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.
- 3) Also refer note 11 under Schedule 19

### Schedule 2: Reserve and surplus

<b>Securities premium account</b>		
Balance as per last account	<b>981,687,568</b>	435,536,007
Add : Amount received on issue of equity shares	-	693,320,578
Less: Utilised for issue of bonus shares	-	53,552,550
Less: Utilised for share issue expenses *	-	93,616,467
	<b>981,687,568</b>	981,687,568
Less: Advance to Indus Software Employees Welfare Trust (also refer note 11 (b) Under Schedule 19)	<b>2,282,728</b>	2,282,728
	<b>979,404,840</b>	979,404,840

\* net of Rs. NIL (Previous year Rs. 2,795,944) recovered as proportionate expense borne on behalf of certain selling shareholders.

Capital reserve	<b>31,726</b>	31,726
<b>General Reserve</b>		
Balance as per last account	<b>2,512,190</b>	-
Add: Transferred from Profit and Loss Account	<b>18,128,529</b>	2,512,190
	<b>20,640,719</b>	2,512,190
<b>Profit and Loss account</b>		
Balance as per last account	<b>174,240,175</b>	127,138,727
Less: Increased liability in accordance with 'AS-15 (Revised) Employee benefits'	-	9,560,042
Add: Transferred from Profit and Loss Account	<b>142,981,580</b>	56,661,490
	<b>317,221,755</b>	174,240,175
<b>Foreign currency translation reserve</b>		
Balance as per last account	<b>(8,934,276)</b>	305,855
Less: Current year translation differences *	<b>(17,781,950)</b>	(9,240,131)
	<b>(26,716,226)</b>	(8,934,276)
<b>Total</b>	<b>1,290,582,814</b>	1,147,254,654

\* including Rs. NIL (Previous year Rs. 7,876,081) representing currency translation adjustment arising due to change in reporting currency from US \$ to SGD \$ in R Systems Singapore Pte. Ltd.

## CONSOLIDATED BALANCE SHEET

(All amounts are in Rupees unless otherwise stated)

	As at December 31, 2007	As at December 31, 2006
<b>Schedule 3: Minority interest</b>		
Minority interest in ECnet Limited at the time of acquisition	149,585	149,585
Less: Minority interest in post acquisition losses to the extent allocable	149,585	149,585
	-	-
<b>Schedule 4: Secured loans</b>		
<b>- From banks</b>		
Cash credit facilities (Secured by first charge over current assets and collateral charge over the immovable property and fixed assets)	-	15,478,841
For motor vehicles (Secured by hypothecation of underlying motor vehicles)	6,083,942	7,908,747
<b>-From other</b>		
For equipment (Secured by hypothecation of underlying equipment)	230,529	870,112
	6,314,471	24,257,700
Note:		
In case of motor vehicle loans, amount repayable within one year is Rs.3,363,465 (Previous year Rs. 3,434,298)		
<b>Schedule 5: Deferred tax Liability (net)</b>		
<b>Deferred tax liability</b>		
Differences in depreciation/amortisation and other differences in block of fixed assets as per tax books and financial books	37,366,217	27,193,584
<b>Gross deferred tax liability</b>	37,366,217	27,193,584
<b>Deferred tax assets</b>		
Provision for gratuity	6,995,694	4,646,339
Provision for leave encashment	5,940,974	4,853,402
<b>Gross deferred tax assets</b>	12,936,668	9,499,741
<b>Deferred tax liability (net)</b>	24,429,549	17,693,843



## CONSOLIDATED SCHEDULES

### Schedule 6: Fixed assets

(All amounts are in Rupees unless otherwise stated)

	Land - freehold	Land- leasehold	Building- freehold	Building- leasehold (1)	Computers	Office and electrical equipment (2)	Furniture and fittings	Vehicle (3)	Software	Product Development Cost	Right to provide services	Goodwill	Total	Previous Year
Gross block														
As at January 1, 2007	4,765,674	10,005,968	30,991,162	99,323,183	262,641,738	81,834,245	81,120,105	29,978,264	74,447,333	4,057,182	5,614,491	135,983,568	<b>820,762,913</b>	462,720,909
Acquisition of R Systems Solutions, Inc. (formerly known as Webconverse, Inc.) (Refer note 10 (e) of Schedule 19)	-	-	-	-	-	-	-	-	-	-	-	-	-	154,678,000
Additions	-	-	-	3,946,657	38,681,881	14,734,040	9,438,079	9,003,909	19,797,693	-	-	-	<b>95,602,259</b>	234,521,614
Deductions/adjustments	-	-	-	13,104,206	44,834,564	7,216,694	6,890,080	8,686,334	30,959,505	-	596,190	-	<b>112,287,573</b>	31,157,610
<b>At December 31, 2007</b>	<b>4,765,674</b>	<b>10,005,968</b>	<b>30,991,162</b>	<b>90,165,634</b>	<b>256,489,055</b>	<b>89,351,591</b>	<b>83,668,104</b>	<b>30,295,839</b>	<b>63,285,521</b>	<b>4,057,182</b>	<b>5,018,301</b>	<b>135,983,568</b>	<b>804,077,599</b>	<b>820,762,913</b>
Depreciation/ amortisation														
As at January 1, 2007	-	446,750	2,660,239	17,270,213	126,986,802	20,863,342	25,355,456	9,734,883	65,142,124	2,451,223	5,614,271	-	<b>276,525,303</b>	235,155,904
Acquisition of R Systems Solutions, Inc (formerly known as Webconverse, Inc.) (Refer note 10 (e) of Schedule 19)	-	-	-	-	-	-	-	-	-	-	-	-	-	11,205,383
For the year	-	163,097	509,756	2,318,292	41,302,159	6,046,388	6,001,696	3,371,594	9,683,715	1,014,300	-	-	<b>70,410,977</b>	59,123,941
Deletions/adjustments	-	-	-	12,352,648	42,373,551	5,989,270	6,562,859	4,775,197	30,819,689	-	595,970	-	<b>103,469,184</b>	28,959,925
<b>At December 31, 2007</b>	<b>-</b>	<b>609,847</b>	<b>3,169,995</b>	<b>7,235,857</b>	<b>125,915,410</b>	<b>20,920,440</b>	<b>24,794,293</b>	<b>8,331,280</b>	<b>44,006,150</b>	<b>3,465,523</b>	<b>5,018,301</b>	<b>-</b>	<b>243,467,096</b>	<b>276,525,303</b>
Depreciation / amortisation for previous year	-	163,098	509,885	1,662,211	32,102,062	4,031,832	7,852,193	2,951,312	8,116,905	1,014,300	720,143	-	<b>59,123,941</b>	48,924,178
Net block														
<b>At December 31, 2007</b>	<b>4,765,674</b>	<b>9,396,121</b>	<b>27,821,167</b>	<b>82,929,777</b>	<b>130,573,645</b>	<b>68,431,151</b>	<b>58,873,811</b>	<b>21,964,559</b>	<b>19,279,371</b>	<b>591,659</b>	<b>-</b>	<b>135,983,568</b>	<b>560,610,503</b>	<b>544,237,610</b>
At December 31, 2006	4,765,674	9,559,218	28,330,923	82,052,970	135,654,936	60,970,903	55,764,649	20,243,381	9,305,209	1,605,959	220	135,983,568	<b>49,758,326</b>	10,613,124
Capital work in progress (including capital advances)	-	-	-	-	-	-	-	-	-	-	-	-	<b>610,368,829</b>	554,850,734

#### 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) Includes assets obtained on finance lease Gross book value Rs.807,392 (Previous year Rs. 903,313) Net book value Rs.444,787 (Previous year Rs. 798,748)
- (3) Vehicles amounting to Rs. 16,863,326 (Previous Year Rs. 16,373,713) are hypothecated against Terms loans for vehicle finance from banks.
- (4) Capital work in progress include Product development cost in progress amounting to Rs. 15,510,771 (Previous year Rs. 4,534,053)
- (5) Exchange differences included in the assets capitalised is Rs. Nil (Previous year Rs. 94,111)

## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	As at December 31, 2007	As at December 31, 2006
<b>Schedule 7: Investments</b>		
<b>Long term investments (at cost)</b>		
<b>Other than trade, unquoted</b>		
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>Current investment Non trade, unquoted</b>		
30,000* (Previous year 30,000) shares of common stock of "no par" value in Caranything.com Inc., USA	40,224	45,002
34,000** (Previous year 34,000) shares of common stock of "no par" value in N Techra Inc., USA	1,373,639	1,536,832
268,722*** (Previous year 268,722) shares of common stock of US\$ 1 each in ANY COMM Inc., USA	10,597,052	11,856,015
	<b>12,035,915</b>	13,462,849
Aggregate amount of unquoted investments	<b>12,035,915</b>	13,462,849
Aggregate amount of quoted investments	-	-
* represent shares issued by Caranything.com Inc. to settle the amount owed by it to a US subsidiary, R Systems Inc.		
** represent shares ( series A preferred stock) issued by N Techra Inc. to settle the amount owed by it to a US subsidiary, R Systems Inc.		
*** represent shares issued by ANY COMM Inc. to settle the amount owed by it to a US subsidiary, R Systems Inc.		
<b>Schedule 8: Sundry debtors</b>		
<b>Debts outstanding for a period more than six months</b>		
Unsecured, considered good	57,160,410	21,569,829
Considered doubtful	61,399,610	58,510,391
<b>Other debts</b>		
Unsecured, considered good	556,354,952	461,801,421
Considered doubtful	22,584,717	11,035,115
	<b>697,499,689</b>	552,916,756
Less : Provision for doubtful debts	<b>83,984,327</b>	69,545,506
	<b>613,515,362</b>	483,371,250
<b>Schedule 9: Cash and bank balances</b>		
Cash on hand	351,421	379,476
<b>Balances with scheduled banks</b>		
On current accounts	13,559,048	12,158,092
On cash credit account	9,260,471	3,986,468
On EEFC account	24,280,699	14,759,683
On deposit accounts	355,242,097	431,307,934
<b>Balances with other banks</b>		
On current accounts	109,452,876	69,149,464
	<b>512,146,612</b>	531,741,117
Also refer note 15 under Schedule 19		
<b>Schedule 10: Other current assets</b>		
Interest accrued on deposits	7,013,033	10,961,473
Interest accrued on staff advance	28,173	37,691
Unbilled revenue	85,098,008	
Less: Anticipated cost to complete contract	<u>8,405,402</u>	<u>6,639,785</u>
	<b>76,692,606</b>	130,567,583
	<b>83,733,812</b>	141,566,747



## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	As at December 31, 2007	As at December 31, 2006
<b>Schedule 11: Loans and advances</b>		
(Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received (including Rs. 7,442,566 considered doubtful, Previous year Rs. 7,092,925)	56,929,481	58,555,856
MAT credit receivables	4,980,214	-
Deposits - others	19,327,440	23,888,304
	<b>81,237,135</b>	<b>82,444,160</b>
Less Provision for doubtful advance	7,442,566	7,092,925
	<b>73,794,569</b>	<b>75,351,235</b>
<b>Schedule 12: Current liabilities</b>		
Sundry creditors	204,356,742	230,533,060
Deferred payment compensation to the erstwhile shareholders of ECnet Limited (Refer note 10(a) under schedule 19)	7,345,396	27,953,223
Deferred payment compensation to the erstwhile shareholders of R Systems Solutions, Inc. (formerly known as WebConverse, Inc.) (Refer note 10(c) under schedule 19)	20,922,415	51,664,498
Unamortised income on forward cover contracts	2,998,572	1,213,010
Book overdraft	1,293,555	2,057,199
Deferred revenue	48,447,592	7,210,612
Advance from customers	2,691,676	2,245,688
Security deposits	1,973,613	1,958,025
Other liabilities	19,027,380	12,482,036
	<b>309,056,941</b>	<b>337,317,351</b>
<b>Schedule 13: Provisions</b>		
Employee bonus	15,733,333	15,690,148
Income tax (net of advance taxes amounting to Rs.42,425,367 (Previous year Rs.16,215,014))	11,251,267	7,393,969
Fringe benefit tax (net of advance taxes amounting to Rs.14,558,895 (Previous year Rs.6,908,195))	307,690	1,279,723
Proposed final dividend	24,448,871	16,299,247
Tax on proposed final dividend	4,155,087	2,770,057
Gratuity	23,306,788	16,885,862
Long term compensated absences	50,290,206	56,077,989
	<b>129,493,242</b>	<b>116,396,995</b>
	<b>For the year ended December 31, 2007</b>	<b>For the year December 31, 2006</b>
<b>Schedule 14: Other income</b>		
<u>Interest on :</u>		
-Bank deposits (Gross of tax deducted at source Rs. 9,096,324, (Previous year Rs. 2,667,457))	37,201,198	23,544,219
-Income tax refund	86,830	57,638
Foreign exchange fluctuation (net)	9,812,199	6,594,542
Provision for doubtful debts and advances written back	4,307,325	8,467,013
Excess provisions written back, as no longer required	438,285	3,121
Miscellaneous income	5,238,483	1,541,456
	<b>57,084,320</b>	<b>40,207,989</b>



## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	For the year ended December 31, 2007	For the year December 31, 2006
<b>Schedule 15: Personnel expenses</b>		
Salaries, wages and bonus	1,422,852,781	1,190,458,634
Contribution to provident fund and other payments	75,619,795	60,629,321
Staff welfare expenses	23,302,328	19,211,314
	<b>1,521,774,904</b>	<b>1,270,299,269</b>
<b>Schedule 16: Operating and other expenses</b>		
Recruitment and training expenses	14,026,012	15,762,674
Travelling and conveyance	215,835,929	158,668,231
Insurance	8,311,522	8,129,478
Commission others	4,516,965	704,015
Repair and maintenance	27,261,382	22,471,688
Provision for doubtful debts and advances	29,535,568	43,457,483
Bad debts and advances written off	144,275	271,392
Rent - premises	43,680,778	30,783,702
Rent - equipment	6,496,859	7,562,928
Power and fuel	28,913,539	25,602,593
Communication costs	69,313,349	49,698,174
Printing and stationery	8,092,379	7,307,928
Advertising and sales promotion	4,124,611	4,819,838
Legal and professional expenses	228,759,693	196,877,879
Auditor's remuneration		
- Statutory audit fee	1,573,040	1,346,880
- Quarterly audit fee	1,348,440	-
- Limited reviews	-	561,200
- Other services	336,960	448,960
- Out of pocket expenses	<u>106,652</u>	<u>48,254</u>
Director's sitting fee	330,000	145,000
Loss on sale/discard of fixed assets (net)	2,551,999	1,025,975
Rates and taxes	4,087,297	2,065,723
Watch and ward expenses	4,153,590	2,841,140
Membership and subscription	3,687,208	3,381,404
Miscellaneous expenses	6,597,397	5,594,343
	<b>713,785,444</b>	<b>589,576,882</b>
<b>Schedule 17: Financial expenses</b>		
Interest on loan	3,440,690	3,853,002
Bank charges	2,569,344	1,841,245
	<b>6,010,034</b>	<b>5,694,247</b>
<b>Schedule 18: Prior period expenses/(income)</b>		
Salaries, wages and bonus	(2,289,329)	15,332,452
Legal and professional fees	1,404,500	556,898
	<b>(884,829)</b>	<b>15,889,350</b>



## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

### Schedule 19: Notes to Accounts

#### 1. Statement of Significant Accounting Policies

##### (a) Basis of preparation

The consolidated financial statements of R Systems International Limited ('The Company') and its subsidiaries (collectively referred to as 'R Systems Group' or 'the Group') have been prepared to comply in all material respects with Notified accounting standard by Companies Accounting Standards Rules, 2006 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.

As far as possible, the consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented, to the extent possible, in the same manner as the Company's stand alone financial statements. Differences in accounting policies, if any, are disclosed separately.

All figures are in Rupees except where expressly stated.

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

Certain subsidiaries of the companies have significant losses at the year- end. Subsidiaries are meeting their short term funding requirement through parent and fellow subsidiaries loans. The management will extend its continual financial support during the financial year 2008 to enable the subsidiaries to meet its working capital and other financing requirements and considers it appropriate to prepare these accounts on going concern basis.

As per Accounting Standard Interpretation (ASI)-15 on Notes to the Consolidated Financial Statements, only the notes involving items which are material need to be disclosed. Materiality for this purpose is assessed in relation to the information contained in the consolidated financial statements. Further, additional statutory information disclosed in separate financial statements of the subsidiary and/or a parent having no bearing on the true and fair view of the consolidated financial statements need not be disclosed in the consolidated financial statements. Therefore, based upon ASI-15, following disclosures have not been made:

- Earnings in foreign exchange classified under the following heads, namely,:
  - (a) Exports at F.O.B. Value;
  - (b) Interest and dividend;
  - (c) Other income, indicating the nature thereof.
- Expenditure in foreign currency during the financial year on account of royalty, know how, professional and consultation fees, interest and other matters.
- Value of imports calculated on CIF basis by the group entities during the financial year in respect of:
  - (a) Raw material;
  - (b) Capital goods

##### (b) Fixed assets

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

##### (c) Depreciation

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

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

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

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

## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

### (d) Intangibles

#### *Product development costs*

Product development cost represents direct cost incurred by the Group for developing new product. Research costs are expensed as incurred. Development expenditure incurred on an individual product is carried forward when its future recoverability can reasonably be regarded as assured. The expenditure incurred is carried forward under capital work in progress till the product is ready to be marketed. Expenditure carried forward is charged off over the expected useful life of product of 48 months beginning in the month when revenue from the product starts accruing.

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

#### *Computer software*

Costs relating to acquired production software are capitalised and amortised on a straight-line basis over their useful lives estimated by the management at 3 years or below as in specific cases.

#### *Rights to provide services*

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

### (e) Expenditure on new projects

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

### (f) Goodwill / capital reserve

Goodwill / capital reserve represents the cost to the parent of its investment in subsidiaries over / under the parent's portion of equity of the subsidiary, at the date on which the investment in the subsidiaries is made.

### (g) Impairment

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

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

The Group evaluates the carrying value of its goodwill whenever events or changes in circumstances indicate that its carrying value may be impaired. Impairment is recognised in the year of such determination. Management also ascertains the future revenues and earnings of the acquired entities and analyses sustainability thereof to determine impairment. For ascertaining impairment, consideration is given to fair value of the acquired entities.

### (h) Leases

#### *Where the Group is the lessee*

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

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

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

### (i) Investments

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

### (j) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.



## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

### *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 and maintenance services and projects comprise income from time-and-material and fixed-price contracts.

Revenue associated with software development and maintenance services / customisation of products and business process outsourcing services 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. In terms of contracts excess/shortfall over the amount billed as at the year- end is carried in the financial statements as unbilled revenue/ deferred revenue respectively. The stage of completion of project is determined by the proportion that contract efforts incurred for work performed up to the balance sheet date bear to the estimated total contract effort. Changes in contract performance, estimated profitability and final contract settlements may result in revisions to costs and revenues and are recognised in the period in which the revisions are determined. If a loss is projected on any contracts in process, the entire projected loss is recognised currently.

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

Revenue from subscription services is recognized over the term of subscription period.

### **(k) Foreign currency translation**

#### *Foreign currency transactions*

##### (i) Initial recognition

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

##### (ii) Conversion

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

##### (iii) Exchange differences

Exchange differences arising on the settlement of monetary items or on reporting company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year in which they arise except those arising from investments in non-integral operations. Exchange differences arising in respect of fixed assets acquired from outside India on or before accounting period commencing after December 7, 2006 are capitalized as a part of fixed asset.

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

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

##### (v) Translation of non-integral foreign operations

In translating the financial statements of a non-integral foreign operation for incorporation in consolidated financial statements, the assets and liabilities, both monetary and non-monetary, of the non-integral foreign operation are translated at the closing rate; income and expense items of the non-integral foreign operations are translated at yearly average exchange rates; and all resulting exchange differences are accumulated in a foreign currency translation reserve until the disposal of net investment. On the disposal of a non-integral foreign operation, the cumulative amount of the exchange differences which have been deferred and which relate to that operation are recognised as income or as expenses in the same period in which the gain or loss on disposal is recognised.

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2007, the rates used were US \$ 1 = Rs. 41.36, Euro 1 = Rs 56.90 and Singapore \$ 1 = Rs. 27.45. For translating assets and liabilities at the year-end, the rates used were US \$ 1 = Rs. 39.44 , Euro 1 = 58.08 and Singapore \$ 1 = Rs. 27.28.

## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2006, the rates used were US \$ 1= Rs. 45.32 [Except for R System Solution, Inc. (formerly known as Webconverse, Inc.) at US \$ 1= Rs 45.30] and Singapore \$ 1 = Rs. 28.54. For translating assets and liabilities at the year-end, the rates used were US \$ 1= Rs. 44.12 and Singapore \$ 1= Rs. 28.77.

(vi) Translation of Integral foreign operation

The financial statements of an integral foreign operation are translated as if the transactions of the foreign operation have been those of the company itself.

(l) **Employee benefits**

(i) Retirement benefits in the form of Provident Fund are a defined contribution scheme and the contributions are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective trusts. The Group's US subsidiaries maintain a defined contribution retirement plan (the "Plan"), qualified under Section 401 (K) of the Internal Revenue Code, for certain eligible employees. Pursuant to the plan, eligible employees may contribute a portion of their compensation, subject to a maximum amount per year as specified by law. The Group's US subsidiaries provide a matching contribution based on specified percentages of amounts contributed by participants. These amounts are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due.

(ii) Gratuity liability is defined benefit obligations and is provided for on the basis of an actuarial valuation made at the end of each financial year for the employees of the Company on projected unit credit method. The gratuity plan is not funded.

(iii) Long term compensated absences are provided for based on actuarial valuation. The actuarial valuation is done as per projected unit credit method.

(iv) Actuarial gains/losses are immediately taken to Profit and Loss Account and are not deferred.

(v) Bonus paid to employees / directors of the Company, wherein the amount becomes proportionately recoverable in case the employees / directors do not complete the stipulated period of service, are expensed off proportionately over the period stipulated / agreed with the respective employee.

(m) **Income taxes**

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

Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the relevant tax regulations applicable to the 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 and deferred tax liabilities across various countries of operation are not set off against each other as the company does not have a legal right to do so. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. If the company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits.

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.

At each balance sheet date the Company re-assesses unrecognized deferred tax assets. It recognizes unrecognized deferred tax assets to the extent that it has become reasonably certain or virtually certain, as the case may be that sufficient future taxable income will be available against which such deferred tax assets can be realized.

MAT credit is recognised as an asset only when and to the extent there is convincing evidence that the company will pay normal income tax during the specified period. In the year/period in which the Minimum Alternative Tax (MAT) credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in Guidance Note issued by the Institute of Chartered Accountants of India, the said asset is created by way of a credit to the profit and loss account and shown as MAT Credit Entitlement. The Company reviews the same at each balance sheet date and writes down the carrying amount of MAT Credit Entitlement to the extent there is no longer convincing evidence to the effect that Company will pay normal Income Tax during the specified period.

The companies in the Group are subject to tax legislation as applicable in the respective country of incorporation. Accordingly, the calculations does not represent tax liability / income attributable to Group results, if these were to be analysed under the local legislation of the parent company.



## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

**(n) Cash and cash equivalents**

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

**(o) Government grants and subsidies**

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

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

**(p) Provisions**

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

**(q) Earnings per share**

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year. The weighted average numbers of equity shares outstanding during the period are adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders, share split and reverse share split (consolidation of shares).

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

**(r) Segment reporting policies**

*Identification of segments :*

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

*Inter segment transfers :*

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

*Allocation of common costs :*

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

*Unallocated items :*

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

**(s) Employee Stock Compensation Cost**

Measurement and disclosure of the employee stock option plan is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the Institute of Chartered Accountants of India. The Company measures compensation cost relating to employee stock options using the intrinsic value method. Compensation expense is amortized over the vesting period of the option on a straight line basis.

**(t) Derivative instruments**

The Company uses derivative financial instruments such as forward exchange contracts to hedge its risks associated with foreign currency fluctuations. Accounting policy for forward exchange contracts is given in note 1(k) (iv) above.

**2. Description of the Group**

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

## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

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

Subsidiary	Holding	Country of incorporation and other particulars
R Systems, Inc.	100%	A company registered under the laws of California, USA in 1993 and subsidiary of the Company since January 2, 2001. R Systems Inc. has a division in Japan.
R Systems (Singapore) Pte Limited	100%	A company registered under the laws of Singapore in 1997 and subsidiary of the Company since September 19, 2000.
Indus Software, Inc	100%	A company registered under the laws of Delaware, USA in 1996 and subsidiary of the Company since April 1, 2002.
R Systems Solution, Inc. (formerly known as Web Converse Inc.)	100%	A company registered under the laws of California, USA in 2000 and subsidiary of the Company since August 24, 2006
R Systems, NV	100%	A company registered under the laws of Belgium in 2007 and subsidiary of the Company since August 28, 2007.
ECnet Limited	98.59%	A company registered under the laws of Singapore in 1996. The Company has acquired majority share on January 8, 2004. The Company has subsidiaries in Malaysia, Thailand, China, Hong Kong, USA and Japan.  The Company has following wholly owned subsidiaries:

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

### 3. Segment information

Business Segments :

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

*Geographical Segments :*

The 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.



## CONSOLIDATED SCHEDULES

The following table provides required information for the primary segments for the year ended December 31, 2007 and year ended December 31, 2006:

(All amounts are in Rupees unless otherwise stated)

Particulars	Software development & customisation services		Business process outsourcing services		Eliminations		Corporate and others		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
<b>REVENUE</b>										
External sales	2,115,279,389	1,822,624,880	355,295,618	216,833,463	-	-	-	-	2,470,575,007	2,039,458,343
Inter-segment sales	-	-	-	-	-	-	-	-	-	-
Total revenue	2,115,279,389	1,822,624,880	355,295,618	216,833,463	-	-	-	-	2,470,575,007	2,039,458,343
<b>RESULT</b>										
Segment result	201,958,181	132,974,391	9,964,166	13,958,702	-	-	-	-	211,922,347	146,933,093
Unallocated corporate expenses	-	-	-	-	-	-	44,609,025	35,680,786	44,609,025	35,680,786
Operating profit	-	-	-	-	-	-	-	-	167,313,322	111,252,307
Interest expenses	-	-	-	-	-	-	(3,440,690)	(3,853,002)	(3,440,690)	(3,853,002)
Interest income	-	-	-	-	-	-	37,201,198	23,544,219	37,201,198	23,544,219
Other income	-	-	-	-	-	-	29,941,189	8,139,119	29,941,189	8,139,119
Income taxes	-	-	-	-	-	-	(41,300,952)	(60,839,659)	(41,300,952)	(60,839,659)
Net profit	-	-	-	-	-	-	-	-	189,714,067	78,242,984
<b>OTHER INFORMATION</b>										
Segment assets	1,289,022,728	1,212,168,807	135,193,458	121,805,488	21,199,823	60,510,638	-	-	1,403,016,363	1,273,463,657
Unallocated corporate assets	-	-	-	-	-	-	502,578,736	526,880,275	502,578,736	526,880,275
Total assets	1,289,022,728	1,212,168,807	135,193,458	121,805,488	21,199,823	60,510,638	502,578,736	526,880,275	1,905,595,099	1,800,343,932
Segment liabilities	292,957,632	288,369,847	84,963,603	117,289,599	21,199,823	60,510,637	-	-	356,721,412	345,148,809
Unallocated corporate liabilities	-	-	-	-	-	-	83,059,200	143,714,798	83,059,200	143,714,798
Income tax liabilities	-	-	-	-	-	-	40,143,593	29,137,591	40,143,593	29,137,591
Total liabilities	292,957,632	288,369,847	84,963,603	117,289,599	21,199,823	60,510,637	123,202,793	172,852,389	479,924,205	518,001,198
Capital expenditures	99,379,640	172,834,209	35,367,821	13,249,208	-	-	-	-	134,747,461	186,083,417
Depreciation and amortization	57,657,936	51,048,034	12,753,041	8,075,907	-	-	-	-	70,410,977	59,123,941
Other non-cash expenses	25,037,733	42,832,415	7,194,109	1,922,435	-	-	-	-	32,231,842	44,754,850



## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

### Geographical segments:

The Company reports secondary segmentation information on the basis of the geographical location of the customer. 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

	For the year ended December 31, 2007	For the year ended December 31, 2006
India	127,700,176	90,148,206
USA	1,742,517,290	1,493,240,024
South East Asia	191,849,599	185,183,830
Others	408,507,942	270,886,283
<b>Total</b>	<b>2,470,575,007</b>	<b>2,039,458,343</b>

The Company has common assets for its operations. Management believes that it is currently not practical to provide segment disclosures relating to the carrying amount and addition of fixed assets.

### 4. Related party disclosure

(i) Names of related parties

*Key management personnel*

Sl. No.	Name of Person	Designation	Company
1.	Satinder Singh Rekhi	Chairman and Managing Director	R Systems International Limited
		Director	R Systems, Inc.
		Director	R Systems (Singapore) Pte Ltd.
		Director	Indus Software, Inc.
		Director	R Systems Solution, Inc. (formerly known as Web Converse, Inc.)
2.	O'Neil Nalavadi	Director Finance & CFO	R Systems International Limited
		Director	R Systems, NV
3.	Lt. Gen. Baldev Singh (Retd)	President and Senior Executive Director	R Systems International Limited
4.	Raj Swaminathan	Director and Chief Operating Officer	R Systems International Limited
5.	Avirag Jain	Executive Vice President and Chief Technology Officer	R Systems International Limited
6.	Mrs. Harpreet Rekhi	Director	R Systems (Singapore) Pte Ltd.
		Director	Indus Software, Inc.
		Director	R Systems, Inc
7.	Lu Kok Wah	Director	ECnet Ltd
8.	Tan Cant Wee	Director	ECnet Ltd
		Director	R Systems (Singapore) Pte Ltd
9.	Tarun Shankar Mathur	Director	ECnet Ltd
		Director	R Systems (Singapore) Pte Ltd
10.	Peter Newel	Director	R Systems Solution, Inc (formerly known as Web Converse, Inc.)
11.	Nikhil Khosla	Director	R Systems Solution, Inc (formerly known as Web Converse, Inc.)
12.	Sartaj Singh Rekhi	Director	R Systems Solution, Inc (formerly known as Web Converse, Inc.)
13.	Mandeep Sodhi	Vice President Sales	R Systems, Inc
14.	Thiru Dorai	VP Strategic Solutions	R Systems International Limited



## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

Key Managerial personnel	For the year ended December 31, 2007	For the year ended December 31, 2006
<b>Remuneration</b>		
Satinder Singh Rekhi	12,093,063	13,005,452
O'Neil Nalavadi	8,776,462	8,415,060
Lt. Gen. Baldev Singh (Retd)	6,183,333	5,438,893
Raj Swaminathan	5,434,548	3,357,665
Tarun Shankar Mathur	7,691,710	6,734,657
Avirag Jain	3,352,154	2,465,337
Lu Kok Wah	2,153,936	3,473,289
Tan Cant Wee	2,225,756	2,404,888
Peter Newel	2,467,938	2,476,446
Nikhil Khosla	3,493,069	2,174,441
Sartaj Singh Rekhi	1,654,274	604,248
Thiru Dorai	4,444,551	3,399,064
Mandeep Sodhi	8,953,807	10,187,143
<b>Rent</b>		
Satinder Singh Rekhi	4,714,697	4,894,430
<b>Total</b>	<b>73,639,297</b>	<b>66,766,791</b>

### 5. Leases - In case of assets taken on lease

The Group has operating leases for office premises, etc. The future minimum payments required under non-cancelable operating leases at year -end are as follows

	Year ended December 31, 2007	Year ended December 31, 2006
Minimum Lease Payments:		
Not later than one year	24,993,987	37,525,331
Later than one year but not later than five years	45,504,077	14,812,648
Later than five years	459,102	Nil
The Company has finance leases for office and electrical equipment		
	Year ended December 31, 2007	Year ended December 31, 2006
Minimum Lease Payments:		
Not later than one year	194,533	701,508
Later than one year but not later than five years	Nil	267,985
Later than five years	Nil	Nil
<b>6. Capital Commitments</b>		
	Year ended December 31, 2007	Year ended December 31, 2006
Estimated amount of contracts remaining to be executed on capital account and not provided for.	.	.
Commitments for acquisition of fixed assets	18,318,527	8,842,917
	<b>18,318,527</b>	<b>8,842,917</b>

## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

### 7. Contingent liabilities not provided for:

	Year ended December 31, 2007	Year ended December 31, 2006
Performance guarantees given to DOT for Domestic & International OSP	51,000,000	-
Guarantee given on behalf of wholly owned subsidiary	86,757,000	-
<b>TOTAL</b>	<b>137,757,000</b>	

Refer note 10 (a) & (c) below.

8. During the year ended December 31, 2006, Government of India has promulgated an Act namely The Micro, Small and Medium Enterprises Development Act, 2006 which comes into force with effect from October 2, 2006. As per the Act, the Company is required to identify the Micro, Small and Medium suppliers and pay interest on overdue amount to the Micro and Small enterprises beyond the specified period irrespective of the terms agreed with the suppliers. For the purpose of identification of such suppliers, the company has sent confirmations to all its suppliers. Based upon the confirmations received so far and the supplier profile available with the Company, there are no dues to such suppliers.

9. The Issued, subscribed and paid up capital of the Company as on December 31, 2005, included the following:

- 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 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 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 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.

During the year ended December 31, 2006,

- The Company had consolidated each of its five equity shares of Rs.2 each to one equity share of Rs.10 each and accordingly the above shares had been consolidated.
- 53,55,255 equity shares of Rs.10 each had been allotted as fully paid up bonus shares by utilization of Securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956.

10. (a) During earlier years, the Company had acquired 98.59% shares in ECnet Limited, a Company incorporated in Singapore at total consideration of Rs. 34,938,958, out of which Rs. 27,953,223 is lying payable to the erstwhile shareholders of ECnet Limited since January 8, 2006. The cash flows from the investment have been negative and the Company has not paid the erstwhile shareholders of ECnet Limited. During the year ended December 31, 2006, certain erstwhile shareholders had filed a case against the Company to recover its dues of Singapore Dollars (SGD) 414,096, aggregating Rs. 11,913,111. The management had filed its submission, contending that the erstwhile shareholders have no legal recourse to recover this amount other than instructing the Company to dispose off such number of shares in the subsidiary which shall permit Company to pay these liabilities, net of expenses incurred on such disposal.

During the year, the Company has settled the deferred payment compensation towards certain erstwhile shareholders. As a result thereof, the deferred payment compensation of Rs. 14,452,222 has been released, as considered appropriate by the management.

(b) As referred in note 10(a) above, the Company had invested Rs. 34,938,958 towards acquisition of 98.59% shareholding in ECnet Limited, Singapore. During the earlier years, the Company had based upon an order of High Court of Delhi written down the goodwill value to Rs. Nil and adjusted the write off of Rs. 24,495,721 against the Securities Premium Account as this had not been represented by available assets.

(c) During the year ended December 31, 2006 the Company had completed the acquisition and integration of R Systems Solutions, Inc. (formerly known as WebConverse Inc), a technical support company based in the USA. The company has acquired 8,666,884 Series A convertible preferred stock of "no par" value and 10,335,833 common stock of no par value from the erstwhile shareholders of R Systems Solutions, Inc. (formerly known as WebConverse, Inc). The maximum purchase consideration for the above acquisition is US\$ 10.34 million i.e. Rs. 428,312,517 (Previous year Rs. 463,420,783), including consideration determined as contingent of future earn-outs and offshore activities amounting to US\$7.49 million i.e. Rs. 295,516,429 (Previous year Rs. 330,624,695). Out of such payables, Rs. 54,803,268 had been paid at time of acquisition and further Rs. 38,698,900 has been paid during the Year ended December 31, 2007. The remaining payable within one year Rs. 20,922,415 (Previous year Rs. 51,664,498) from the year-end is shown under 'current liabilities' and balance amount payable after one year Rs. 10,630,002 (Previous year Rs. 22,335,309) has been disclosed separately as 'deferred payment liabilities'. The goodwill arising on acquisition of Rs.135,983,568 has been recorded in the books and shall be tested for impairment.



## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

- (d) The details of assets acquired on acquisition of R Systems Solutions, Inc. (formerly known as Web Converse, Inc.) are as under:

Asset	Gross block	Accumulated depreciation
Computers	14,145,728	8,355,006
Software	1,166,146	646,851
Furniture and fittings	876,610	605,728
Office and electrical equipment	2,505,948	1,597,798
<b>Total</b>	<b>18,694,432</b>	<b>11,205,383</b>

- (e) Breakup of assets and liabilities acquired on acquisition of the R Systems Solutions, Inc. (formerly known as Web Converse, Inc.) as noted in 10 (c) above:

<b>Assets</b>	
Cash and bank balances	1,272,396
Sundry Debtors	34,168,658
Loans and advances	1,799,878
<b>Fixed assets</b>	
Gross block	<b>18,694,432</b>
Less : Accumulated depreciation / amortisation	11,205,383
Net block	7,489,049
<b>Total assets</b>	<b>44,729,981</b>
<b>Liabilities</b>	
Current liability and provisions	30,891,396
Secured loan	13,071,923
Unsecured loan	3,954,141
<b>Total liability</b>	<b>47,917,460</b>
<b>Net assets (A)</b>	(3,187,479)
<b>To be discharged by:</b>	
Cash already paid	54,803,268
Future amount assessed as probable to be paid	77,992,821
<b>Total Consideration (B)</b>	<b>132,796,089</b>
<b>Goodwill arising on acquisition (B-A)</b>	<b>135,983,568</b>

- (f) All profits / losses relating to the Company's subsidiary subsequent to the date of acquisition are included in these consolidated financial statements. Accordingly, loss for the period from September 1, 2006 to December 31, 2006 is incorporated into the profit and loss account. Further, goodwill, as mentioned above, has been computed on the basis of accounts of the subsidiary as on the August 31, 2006. For the purpose of above computation, the amounts in foreign currencies have been translated at the applicable rates on the acquisition date, i.e., US\$ 1 = Rs. 46.52.
- (g) During the year ended 31 December, 2007 the company has invested Euro 62,000 i.e. Rs. 3,471,640 for acquisition of 100% share capital of the newly incorporated subsidiary company viz. R Systems NV, Belgium.
- (h) During the year ended December 31, 2007, the Company has signed an "Assets Purchase Agreement" with XtraSource Acquisition, Inc., USA and Sento Corporation, USA (the holding company of XtraSource Acquisition, Inc., USA) to acquire 100% shares of two wholly owned subsidiaries (Sento B.V., Netherlands and Sento S.A.S, France) of XtraSource Acquisition, Inc. The above transaction was completed on January 23, 2008

**11 (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.

## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

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".

During the year ended December 31, 2006, the Company had consolidated each of its five equity shares of Rs. 2 each into one equity share of Rs.10 each and then issued 1:1 bonus share to each of the then existing shareholder (excluding the option holders) by utilization of Securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956. Considering these changes in the capital structure, the management had adjusted the number of options vesting to its employees and exercise price to preserve the benefits intended to be made available under the plan i.e. instead of five options of Rs. 2 per share, the employees' entitlement had been adjusted to one option of Rs. 10 per share and instead of earlier exercise price of Rs. 42 per share for each Rs. 2 share, the exercise price had been accordingly adjusted to Rs. 105 per equity share. The management believes that by these adjustments the Company is being fair to the employees and does not result in any additional benefit being offered to the employees.

The vesting period is 4 years (25% in each year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the period ended December 31, 2007 and year ended December 31, 2006 is set out below:

Particulars	Year ended December 31, 2007 (Nos.)	Year ended December 31, 2006 (Nos.)
<u>At the beginning of the years</u>		
- Grants outstanding under the plan (Rs. 2 per share)	-	863,075
- Grants outstanding under the plan (Rs. 10 per share)	<b>106,960</b>	-
- Grants pending determination by the compensation committee (Rs. 2 per share)	-	96,375
- Grants pending determination by the compensation committee (Rs. 10 per share)	<b>37,705</b>	-
Option issued to the employees during the year (Rs. 2 per share)	-	-
Option issued to the employees during the year (Rs. 10 per share)	-	-
Option exercised ( Rs. 2 per share)	-	114,174
Option exercised ( Rs. 10 per share)	-	-
<u>Before reverse share split (consolidation of shares from Rs. 2 to Rs. 10)</u>		
- Grants outstanding under the plan (Rs. 2 per share)	-	748,901
- Grants pending determination by the compensation committee (Rs. 2 per share)	-	96,375
<u>After reverse share split(consolidation of shares from Rs. 2 to Rs. 10)</u>		
- Grants outstanding under the plan (Rs. 10 per share)	-	149,780
<u>Grants pending determination by the compensation committee (Rs. 10 per share)</u>	-	19,275
Option exercised ( Rs. 10 per share)	-	24,390
Option lapsed or surrendered during the year ( Rs. 10 per share)	<b>12,480</b>	18,430
<u>At the end of the years</u>		
- Grants outstanding under the plan ( Rs. 10 per share)	<b>94,480</b>	106,960
- Grants pending determination by the compensation committee ( Rs. 10 per share)	<b>50,185</b>	37,705



## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

(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 company had consolidated each of its five equity shares of Rs. 2 each into one equity share of Rs. 10 each on January 30, 2006 and then issued 1:1 bonus share to each of the then existing shareholder by utilization of Securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956, consequently total number of shares issued are now 73,898 equity shares of Rs. 10 each.

The movement in the options (in equivalent number of shares of the Company) held by the Trust over the years ended December 31, 2007 and the year ended December 31, 2006 is set out below:

Particulars	Year ended December 31, 2007 (Nos.)	Year ended December 31, 2006 (Nos.)
<u>At the beginning of the years</u>		
- Grants outstanding under the plan (Rs. 2 per share)	-	11,901
- Grants outstanding under the plan (Rs. 10 per share)	-	-
- Grants pending determination by the compensation committee (Rs. 2 per share)	-	184,743
- Grants pending determination by the compensation committee (Rs. 10 per share)	<b>73,898</b>	-
- Allotment of Bonus Shares in the ratio of 1:1 (Rs 10 per share)	-	36,949
Option issued to the employees (Rs 2 per share)	-	-
Option issued to the employees (Rs 10 per share)	-	-
Option exercised ( Rs. 2 per share)	-	11,901
Option exercised ( Rs. 10 per share)	-	-
<u>Before reverse share split ( consolidation of shares from Rs. 2 to Rs. 10)</u>		
- Grants outstanding under the plan	-	-
- Grants pending determination by the compensation committee (Rs. 2 per share)	-	184,743
<u>After reverse share split ( consolidation of shares from Rs. 2 to Rs. 10)</u>		
- Grants outstanding under the plan (Rs 10 per share)	-	-
- Grants pending determination by the compensation committee (Rs. 10 per share)	-	73,898
Option exercised ( Rs. 10 per share)	-	-
Option lapsed or surrendered during the year (Rs.10 per share)	-	-
<u>At the end of the years</u>		
- Grants outstanding under the plan (Rs. 10 per share)	-	-
- Grants pending determination by the compensation Committee (Rs. 10 per share)	<b>73,898</b>	73,898

## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

(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".

During the year ended December 31, 2006, the Company had consolidated each of its five equity shares of Rs.2 each into one equity share of Rs.10 each and then issued 1:1 bonus share to each of the then existing shareholder (excluding the option holders) by utilization of Securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956. Considering these changes in the capital structure, the management had adjusted the number of options vesting to its employees and exercise price to preserve the benefits intended to be made available under the plan i.e. instead of five options of Rs. 2 per share, the employees' entitlement had been adjusted to one option of Rs. 10 per share and instead of earlier exercise price of Rs. 26 per share for each Rs.2 share, the exercise price had been accordingly adjusted to Rs. 65 per equity share. The management believes that by these adjustments the Company is being fair to the employees and does not result in any additional benefit being offered to the employees.

The vesting period is 4 years (40% in 1st year & 20% in 2nd, 3rd & 4th year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2006 and year ended December 31, 2007 is set out below.

Particulars	Year ended December 31, 2007 (Nos.)	Year ended December 31, 2006 (Nos.)
<u>At the beginning of the years</u>		
- Grants outstanding under the plan (Rs. 2 per share)	-	584,800
- Grants outstanding under the plan (Rs. 10 per share)	<b>46,801</b>	-
- Grants pending determination by the compensation committee (Rs. 2 per share)	-	415,200
- Grants pending determination by the compensation committee (Rs. 10 per share)	<b>83,240</b>	-
Option issued to the employees ( Rs. 2 per share)	-	-
Option issued to the employees ( Rs. 10 per share)	-	-
Option exercised ( Rs. 2 per share)	-	235,797
Option exercised ( Rs. 10 per share)	-	-
<u>Before reverse share split (consolidation of shares from Rs. 2 to Rs. 10)</u>		
- Grants outstanding under the plan (Rs. 2 per share)	-	349,003
- Grants pending determination by the compensation committee (Rs. 2 per share)	-	415,200
<u>After reverse share split( consolidation of shares from Rs. 2 to Rs. 10)</u>		
- Grants outstanding under the plan (Rs. 10 per share)	-	69,801
- Grants pending determination by the compensation committee (Rs. 10 per share)	-	83,040
Option exercised ( Rs. 10 per share)	-	22,800
Option lapsed or surrendered during the year (Rs. 10 per share)	<b>29,000</b>	200
<u>At the end of the years</u>		
- Grants outstanding under the plan (Rs. 10 per share)	<b>17,801</b>	46,801
- Grants pending determination by the compensation committee (Rs. 10 per share)	<b>112,240</b>	83,240



## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

(d) R Systems International Limited Employee Stock Option Scheme 2007 ('the plan')

During the year 2007, 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 650,000 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 Rs. 120.70 being the latest available closing price, prior to the date of the meeting of the Board of Directors/ Compensation Committee held on July 11, 2007 in which options are granted, on the stock exchange on which the shares of the Company are listed. Accordingly, the intrinsic value of Employee Stock Option is taken as Rs. Nil.

The vesting period is 4 years (25% in each year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options

Particulars	Year ended December 31, 2007 (Nos.)	Year ended December 31, 2006 (Nos.)
Option issued to the employee (Rs. 10 per share)	632,500	NA
Option exercised ( Rs. 10 per share)	-	-
Option lapsed or surrendered (Rs. 10 per share)	22,000	NA
At the end		
Grants outstanding under the plan (Rs. 10 per share)	610,500	NA
Grants pending determination by the compensation committee (Rs. 10 per share)	39,500	NA

- (e) 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)



## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

Further, for the purpose of valuation of the options granted during the year 2005 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) For the purpose of valuation of the options granted during the year ended December 31, 2007 under R Systems International Limited Employee Stock Option Scheme- 2007, the compensation cost relating to Employee Stock Options, calculated as per the intrinsic value method is Nil.

The management obtained fair value of the options at the date of grant from a firm of Chartered Accountants (N Maini & Co.). In the considered opinion of the valuer (mentioned above), the fair value of these options determined using 'Black Scholes Valuation Model' is "Rs. 50.73" per option.

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

Assumptions	Unit	Scheme	Comments by the valuer
Strike price	Rs.	120.70	
Current share price	Rs.	118.50	Price on the date of grant by Board of Directors i.e. Closing price on July 11, 2007
Expected option life	No of Years	4	Being the vesting period.
Volatility	%	44	On the basis of industry average.
Risk free return	%	7	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	%	0.86	Company has declared Dividends of 12% in the past. Assuming that it will continue declaring similar dividends in future.



## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

In March 2005 the ICAI has issued a guidance note on "Accounting for Employees Share Based Payments" applicable to 'employee share based plan' the grant date in respect of which falls on or after April 1, 2005. The said guidance note requires the Proforma disclosures of the impact of the fair value method of accounting of employee stock compensation in the financial statements. Since the enterprise used the intrinsic value method the impact on the reported net profit and earnings per share by applying the fair value based method is as follows:

Particulars	Year ended December 31, 2007	Year ended December 31, 2006
Net Income as reported	<b>189,714,067</b>	NA
Less:- Fair Value Compensation Cost	<b>7,689,451</b>	NA
Adjusted Pro-forma Net Income	<b>182,024,616</b>	NA
Earning Per Share		
Basic		
- As reported	<b>13.97</b>	NA
- Proforma	<b>13.40</b>	NA
Diluted		
- As reported	<b>13.78</b>	NA
- Proforma	<b>13.23</b>	NA

- (g) Finance Act 2007 requires payment of Fringe Benefit Tax (FBT) on ESOP benefit provided to employees. FBT is payable on the date when ESOP is exercised by employees based on fair market value on the date of vesting. The managements view is that the obligating event occurs at the date of exercise and hence FBT on ESOPs will be provided for at the date of exercise when the liability arises.

### 12. Earning per share\*

During the year ended December 31, 2006, the Company has consolidated each of its five equity shares of Rs. 2 each to one equity share of Rs.10 each and then issued 1:1 bonus share to each existing shareholder by utilization of Securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956. For the purpose of computation of earnings per share for the year ended December 31, 2006, the number of shares has been accordingly adjusted.

Earnings per share	Year ended December 31, 2007	Year ended December 31, 2006
Basic [nominal value of share Rs.10 (previous year Rs10)]	<b>13.97</b>	6.17
Diluted [nominal value of share Rs.10 (previous year Rs10)]	<b>13.78</b>	6.17
Net profit after tax	<b>189,714,067</b>	78,242,984
Weighted average number of equity shares for calculating Basic EPS.	<b>13,582,706</b>	12,687,426
Add : Equity shares for no consideration arising on grant of stock options under ESOP.	<b>180,658</b>	-
Weighted average number of equity shares for calculating Diluted EPS	<b>13,763,364</b>	12,687,426

\*Also refer note no. 11 (f) above

## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

### 13. Post employment benefits

The Company has an unfunded defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on separation equal to 15 days salary (last drawn salary) for each completed year of continuous service or part thereof in excess of six months subject to a maximum of Rs. 350,000.

The following tables summaries the components of net benefit expense recognized in the Profit and Loss Account.

Net employee benefit expense recognized under Salary, wages and bonus

Particulars	For year ended December 31, 2007	For year ended December 31, 2006
Current service cost	7,055,846	5,099,206
Interest cost on benefit obligation	1,263,865	916,465
Expected return on plan assets	-	-
Net actuarial( gain) / loss recognised in the year	(87,429)	(1,187,307)
Past service cost	-	-
Net benefit expense	8,232,282	4,828,364

Details of defined benefit gratuity plan

Particulars	As at December 31, 2007	As at December 31, 2006
Defined benefit obligation	-	-
Fair value of plan asset	-	-
Present value of unfunded obligations	23,306,788	16,885,862
Less: Unrecognised past service cost	-	-
Plan asset / (liability)	23,306,788	16,885,862

Changes in the present value of the defined benefit gratuity plan are as follows:

Particulars	For year ended December 31, 2007	For year ended December 31, 2006
Opening defined benefit obligation	16,885,862	13,230,425
Interest cost	1,263,865	916,465
Current service cost	7,055,846	5,099,206
Benefits paid	(1,811,356)	(1,172,927)
Actuarial (gains) / losses on obligation	(87,429)	(1,187,307)
Closing defined benefit obligation	23,306,788	16,885,862



## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

The principal assumptions used in determining defined benefit gratuity plan obligations is shown below:

Particulars	Year ended December 31, 2007	Year ended December 31, 2006
Discount rate	7.85% p.a.	7.80% p.a.
Expected rate of return on plan assets	Not applicable	Not applicable
Salary Escalation Rate	10.0% p.a. for first 3 years and 7% p.a. thereafter	10.0% p.a. for first 4 years and 7% p.a. thereafter
Attrition rate:	As per table below	As per table below

Attrition rate used for the year ended December 31, 2007 and year ended December 31, 2006 are as per the table below:

Age (Years)	Rates
21 - 30	15%
31 - 34	10%
35 - 44	5%
45 - 50	3%
51 - 54	2%
55 - 59	1%

The estimates of future salary increases takes into account the inflation, seniority, promotion and other relevant factors.

Amounts for the current and previous four periods are as follows:

### Gratuity

	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003
Defined benefit obligation	23,306,788	16,885,862	13,230,425	-	-
Plan assets	-	-	-	-	-
Surplus / (deficit)	(23,306,788)	(16,885,862)	(13,230,425)	-	-
Experience adjustments on plan liabilities	461,423	231,590	-	-	-
Experience adjustments on plan assets	-	-	-	-	-

During the year ended December 31, 2006, the Company had gone for early adoption of Accounting Standard 15 (Revised 2005), which had otherwise become mandatory for accounting periods commencing from December 7, 2006. In accordance with the transitional provision, Rs.9,560,042 had been adjusted to the Reserve and Surplus.

During the year, the Council of Institute of Chartered Accountants of India has provided a one time option to the enterprises (including enterprises, which have followed the earlier treatment) to expense of the additional liability arising upon first application of the Accounting Standard 15 (Revised 2005) over a period upto five years with a disclosure of unrecognized amount. The Company has decided not to exercise this option and continued with accounting undertaken during year ended December 31, 2006.

## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

### 14. Derivative instruments and un hedged foreign currency exposure

Particulars of derivatives	Purpose
Forward contract outstanding as at Balance Sheet date	
Sell US \$9,900,000 (Previous year US \$ 5,200,000)	Hedge of debtors

Particulars of un hedged foreign currency exposure as at December 31, 2007 and at December 31, 2006

	Currency	Foreign Currency Amount		Closing foreign exchange rate		Amount (Rs.)	
		December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
<b>Liabilities</b>							
Deferred Compensation							
	SGD	<b>269,285</b>	971,634	<b>27.28</b>	28.77	<b>7,345,396</b>	27,953,223
	USD	<b>800,112</b>	1,677,240	<b>39.44</b>	44.12	<b>31,552,417</b>	73,999,807
Foreign Currency creditors							
	SGD	<b>30,626</b>	13,470	<b>27.28</b>	28.77	<b>835,399</b>	387,524
	USD	<b>490,408</b>	123,665	<b>39.44</b>	44.12	<b>19,339,224</b>	5,456,110
Advances From Customers							
	USD	<b>17,656</b>	12,775	<b>39.44</b>	44.12	<b>696,264</b>	563,636
	GBP	-	680	-	86.44	-	58,777
<b>Assets</b>							
Debtors							
	USD	<b>1,350,671</b>	7,188,251	<b>39.44</b>	44.12	<b>53,263,730</b>	317,507,438
	SGD	-	48,134	-	28.77	-	1,384,781
	CAD	-	93	-	37.86	-	3,511
	GBP	<b>774</b>	20,679	<b>78.76</b>	86.44	<b>60,924</b>	1,787,383
	AUD	<b>13,972</b>	36,000	<b>34.57</b>	34.83	<b>483,065</b>	1,253,707
	EURO	<b>203,507</b>	53,864	<b>58.08</b>	58.25	<b>11,820,025</b>	3,137,585
Loans and advances							
	SGD	<b>6,855</b>	23,192	<b>27.28</b>	28.77	<b>187,000</b>	667,213
	USD	<b>2,100,407</b>	241,465	<b>39.44</b>	44.12	<b>82,829,556</b>	10,653,418
Unbilled Revenue							
	USD	<b>452,368</b>	1,704,061	<b>39.44</b>	44.12	<b>17,839,115</b>	75,183,159
	SGD	-	14,490	-	28.77	-	416,867



## CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

### 15 During the previous year:

- The Company had made Initial Public Offering (IPO) of 4,408,361 equity shares of Rs. 10 each for cash at premium of Rs. 240 per share comprising of fresh issue of 2,825,006 equity shares by the Company and 1,583,355 equity shares offered for sale by the selling shareholders.
- Expenses of Rs. 101,895,339 net of recovery from certain selling shareholders Rs. 2,795,944 incurred in connection with the public issue of the Company had been adjusted against Securities Premium Account in terms of Section 78 of the Companies Act, 1956.
- Pursuant to initial public offer the Company gathered Rs. 706,250,060 (net of selling shareholders' proceeds), details of utilisation of IPO proceeds are as follows:

Object	Total Estimated Project Cost*	Amount incurred till December 31, 2007	Amount incurred till December 31, 2006
Up gradation and expansion of existing infrastructure	315,000,000	214,311,302	174,879,074
Repayment of outstanding	36,550,000	36,550,000	36,550,000
Financing working capital	179,510,000	86,324,290	86,324,290
General corporate purpose	62,190,000	58,619,823	57,086,651
Issue expenses	113,000,000	101,137,175	98,562,497
<b>Total</b>	<b>706,250,000</b>	<b>496,942,590</b>	<b>453,402,512</b>

\* Downward revision in issue expenses of Rs. 11,104,661 and saving in General Corporate Expenses of Rs. 438,689 aggregating to Rs. 11,543,350 is proposed to be utilized for Upgrading & Expansion of existing infrastructure as approved by shareholders in the Annual General Meeting held on May 1, 2007.

Unspent amount of Rs. 209,307,410 (Previous year Rs. 252,847,488) is lying in the fixed deposits and is shown under Cash and bank balance.

- Previous year's figures have been regrouped where necessary to conform to this year's classification.
- Figures pertaining to Subsidiaries companies have been reclassified wherever considered necessary to bring them in line with the holding company's financial statements. Further, as indicated Note 2 above, certain changes had taken place in the group structure. Accordingly, the current year figures are not strictly comparable with previous year figures.

As per our report of even date.

**For S.R. BATLIBOI & ASSOCIATES** For and on behalf of the Board of Directors of R Systems International Limited  
**Chartered Accountants**

**per Pankaj Chadha**  
**Partner**  
Membership No. 91813

Satinder Singh Rekhi  
[Managing Director]

O'Neil Nalavadi  
[Director Finance & CFO]

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

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

Place : Gurgaon  
Date : February 24, 2008

Place: EDH, CA, USA  
Date : February 24, 2008

Place: EDH, CA, USA  
Date : February 24, 2008

Place: NOIDA  
Date : February 24, 2008

Place: NOIDA  
Date : February 24, 2008

## NOTICE

### R SYSTEMS INTERNATIONAL LIMITED

#### NOTICE OF FOURTEENTH ANNUAL GENERAL MEETING

(Regd. Office: B -104A, Greater Kailash - I, New Delhi -110 048)

Website: www.rsystems.com; Email: investors@india.rsystems.com

Notice is hereby given that the Fourteenth Annual General Meeting of the shareholders of **R SYSTEMS INTERNATIONAL LIMITED** (the "Company" or "R Systems") will be held on Friday, May 02, 2008 at 10.00 A.M. at **FICCI Auditorium**, Tansen Marg, New Delhi - 110 001 for transacting the following business :

#### AS ORDINARY BUSINESS

1. To receive, consider and adopt the audited balance sheet as at December 31, 2007 and the profit and loss account for the year ended on that date together with the reports of auditors and directors thereon.
2. To declare a dividend of Rs. 1.80 per equity share on 13,582,706 equity shares of Rs. 10 each for the year ended December 31, 2007.
3. To appoint a director in place of Mr. David Richard Sanchez, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a director in place of Mr. Gurbax Singh Bhasin, who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint M/s. S. R. Batliboi & Associates, Chartered Accountants, as auditors of the Company to hold office from the conclusion of this Annual General Meeting till the conclusion of the next annual general meeting and to fix their remuneration.

#### AS SPECIAL BUSINESS

6. To consider and if thought fit to pass with or without modification(s), the following resolution as a **Special Resolution**

**"RESOLVED THAT** pursuant to the provisions of Section 198, 269 read with Schedule XIII, 309 and 311 of the Companies Act, 1956 read with Article 165 of the Articles of Association of the Company and other applicable provisions, if any and subject to the approval of Central Government, if required, consent of the members of the Company be and is hereby accorded for the reappointment and payment of remuneration to Lt. Gen. Baldev Singh (Retd.) as President and Senior Executive Director of the Company, for a period of one year and three months i.e. w.e.f. January 01, 2008 to April 01, 2009 on the following terms and conditions:

1. Consolidated annual salary of Rs. 28.50 lakhs (Rupees twenty eight lakhs fifty thousand only);
2. Periodic bonus as per the incentive scheme of the Company subject to a maximum of Rs. 15 lakhs per annum (Rupees fifteen lakhs only);
3. One chauffeur driven car for official purpose only and reimbursement of fuel and maintenance expenses subject to a maximum of Rs. 150,000 per annum (Rupees one lakh fifty thousand only);
4. Reimbursement of telephone bills and internet bills for his residence subject to a maximum of Rs. 50,000 per annum (Rupees fifty thousand only);
5. He will also be eligible for the reimbursement of Medical Expenses incurred, for himself and his family only on actual incurred basis;
6. Leave travel assistance amounting to one economy ticket to USA once in two years. This may be in the form of one US ticket for any person to either accompany him on a business trip or just independent of his business trip;
7. He will be entitled to participate in Company's stock options plan approved by the board from time to time;
8. He will be entitled for payment of gratuity as per the policy of the Company;
9. As long as he functions as Whole Time Director, he is not entitled for any sitting fee to attend the meeting of the Board and/or Committee thereof;
10. The revised compensation plan replaces all existing compensation plans, benefits and perquisites;
11. Both parties can terminate this employment by giving three months notice in writing or in the case of the Company by giving three months compensation in lieu of notice.

**"RESOLVED FURTHER THAT** in the event of absence or inadequacy of profits in any financial year during the tenure of Lt. Gen. Baldev Singh (Retd.) as President and Senior Executive Director of the Company, the Company shall pay him the aforesaid remuneration as recommended and approved by the remuneration committee and the Board.

**"RESOLVED FURTHER THAT** Lt. Gen. Baldev Singh (Retd.) shall work under the superintendence and control of the board of directors (the "Board") and shall be responsible for the management of all Noida operations and is also empowered to do all such acts, deeds, matters and things as deemed necessary or expedient for carrying on the business of the Company, including power to appoint, suspend and dismiss any officer, staff and workman of the Company, to incur capital or revenue expenditure on behalf of the Company, to sell any old or used assets of the Company in compliance with the applicable internal checks and control systems, entering into contracts, taking suitable legal actions, operating of bank accounts, making investment and such other subjects as may be assigned to him by the Board.



## NOTICE

“**RESOLVED FURTHER THAT** the board of directors be and is hereby authorised to do all such acts, deeds, matters and things as may be necessary, proper or expedient, to give effect to this resolution and the Board may, by a resolution delegate the aforementioned power to any committee of directors, the managing director, director or any other principal officer of the Company on such conditions as the Board may prescribe.”

7. To consider and if thought fit to pass with or without modification(s), the following resolution as a **Special Resolution**

“**RESOLVED THAT** pursuant to the provisions of Section 198, 269 read with Schedule XIII, 309 and other applicable provisions, if any, of the Companies Act, 1956 and subject to the approval of the Central Government and pursuant to any other laws prevailing for the time being in force, consent of the members of the Company be and is hereby accorded for payment of remuneration to Mr. Raj Swaminathan as Director and Chief Operating Officer of the Company on the existing terms and conditions of his appointment as approved at the time of his appointment on September 29, 2006 and confirmed by the shareholders at the annual general meeting of the Company held on May 01, 2007 and reproduced below for the remaining term of his present appointment i.e. w.e.f. January 01, 2008 to September 29, 2009.

Monthly Salary Particulars	
	<b>INR</b>
Basic	140,000
HRA	70,000
Conveyance Allowance	800
Executive Allowance	117,503
<b>Gross Per Month</b>	<b>328,303</b>
Annual Allowances	
Leave Travel Assistance	120,000
Food Coupon	12,000
Company's Contribution to Provident Fund	9,360
<b>Gross Annual Allowances</b>	<b>141,360</b>
Annual Reimbursements	
Medical Reimbursement	15,000
Petrol Reimbursement	144,000
<b>Gross Annual Reimbursements</b>	<b>159,000</b>
<b>Gross Per Annum</b>	<b>4,240,000</b>
In addition to the above, he will be eligible for the Group Medclaim and Personal Accident Insurance as per Company policy.	
He may also be eligible for a performance incentive consisting of a fixed bonus of Rs. 1,100,000 paid pro rata for period of service in the year, at the end of each year and a variable bonus subject to a maximum of Rs. 1,000,000 per annum & subject to his being on the rolls of the Company at the time the same is declared. This incentive is discretionary and is based on the Company's performance in that financial year and also his own annual performance.	
In addition as per the usual terms and conditions of his employment, he will be entitled for a maximum annual increment of 15% per annum on his total cost to the Company effective on January 01, 2007, January 01, 2008 & January 01, 2009 and he is entitled to the aforementioned minimum remuneration & annual increment as approved by the Remuneration Committee even in the case of absence or inadequacy of profits in any financial year during his tenure.	

“**RESOLVED FURTHER THAT** in the event of absence or inadequacy of profits in any financial year during the tenure of Mr. Raj Swaminathan as the Director and Chief Operating Officer of the Company, the Company shall pay him the aforesaid remuneration as approved by the remuneration committee and the Board.

“**RESOLVED FURTHER THAT** the continuation of the payment of remuneration to Mr. Raj Swaminathan as Director and Chief Operating Officer of the Company will be on his existing terms and conditions of the present employment and he will not be entitled to any other additional benefit which would amount to modification / alteration in the terms of his present appointment.



## NOTICE

**“RESOLVED FURTHER THAT** the board of directors be and is hereby authorised to do all such acts, deeds, matters and things as may be necessary, proper or expedient, to give effect to this resolution and the Board may, by a resolution delegate the aforementioned power to any committee of directors, the managing director, director or any other principal officer of the Company on such conditions as the Board may prescribe.”

8. To consider and if thought fit to pass with or without modification(s), the following resolution as a **Special Resolution**

**“RESOLVED THAT** pursuant to the provisions of Section 198, 268, 269 read with Schedule XIII, 309 and 310 of the Companies Act, 1956, Memorandum and Articles of Association of the Company and other applicable provisions, if any, of the Companies Act, 1956 and subject to the approval of the Central Government, if required and pursuant to any other laws prevailing for the time being in force, consent of the members of the Company be and is hereby accorded for modification in the terms of employment and increase in the remuneration payable to Mr. Satinder Singh Rekhi as Chairman and Managing Director of the Company for the remaining term of his present appointment i.e. from January 01, 2008 to January 01, 2011 as detailed below:

1. Compensation: He will be paid at the rate of US\$ 300,000 (US\$ Three lakhs only) per annum as base salary. This will be payable semi-monthly on the 15th of each month and again on the last day of the month. Applicable taxes will be deducted from his gross earnings;
2. Automobile: The Company will furnish him with an automobile including maintenance and fuel expenses, comparable to his position, while employed with the Company;
3. Health Insurance: He and his qualified dependents will be eligible to receive health insurance coverage through the Company or its subsidiaries insurance carriers. The terms, conditions and eligibility requirements for such insurance coverage are set forth in the summary plan description(s) describing the coverage;
4. Other benefits: He will be eligible to participate in the Company's or R Systems Inc.'s retirement plans in accordance with the prevalent policies;
5. Bonus: He will be entitled to participate in incentive schemes as set up and approved by the remuneration committee from time to time;
6. Annual Increment: He will be entitled for a maximum annual increment up to 15% of his base salary for each of the immediate previous year during the remaining tenure of his current appointment commencing from 01st January 2009 and 01st January 2010 subject to the approval of Remuneration Committee.

**“RESOLVED FURTHER THAT** in the event of absence or inadequacy of profits in any financial year during the tenure of Mr. Satinder Singh Rekhi as Chairman and Managing Director of the Company, the Company shall pay him the aforesaid remuneration as approved by the remuneration committee and the Board.

**“RESOLVED FURTHER THAT** the board of directors be and is hereby authorised to do all such acts, deeds, matters and things as may be necessary, proper or expedient, to give effect to this resolution and the Board may, by a resolution delegate the aforementioned power to any committee of directors, the managing director, director or any other principal officer of the Company on such conditions as the Board may prescribe.”

9. To consider and if thought fit to pass with or without modification(s), the following resolution as a **Special Resolution**

**“RESOLVED THAT** pursuant to Sub Section (1) of Section 314 of the Companies Act, 1956 and other applicable provisions of the Act, if any read with the Articles of Association of the Company, approval of the shareholders be and is hereby accorded for reappointment of Mr. Sartaj Singh Rekhi, son of Mr. Satinder Singh Rekhi, Chairman and Managing Director of the Company, as Executive Manager of R Systems, Inc., a wholly owned subsidiary of R Systems International Limited with effect from January 01, 2008 on an annual base salary of US\$ 60,000 and applicable sales commission plan for supervisors along with a maximum annual increment up to 20% on his base salary each year on 01st January.

**“RESOLVED FURTHER THAT** the approval of the shareholders be and is hereby accorded for his appointment as the director of Sento Europe B.V., a wholly owned subsidiary of R Systems International Limited.

**“RESOLVED FURTHER THAT** the board of directors be and is hereby authorised to do all such acts, deeds, matters and things as may be necessary, proper or expedient, to give effect to this resolution and the Board may, by a resolution delegate



## NOTICE

the aforementioned power to any committee of directors, the managing director, director or any other principal officer of the Company on such conditions as the Board may prescribe.”

10. To consider and if thought fit to pass with or without modification(s), the following resolution as a **Special Resolution**

“**RESOLVED THAT** pursuant to section 61 and other applicable provisions of the Companies Act, 1956 and in accordance with the provisions prescribed under SEBI (Disclosure & Investor Protection) Guidelines, 2000, Listing Agreement entered into with the stock exchanges and subject to such other statutory approvals as may be necessary and subject to such conditions and modifications as may be prescribed in granting such approvals / sanctions and subject to such other conditions, if any imposed by the Securities and Exchange Board of India (“SEBI”), approval of the members be and is hereby given for reallocation of the fund requirements as disclosed in the offer document in the manner given below in column number (5) under the existing category:

(Rs. in lacs)

S. No.	Objects	Original IPO (1)	Revised 01.05.2007 (2)	Utilised till 31.12.2007 (3)	Balance 31.12.2007 (4)	Re- Allocation (5)	Post Adjustment (6)	Balance Unutilised (7)
1.	Upgrading and expansion of existing infrastructure	3,150.00	3,265.43	2,143.12	1,122.31	(965.50)	2,299.93	156.81
2.	Repayment of outstanding loans	365.50	365.50	365.50	-	-	365.50	-
3.	Financing general working capital requirements	1,795.10	1,795.10	863.24	931.86	-	1,795.10	931.86
4.	General corporate purposes	621.90	617.52	586.20	31.32	973.08	1,590.60	1,004.40
5.	Meeting offer expenses	1,130.00	1,018.95	1,011.37	7.58	(7.58)	1,011.37	-
	<b>Total</b>	<b>7,062.50</b>	<b>7,062.50</b>	<b>4,969.43</b>	<b>2,093.07</b>	<b>-</b>	<b>7,062.50</b>	<b>2,093.07</b>

“**RESOLVED FURTHER THAT** after the aforesaid reallocation the details given in the offer document for utilisation of issue proceeds stand revised as given in column number (6) and the approval of the members of the Company be and is hereby given to utilise the balance amount of issue proceeds as given in column number (7) up to December 31, 2010.

“**RESOLVED FURTHER THAT** the board of directors be and is hereby authorised to do all such acts, deeds, matters and things as may be necessary, proper or expedient, to give effect to this resolution and the Board may, by a resolution delegate the aforementioned power to any committee of directors, the managing director, director or any other principal officer of the Company on such conditions as the Board may prescribe.”

**By Order of the Board  
For R Systems International Limited**

Place : Noida  
Date : April 05, 2008

**Nand Sardana  
Company Secretary & Vice President Finance**

## NOTICE

### NOTES

- (i) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PERSONS AS HIS PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY SO APPOINTED NEED NOT BE A MEMBER OF THE COMPANY. THE PROXIES IN ORDER TO BE EFFECTIVE SHOULD BE DULY COMPLETED, STAMPED AND SIGNED AND MUST BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE AFORESAID MEETING.
- (ii) Corporate members intending to send their authorised representatives are requested to send a duly certified copy of the board or governing body resolution authorising the representatives to attend and vote at the Annual General Meeting.
- (iii) Members/proxies attending the meeting are requested to
  - bring their copies of annual report sent to the members as copies of the annual report shall not be distributed at the Annual General Meeting;
  - note that no gift coupons shall be distributed at the Annual General Meeting and
  - quote their Folio/Client ID and DP ID number in all correspondence.
- (iv) The register of members and share transfer books of the Company shall remain closed from April 25, 2008 to May 02, 2008 (both days inclusive).
- (v) The dividend of 18% for the year ended December 31, 2007 as recommended by the Board, if declared at the Annual General Meeting, will be payable to those members whose names appear
  - as beneficial owners as per list to be furnished by the depositories in respect of the shares held in demat form and
  - as members on the register of members of the Company as at opening business hours on April 25, 2008 after giving effect to all valid share transfers in physical form which would be received by the Company's registrar and share transfer agent M/s Intime Spectrum Registry Limited up to the end of business hours on April 24, 2008.
- (vi) Payment of dividend through ECS :
  - Members holding shares in physical form are advised to submit particulars of their bank account, viz. name and address of the branch of the bank, 9 digit MICR code of the branch, type of account and account number to the Company's registrar and share transfer agent M/s Intime Spectrum Registry Limited, A - 40, 2nd Floor, Naraina Industrial Area, Phase - II, Near Batra Banquet Hall, New Delhi - 110 028
  - Members holding shares in demat form are advised to inform the particulars of their bank account to their respective depository participants.
- (vii) Shareholders holding shares in electronic form may kindly note that their bank account details as furnished by their depositories to the Company will be printed on their dividend warrants as per applicable regulations of the depositories and the Company will not entertain any direct request from such shareholders for deletion of/change in such bank details. Further instructions, if any already given by them in respect of shares held in physical form will not be automatically applicable to shares held in electronic mode. Members holding shares in electronic form are advised to notify the changes, if any, in their address / bank details / mandate to their respective depository participants.
- (viii) Any query proposed to be raised at the Annual General Meeting may be sent to the Company at its registered office at least seven days prior to the date of Meeting to enable the management to compile the relevant information to respond to the query in the meeting. The envelope may please be superscribed "Attention: Mr. Nand Sardana, Company Secretary".
- (ix) Members holding shares in physical form, may write to the Company or to the registrar and share transfer agent M/s Intime Spectrum Registry Limited for any change in their addresses and bank mandate. Members holding shares in electronic form may write to their depository participants for immediate updation so as to enable the Company to dispatch the dividend warrants to the correct addresses.
- (x) The statutory register maintained under Section 307 of the Companies Act, 1956 and the certificate of the auditors of the Company certifying the implementation of the Company's stock option plans / schemes in accordance with the SEBI (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 and the resolutions passed by the members in the general meeting, will be available at the venue of the Annual General Meeting for inspection by members.
- (xi) All documents referred to in the Notice and accompanying explanatory statements as well as the annual accounts of the subsidiaries etc., are open for inspection at the registered office of the Company on all working days between 11.00 A.M. and 02.00 P.M. up to the date of the Annual General Meeting.
- (xii) Members/proxies are requested to bring the attendance slips duly filled in and signed for attending the Meeting.
- (xiii) Pursuant to the provisions of Section 109A of the Companies Act, 1956, shareholders are entitled to make nomination in respect of shares held by them in physical form. Shareholders desirous of making nominations are requested to send their requests in Form 2B (which will be made available on request) to the registrar and share transfer agent M/s Intime Spectrum Registry Limited or can be downloaded from the following URL <http://www.intimespectrum.com/site/downloads.asp>.
- (xiv) Pursuant to provisions of Section 205A (5) of the Companies Act, 1956, dividend which remains unpaid or unclaimed for a period of seven years from the date of its transfer to unpaid dividend account, is required to be transferred by the Company to



## NOTICE

the Investor Education and Protection Fund ('IEPF'), established by the Central Government under the provisions of Section 205C of the Companies Act, 1956. Shareholders are advised to claim the unclaimed dividend lying in the unpaid dividend account from the Company's registrar and share transfer agent M/s Intime Spectrum Registry Limited or directly with the Company. It may be noted that once the unclaimed dividend is transferred to the IEPF of the Central Government as above, no claim shall lie in respect thereof against the Company or IEPF.

- (xv) Additional information, pursuant to Clause 49 of the Listing Agreement entered into with stock exchanges, in respect of directors recommended for approval of appointment / re-appointment / remuneration at the Annual General Meeting and Explanatory Statement as required under Section 173(2) of the Companies Act, 1956, in respect of special business under item numbers 6 to 10 of the Notice is appended hereto and forms part of this Notice. Further, disclosures required to be made in terms of Clause C, Part II of Schedule XIII with respect to the proposed resolution for the reappointment and payment of remuneration to Lt. Gen. Baldev Singh (Retd.), President and Senior Executive Director under item number 6, reconfirmation of the remuneration payable to Mr. Raj Swaminathan as Director and Chief Operating Officer of the Company for the remaining term of his present appointment under item number 7 and modification in the terms of employment and payment of remuneration to Mr. Satinder Singh Rekhi under item number 8 are also given as annexure to the said Explanatory Statement and are a part of the Notice of the Annual General Meeting.

### EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956

#### ITEM NO. 6

#### REAPPOINTMENT AND PAYMENT OF REMUNERATION TO LT. GEN. BALDEV SINGH (RETD.) AS PRESIDENT AND SENIOR EXECUTIVE DIRECTOR OF THE COMPANY

Lt. Gen. Baldev Singh (Retd.) aged about 67 years has more than 41 years of experience, including handling top managerial, diplomatic and human resource development related assignments. Mr. Singh has a Masters in Military Sciences from the prestigious Madras University in India and attended two short courses at University of California at Berkeley, in Strategic Account Management and Marketing.

Lt. Gen. Baldev Singh (Retd.) joined the Board of R Systems on September 01, 1997. Since then he is continuously providing his guidance and support on the Board. Presently Mr. Singh is heading the entire Noida IT and BPO Operations and his presence is crucial for the effective and efficient operations of the business. Lt. Gen. Baldev Singh (Retd.) was appointed as the President and Senior Executive Director of the Company for a term of two years i.e. up to January 01, 2008. The said term of his appointment has already completed and considering his continued contributions and efforts towards the success of the Company, the board of directors had reappointed him subject to the approval of the shareholders and of the Central Government, if required, for a further term of one year and three months i.e. w.e.f. January 01, 2008 to April 01, 2009.

As on the date of this notice Lt. Gen. Baldev Singh (Retd.) holds 78,808 equity shares of Rs.10 each being 0.58% of the total paid up share capital in R Systems. In addition to his employment benefits as President and Senior Executive Director of R Systems, he does not have any pecuniary or other relationship with the Company except that 2,770 stock options of Rs. 10 each out of the total options granted to him under R Systems International Ltd. - Year 2004 Employees Stock Options Plan are in force. Further he is not holding any directorship or membership in other company's board or committees.

The board of directors recommends that the shareholders approve the said reappointment and remuneration by way of a special resolution.

None of the directors except Lt. Gen. Baldev Singh (Retd.) and Mr. Satinder Singh Rekhi being the relative of Lt. Gen. Baldev Singh (Retd.) is concerned or interested in the proposed resolution.

#### Statement containing the prescribed information as required in terms of Clause C, Part II of Schedule XIII of the Companies Act, 1956

##### I. GENERAL INFORMATION

- (1) Nature of Industry:

The Company is engaged in the business of providing software engineering, information technology related services, business process outsourcing services, developing and selling software products for the retail-lending sector and in supply chain execution.

- (2) Date or expected date of commencement of commercial production:

The Company is already in existence and is in operation since May 14, 1993.

- (3) In case of new companies, expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus:

Not Applicable.

## NOTICE

(4) Financial performance based on given indicators:

Financial performance of the Company for last 3 years is as follows:

Particulars	Financial Year ended (Rs. in lacs)		
	31.12.2007	31.12.2006	31.12.2005
Gross revenues	16,467.65	12,247.29	8,162.59
Profit before depreciation and tax	3,360.47	1,710.87	1,713.46
Less : Depreciation	534.49	453.12	317.41
<b>Profit before tax</b>	<b>2,825.98</b>	<b>1,257.75</b>	<b>1,396.05</b>
Less : Current tax	315.88	144.38	61.20
Less : MAT credit entitlement	(49.81)	-	-
Less : Fringe benefit tax	66.79	54.26	26.41
Less : Deferred tax (net of prior period items)	75.98	54.24	34.68
<b>Profit after tax (available for appropriation)</b>	<b>2,417.14</b>	<b>1,004.87</b>	<b>1,273.76</b>
Proposed final dividend	244.49	162.99	-
Corporate dividend tax on final dividend	41.55	27.70	-
Transfer to general reserve	181.29	25.12	-
<b>Balance carried forward to Balance Sheet</b>	<b>1,949.81</b>	<b>789.06</b>	<b>1,273.76</b>

(5) Export performance:

Foreign exchange earnings and outgo of the Company for last 3 years is as follows:

Particulars		Financial Year ended (Rs. in lacs)		
		31.12.2007	31.12.2006	31.12.2005
(a)	Earnings (Accrual Basis)	14,881.89	11,517.59	7,989.37
(b)	Outgo (Accrual Basis)*	2,496.00	1,857.04	1,188.04

\* excluding share issue expenses incurred in foreign currency of Rs. Nil in the year 2007 and Rs. 41.30 lacs in year 2006 and Rs. 38.54 lacs in year 2005.

(6) Foreign investments or collaborators, if any:

R Systems has investments from non residents and foreign bodies corporate and R Systems has made investments outside India. As on date R Systems has 8 subsidiaries, all incorporated and based outside India. One of its subsidiaries, ECnet Limited, based in Singapore has six subsidiaries. Therefore in terms of the provisions of the Companies Act, 1956 R Systems has an aggregate of fourteen subsidiaries all incorporated and based outside India.

## II. INFORMATION ABOUT THE APPOINTEE

(1) Background details:

Lt. Gen. Baldev Singh (Retd.) aged about 67 years has more than 41 years of experience, including handling top managerial, diplomatic and human resource development related assignments. Mr. Singh has a Masters in Military Sciences from the prestigious Madras University in India and attended two short courses at University of California at Berkeley, in Strategic Account Management and Marketing.

Lt. Gen. Baldev Singh (Retd.) joined the Board of R Systems on September 01, 1997. Since then he is continuously providing his guidance and support on the Board. Presently Mr. Singh is heading the entire Noida IT and BPO Operations and his presence is crucial for the effective and efficient operations of the business. Lt. Gen. Baldev Singh (Retd.) is related to Mr. Satinder Singh Rekhi.



## NOTICE

(2) Past remuneration:

Income during the last 3 years

	Total Cost to the Company (in Rs.)	Rs. Per Month
For the year ending on December 31, 2005	1,337,363	111,447
For the year ending on December 31, 2006	5,438,893	453,241
For the year ending on December 31, 2007	6,183,333*	515,278

\* Includes an amount of Rs. 2,233,333 which was approved by the Central Government for the year 2006.

(3) Recognition or awards:

Lt. Gen. Baldev Singh (Retd.) has a Masters in Military Sciences from the prestigious Madras University in India and attended two short courses at University of California at Berkeley, in Strategic Account Management and Marketing.

(4) Job profile and his suitability:

Lt. Gen. Baldev Singh (Retd.), being the President and Senior Executive Director of R Systems is heading the entire Noida IT and BPO Operations. Lt. Gen. Baldev Singh (Retd.) aged about 67 years has more than 41 years of experience, including handling top managerial, diplomatic and human resource development related assignments. Mr. Singh has a Masters in Military Sciences from the prestigious Madras University in India and attended two short courses at University of California at Berkeley, in Strategic Account Management and Marketing. He had joined the Board of R Systems on September 01, 1997. Since then he is continuously providing his guidance and support on the Board and his presence is crucial for the effective and efficient operations of the business. R Systems will benefit from his capabilities and therefore the Board wishes to reappoint him as the President and Senior Executive Director of the Company.

(5) Remuneration proposed:

Lt. Gen. Baldev Singh (Retd.) is proposed to be reappointed on the following remuneration:

1. Consolidated annual salary of Rs. 28.50 lakhs (Rupees twenty eight lakhs fifty thousand only);
2. Periodic bonus as per the incentive scheme of the Company subject to a maximum of Rs. 15 lakhs per annum (Rupees fifteen lakhs only);
3. One chauffeur driven car for official purpose only and reimbursement of fuel and maintenance expenses subject to a maximum of Rs. 150,000 per annum (Rupees one lakh fifty thousand only);
4. Reimbursement of telephone bills and internet bills for his residence subject to a maximum of Rs. 50,000 per annum (Rupees fifty thousand only);
5. He will also be eligible for the reimbursement of Medical Expenses incurred, for himself and his family only on actual incurred basis;
6. Leave travel assistance amounting to one economy ticket to USA once in two years. This may be in the form of one US ticket for any person to either accompany him on a business trip or just independent of his business trip;
7. He will be entitled to participate in Company's stock options plan approved by the board from time to time;
8. He will be entitled for payment of gratuity as per the policy of the Company;
9. As long as he functions as Whole Time Director, he is not entitled for any sitting fee to attend the meeting of the Board and/or Committee thereof;
10. The revised compensation plan replaces all existing compensation plans, benefits and perquisites;
11. Both parties can terminate this employment by giving three months notice in writing or in the case of the Company by giving three months compensation in lieu of notice.

(6) Comparative remuneration profile with respect to industry, size of the company, profile of the position and person (in case of expatriates the relevant details would be w.r.t. the country of his origin):

The proposed remuneration is reasonably justified in comparison with the general market trends and remuneration package of top-level managerial persons having comparable qualifications and experience.

(7) Pecuniary relationship directly or indirectly with the Company, or relationship with the managerial personnel, if any:

As on the date of this notice Lt. Gen. Baldev Singh (Retd.) holds 78,808 equity shares of Rs.10 each being 0.58% of the total paid up share capital in R Systems. In addition to his employment benefits as President and Senior Executive Director of R Systems, he does not have any pecuniary or other relationship with the Company except that 2,770 stock options of Rs. 10 each out of the total options granted to him under R Systems International Ltd. - Year 2004 Employees Stock Options Plan are in force. Lt. Gen. Baldev Singh (Retd.) is related to Mr. Satinder Singh Rekhi.

## NOTICE

### III. OTHER INFORMATION

(1) Profitability of R Systems :

Reasons for inadequate profits: The Company has made a reasonable profit during the last financial year ended December 31, 2007. R Systems gross revenues increased to Rs. 16,467.65 lacs as against Rs. 12,247.29 lacs during the same period in the previous year, a growth of 34.46%. Profit after tax for the year ended December 31, 2007 was Rs. 2,417.14 lacs as against Rs. 1,004.87 lacs during the same period in the previous year, a growth of 140.54%.

(2) Strategy for performance enhancement:

Steps taken or proposed to be taken for improvement: R Systems management process involves taking continuous steps to improve performance through growth in revenues, managing costs and improving productivity. The financial strategy involves maintaining a secure financial position, managing risks and ensuring accurate and timely reporting of performance.

(3) Expected increase in productivity and profits in measurable terms:

R Systems expects to close the current financial year with improved sales and profitability.

### ITEM NO. 7

#### **RECONFIRMATION OF THE REMUNERATION PAYABLE TO MR. RAJ SWAMINATHAN FOR THE REMAINING TERM OF HIS PRESENT APPOINTMENT AS DIRECTOR AND CHIEF OPERATING OFFICER OF R SYSTEMS**

Mr. Raj Swaminathan aged about 48 years, has over 23 years experience in IT and Financial Services Industry. He has done his MBA from Xavier Labour Relations Institute, Jamshedpur after his Bachelor of Engineering from Bangalore University. Prior to joining R Systems, Raj has had a distinguished 11 year career at GE where he was Vice President and CIO at GE-Countrywide, India and part of the senior Global Consumer Finance corporate IT team. Earlier in his career, Raj also headed the IT function at Standard Chartered Bank for the consumer, corporate banking and treasury businesses.

He was appointed as the Additional Director of the Company subject to the approval of the Central Government as prescribed under Schedule XIII of the Companies Act, 1956 by the board of directors at its meeting held on September 29, 2006. Subsequently Mr. Raj Swaminathan was regularised as the director of the Company at the annual general meeting of the Company held on May 01, 2007 for a term of 3 years w.e.f. September 29, 2006. However the Central Government while granting its approval for the payment of said remuneration to Mr. Raj Swaminathan had granted its approval up to December 31, 2007 and advised the Company to approach again after December 31, 2007 for payment of remuneration for the remaining term of his current appointment.

In this regard the board of directors on the recommendation and approval of the remuneration committee had reconfirmed and approved the existing remuneration payable to Mr. Raj Swaminathan for the remaining term of his present appointment at its meeting held on October 28, 2007 and applied to the Central Government for seeking the requisite approval for payment of remuneration to Mr. Raj Swaminathan for the remaining term of his present appointment.

As on the date of this notice Mr. Raj Swaminathan doesn't hold any shares in R Systems. In addition to his employment benefits as Director and Chief Operating Officer of R Systems he does not have any pecuniary or other relationship with the Company except that he holds 60,000 options granted to him under R Systems International Limited Employees Stock Option Scheme 2007. Further he is not holding any directorships or membership in other company's board or committees.

The board of directors recommends that the shareholders approve the said remuneration by way of a special resolution.

None of the directors except Mr. Raj Swaminathan is concerned or interested in the proposed resolution.

#### **Statement containing the prescribed information as required in terms of Clause C, Part II of Schedule XIII of the Companies Act, 1956**

### I. GENERAL INFORMATION

(1) Nature of Industry :

The Company is engaged in the business of providing software engineering, information technology related services, business process outsourcing services, developing and selling software products for the retail-lending sector and in supply chain execution.

(2) Date or expected date of commencement of commercial production:

The Company is already in existence and is in operation since May 14, 1993.

(3) In case of new companies, expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus:

Not Applicable.



## NOTICE

- (4) Financial performance based on given indicators:  
Financial performance of the Company for last 3 years is as follows:

Particulars	Financial Year ended (Rs. in lacs)		
	31.12.2007	31.12.2006	31.12.2005
Gross revenues	16,467.65	12,247.29	8,162.59
Profit before depreciation and tax	3,360.47	1,710.87	1,713.46
Less : Depreciation	534.49	453.12	317.41
<b>Profit before tax</b>	<b>2,825.98</b>	<b>1,257.75</b>	<b>1,396.05</b>
Less : Current tax	315.88	144.38	61.20
Less : MAT credit entitlement	(49.81)	-	-
Less : Fringe benefit tax	66.79	54.26	26.41
Less : Deferred tax (net of prior period items)	75.98	54.24	34.68
<b>Profit after tax (available for appropriation)</b>	<b>2,417.14</b>	<b>1,004.87</b>	<b>1,273.76</b>
Proposed final dividend	244.49	162.99	-
Corporate dividend tax on final dividend	41.55	27.70	-
Transfer to general reserve	181.29	25.12	-
<b>Balance carried forward to Balance Sheet</b>	<b>1,949.81</b>	<b>789.06</b>	<b>1,273.76</b>

- (5) Export performance:  
Foreign exchange earnings and outgo of the Company for last 3 years is as follows:

Particulars		Financial Year ended (Rs. in lacs)		
		31.12.2007	31.12.2006	31.12.2005
(a)	Earnings (Accrual Basis)	14,881.89	11,517.59	7,989.37
(b)	Outgo (Accrual Basis)*	2,496.00	1,857.04	1,188.04

\* excluding share issue expenses incurred in foreign currency of Rs. Nil in the year 2007 and Rs. 41.30 lacs in year 2006 and Rs. 38.54 lacs in year 2005.

- (6) Foreign investments or collaborators, if any:  
R Systems has investments from non residents and foreign bodies corporate and R Systems has made investments outside India. As on date R Systems has 8 subsidiaries, all incorporated and based outside India. One of its subsidiaries, ECnet Limited, based in Singapore has six subsidiaries. Therefore in terms of the provisions of the Companies Act, 1956 R Systems has an aggregate of fourteen subsidiaries all incorporated and based outside India.

## II. INFORMATION ABOUT THE APPOINTEE

- (1) Background details:  
Mr. Raj Swaminathan aged about 48 years, is an MBA from Xavier Labour Relations Institute, India. Prior to joining R Systems, Raj has had a distinguished 11 year career at GE where he was Vice President and CIO at GE-Countrywide, India and part of the senior Global Consumer Finance corporate IT team. Earlier in his career, Raj also headed the IT function at Standard Chartered Bank for the consumer, corporate banking and treasury businesses. He joined R Systems through Indus Software Private Limited ("Indus") which got amalgamated with the Company on April 01, 2002. At the time of the amalgamation Raj was an employee of GE Capital on deputation to Indus as President and Chief Operating Officer. On May 01, 2006 he left GE to join the Company as the Chief Operating Officer. In order to give recognition to his responsibilities and to secure his participation in the Board level management, he was appointed as the Additional Director of the Company and w.e.f. September 29, 2006 he was designated as Director and Chief Operating Officer of the Company. There were no changes to the terms and conditions of his employment upon appointment as a director.
- (2) Past remuneration:  
Income during the last 3 years

	Total Cost to the Company (in Rs.)	Rs. Per Month
For the year ending on December 31, 2005	5,340,000	445,000
For the year ending on December 31, 2006	5,137,665	428,139
For the year ending on December 31, 2007	5,434,548	452,879



## NOTICE

(3) Recognition or awards:

Mr. Raj Swaminathan has earned Masters in Business Administration from Xavier Labour Relations Institute, India.

(4) Job profile and his suitability:

Mr. Raj Swaminathan, being the Director and Chief Operating Officer of R Systems is responsible for the overall operation of the Company. Raj is aged about 48 years and has an MBA from Xavier Labour Relations Institute. Prior to joining R Systems, Raj has had a distinguished 11 year career at GE where he was Vice President and CIO at GE-Countrywide, India and part of the senior Global Consumer Finance corporate IT team. Earlier in his career, Raj also headed the IT function at Standard Chartered Bank for the consumer, corporate banking and treasury businesses. Considering his vast experience and knowledge, R Systems will benefit from his capabilities and wishes to reconfirm the remuneration payable to him for the remaining term of his present appointment i.e. w.e.f. January 01, 2008 to September 29, 2009 as Director and Chief Operating Officer of the Company.

(5) Remuneration proposed:

The terms and conditions of appointment for Mr. Raj Swaminathan, Director and Chief Operating Officer of the Company at the time of his appointment on September 29, 2006 are as follows:

Monthly Salary Particulars	
	INR
Basic	140,000
HRA	70,000
Conveyance Allowance	800
Executive Allowance	117,503
<b>Gross Per Month</b>	<b>328,303</b>
Annual Allowances	
Leave Travel Assistance	120,000
Food Coupon	12,000
Company's Contribution to Provident Fund	9,360
<b>Gross Annual Allowances</b>	<b>141,360</b>
Annual Reimbursements	
Medical Reimbursement	15,000
Petrol Reimbursement	144,000
<b>Gross Annual Reimbursements</b>	<b>159,000</b>
<b>Gross Per Annum</b>	<b>4,240,000</b>
In addition to the above, he will be eligible for the Group Mediclaim and Personal Accident Insurance as per Company policy.	
He may also be eligible for a performance incentive consisting of a fixed bonus of Rs. 1,100,000 paid pro rata for period of service in the year, at the end of each year and a variable bonus subject to a maximum of Rs. 1,000,000 per annum & subject to his being on the rolls of the Company at the time the same is declared. This incentive is discretionary and is based on the Company's performance in that financial year and also his own annual performance.	
In addition as per the usual terms and conditions of his employment he will be entitled for a maximum annual increment of 15% per annum on his total cost to the Company effective on January 01, 2007, January 01, 2008 & January 01, 2009 and he is entitled to the aforementioned minimum remuneration & annual increment as approved by the Remuneration Committee even in the case of absence or inadequacy of profits in any financial year during his tenure.	

(6) Comparative remuneration profile with respect to industry, size of the company, profile of the position and person (in case of expatriates the relevant details would be w.r.t. the country of his origin):

The proposed remuneration is reasonably justified in comparison with the general market trends and remuneration package of top-level managerial persons having comparable qualifications and experience.

(7) Pecuniary relationship directly or indirectly with the Company, or relationship with the managerial personnel, if any:

As on the date of this notice Mr. Raj Swaminathan does not hold any shares in R Systems. However he holds 60,000 options granted to him under R Systems International Limited Employees Stock Option Scheme 2007. Further he does not have any pecuniary or other relationship with the Company and with any of the managerial personnel except the proposed remuneration.



## NOTICE

### III. OTHER INFORMATION

(1) Profitability of R Systems:

Reasons for inadequate profits: The Company has made a reasonable profit during the last financial year ended December 31, 2007. R Systems gross revenues increased to Rs. 16,467.65 lacs as against Rs. 12,247.29 lacs during the same period in the previous year, a growth of 34.46%. Profit after tax for the year ended December 31, 2007 was Rs. 2,417.14 lacs as against Rs. 1,004.87 lacs during the same period in the previous year, a growth of 140.54%.

(2) Strategy for performance enhancement:

Steps taken or proposed to be taken for improvement: R Systems management process involves taking continuous steps to improve performance through growth in revenues, managing costs and improving productivity. The financial strategy involves maintaining a secure financial position, managing risks and ensuring accurate and timely reporting of performance.

(3) Expected increase in productivity and profits in measurable terms:

R Systems expects to close the current financial year with improved sales and profitability.

### ITEM NO. 8

#### **MODIFICATION IN THE TERMS OF EMPLOYMENT AND APPROVAL FOR INCREASE IN THE REMUNERATION PAYABLE TO MR. SATINDER SINGH REKHI AS CHAIRMAN AND MANAGING DIRECTOR OF THE COMPANY**

Mr. Satinder Singh Rekhi aged about 57 years founded R Systems in 1993. With over 25 years of experience, Mr. Singh is one of the leading figures in the information technology industry. Prior to R Systems, Mr. Singh held senior management positions with HCL Technologies and DISC (now Synergex) in the United States, Singapore and India. Mr. Singh received a Bachelor of Technology from IIT, Kharagpur, India and a Masters in Business Administration from California State University, Sacramento. Mr. Satinder Singh Rekhi has attended several senior management programs from University of Berkeley and Harvard Business School. As a Chairman and Managing Director, Mr. Rekhi is responsible for overall business development and working of the Company.

Mr. Satinder Singh Rekhi was appointed as the Chairman and Managing Director of the Company for a period of 5 years w.e.f. January 01, 2006. On December 31, 2007 Mr. Rekhi completed his second year of service with the Company under the current contract and in accordance with the Company policy he was entitled to an annual increment. Mr. Rekhi did not take the increment for the year 2007; however the remuneration committee and the Board reviewed the terms and approved a modification in the terms of employment and granted an increase in his remuneration w.e.f. January 01, 2008 subject to the approval of the shareholders and the Central Government, if required.

As on the date of this notice, Mr. Rekhi holds 90,600 equity shares (being 0.67% of the total paid up share capital) of the Company in his own name and 1,921,718 equity shares (being 14.15% of the total paid up share capital) of the Company as a trustee of Satinder & Harpreet Rekhi Family Trust.

Mr. Satinder Singh Rekhi is holding the office of director in the following nine bodies corporate, which are incorporated and based outside India namely R Systems, Inc., R Systems (Singapore) Pte. Ltd., RightMatch Holdings Ltd., Indus Software, Inc., ECnet Systems (Thailand) Co. Ltd., ECnet, Inc., R Systems Solutions, Inc., R Systems NV and Sento Europe B.V.

The board of directors recommends that the shareholders approve the said modification and remuneration by way of a special resolution.

None of the directors except Mr. Satinder Singh Rekhi and Lt. Gen. Baldev Singh (Retd.) being the relative of Mr. Satinder Singh Rekhi is concerned or interested in the proposed resolution.

#### **Statement containing the prescribed information as required in terms of Clause C, Part II of Schedule XIII of the Companies Act, 1956**

### I. GENERAL INFORMATION

(1) Nature of Industry:

The Company is engaged in the business of providing software engineering, information technology related services, business process outsourcing services, developing and selling software products for the retail-lending sector and in supply chain execution.

(2) Date or expected date of commencement of commercial production:

The Company is already in existence and is in operation since May 14, 1993.

(3) In case of new companies, expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus:

Not Applicable.

## NOTICE

- (4) Financial performance based on given indicators:

Financial performance of the Company for last 3 years is as follows:

Particulars	Financial Year ended (Rs. in lacs)		
	31.12.2007	31.12.2006	31.12.2005
Gross revenues	16,467.65	12,247.29	8,162.59
Profit before depreciation and tax	3,360.47	1,710.87	1,713.46
Less : Depreciation	534.49	453.12	317.41
<b>Profit before tax</b>	<b>2,825.98</b>	<b>1,257.75</b>	<b>1,396.05</b>
Less : Current tax	315.88	144.38	61.20
Less : MAT credit entitlement	(49.81)	-	-
Less : Fringe benefit tax	66.79	54.26	26.41
Less : Deferred tax (net of prior period items)	75.98	54.24	34.68
<b>Profit after tax (available for appropriation)</b>	<b>2,417.14</b>	<b>1,004.87</b>	<b>1,273.76</b>
Proposed final dividend	244.49	162.99	-
Corporate dividend tax on final dividend	41.55	27.70	-
Transfer to general reserve	181.29	25.12	-
<b>Balance carried forward to Balance Sheet</b>	<b>1,949.81</b>	<b>789.06</b>	<b>1,273.76</b>

- (5) Export performance:

Foreign exchange earnings and outgo of the Company for last 3 years is as follows:

Particulars		Financial Year ended (Rs. in lacs)		
		31.12.2007	31.12.2006	31.12.2005
(a)	Earnings (Accrual Basis)	14,881.89	11,517.59	7,989.37
(b)	Outgo (Accrual Basis)*	2,496.00	1,857.04	1,188.04

\* excluding share issue expenses incurred in foreign currency of Rs. Nil in the year 2007 and Rs. 41.30 lacs in year 2006 and Rs. 38.54 lacs in year 2005.

- (6) Foreign investments or collaborators, if any:

R Systems has investments from non residents and foreign bodies corporate and R Systems has made investments outside India. As on date R Systems has 8 subsidiaries, all incorporated and based outside India. One of its subsidiaries, ECnet Limited, based in Singapore has six subsidiaries. Therefore in terms of the provisions of the Companies Act, 1956 R Systems has an aggregate of fourteen subsidiaries all incorporated and based outside India.

## II. INFORMATION ABOUT THE APPOINTEE

- (1) Background details:

Mr. Satinder Singh Rekhi aged about 57 years founded R Systems in 1993. With over 25 years of experience, Mr. Singh is one of the leading figures in the information technology industry. Prior to R Systems, Mr. Singh held senior management positions with HCL Technologies and DISC (now Synergex) in the United States, Singapore and India. Mr. Singh received a Bachelor of Technology from IIT, Kharagpur, India and a Masters in Business Administration from California State University, Sacramento. Mr. Satinder Singh Rekhi has attended several senior management programs from University of Berkeley and Harvard Business School. As a Chairman and Managing Director, Mr. Rekhi is responsible for overall business development and working of the Company.

- (2) Past remuneration:

Income during the last 3 years

	Total Cost to the Company	Rs. (@ Rs. 44.5 Per US\$) P.A.	Rs. per Month
For the year ending on December 31, 2005	US\$ 277,843	12,364,014	1,030,334
For the year ending on December 31, 2006	Rs. 13,005,452	-	1,083,788
For the year ending on December 31, 2007	Rs. 12,093,063	-	1,007,755



## NOTICE

(3) Recognition or awards:

Mr. Satinder Singh Rekhi was awarded with a Bachelor of Technology from IIT, Kharagpur, India and a Masters in Business Administration from California State University, Sacramento.

(4) Job profile and his suitability:

Mr. Satinder Singh Rekhi, being the Chairman and Managing Director of the Company is entrusted with substantial powers of management in relation to the normal business matters. He is the director of the Company since incorporation and has been continuously providing his guidance and support on the Board. His presence is crucial for the effective and efficient operations of the business. R Systems will benefit from his capabilities and requires his continued guidance and support.

(5) Remuneration proposed:

Mr. Satinder Singh Rekhi is proposed to be appointed on the following remuneration :

1. Compensation: He will be paid at the rate of US\$ 300,000 (US\$ Three lakhs only) per annum as base salary. This will be payable semi-monthly on the 15th of each month and again on the last day of the month. Applicable taxes will be deducted from his gross earnings;
2. Automobile: The Company will furnish him with an automobile including maintenance and fuel expenses, comparable to his position, while employed with the Company;
3. Health Insurance: He and his qualified dependents will be eligible to receive health insurance coverage through the Company or its subsidiaries insurance carriers. The terms, conditions and eligibility requirements for such insurance coverage are set forth in the summary plan description(s) describing the coverage;
4. Other benefits: He will be eligible to participate in the Company's or R Systems Inc.'s retirement plans in accordance with the prevalent policies;
5. Bonus: He will be entitled to participate in incentive schemes as set up and approved by the remuneration committee from time to time;
6. Annual Increment: He will be entitled for a maximum annual increment up to 15% of his base salary for each of the immediate previous year during the remaining tenure of his current appointment commencing from 01st January 2009 and 01st January 2010 subject to the approval of Remuneration Committee.

(6) Comparative remuneration profile with respect to industry, size of the company, profile of the position and person (in case of expatriates the relevant details would be w.r.t. the country of his origin):

The proposed remuneration is reasonably justified in comparison with the general market trends and remuneration package of top-level managerial persons having comparable qualifications and experience in USA.

(7) Pecuniary relationship directly or indirectly with the Company, or relationship with the managerial personnel, if any:

As on the date of this notice, Mr. Rekhi holds 90,600 equity shares (being 0.67% of the total paid up share capital) of the Company in his own name and 1,921,718 equity shares (being 14.15% of the total paid up share capital) of the Company as a trustee of Satinder & Harpreet Rekhi Family Trust. Further the office of R Systems, Inc. a wholly owned subsidiary of R Systems based in United States is owned by Mr. Satinder Singh Rekhi and Mrs. Harpreet Rekhi and the said office is obtained on lease from them on a monthly rental of US\$ 11,000. Except the proposed remuneration and as stated above he does not have any pecuniary or other relationship with the Company and with any of the managerial personnel. Mr. Satinder Singh Rekhi is related to Lt. Gen. Baldev Singh (Retd.), President and Senior Executive Director.

### III. OTHER INFORMATION

(1) Profitability of R Systems:

Reasons for inadequate profits: The Company has made a reasonable profit during the last financial year ended December 31, 2007. R Systems gross revenues increased to Rs. 16,467.65 lacs as against Rs. 12,247.29 lacs during the same period in the previous year, a growth of 34.46%. Profit after tax for the year ended December 31, 2007 was Rs. 2,417.14 lacs as against Rs. 1,004.87 lacs during the same period in the previous year, a growth of 140.54%.

(2) Strategy for performance enhancement:

Steps taken or proposed to be taken for improvement: R Systems management process involves taking continuous steps to improve performance through growth in revenues, managing costs and improving productivity. The financial strategy involves maintaining a secure financial position, managing risks and ensuring accurate and timely reporting of performance.

(3) Expected increase in productivity and profits in measurable terms:

R Systems expects to close the current financial year with improved sales and profitability.

## NOTICE

### ITEM NO. 9

#### REAPPOINTMENT AND REMUNERATION OF MR. SARTAJ SINGH REKHI, EXECUTIVE MANAGER, R SYSTEMS, INC. (WHOLLY OWNED SUBSIDIARY OF R SYSTEMS INTERNATIONAL LIMITED)

Mr. Sartaj Singh Rekhi, son of Mr. Satinder Singh Rekhi, Chairman and Managing Director of the Company had been appointed by the Board at its meeting held on June 26, 2006 w.e.f. July 01, 2006 as the Executive Manager of R Systems, Inc. a wholly owned subsidiary of R Systems International Limited in terms of Sub Section (1) of Section 314 of the Companies Act, 1956. As per the terms of appointment Mr. Sartaj Singh Rekhi is entitled for a maximum annual increment of 15% per annum w.e.f. January 01, each year. Mr. Sartaj Singh Rekhi did not take the increment for the year 2007; however the remuneration committee and the Board reviewed his terms and reappointed him on an annual base salary of US\$ 60,000 and applicable sales commission plan for supervisors subject to the approval of the shareholders. Further he is also entitled for a maximum annual increment up to 20% on his base salary, each year on 01st January, Further he is also appointed as the director of Sento Europe B.V., a wholly owned subsidiary of R Systems International Limited.

The board of directors recommends that the shareholders approve the said appointment and remuneration by way of a special resolution.

None of the directors except Mr. Satinder Singh Rekhi and Lt. Gen Baldev Singh (Retd.) being related to Mr. Sartaj Singh Rekhi are interested in the said appointment.

### ITEM NO. 10

#### REALLOCATION OF THE FUNDS REQUIREMENT AS STATED IN THE PROSPECTUS AND SUBSEQUENTLY REVISED

The initial public offer ("IPO") of R Systems International Limited had closed on March 31, 2006 and its equity shares got listed with the National Stock Exchange of India Limited and Bombay Stock Exchange Limited w.e.f. April 26, 2006. At the time of IPO, R Systems International Limited had given the details in the offer document with respect to requirement of funds as given below in column number (1)

(Rs. In lacs)

S. No.	Objects	Original IPO (1)	Revised 01.05.2007 (2)	Utilised till 31.12.2007 (3)	Balance 31.12.2007 (4)	Re-Allocation (5)	Post Adjustment (6)	Balance Unutilised (7)
1.	Upgrading and expansion of existing infrastructure	3,150.00	3,265.43	2,143.12	1,122.31	(965.50)	2,299.93	156.81
2.	Repayment of outstanding loans	365.50	365.50	365.50	-	-	365.50	-
3.	Financing general working capital requirements	1,795.10	1,795.10	863.24	931.86	-	1,795.10	931.86
4.	General corporate purposes	621.90	617.52	586.20	31.32	973.08	1,590.60	1,004.40
5.	Meeting offer expenses	1,130.00	1,018.95	1,011.37	7.58	(7.58)	1,011.37	-
	<b>Total</b>	<b>7,062.50</b>	<b>7,062.50</b>	<b>4,969.43</b>	<b>2,093.07</b>	<b>-</b>	<b>7,062.50</b>	<b>2,093.07</b>

As a result of changes in the business environment, the expansion plans were modified and R Systems had recomputed the estimated fund requirements within each category specified in the offer document and accordingly redistributed the proposed application of IPO funds with the approval of the shareholders at the annual general meeting of the Company held on May 01, 2007. After the said redistribution the estimated fund requirements under the existing categories stood revised as given in column number (2) above.

Subsequently the Board of R Systems further deferred certain capital expenses due to availability of other superior alternatives. Information on utilization of IPO funds till December 31, 2007 is given in column number (3) and the balance amount outstanding as on December 31, 2007 is given in column number (4) of the above table.

Now the management wishes to seek your approval for reallocating the proposed usage of IPO funds within each category as specified in column number (5) i.e. Rs. 965.50 lacs reserved for Upgrading and expansion of existing infrastructure and Rs. 7.58 lacs reserved for meeting offer expenses aggregating to Rs. 973.08 lacs to be utilized for General corporate purpose which primarily includes (i) acquisition of new companies; (ii) acquisition of businesses; and (iii) business / facility development in various geographies.



## NOTICE

After the said reallocation the estimated fund requirements will stand revised as given in column number (6) and the balance amount of IPO funds to be utilized under each category till December 31, 2010 will be as given in column number (7) of the above table.

The proposed reallocation is in the best interest of the Company and it has been approved by the audit committee and the Board at their respective meetings held on February 24, 2008.

The board of directors recommends that the shareholders approve the said resolution by way of a special resolution.

None of the directors is concerned or interested in the proposed resolution.

**By Order of the Board  
For R Systems International Limited**

**Place : Noida  
Date : April 05, 2008**

**Nand Sardana  
Company Secretary & Vice President Finance**

## NOTICE

### PROFILE OF DIRECTORS SEEKING APPROVAL FOR APPOINTMENT OR REAPPOINTMENT OR REMUNERATION AT THE FORTHCOMING ANNUAL GENERAL MEETING PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT

<b>1. Mr. David Richard Sanchez</b>	
Date of Birth	January 07, 1952
Qualifications	M.A. Political Science, M. Philosophy Honors
Expertise and experience in specific functional areas	Mr. David Richard Sanchez has over 23 years experience of working with various big concerns including J.P. Morgan & Company (New York), Bankers Trust Company (New York), Merrill Lynch International (California), Bear Stearns & Company (California), Sanchez Global Advisors, Inc. (California).
Directorship / Membership in other board / committees / bodies corporate	(1) Arrowsmith LLC, Director (2) Singular Global Advisors, Inc., President (3) Stonehaven LLC, Managing Director
Shareholding in the Company	4,000 Equity Shares
<b>2. Mr. Gurbax Singh Bhasin</b>	
Date of Birth	September 01, 1956
Qualifications	Bachelor Of Engineering
Expertise and experience in specific functional areas	Mr. Gurbax Singh Bhasin holds a degree in Bachelor of Engineering. He has been involved in the textile / fashion apparel industry for over 25 years and understands well the intricacies of the apparel industry. Mr. Bhasin's wide diversification and experience will help R Systems to attain even higher levels in customer satisfaction by constantly striving to be the best in all it does through a combination of product excellence, creativity and technological innovation.
Directorship / Membership in other board / committees / bodies corporate	(1) Prego, Inc. (USA), President (2) Newlands Capital, Inc. (USA), President (3) Shivam Investments, LLC, Director (4) Grupo Laxmi, S.A. DE C.V. (Mexico), President (5) Bonneville Holdings Ltd. (Belize), President (6) Grand Quinby, Inc. (USA), President (7) Yakima Filters, Inc. (USA), CEO
Shareholding in the Company	NIL
<b>3. Lt. Gen. Baldev Singh (Retd.)</b>	
Date of Birth	September 21, 1940
Qualifications	Masters in Military Sciences
Expertise and experience in specific functional areas	Lt. Gen. Baldev Singh (Retd.) has more than 41 years of experience, including handling top managerial, diplomatic and human resource development related assignments. Mr. Singh has a Masters in Military Sciences from the prestigious Madras University in India and attended two short courses at University of California at Berkeley, in Strategic Account Management and Marketing.
Directorship / Membership in other board / committees / bodies corporate	NIL
Shareholding in the Company	78,808 equity shares of Rs. 10 each being 0.58% of the total paid up share capital in R Systems. Further as on date 2,770 stock options of Rs.10 each out of the total options granted to Lt. Gen. Baldev Singh (Retd.) under R Systems International Ltd. - Year 2004 Employees Stock Options Plan are in force.



## NOTICE

<b>4. Mr. Raj Swaminathan</b>	
Date of Birth	May 23, 1959
Qualifications	Bachelor of Engineering from Bangalore University and MBA from Xavier Labour Relations Institute.
Expertise and experience in specific functional areas	Mr. Raj Swaminathan has over 22 years of experience in IT and Financial Services Industry. Prior to joining R Systems, Raj has had a distinguished 11 year career at GE where he was Vice President and CIO at GE-Countrywide, India and part of the senior Global Consumer Finance corporate IT team. Earlier in his career, Raj also headed the IT function at Standard Chartered Bank for the consumer, corporate banking and treasury businesses.
Directorship / Membership in other board / committees / bodies corporate	NIL
Shareholding in the Company	NIL. Further he holds 60,000 stock options under R Systems International Limited Employees Stock Option Scheme 2007.
<b>5. Mr. Satinder Singh Rekhi</b>	
Date of Birth	January 08, 1951
Qualifications	Bachelor of Technology from IIT, Kharagpur and Masters in Business Administration from California State University, Sacramento.
Expertise and experience in specific functional areas	Mr. Satinder Singh Rekhi has over 25 years of experience in the information technology industry. Prior to R Systems, Mr. Singh held senior management positions with HCL Technologies and DISC (now Synergex) in the United States, Singapore and India. Mr. Satinder Singh Rekhi has attended several senior management programs from University of Berkeley and Harvard Business School. As a Chairman and Managing Director, Mr. Rekhi is responsible for overall business development and working of the Company.
Directorship / Membership in other board / committees / bodies corporate	(1) R Systems, Inc., Director (2) R Systems (Singapore) Pte. Ltd., Director (3) RightMatch Holdings Ltd., Director (4) Indus Software, Inc., Director (5) ECnet Systems (Thailand) Co. Ltd., Director (6) ECnet, Inc., Director (7) R Systems Solutions, Inc., Director (8) R Systems NV, Director (9) Sento Europe B.V., Director
Shareholdings in the Company	90,600 equity shares (being 0.67% of the total paid up share capital) of the Company in his own name and 1,921,718 equity shares (being 14.15% of the total paid up share capital) of the Company as a trustee of Satinder & Harpreet Rekhi Family Trust.



**R SYSTEMS INTERNATIONAL LIMITED**

Regd. Office: B - 104A, Greater Kailash - I, New Delhi - 110 048  
 Fourteenth Annual General Meeting to be held on Friday, May 02, 2008 at 10.00 A.M.  
 At FICCI Auditorium, Tansen Marg, New Delhi - 110 001

**PROXY FORM**

I/We.....of.....being a member / members of R Systems International Limited hereby appoint.....of.....or failing him/her .....of.....as my / our proxy to attend and vote for me / us on my / our behalf at the Fourteenth Annual General Meeting of the Company to be held on Friday, May 02, 2008 at 10.00 A.M. at FICCI Auditorium, Tansen Marg, New Delhi - 110 001 and any adjournment thereof.

In witness whereof

I/We have signed on this.....day of.....2008

Registered Folio No.....(or)

Demat Account No.....D.P.I.d. No.....

Affix a  
Revenue  
Stamp

Notes:

1. The Proxy form should be signed by the member across the stamp.
2. A member intending to appoint a Proxy should complete the Proxy form and deposit it at the Company's Registered Office at least 48 hours before the meeting.
3. Those who hold shares in Demat form to quote their Demat Account No. and Depository Participant (D.P.) Id. No.

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CUT HERE

**R SYSTEMS INTERNATIONAL LIMITED**

Regd. Office: B - 104A, Greater Kailash - I, New Delhi - 110 048  
 Fourteenth Annual General Meeting to be held on Friday, May 02, 2008 at 10.00 A.M.  
 At FICCI Auditorium, Tansen Marg, New Delhi - 110 001

**ATTENDANCE SLIP**

Registered Folio No..... (or)

Demat Account No..... D.P.I.d. No.....

Name of shareholder(s).....

I/We certify that I am / We are Member/s/Proxy of the Members of the Company holding..... shares.

I hereby record my presence at the Fourteenth Annual General Meeting of the Company held on Friday, May 02, 2008 at 10.00 A.M. at FICCI Auditorium, Tansen Marg, New Delhi - 110 001.

.....  
 Signature of Member / Proxy

- A member or his duly appointed Proxy wishing to attend the meeting must complete this Attendance Slip and hand it over at the entrance.
- Name of the Proxy in block letters.....  
 (in case the Proxy attends the meeting)
- Those who hold shares in Demat form to quote their Demat Account No. and Depository Participant (D.P.) Id. No.

## Our Global Network





## **R Systems International Limited**

Regd office : B - 104A, Greater Kailash - I, New Delhi - 110 048 (INDIA)  
Corp Office : C - 40 Sector-59, Noida (U.P.) - 201 307 (INDIA)

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[www.rsystems.com](http://www.rsystems.com)