

AUDITORS' REPORT

To

The Members,

R Systems (Singapore) Pte Ltd., Singapore

1. We have audited the attached Balance Sheet of R Systems (Singapore) Pte Ltd a wholly-owned subsidiary of R Systems International Limited, India, as at 31st December, 2010 and 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 and have been prepared in accordance with 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 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. We have obtained all the information and explanations, which to best of our knowledge and belief were necessary for the purposes of our audit and subject to the Notes on accounts, we report that-
 - a) In our opinion the Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of accounts;
 - b) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Notes thereon give a true and fair view
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2010;
 - ii) in the case of the Profit and Loss Account, of the **LOSS** for the year ended on that date;
 - iii) in the case of the Cash Flow Statement, of the cash flow for the year ended on that date;

For S.K.RELAN & CO.
Firm Registration No. 001720N
Chartered Accountants

Sd/-

CA. S.K. RELAN
Membership No.12149

PLACE: NEW DELHI
DATED: February 20, 2011

R SYSTEMS (SINGAPORE) PTE. LTD
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Balance Sheet as at December 31, 2010

	Schedules	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	105,930,226	105,930,226
Reserves and Surplus	2	9,417,326	5,565,179
TOTAL		115,347,552	111,495,405
APPLICATION OF FUNDS			
Fixed assets			
Gross block	3	386,648	368,645
Less : Accumulated depreciation / amortisation		314,295	280,850
Net block		72,353	87,795
Current assets, loans and advances			
Sundry debtors	4	4,320,820	5,216,218
Cash and bank balances	5	3,265,460	2,361,609
Other current assets	6	353,135	-
Loans and advances	7	110,047,181	106,742,196
(A)		117,986,596	114,320,023
Less : Current liabilities and provisions			
Current liabilities	8	2,684,147	2,680,358
Provisions	9	27,250	232,055
(B)		2,711,397	2,912,413
Net current assets (A-B)		115,275,199	111,407,610
TOTAL		115,347,552	111,495,405
Notes to accounts	14		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors
of R System (Singapore) Pte. Ltd

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Cai Li Ting
[Director]

Place : New Delhi
Date: February 20, 2011

Place : Singapore
Date: February 20, 2011

Place : Singapore
Date: February 20, 2011

R SYSTEMS (SINGAPORE) PTE. LTD
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Profit and Loss Account for the year ended December 31, 2010

	Schedules	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
INCOME			
Revenue		20,061,290	15,632,251
Other income	10	6,239,663	5,428,901
TOTAL		26,300,953	21,061,152
EXPENDITURE			
Personnel expenses	11	12,855,284	9,627,166
Operating and other expenses	12	14,830,118	18,082,049
Depreciation /amortisation	3	19,057	6,195
Finance expenses	13	37,486	11,372
TOTAL		27,741,945	27,726,782
Loss for the period before tax		(1,440,992)	(6,665,630)
Current tax expenses / (credit)		97,881	(2,391)
Loss for the period after tax		(1,538,873)	(6,663,239)
Notes to accounts	14		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors
of R System (Singapore) Pte. Ltd

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

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Cai Li Ting
[Director]

Place : New Delhi
Date: February 20, 2011

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R SYSTEMS (SINGAPORE) PTE. LTD
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Cash Flow Statement for the year ended December 31, 2010

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
A. Cash flow from operating activities		
Net loss before taxation	(1,440,992)	(6,665,630)
Adjustments for:		
Depreciation / amortisation	19,057	6,195
Provision for doubtful debts / advances	-	923,912
Provisions doubtful debts / advances written back	(782,192)	-
Unrealised foreign exchange loss / (gain)	142,222	(79,758)
Interest income	(5,457,471)	(5,428,901)
Operating loss before working capital changes	(7,519,376)	(11,244,182)
Movements in working capital :		
Decrease / (Increase) in sundry debtors	1,875,859	(2,133,806)
Decrease / (Increase) in other current assets	(341,096)	(127,435)
Decrease / (Increase) in intra-group balances	1,869,059	9,318,548
Increase / (Decrease) in provisions	(261,411)	63,832
Increase / (Decrease) in current liabilities	(78,768)	(330,316)
Cash used in operations	(4,455,733)	(4,453,359)
Less: Taxes Paid	97,887	631,907
Net cash used in operating activities	(4,553,620)	(5,085,266)
B. Cash flows from investing activities		
Purchase of fixed assets	-	(92,918)
Interest received	5,457,471	5,428,901
Net cash from investing activities	5,457,471	5,335,983
C. Cash flows from / (used in) financing activities		
Net cash from / (used in) financing activities	-	-
Net increase in cash and cash equivalents (A + B + C)	903,851	250,717
Cash and cash equivalents at the beginning of the year	2,361,609	2,110,892
Cash and cash equivalents at the end of the year	3,265,460	2,361,609

As per our report of even date

For S.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors
of R System (Singapore) Pte. Ltd

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CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

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Place : New Delhi
Date: February 20, 2011

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R SYSTEMS (SINGAPORE) PTE. LTD
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010	As at December 31, 2009
	Rs.	Rs.
Schedule 1: Share capital		
40,70,000 Ordinary Shares of no Par Value	105,930,226	105,930,226
	105,930,226	105,930,226
Schedule 2: Reserves and Surplus		
Profit and loss account		
Carry forward Losses as per the last account	(15,643,161)	(8,979,922)
Add: Transfer of loss from Profit and Loss Account	(1,538,873)	(6,663,239)
	(17,182,034)	(15,643,161)
Foreign currency translation reserve		
Balance as per last account	21,208,340	26,174,390
Add: Current year translation differences	5,391,020	(4,966,050)
	26,599,360	21,208,340
	9,417,326	5,565,179

R SYSTEMS (SINGAPORE) PTE. LTD
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

Schedule 3: Fixed Assets

(Amount in Rs.)

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	AS ON 1.01.2010	ADDITION DURING THE YEAR	ADJUSTMEN DURING THE YEAR	TOTAL 31.12.2010	UPTO 1.01.2010	FOR THE THE YEAR	ADJUSTMEN DURING THE YEAR	TOTAL 31.12.2010	AS AT 31.12.2010	AS AT 31.12.2009
Computer hardware	314,526	-	(15,361)	329,887	226,731	19,057	(11,746)	257,534	72,353	87,795
Office & electrical equipments	24,317	-	(1,187)	25,504	24,317	-	(1,187)	25,504	-	-
Computer software	29,802	-	(1,455)	31,257	29,802	-	(1,455)	31,257	-	-
TOTAL	368,645	-	(18,003)	386,648	280,850	19,057	(14,388)	314,295	72,353	87,795
Previous Year	304,247	94,065	29,667	368,645	304,247	6,195	29,592	280,850	87,795	-

R SYSTEMS (SINGAPORE) PTE. LTD
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT
Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 4: Sundry debtors		
Debts outstanding for more than six months		
Unsecured, considered good	2,302,714	-
Considered doubtful	170,941	935,072
Other debts		
Unsecured, considered good	2,018,106	5,216,218
Considered doubtful	-	-
	4,491,761	6,151,290
Less : Provision for doubtful debts	170,941	935,072
	4,320,820	5,216,218
Schedule 5: Cash and bank balances		
Cash on hand	34,730	1,015
Balance with non schedule banks	3,230,730	2,360,594
	3,265,460	2,361,609
Schedule 6: Other current assets		
Unbilled revenue	353,135	-
	353,135	-
Schedule 7: Loans and advances		
(Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	206,984	180,296
Advance receivables from R Systems, Inc.	192,007	-
Advance receivables from Indus Software, Inc.	29,657,766	30,833,195
Advance receivables from ECnet Limited.	79,990,424	75,728,705
	110,047,181	106,742,196
Schedule 8: Current liabilities		
Sundry creditors	1,866,506	2,305,637
Payables to R Systems International Limited	557,739	77,782
Other liabilities	259,902	244,058
Deffered revenue	-	52,881
	2,684,147	2,680,358
Schedule 9: Provisions		
Provision for leave encashment	27,250	232,055
	27,250	232,055

R SYSTEMS (SINGAPORE) PTE. LTD
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
Schedule 10: Other income		
Interest income	5,457,471	5,428,901
Provisions doubtful debts / advances written back	782,192	-
	6,239,663	5,428,901
Schedule 11: Personnel expenses		
Salaries, wages and bonus	11,467,657	9,206,812
Contribution to provident fund and other funds	536,333	204,315
Staff welfare expenses	851,294	216,039
	12,855,284	9,627,166
Schedule 12: Operating and other expenses		
Recruitment and training expenses	206,308	2,256,475
Travelling and conveyance	69,880	133,282
Insurance	127,752	82,972
Provision for doubtful debts and advances	-	923,912
Communication costs	4,704	8,700
Printing and stationery	33,071	2,356
Advertising and sales promotion	-	2,447
Brokeage & commission	839	13,905
Legal and professional expenses	4,314,165	3,389,937
Membership & Subscription Fees	13,418	13,087
Loss on exchange fluctuation	2,368,118	857,590
Management fees	7,688,743	10,373,442
Miscellaneous expenses	3,120	23,944
	14,830,118	18,082,049
Schedule 13: Financial expenses		
Bank charges	37,486	11,372
	37,486	11,372

SCHEDULE – 14: NOTES TO ACCOUNTS

BACKGROUND:-

1. Company Overview

R Systems (Singapore) Pte Ltd. (The "Company") is a wholly owned subsidiary of R Systems International Limited a company incorporated in India. The company was incorporated under the laws of the Singapore in 1997 and become the subsidiary of R Systems International Limited since September 19, 2000 and having its registered office at 15, Changi Business Park Central 1 # 05-01 Singapore 486073.

The Company provides software development and rendering consultancy services primarily in Singapore.

2. Statement of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual and going concern basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

All figures are in Rupees except where expressly stated.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

(c) 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.

(d) Depreciation

Depreciation is provided on Straight Line Method over the remaining 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:

Category of fixed assets	Estimated useful life
Computer Hardware	3 to 5 years
Office & Electric Equipment	5 years

(e) 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, fixed assets / intangibles are depreciated / amortised on the revised carrying amount over its remaining useful life.

(f) Intangibles

Computer software

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

(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) 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.

Revenue from software development and maintenance services projects comprise income from time-and-material and fixed-price contracts.

Revenue associated with software development and maintenance services / customisation of products rendered on time and materials basis is recognised when services are rendered. The same is calculated based on man-hours incurred for rendering services.

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

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.

Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

(i) Foreign currency translation

(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.

(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 expense in the year in which they arise except those arising from investments in non-integral operations.

R SYSTEM (SINGAPORE) PTE LTD., SINGAPORE
NOTES TO ACCOUNTS

(iv) Foreign currency translation

The functional currency of the Company is Singapore Dollar (SGD) but the financial statement has been prepared in Indian Rupees. In translating the financial statements, the assets and liabilities, both monetary and non-monetary, are translated at the closing rate; income and expense items are translated at yearly average exchange rates; and all resulting exchange differences are accumulated in a foreign currency translation reserve.

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2010, the rates used were SGD 1= Rs. 33.55. For translating assets and liabilities at the year-end, the rates used were SGD 1= Rs. 34.73.

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2009, the rates used were SGD 1= Rs. 32.72. For translating assets and liabilities at the year-end, the rates used were SGD 1= Rs. 33.30.

(j) **Employee benefits**

Retirement benefits in the form of defined contribution schemes 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 funds.

(k) **Income taxes**

Income tax on the profit or loss for the year comprises of current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date in accordance with the tax laws of the country where such operations are domiciled and any adjustment to tax payable in respect of previous year.

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 recognized 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. If the company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits.

(l) **Provision**

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

(m) **Segment reporting policies**

The Company operates one business segment, providing software development and rendering consultancy services in Singapore.

(n) **Cash and cash equivalents**

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

R SYSTEM (SINGAPORE) PTE LTD., SINGAPORE
 NOTES TO ACCOUNTS

3. Related Party Disclosures

Holding Company	R Systems International Limited
Fellow Subsidiaries	R Systems, Inc., USA Indus Software, Inc., USA R Systems Solutions, Inc., USA R Systems N.V., Belgium R Systems Europe B.V., Netherlands R Systems S.A.S., France ECnet Ltd, Singapore

Following are the subsidiaries of ECnet Ltd, Singapore

ECnet (M) Sdn Bhd, Malaysia
 ECnet Systems (Thailand) Co. Ltd., Thailand
 ECnet (Shanghai) Co. Ltd., People's Republic of China
 ECnet (Hong Kong) Ltd., Hong Kong
 ECnet, Inc., USA
 ECnet Kabushiki Kaisha, Japan

Key management personnel	Satinder Singh Rekhi, Director Mrs. Harpreet Rekhi, Director Tarun Shankar Mathur, Director Cai Li Ting, Director Tan Cant Wee, Director (Resigned in 2010)
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Details of transactions with related parties for year ended December 31, 2010 and December 31, 2009:

Particulars	December 31, 2010	December 31, 2009
	Rs.	Rs.
<u>Holding Company - R Systems International Ltd</u>		
-Sub-contracting Expenses	1,894,740	1,243,679
-Amount payable	557,739	77,782
<u>Fellow Subsidiary - EC net Ltd</u>		
-Sub-contracting Expenses	1,938,414	1,840,349
-Interest received	3,880,468	3,784,641
-Management fees paid	7,688,743	10,373,442
-Amount receivable	79,990,424	75,728,705
<u>Fellow Subsidiary - Indus Software, Inc.</u>		
-Interest received	1,574,743	1,642,236
-Amount receivable	29,657,766	30,833,195
<u>Fellow Subsidiary - R System, Inc.</u>		
-Amount receivable	192,007	-

R SYSTEM (SINGAPORE) PTE LTD., SINGAPORE
NOTES TO ACCOUNTS

R Systems International Limited, being the holding company of R Systems (Singapore) Pte Limited had granted option to one of the employee of R Systems (Singapore) Pte Limited under "R Systems International Limited Year 2004 Employee Stock Option Plan". In consequence to the said grant of option to the employee, R Systems International Limited had incurred certain cost for issuing such options / shares. The said cost is insignificant.

Details of Loan given to ECnet Limited, a fellow subsidiary incorporated in Singapore:

- The outstanding amount due is Rs. 80,348,550 (equivalent to SGD 2,313,520) and Rs. 77,047,157 (equivalent to SGD 2,313,520), as at December 31, 2010 and 2009, respectively.
- The maximum amount due is Rs 80,348,550 (equivalent to SGD 2,313,520) during the year 2010.
- The amount due are non-trade, interest is charged at 5% (2009: 5%) per annum and is repayable upon demand and are to be settled in cash.

Details of Loan given to Indus Software, Inc. a fellow subsidiary incorporated in USA:

- The outstanding amount due is Rs. 27,043,556 (equivalent to SGD 778,680) and Rs. 28,042,458 (equivalent to SGD 842,040), as at December 31, 2010 and 2009, respectively.
- The maximum amount due is Rs. 27,043,556 (equivalent to SGD 778,680) during the year 2010
- The amount due are non-trade, unsecured, interest is charged at 5.5% (2009: 5.5%) per annum and is repayable upon demand and are to be settled in cash.

4. The Board of Directors of R Systems International Limited at its meeting held on October 30, 2010 granted its approval for corporate restructuring of its Singapore Operations which involves conversion of loan by R Systems International Limited to ECnet Limited into equity investment and thereafter amalgamation of ECnet Limited and R Systems Singapore Limited, subject to corporate and regulatory approvals in India and Singapore.
5. The Company has a policy of recognising deferred tax assets only to the extent that there is reasonable certainty or virtual certainty supported by convincing evidence as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realised.
During the year ended December 31 2010 and 2009, based on the management estimate of future taxable income no deferred tax has been recognised in the books of accounts.
6. Previous year figures have been regrouped / reclassified where necessary to make them comparable to the current year classification

As per our report of even date.

For S.K. RELAN & CO.
Firm registration number: 001720N
Chartered Accountants

For and on behalf of the Board of Directors of R Systems (Singapore) Pte Ltd., Singapore

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
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Sd/-
Cai Li Ting
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore.
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AUDITORS' REPORT

To
The Members,
R Systems, Inc., USA

1. We have audited the attached Balance Sheet of R Systems, Inc. a wholly-owned subsidiary of R Systems International Limited, India, as at 31st December, 2010 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 and have been prepared in accordance with 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 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. We have obtained all the information and explanations, which to best of our knowledge and belief were necessary for the purposes of our audit and subject to the Notes on accounts, we report that
 - a) In our opinion the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of accounts;
 - b) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Notes thereon give a true and fair view
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2010;
 - ii) in the case of the Profit and Loss Account, of the **PROFIT** for the year ended on that date;
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For S.K.RELAN & CO.
Firm Registration No. 001720N
Chartered Accountants

Sd/-
CA. S.K. RELAN
Membership No.12149

PLACE: NEW DELHI
DATED: February 20, 2011

R SYSTEMS, INC.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Balance Sheet as at December 31, 2010

	Schedules	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	27,800,158	27,800,158
Reserve and surplus	2	79,500,366	73,323,816
TOTAL		107,300,524	101,123,974
APPLICATION OF FUNDS			
Fixed assets			
Gross block	3	70,906,135	69,963,734
Less : Accumulated depreciation / amortisation		48,305,231	40,771,752
Net block		22,600,904	29,191,982
Current assets, loans and advances			
Sundry debtors	4	92,154,771	79,661,820
Cash and bank balances	5	37,971,553	29,623,408
Other current assets	6	9,454,642	23,635,339
Loans and advances	7	29,059,990	24,125,591
(A)		168,640,956	157,046,158
Less : Current liabilities and provisions			
Current liabilities	8	76,657,978	75,584,589
Provisions	9	7,283,358	9,529,577
(B)		83,941,336	85,114,166
Net current assets (A-B)		84,699,620	71,931,992
TOTAL		107,300,524	101,123,974
Notes to accounts	14		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors of R Systems, Inc.

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Satinder Singh Rekhi
[Director]

Sd/-
Harpreet Rekhi
[Director]

Place : New Delhi
Date: February 20, 2011

Place : CA, U.S.A
Date: February 20, 2011

Place : CA, U.S.A
Date: February 20, 2011

R SYSTEMS, INC.**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT****Profit and Loss Account for the year ended December 31, 2010**

	Schedules	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
INCOME			
Revenue		539,730,923	582,171,010
Other income	10	718,702	110,536
TOTAL		540,449,625	582,281,546
EXPENDITURE			
Personnel expenses	11	261,614,812	292,632,831
Operating and other expenses	12	258,438,962	306,559,578
Depreciation /amortisation	3	9,137,851	9,467,800
Finance expenses	13	645,972	705,836
TOTAL		529,837,597	609,366,045
Profit / (loss) before tax		10,612,028	(27,084,499)
Current tax expenses / (credit)		677,631	(1,854,684)
Profit / (loss) after tax		9,934,397	(25,229,815)
Notes to accounts	14		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors of R Systems, Inc.

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Satinder Singh Rekhi
[Director]

Sd/-
Harpreet Rekhi
[Director]

Place : New Delhi
Date: February 20, 2011

Place : CA, U.S.A
Date: February 20, 2011

Place : CA, U.S.A
Date: February 20, 2011

R SYSTEMS, INC.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Cash Flow Statement for the year ended December 31, 2010

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
A. Cash flow from operating activities		
Net profit/(loss) before taxation	10,612,028	(27,084,499)
Adjustments for:		
Depreciation / amortization	9,137,851	9,467,800
Loss on Sale of Assets	-	649,120
Debts and advances provided / written off	4,957,673	11,157,356
Unrealised foreign exchange loss / (gain)	(1,216,486)	(1,992,241)
Interest income	(689,875)	(107,833)
Interest expense	-	12,357
Operating profit/(loss) before working capital changes	22,801,191	(7,897,940)
Movements in working capital :		
Decrease / (Increase) in sundry debtors	(20,545,831)	56,390,941
Decrease / (Increase) in other current assets	13,578,747	5,461,921
Decrease / (Increase) in loans and advances	236,780	-
Decrease / (Increase) in intra-group balances	(1,565,207)	(24,600,589)
Increase / (Decrease) in provisions	(1,964,960)	(5,807,233)
Increase / (Decrease) in current liabilities	(744,256)	(13,396,484)
Cash generated from operations	11,796,464	10,150,616
Less: Taxes Paid	654,789	(1,854,683)
Net cash from operating activities	11,141,675	12,005,299
B. Cash flows used in investing activities		
Purchase of fixed assets	(3,483,405)	(13,301,501)
Proceeds from sale of fixed assets	-	229,277
Interest received	689,875	107,833
Net cash used in investing activities	(2,793,530)	(12,964,391)
C. Cash flows used in financing activities		
Interest paid	-	(12,357)
Net cash from used in financing activities	-	(12,357)
Net increase in cash and cash equivalents (A + B + C)	8,348,145	(971,449)
Cash and cash equivalents at the beginning of the year	29,623,408	30,594,857
Cash and cash equivalents at the end of the year	37,971,553	29,623,408

As per our report of even date

For S.K. Relan & Co
 Firm Registration No. 001720N
 Chartered Accountants

For and on behalf of the Board of Directors
 of R Systems, Inc.

Sd/-
 CA. S.K. RELAN
 Membership No. 12149

Sd/-
 Satinder Singh Rekhi
 [Director]

Sd/-
 Harpreet Rekhi
 [Director]

Place : New Delhi
 Date: February 20, 2011

Place : CA, U.S.A
 Date: February 20, 2011

Place : CA, U.S.A
 Date: February 20, 2011

R SYSTEMS, INC.**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT****Schedules to the Accounts**

	As at December 31, 2010	As at December 31, 2009
	Rs.	Rs.
Schedule 1: Share capital		
<u>Authorised Share Capital</u>		
5,000 Common Stock, no par value	-	-
<u>Issued, subscribed and paid up capital</u>		
2,000 (Previous year 2,000) Common Stock, no par value	27,800,158	27,800,158
	27,800,158	27,800,158
Schedule 2: Reserves and surplus		
Profit and Loss account		
Balance as per last account	71,879,533	97,109,348
Add: Transfer of profit / (loss) from Profit and loss account	9,934,397	(25,229,815)
	81,813,930	71,879,533
Foreign currency translation reserve		
Balance as per last account	1,444,283	9,106,980
Add: Current year translation differences	(3,757,847)	(7,662,697)
	(2,313,564)	1,444,283
Total	79,500,366	73,323,816

R SYSTEMS, INC.

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

Schedule 3: Fixed assets

(Amount in Rs.)

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	AS ON 1.1.2010	ADDITION DURING THE YEAR	ADJUSTMENT DURING THE YEAR	TOTAL 31.12.2010	UPTO 1.1.2010	FOR THE THE YEAR	ADJUSTMENT DURING THE YEAR	TOTAL 31.12.2010	AS AT 31.12.2010	AS AT 31.12.2009
Building- leasehold	5,449,145	-	193,154	5,255,991	3,655,502	401,106	136,571	3,920,037	1,335,954	1,793,643
Computer hardware	37,460,771	2,021,848	1,328,184	38,154,435	21,506,763	5,086,137	850,894	25,742,006	12,412,429	15,954,008
Furniture & fixtures	4,390,549	-	155,626	4,234,923	4,107,290	52,537	146,531	4,013,296	221,627	283,259
Office & electrical equipments	952,086	198,478	33,746	1,116,818	818,388	155,051	31,709	941,730	175,088	133,698
Vehicles	15,404,374	-	546,143	14,858,231	7,616,767	1,586,468	297,655	8,905,580	5,952,651	7,787,607
Computer Software	6,306,809	1,202,515	223,587	7,285,737	3,067,042	1,856,552	141,012	4,782,582	2,503,155	3,239,767
TOTAL	69,963,734	3,422,841	2,480,440	70,906,135	40,771,752	9,137,851	1,604,372	48,305,231	22,600,904	29,191,982
Previous year	69,089,767	12,825,074	11,951,107	69,963,734	40,948,467	9,467,800	9,644,515	40,771,752	29,191,982	28,141,299

R SYSTEMS, INC.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 4: Sundry debtors		
Debts outstanding for more than six months		
Unsecured, considered good	6,264,849	6,083,289
Considered doubtful	14,080,781	9,897,592
Other debts		
Unsecured, considered good	85,889,921	73,578,531
Considered doubtful	2,001,287	1,725,025
	108,236,838	91,284,437
Less : Provision for doubtful debts	16,082,067	11,622,617
	92,154,771	79,661,820
Schedule 5: Cash and bank balances		
Balance with non schedule banks	37,971,553	29,623,408
	37,971,553	29,623,408
Schedule 6: Other current assets		
Unbilled revenue	9,454,642	23,635,339
	9,454,642	23,635,339
Schedule 7: Loans and advances (Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	7,882,280	8,239,721
Advances receivables from R Systems Solutions, Inc.	23,258,945	17,055,886
Advances receivables from R Systems Internataional Limited	-	702,242
Advances receivables from ECnet Limited.	-	110,393
Advances receivables from R Systems B.V.	-	175,083
Deposits - others	32,725	33,928
	31,173,950	26,317,253
Less Provision for doubtful advance	2,113,960	2,191,662
	29,059,990	24,125,591
Schedule 8: Current liabilities		
Sundry creditors	67,690,214	70,158,538
Payables to R Systems Internataional Limited	310,413	-
Payables to Indus Software, Inc.	7,298,486	3,051,441
Payables to ECnet Limited.	456,792	-
Payables to R Systems (Singapore) Pte Ltd.	192,183	-
Advance from customers	-	578,585
Bank overdraft	709,890	1,438,598
Other liabilities	-	357,427
	76,657,978	75,584,589
Schedule 9: Provisions		
Provision for income tax	1,185,186	1,205,479
Provision for leave encashment	6,098,172	8,324,098
	7,283,358	9,529,577

R SYSTEMS, INC.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
Schedule 10: Other income		
Interest Income	689,875	107,833
Miscellaneous income	28,827	2,703
	718,702	110,536
Schedule 11: Personnel expenses		
Salaries, wages and bonus	244,542,015	273,325,802
Contribution to statutory and other funds	17,072,797	19,307,029
	261,614,812	292,632,831
Schedule 12: Operating and other expenses		
Recruitment and training expenses	5,146,348	3,671,719
Travelling and conveyance	19,700,768	15,139,492
Insurance	1,897,576	2,367,010
Repair and maintenance	2,746,796	3,403,537
Provision for doubtful debts and advances	4,957,673	11,157,356
Commission other	6,106,084	5,603,518
Membership & Subscription Fees	811,165	728,860
Rent - premises	3,016,515	6,332,880
Rent - equipment	704,813	787,942
Power and fuel	302,200	291,158
Communication costs	1,511,866	1,809,311
Printing and stationery	558,441	762,793
Advertising and sales promotion	713,767	703,133
Legal and professional expenses	209,243,638	252,236,764
Loss on sale of Assets	-	649,120
Foreign exchange fluctuation (net)	42,121	16,846
Rates and taxes	839,535	711,435
Miscellaneous expenses	139,656	186,704
	258,438,962	306,559,578
Schedule 13: Financial expenses		
Interest Expense	-	12,357
Bank charges	645,972	693,479
	645,972	705,836

R SYSTEMS, INC., USA
NOTES TO ACCOUNTS

Schedule 14: Notes to accounts

1. Company Overview

R Systems, Inc. (The "Company") is a wholly owned subsidiary of R Systems International Limited a company incorporated in India. The Company provides information technology services for customers primarily in the United States of America. The company was incorporated under the laws of the State of California on March 9, 1993 and having its registered office at 5000, Windplay Drive, Suite 5, EL Dorado Hills, CA 95762, U.S.A.

2. Statement of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual and going concern basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

All figures are in Rupees except where expressly stated.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

(c) 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.

(d) Depreciation

Depreciation is provided on Straight Line Method over the remaining 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>
Computer Hardware	5 years
Office Furniture	7 years
Office Equipments	5 years
Leasehold Improvements	7 years
Vehicles	7 years

Individual assets costing up to US \$ 250 are fully depreciated in the year of purchase.

(e) 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, fixed assets / intangibles are depreciated / amortised on the revised carrying amount over its remaining useful life.

(f) Intangibles

Computer software

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

(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) 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.

Revenue from software development and maintenance services projects comprise income from time-and-material and fixed-price contracts.

Revenue associated with software development and maintenance services / customisation of products rendered on time and materials basis is recognised when services are rendered. The same is calculated based on man-hours incurred for rendering services.

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

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.

Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

(i) Foreign currency translation

(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.

(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 expense in the year in which they arise except those arising from investments in non-integral operations.

R SYSTEMS, INC., USA
NOTES TO ACCOUNTS

(iv) Foreign currency translation

The functional currency of the Company is United States Dollar (US \$) but the financial statements has been prepared in Indian Rupees. In translating the financial statements, the assets and liabilities, both monetary and non-monetary, are translated at the closing rate; income and expense items are translated at yearly average exchange rates; and all resulting exchange differences are accumulated in a foreign currency translation reserve.

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2010, the rates used were US \$ 1= Rs. 45.68. For translating assets and liabilities at the year-end, the rates used were US \$ 1= Rs. 44.89.

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2009, the rates used were US \$ 1= Rs. 48.27. For translating assets and liabilities at the year-end, the rates used were US \$ 1= Rs. 46.54.

(j) **Employee benefits**

Retirement benefits in the form of defined contribution schemes 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 funds.

(k) **Income taxes**

Income tax on the profit or loss for the year comprises of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date in accordance with the tax laws of the country where such operations are domiciled and any adjustment to tax payable in respect of previous year.

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 recognized 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. If the company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits.

(l) **Provision**

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

(m) **Segment reporting policies**

The Company operates one business segment i.e. providing information technology services in the United States of America.

(n) **Cash and cash equivalents**

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

R SYSTEMS, INC., USA
NOTES TO ACCOUNTS

3. Related Party Disclosures

Holding Company	R Systems International Limited
Fellow Subsidiaries	R Systems (Singapore) Pte Ltd, Singapore Indus Software, Inc., USA R Systems Solutions, Inc., USA R Systems N.V., Belgium R Systems Europe B.V., Netherlands R Systems S.A.S., France ECnet Ltd, Singapore

Following are the subsidiaries of ECnet Ltd, Singapore

ECnet (M) Sdn Bhd, Malaysia
ECnet Systems (Thailand) Co. Ltd., Thailand
ECnet (Shanghai) Co. Ltd., People's Republic of China
ECnet (Hong Kong) Ltd., Hong Kong
ECnet, Inc., USA
ECnet Kabushiki Kaisha, Japan

Key management personnel (directors) and their relatives	Satinder Singh Rekhi, Director Mrs. Harpreet Rekhi, Director Vinay Narjit Singh Behl, Director (appointed in 2010) Sartaj Singh Rekhi (related to Satinder Singh Rekhi) Executive Manager
--	--

Details of transactions with related parties for year ended December 31, 2010 and December 31, 2009:

Particulars	For the year ended	
	December 31, 2010	December 31, 2009
Holding Company		
Services received	17,135,034	30,012,719
Marketing commission paid	6,106,084	5,603,518
Amount receivable	-	702,242
Amount payables	310,413	-
Indus Software, Inc.		
Computer programming services rendered	-	159,287
Sub-contracting services received	65,202,032	61,947,920
Amount payables	7,298,486	3,051,441
R Systems Solutions, Inc.		
Interest Received	686,768	102,571
Amount receivable	23,258,945	17,055,886
ECnet Ltd		
Amount receivable	-	110,393
Amount payables	456,792	-
R Systems Singapore		
Amount payables	192,183	-
R Systems Europe BV		
Amount receivable	-	175,083
Remuneration to key management personnel and their relatives		
Sartaj Singh Rekhi	3,110,674	2,740,197
Vinay Narjit Singh Behl	114,027	-
Rent		
Satinder Singh Rekhi	2,192,832	5,357,848

R SYSTEMS, INC., USA
NOTES TO ACCOUNTS

In the earlier years, R Systems International Limited, being the holding company of R Systems, Inc. had granted options to few employees of R Systems, Inc. under R Systems International Ltd. - Year 2004 Employee Stock Option Plan and R Systems International Limited Employee Stock Option Scheme 2007. In consequence to the said grant of options to the employees, R Systems International Limited had incurred certain cost for issuing such options / shares. The said cost was insignificant.

Details of Loan given to R Systems Solution, Inc., USA, a fellow subsidiary:

- The outstanding amount due is Rs. 8,978,000 (equivalent to \$ 200,000) and Rs.4,644,500 (equivalent to \$ 200,000), as at December 31, 2010 and 2009, respectively.
- The maximum amount due is Rs. 16,732,209 (equivalent to \$ 372,738) during the year 2010.
- The amount due are non-trade, interest is charged at 8.5% (2009: 8.5%) per annum and are due on demand.

4. 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, 2010 Rs.	Year ended December 31, 2009 Rs.
Lease payments for the year	3,075,127	6,912,681
Minimum Lease Payments:		
Not later than one year	3,094,447	2,190,359
Later than one year but not later than five years	2,086,846	919,956
Later than five years	-	-

The operating lease arrangements extend for a maximum of 3 years from their respective dates of inception. None of the operating lease arrangements have price escalation clause.

5. The Company has a policy of recognising deferred tax assets only to the extent that there is reasonable certainty or virtual certainty supported by convincing evidence as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realised. During the year ended December 31 2010 and 2009, based on the management estimate of future taxable income no deferred tax has been recognised in the books of accounts.
6. **Contingent Liability**
The Company is party to various legal proceedings arising in the normal course of business. In the opinion of management, resolution of these matters will not have a material adverse effect on its financial position or results of operations.
7. Previous year figures have been regrouped / reclassified where necessary to make them comparable to the current year classification

As per our report of even date.

For S.K. RELAN & CO.
 Firm registration number: 001720N
 Chartered Accountants

For and on behalf of the Board of Directors of R Systems, Inc., USA

Sd/-
 CA. S.K. RELAN
 Membership No. 12149

Sd/-
 Satinder Singh Rekhi
 [Director]

Sd/-
 Harpreet Rekhi
 [Director]

Place : New Delhi
 Date : February 20, 2011

Place: CA, U.S.A.
 Date : February 20, 2011

Place : CA, U.S.A.
 Date : February 20, 2011

AUDITORS' REPORT

To
The Members,
Indus Software, Inc., USA

We have audited the attached Balance Sheet of Indus Software, Inc. a wholly-owned subsidiary of R Systems International Limited, India, as at 31st December, 2010 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 and have been prepared in accordance with accounting principles generally accepted in India. Our responsibility is to express an opinion on these financial statements based on our audit.

1. 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.

2. We have obtained all the information and explanations, which to best of our knowledge and belief were necessary for the purposes of our audit and subject to the Notes on accounts, we report that-
 - a) In our opinion the Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of accounts;

 - b) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Notes thereon give a true and fair view
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2010;

 - ii) in the case of the Profit and Loss Account, of the **PROFIT** for the period ended on that date;

 - iii) in the case of the Cash Flow Statement, of the cash flow for the year ended on that date;

For S.K.RELAN & CO.
Firm Registration No. 001720N
Chartered Accountants

Sd/-
CA. S.K. RELAN
Membership No.12149

PLACE: NEW DELHI
DATED: February 20, 2011

INDUS SOFTWARE INC.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Balance Sheet as at December 31, 2010

	Schedules	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	10,785,738	10,785,738
TOTAL		10,785,738	10,785,738
APPLICATION OF FUNDS			
Current assets, loans and advances			
Sundry debtors	2	7,298,495	3,051,450
Cash and bank balances	3	1,511,357	4,794,272
Other current assets	4	1,604,952	2,568,589
Loans and advances	5	73,933	31,275
(A)		10,488,737	10,445,586
Less : Current liabilities and provisions			
Current liabilities	6	30,476,145	32,660,804
Provisions	7	44,845	46,493
(B)		30,520,990	32,707,297
Net current assets (A-B)		(20,032,253)	(22,261,711)
Reserves & Surplus	8	30,817,991	33,047,449
TOTAL		10,785,738	10,785,738
Notes to accounts	12		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors of Indus Software, Inc.

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Satinder Singh Rekhi
[Director]

Sd/-
Harpreet Rekhi
[Director]

Place : New Delhi
Date : February 20, 2011

Place : CA, U.S.A
Date : February 20, 2011

Place : CA, U.S.A
Date : February 20, 2011

**INDUS SOFTWARE INC.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**

Profit and Loss Account for the year ended December 31, 2010

	Schedules	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
INCOME			
Revenue		65,202,032	61,947,920
TOTAL		65,202,032	61,947,920
EXPENDITURE			
Personnel expenses	9	60,880,188	57,438,109
Operating and other expenses	10	988,100	1,187,125
Finance expenses	11	1,576,098	1,665,277
TOTAL		63,444,386	60,290,511
Profit before tax		1,757,646	1,657,409
Current tax expenses		291,966	134,091
Profit after tax		1,465,680	1,523,318
Notes to accounts	12		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors of Indus Software, Inc.

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Satinder Singh Rekhi
[Director]

Sd/-
Harpreet Rekhi
[Director]

Place : New Delhi
Date : February 20, 2011

Place : CA, U.S.A
Date : February 20, 2011

Place : CA, U.S.A
Date : February 20, 2011

INDUS SOFTWARE INC.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT
Cash Flow Statement for the year ended December 31, 2010

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
A. Cash flow from operating activities		
Net profit before taxation	1,757,646	1,657,409
Adjustments for:		
Unrealised foreign exchange loss / (gain)	(114,913)	(239,928)
Interest expense	1,576,098	1,665,277
Operating profit before working capital changes	3,218,831	3,082,758
Movements in working capital :		
Decrease / (Increase) in sundry debtors	-	1,285,052
Decrease / (Increase) in other current assets	(44,542)	127,834
Decrease / (Increase) in intra-group balances	(3,795,518)	(1,635,249)
Increase / (Decrease) in current liabilities	(793,622)	1,563,716
Cash generated from / (used in) operations	(1,414,851)	4,424,111
Less: Taxes Paid	291,966	85,870
Net cash from / (used in) operating activities	(1,706,817)	4,338,241
B. Cash flows from / (used in) investing activities	-	-
Net cash from / (used in) investing activities	-	-
C. Cash flows used in financing activities		
Interest paid	(1,576,098)	(1,665,277)
Net cash used in financing activities	(1,576,098)	(1,665,277)
Net increase in cash and cash equivalents (A + B + C)	(3,282,915)	2,672,964
Cash and cash equivalents at the beginning of the year	4,794,272	2,121,308
Cash and cash equivalents at the end of the year	1,511,357	4,794,272

As per our report of even date

For S.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors of
Indus Software Inc.

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Satinder Singh Rekhi
[Director]

Sd/-
Harpreet Rekhi
[Director]

Place : New Delhi
Date : February 20, 2011

Place : CA, U.S.A
Date : February 20, 2011

Place : CA, U.S.A
Date : February 20, 2011

INDUS SOFTWARE INC.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010	As at December 31, 2009
	Rs.	Rs.
Schedule 1: Share capital		
<u>Authorised</u>		
250,000 of Common Stock of no par value	-	-
<u>Issued, subscribed and paid up capital</u>		
243,750 of Common Stock of no par value	10,785,738	10,785,738
	10,785,738	10,785,738

INDUS SOFTWARE INC.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 2: Sundry debtors		
Debts outstanding for more than six months		
Unsecured, considered good	-	-
Considered doubtful	385,156	399,313
Other debts		
Unsecured, considered good *	7,298,495	3,051,450
Considered doubtful	-	-
	7,683,651	3,450,763
Less : Provision for doubtful debts	385,156	399,313
	7,298,495	3,051,450
* Included in Sundry debtors are:		
Dues from companies under the same management		
-R Systems, Inc.	7,298,486	3,051,442
Schedule 3: Cash and bank balances		
Balance with non schedule banks	1,511,357	4,794,272
	1,511,357	4,794,272
Schedule 4: Other current assets		
Unbilled revenue	1,604,952	2,568,589
	1,604,952	2,568,589
Schedule 5: Loans and advances		
(Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	73,933	31,275
	73,933	31,275
Schedule 6: Current liabilities		
Sundry creditors	786,922	1,624,339
Payables to R Systems (Singapore) Pte. Ltd.	29,537,620	30,879,290
Advance from clients	151,603	157,175
	30,476,145	32,660,804
Schedule 7: Provisions		
Income tax	44,845	46,493
	44,845	46,493
Schedule 8: Reserves & Surplus		
Profit and loss account		
Carry forward Losses as per the last account	33,855,157	35,378,475
Add: Transfer of profit from Profit and Loss Account	(1,465,680)	(1,523,318)
	32,389,477	33,855,157
Foreign currency translation reserve		
Balance as per last account	(807,708)	758,190
Add: Current year translation differences	(763,778)	(1,565,898)
	(1,571,486)	(807,708)
	30,817,991	33,047,449

INDUS SOFTWARE INC.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
Schedule 9: Personnel expenses		
Salaries, wages and bonus	55,865,273	53,043,467
Contribution to statutory and other funds	5,014,915	4,394,642
	60,880,188	57,438,109
Schedule 10: Operating and other expenses		
Travelling and conveyance	-	93,980
Rates & taxes	-	14,819
Legal and professional expenses	988,100	1,078,326
	988,100	1,187,125
Schedule 11: Financial expenses		
Interest	1,576,098	1,665,277
	1,576,098	1,665,277

SCHEDULE – 12: NOTES TO ACCOUNTS

BACKGROUND:-

1. Company Overview

Indus Software, Inc., (The "Company") is a wholly owned subsidiary of R Systems International Limited a company incorporated in India. The Company provides information technology services, which includes professional IT staffing and consulting services, primarily to R Systems Inc., an affiliate wholly-owned by R Systems International Limited. The company was incorporated under the laws of the State of Delaware on November 6, 1996 and having its registered office at 5000, Windplay Drive, Suite 5, EL Dorado Hills, CA 95762, U.S.A.

2. Statement of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual and going concern basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

All figures are in Rupees except where expressly stated.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

(c) 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, fixed assets / intangibles are depreciated / amortised on the revised carrying amount over its remaining useful life.

(d) 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.

Revenue associated with software development and maintenance services / customisation of products rendered on time and materials basis is recognised when services are rendered. The same is calculated based on man-hours incurred for rendering services.

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.

Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

(e) Foreign currency translation

(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.

INDUS SOFTWARE, INC., USA
NOTES TO ACCOUNTS

(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 expense in the year in which they arise except those arising from investments in non-integral operations.

(iv) Foreign currency translation

The Functional currency of the company is United States Dollar (US \$) but the Financial Statements had been prepared in Indian Rupees. In translating the financial statements, the assets and liabilities, both monetary and non-monetary, are translated at the closing rate; income and expense items are translated at yearly average exchange rates; and all resulting exchange differences are accumulated in a foreign currency translation reserve.

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2010, the rates used were US \$ 1= Rs. 45.68. For translating assets and liabilities at the year-end, the rates used were US \$ 1= Rs. 44.89.

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2009, the rates used were US \$ 1= Rs. 48.27. For translating assets and liabilities at the year-end, the rates used were US \$ 1= Rs. 46.54.

(f) **Employee benefits**

Retirement benefits in the form of defined contribution schemes 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 funds.

(g) **Income taxes**

Income tax on the profit or loss for the year comprises of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date in accordance with the tax laws of the country where such operations are domiciled and any adjustment to tax payable in respect of previous year.

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 recognized 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. If the company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits.

(h) **Provision**

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

(i) **Segment reporting policies**

The Company operates one business segment, providing information technology services in the United States of America.

(j) **Cash and cash equivalents**

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

INDUS SOFTWARE, INC., USA
NOTES TO ACCOUNTS

3. Related Party Disclosures

Holding Company	R Systems International Limited
Fellow Subsidiaries	R Systems (Singapore) Pte Ltd, Singapore R Systems, Inc., USA R Systems Solutions, Inc., USA R Systems N.V., Belgium R Systems Europe B.V., Netherlands R Systems S.A.S., France ECnet Ltd, Singapore

Following are the subsidiaries of ECnet Ltd, Singapore

ECnet (M) Sdn Bhd, Malaysia
ECnet Systems (Thailand) Co. Ltd., Thailand
ECnet (Shanghai) Co. Ltd., People's Republic of China
ECnet (Hong Kong) Ltd., Hong Kong
ECnet, Inc., USA
ECnet Kabushiki Kaisha, Japan

Key management personnel	Satinder Singh Rekhi, Director Mrs. Harpreet Rekhi, Director
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Details of transactions with related parties for year ended December 31, 2010 and December 31, 2009:
(Amount in Rs.)

Particulars	December 31,	
	2010	2009
R Systems, Inc.		
Services received	-	159,287
Services rendered	65,202,032	61,947,920
Amount Receivable	7,298,486	3,051,442
R Systems Singapore Pte Ltd		
Interest Paid	1,576,098	1,665,277
Loan Payable	29,537,620	30,879,290

Details of Loan taken from R Systems Singapore Pte Ltd, Singapore, a fellow subsidiary:

- The outstanding amount due is Rs. 29,537,620 (equivalent to \$ 658,000) and Rs. 30,879,290 (equivalent to \$ 663,500), as at December 31, 2010 and 2009, respectively.
- The maximum amount due is Rs. 30,418,586 (equivalent to \$ 677,625) during the year 2010.
- The amount due are non-trade, interest is charged at 55% (2009: 5.5%) per annum and are due on demand.

4. The Company has a policy of recognising deferred tax assets only to the extent that there is reasonable certainty or virtual certainty supported by convincing evidence as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realised. During the year ended December 31 2010 and 2009, based on the management estimate of future taxable income no deferred tax has been recognised in the books of accounts.

INDUS SOFTWARE, INC., USA
NOTES TO ACCOUNTS

5. Previous year figures have been regrouped / reclassified where necessary to make them comparable to the current year classification

As per our report of even date.

For S.K. RELAN & CO.
Firm registration number: 001720N
Chartered Accountants

For and on behalf of the Board of Directors of Indus Software, Inc., USA

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Satinder Singh Rekhi
[Director]

Sd/-
Harpreet Rekhi
[Director]

Place : New Delhi
Date : February 20, 2011

Place : CA, U.S.A.
Date : February 20, 2011

Place : CA, U.S.A.
Date : February 20, 2011

AUDITORS' REPORT

To
The Members,
R Systems Solutions, Inc., USA

1. We have audited the attached Balance Sheet of R Systems Solutions, Inc. a wholly-owned subsidiary of R Systems International Limited, India, as at 31st December, 2010 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 and have been prepared in accordance with 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 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. We have obtained all the information and explanations, which to best of our knowledge and belief were necessary for the purposes of our audit and subject to the Notes on accounts, we report that-
 - a) In our opinion the Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of accounts;
 - b) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Notes thereon give a true and fair view
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2010;
 - ii) in the case of the Profit and Loss Account, of the **LOSS** for the period ended on that date;
 - iii) in the case of the Cash Flow Statement, of the cash flow for the year ended on that date;

For S.K.RELAN & CO.
Firm Registration No. 001720N
Chartered Accountants

Sd/-
CA. S.K. RELAN
Membership No.12149

PLACE: NEW DELHI
DATED: February 20, 2011

R SYSTEMS SOLUTIONS, INC.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Balance Sheet as at December 31, 2010

	Schedules	As at December 31 , 2010 Rs.	As at December 31 , 2009 Rs.
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	82,727,400	82,727,400
TOTAL		82,727,400	82,727,400
APPLICATION OF FUNDS			
Fixed assets			
Gross block	2	65,438,666	67,501,849
Less : Accumulated depreciation / amortisation		63,371,482	52,004,215
		2,067,184	15,497,634
Current assets, loans and advances			
Sundry debtors	3	3,986,366	5,714,833
Cash and bank balances	4	8,316,321	7,757,334
Loans and advances	5	2,907,077	959,376
(A)		15,209,764	14,431,543
Less : Current liabilities and provisions			
Current liabilities	6	33,540,237	33,791,670
Provisions	7	989,465	971,988
(B)		34,529,702	34,763,658
Net current assets (A-B)		(19,319,938)	(20,332,115)
Reserves & Surplus	8	99,980,154	87,561,881
TOTAL		82,727,400	82,727,400
Notes to accounts	13		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

Sd/-
CA. S.K. RELAN
Membership No. 12149

Place : New Delhi
Date : February 20 , 2011

For and behalf of the Board of Directors of R System Solution, Inc.

Sd/-
Satinder Singh Rekhi
[Director]

Place : CA , U.S.A
Date : February 20 , 2011

Sd/-
Sartaj Singh Rekhi
[Director]

Place : CA , U.S.A
Date : February 20 , 2011

R SYSTEMS SOLUTIONS, INC.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Profit and Loss Account for the period ended December 31, 2010

	Schedules	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
INCOME			
Revenue		45,372,435	77,900,309
Other income	9	11,278,420	9,972,162
TOTAL		56,650,855	87,872,471
EXPENDITURE			
Personnel expenses	10	42,214,438	58,086,891
Operating and other expenses	11	13,041,273	30,884,471
Depreciation / amortisation	2	13,444,664	16,110,662
Finance expenses	12	719,889	124,292
TOTAL		69,420,264	105,206,316
Profit/ (Loss) before tax		(12,769,409)	(17,333,845)
Current Tax expense		42,943	44,359
Profit/ (Loss) after tax		(12,812,352)	(17,378,204)
Notes to accounts	13		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and behalf of the Board of Directors of R System Solution, Inc.

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Satinder Singh Rekhi
[Director]

Sd/-
Sartaj Singh Rekhi
[Director]

Place : New Delhi
Date : February 20 , 2011

Place : CA , U.S.A
Date : February 20 , 2011

Place : CA , U.S.A
Date : February 20 , 2011

R SYSTEMS SOLUTIONS, INC.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT
Cash Flow Statement for the year ended December 31, 2010

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
A. Cash flow from operating activities		
Net loss before taxation	(12,769,409)	(17,333,845)
Adjustments for:		
Depreciation / amortization	13,444,664	16,110,662
Provision for doubtful debts / advances	-	1,822,151
Unrealised foreign exchange loss / (gain)	(289,776)	(526,341)
Interest expense	686,768	102,571
Operating profit before working capital changes	1,072,247	175,198
Movements in working capital :		
Decrease / (Increase) in sundry debtors	1,552,845	11,239,402
Decrease / (Increase) in other current assets	(747,527)	107,878
Decrease / (Increase) in intra-group balances	875,534	(8,848,811)
Increase / (Decrease) in provisions	52,856	(661,503)
Increase / (Decrease) in current liabilities	(1,181,434)	(2,060,112)
Cash generated from / (used in) operations	1,624,521	(47,948)
Less: Taxes Paid	42,943	44,359
Net cash from / (used in) operating activities	1,581,578	(92,307)
B. Cash flows used in investing activities		
Purchase of fixed assets	(335,823)	(217,533)
Net cash used in investing activities	(335,823)	(217,533)
C. Cash flows used in financing activities		
Interest paid	(686,768)	(102,571)
Net cash used in financing activities	(686,768)	(102,571)
Net increase in cash and cash equivalents (A + B + C)	558,987	(412,411)
Cash and cash equivalents at the beginning of the year	7,757,334	8,169,745
Cash and cash equivalents at the end of the year	8,316,321	7,757,334

As per our report of even date

For S.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors of R Systems Solutions, Inc.

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Satinder Singh Rekhi
[Director]

Sd/-
Sartaj Singh Rekhi
[Director]

Place : New Delhi
Date : February 20 , 2011

Place : CA, U.S.A
Date : February 20 , 2011

Place : CA, U.S.A
Date : February 20 , 2011

R SYSTEMS SOLUTIONS, INC.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT
Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 1: Share capital		
<u>Authorised</u>		
10,000,000 Series A Preferred Stock , No Par Value	-	-
50,000,000 Common Stock No Par Value	-	-
<u>Issued, subscribed and paid up capital</u>		
8,666,884 Series A Preferred Stock , No Par Value	36,286,450	36,286,450
11,335,833 Common Stock No Par Value	46,440,950	46,440,950
	82,727,400	82,727,400

R SYSTEMS SOLUTIONS, INC.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

Schedule 2: Fixed assets

(Amount in Rs.)

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	AS ON 01.01.2010	ADDITION DURING THE PERIOD	ADJUSTMENT DURING THE PERIOD	TOTAL 31.12.2010	AS ON 01.01.2010	FOR THE THE PERIOD	ADJUSTMENT DURING THE PERIOD	TOTAL 31.12.2010	AS AT 31.12.2010	AS AT 31.12.2009
Computer hardware	54,323,396	-	1,925,948	52,397,448	42,111,294	11,726,762	1,696,810	52,141,246	256,202	12,212,102
Furniture & fixtures	5,363,828	-	190,166	5,173,662	3,094,352	907,056	125,458	3,875,950	1,297,712	2,269,476
Office & electrical equipments	6,114,798	-	216,791	5,898,007	5,342,595	658,124	200,855	5,799,864	98,143	772,203
Computer Software	1,699,827	329,955	60,233	1,969,549	1,455,974	152,722	54,274	1,554,422	415,127	243,853
Total	67,501,849	329,955	2,393,138	65,438,666	52,004,215	13,444,664	2,077,397	63,371,482	2,067,184	15,497,634
Previous year	71,887,172	209,716	4,595,039	67,501,849	38,961,001	16,110,662	3,067,448	52,004,215	15,497,634	32,926,171

R SYSTEMS SOLUTIONS, INC.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 3: Sundry debtors		
Debts outstanding for more than six months		
Unsecured, considered good	168,097	177,403
Considered doubtful	5,894,213	6,110,888
Other debts		
Unsecured, considered good	3,818,282	5,537,430
Considered doubtful	-	-
	<u>9,880,592</u>	<u>11,825,721</u>
Less : Provision for doubtful debts	5,894,213	6,110,888
	<u>3,986,366</u>	<u>5,714,833</u>
Schedule 4: Cash and bank balances		
Balance with non schedule banks	8,316,321	7,757,334
	<u>8,316,321</u>	<u>7,757,334</u>
Schedule 5: Loans and advance (Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	1,216,923	465,028
Advances receivables from R Systems International Limited	1,213,332	-
Deposits - others	476,822	494,348
	<u>2,907,077</u>	<u>959,376</u>
Schedule 6: Current liabilities		
Sundry creditors	10,037,988	11,589,530
Payables to R Systems, Inc.	23,258,945	17,055,887
Payables to R Systems International Limited	-	4,908,108
Advance received from Customers	44,890	46,540
Other liabilities	198,414	191,605
	<u>33,540,237</u>	<u>33,791,670</u>
Schedule 7: Provisions		
Provision for income tax	35,912	37,232
Provision for leave encashment	953,553	934,756
	<u>989,465</u>	<u>971,988</u>
Schedule 8: Reserves & Surplus		
Profit and Loss Account		
Carry forward Losses as per the last account	88,599,406	71,221,202
Add: Transfer of Loss from Profit and Loss Account	12,812,352	17,378,204
	<u>101,411,758</u>	<u>88,599,406</u>
Foreign currency translation reserve		
Balance as per last account	(1,037,525)	(1,229,156)
Add: Current year translation differences	(394,079)	191,631
	<u>(1,431,604)</u>	<u>(1,037,525)</u>
	<u>99,980,154</u>	<u>87,561,881</u>

R SYSTEMS SOLUTIONS, INC.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
Schedule 9: Other income		
Miscellaneous income	11,278,420	9,972,162
	11,278,420	9,972,162
Schedule 10: Personnel expenses		
Salaries, wages and bonus	39,089,104	53,718,266
Contribution to statutory and other funds	3,125,334	4,368,625
	42,214,438	58,086,891
Schedule 11: Operating and other expenses		
Recruitment and training expenses	127,093	77,906
Travelling and conveyance	248,475	228,408
Advertising and sales promotion	238,333	368,919
Repair and maintenance	1,872,222	2,077,831
Provision for doubtful debts	-	1,822,151
Rent premises	4,500,559	5,059,787
Power & fuel	653,418	857,883
Office exp.	978,186	879,846
Communication costs	2,718,106	1,717,649
Printing and stationery	290,916	908,035
Legal and professional expenses	1,044,609	16,544,892
Rates & taxes	301,332	175,168
Membership and subscription	39,334	16,218
Miscellaneous expenses	28,690	149,778
	13,041,273	30,884,471
Schedule 12: Financial expenses		
Interest Expense	686,768	102,571
Bank Charges	33,121	21,721
	719,889	124,292

R SYSTEMS SOLUTIONS, INC., USA
NOTES TO ACCOUNTS

SCHEDULE – 13: NOTES TO ACCOUNTS

BACKGROUND:-

1. Company Overview

R Systems Solutions, Inc. is a wholly owned subsidiary of R Systems International Limited a company incorporated in India. The Company provides outsourced solution for technical support, customer care and remote monitoring, primarily in the United States of America. The company was incorporated under the laws of the State of California on February 18, 2000 and having its registered office at Metro Annex Building 9, Suite B, 1193 West 2400 South, West Valley City, UT 84119.

2. Statement of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual and going concern basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

All figures are in Rupees except where expressly stated.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

(c) 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.

(d) Depreciation

Depreciation is provided on Straight Line method over the remaining 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>
Computer Hardware	3 years
Office Furniture	5 years
Office Equipment	3 years

Individual assets costing up to US \$ 250 are fully depreciated in the year of purchase.

(e) Impairment

The carrying amount 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, fixed assets / intangibles are depreciated / amortised on the revised carrying amount over its remaining useful life.

R SYSTEMS SOLUTIONS, INC., USA
NOTES TO ACCOUNTS

(f) Intangibles

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

(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) 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.

Revenue from outsourcing solutions services comprises income from time-and-material which is recognised when the related services are performed in accordance with the specific terms of the contract with the customer.

Telecommunication services

Revenue from telecommunication services has been recognised on accrual basis and has been included in the other income.

(i) Foreign currency translation

(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.

(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 expense in the year in which they arise except those arising from investments in non-integral operations.

((iv) Foreign currency translation

The functional currency of the Company is United States Dollar (US \$) but the financial statements has been prepared in Indian Rupees. In translating the financial statements, the assets and liabilities, both monetary and non-monetary, are translated at the closing rate; income and expense items are translated at yearly average exchange rates; and all resulting exchange differences are accumulated in a foreign currency translation reserve.

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2010, the rates used were US \$ 1= Rs. 45.68. For translating assets and liabilities at the year-end, the rates used were US \$ 1= Rs. 44.89.

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2009, the rates used were US \$ 1= Rs. 48.27. For translating assets and liabilities at the year-end, the rates used were US \$ 1= Rs. 46.54.

(j) Employee benefits

Retirement benefits in the form of defined contribution schemes 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 funds.

R SYSTEMS SOLUTIONS, INC., USA
NOTES TO ACCOUNTS

(k) Income taxes

Income tax on the profit or loss for the year comprises of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date in accordance with the tax laws of the country where such operations are domiciled and any adjustment to tax payable in respect of previous year.

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 recognized 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. If the company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits.

(l) Provision

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

(m) Segment reporting policies

The Company operates one business segment, providing outsourcing solutions services in the United States of America

(n) Cash and cash equivalents

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

3. Related Party Disclosures

Holding Company	R Systems International Limited
Fellow Subsidiaries	R Systems (Singapore) Pte Ltd, Singapore R Systems, Inc., USA Indus Software, Inc., USA R Systems N.V., Belgium R Systems Europe B.V., Netherlands R Systems S.A.S., France ECnet Ltd, Singapore
	Following are the subsidiaries of ECnet Ltd, Singapore
	ECnet (M) Sdn Bhd, Malaysia ECnet Systems (Thailand) Co. Ltd., Thailand ECnet (Shanghai) Co. Ltd., People's Republic of China ECnet (Hong Kong) Ltd., Hong Kong ECnet, Inc., USA ECnet Kabushiki Kaisha, Japan
Key management personnel	Satinder Singh Rekhi, Director Sartaj Singh Rekhi, Director

R SYSTEMS SOLUTIONS, INC., USA
NOTES TO ACCOUNTS

Details of transactions with related parties for year ended December 31, 2010 and December 31, 2009:

(Amount in Rs.)

Particulars	For the year ended December 31,	
	2010	2009
Holding Company		
Services received	-	13,818,035
Miscellaneous Income	11,277,278	9,972,162
Amount Receivables	1,213,332	-
Amount Payables	-	4,908,108
R Systems, Inc.		
Interest Paid	686,768	102,571
Amount Payable	23,258,945	17,055,887

Details of Loan taken from R Systems Inc., USA a fellow subsidiary :

- The outstanding amount due is Rs. 8,978,000 (equivalent to \$ 200,000) and Rs.4,654,000 (equivalent to \$ 100,000), as at December 31, 2010 and 2009, respectively.
- The maximum amount due is Rs. 16,732,209 (equivalent to \$ 372,738) during the year 2010.
- The loan is given for the working capital requirement and has a revolving line of credit which is repayable on demand.
- The amount due are non-trade, interest is charged at 8.5% (2009: 8.5%) per annum.

4. Leases - In case of assets taken on lease

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

	Year ended December 31, 2010 Rs.	Year ended December 31, 2009 Rs.
Lease payments for the year	4,500,559	5,059,784
Minimum Lease Payments:		
Not later than one year	6,280,515	4,670,196
Later than one year but not later than five years	6,773,856	13,254,964
Later than five years	-	-

The operating lease arrangements extend for a maximum of 3 years from their respective dates of inception.

5. The Company has a policy of recognising deferred tax assets only to the extent that there is reasonable certainty or virtual certainty supported by convincing evidence as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realised.
- During the year ended December 31 2010 and 2009, based on the management estimate of future taxable income no deferred tax has been recognised in the books of accounts.

R SYSTEMS SOLUTIONS, INC., USA
NOTES TO ACCOUNTS

6. Previous year figures have been regrouped / reclassified where necessary to make them comparable to the current year classification

As per our report of even date.

For S.K. RELAN & CO.
Firm registration number: 001720N
Chartered Accountants

For and on behalf of the Board of Directors of R Systems Solution, Inc., USA

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Satinder Singh Rekhi
[Director]

Sd/-
Sartaj Singh Rekhi
[Director]

Place : New Delhi
Date : February 20, 2011

Place: CA, U.S.A.
Date : February 20, 2011

Place : CA, U.S.A.
Date : February 20, 2011

AUDITORS' REPORT

To
The Members,
R Systems NV, Belgium

1. We have audited the attached Balance Sheet of R Systems NV a wholly-owned subsidiary of R Systems International Limited, India, as at 31st December, 2010 and 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 and have been prepared in accordance with 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 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. We have obtained all the information and explanations, which to best of our knowledge and belief were necessary for the purposes of our audit and subject to the Notes on accounts, we report that-
 - a) In our opinion the Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of accounts;

 - b) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Notes thereon give a true and fair view
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2010;

 - ii) in the case of the Profit and Loss Account, of the **LOSS** for the year ended on that date;

 - iii) in the case of the Cash Flow Statement, of the cash flow for the year ended on that date;

For S.K.RELAN & CO.
Firm Registration No. 001720N
Chartered Accountants

PLACE: NEW DELHI
DATED: February 20, 2011

Sd/-
CA. S.K. RELAN
Membership No.12149

R SYSTEMS NV**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT****Balance Sheet as at December 31, 2010**

	Schedules	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	3,474,734	3,474,734
TOTAL		3,474,734	3,474,734
APPLICATION OF FUNDS			
Current assets, loans and advances			
Cash and bank balances	2	1,621,335	2,311,036
Loans and advances	3	340,941	289,014
(A)		1,962,276	2,600,050
Less : Current liabilities and provisions			
Current liabilities	4	271,013	5,409
(B)		271,013	5,409
Net current assets (A-B)		1,691,263	2,594,641
Reserves & Surplus	5	1,783,471	880,093
TOTAL		3,474,734	3,474,734
Notes to accounts	8		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors of R Systems NV

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Satinder Singh Rekhi
[Director]

Sd/-
Sartaj Singh Rekhi
[Director]

Place : New Delhi
Date : February 20, 2011

Place : CA, U.S.A
Date : February 20, 2011

Place : CA, U.S.A
Date : February 20, 2011

R SYSTEMS NV
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Profit and Loss Account for the year ended December 31, 2010

	Schedules	For the year ended December 31, 2010 Rs.	For the period ended December 31, 2009 Rs.
INCOME			
Other Income		1,738	2,351
TOTAL		1,738	2,351
EXPENDITURE			
Operating and other expenses	6	633,632	440,335
Financial charges	7	6,138	14,738
TOTAL		639,770	455,073
Loss before tax		(638,032)	(452,722)
Current tax expense / (credit)		(766)	-
Loss after tax		(637,266)	(452,722)
Notes to accounts	8		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors of R Systems NV

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Satinder Singh Rekhi
[Director]

Sd/-
Sartaj Singh Rekhi
[Director]

Place : New Delhi
Date : February 20, 2011

Place : CA, U.S.A
Date : February 20, 2011

Place : CA, U.S.A
Date : February 20, 2011

R SYSTEMS NV
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Cash Flow Statement for the year ended December 31, 2010

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
A. Cash flow from operating activities		
Net loss before taxation	(638,032)	(452,722)
Adjustments for:		
Unrealised foreign exchange loss / (gain)	(239,058)	(120,118)
Interest income	(1,738)	(2,351)
Operating loss before working capital changes	(878,828)	(575,191)
Movements in working capital :		
Decrease / (Increase) in other current assets	(84,590)	481,386
Increase / (Decrease) in current liabilities	270,891	(35,239)
Cash used in operations	(692,527)	(129,044)
Less: Taxes Paid	(1,088)	-
Net cash used in operating activities	(691,439)	(129,044)
B. Cash flows from investing activities		
Interest received	1,738	2,351
Net cash from investing activities	1,738	2,351
C. Cash flows from / (used in) financing activities		
Net cash from / (used in) financing activities	-	-
Net increase in cash and cash equivalents (A + B + C)	(689,701)	(126,693)
Cash and cash equivalents at the beginning of the year	2,311,036	2,437,729
Cash and cash equivalents at the end of the year	1,621,335	2,311,036

As per our report of even date

For S.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

Sd/-
CA. S.K. RELAN
Membership No. 12149

Place : New Delhi
Date : February 20, 2011

For and on behalf of the Board of Directors
of R Systems NV

Sd/-
Satinder Singh Rekhi
[Director]

Place : CA, U.S.A
Date : February 20, 2011

Sd/-
Sartaj Singh Rekhi
[Director]

Place : CA, U.S.A
Date : February 20, 2011

R SYSTEMS NV
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 1: Share capital		
<u>Authorised</u>		
200 common shares of Euro 310 each	EUR 62,000	EUR 62,000
<u>Issued, subscribed and paid up capital</u>		
200 common shares of Euro 310 each	3,474,734	3,474,734
	3,474,734	3,474,734
Schedule 2: Cash and bank balances		
Balance with non schedule banks	1,621,335	2,311,036
	1,621,335	2,311,036
Schedule 3: Loans and advances (Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	340,373	288,665
Income tax receivables	568	349
	340,941	289,014
Schedule 4: Current liabilities		
Sundry creditors	56,688	5,409
Expenses Payable	214,325	-
	271,013	5,409
Schedule 5: Reserve & Surplus		
Profit and Loss Account		
Carry forward Losses as per the last account	1,428,314	975,592
Add: Transfer of loss from Profit and Loss Account	637,266	452,722
	2,065,580	1,428,314
Foreign currency translation reserve		
Balance as per last account	(548,221)	(701,722)
Add: Current year translation differences	266,112	153,501
	(282,109)	(548,221)
	1,783,471	880,093

R SYSTEMS NV
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	For the year ended December 31, 2010	For the period ended December 31, 2009
	Rs.	Rs.
Schedule 7: Operating and other expenses		
Rates & taxes	84,886	26,943
Legal and professional expenses	548,746	413,392
	633,632	440,335
Schedule 8: Financial expenses		
Bank charges	6,138	14,738
	6,138	14,738

R SYSTEMS NV, BELGIUM

NOTES TO ACCOUNTS

SCHEDULE – 8: NOTES ON ACCOUNTS

1. Company Overview

R Systems NV (the “Company”) is limited Company domiciled and incorporated in Belgium on August 28, 2007 as a wholly-owned subsidiary of R Systems International Limited, a company incorporated in India. The address of the registered office is Diestseweg 32 C, B-2440, Geel, Belgium.

The main object of the Company is to provide Information Technology Services to the customers primarily situated in Belgium. There is no revenue during the year ended on December 31, 2010 and December 31, 2009.

2. Statement of significant accounting policies

a. Basis of preparation of financial statements

The financial statements have been prepared to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended) 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 except unless otherwise stated. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year except unless otherwise stated.

All figures are in Rupees except where expressly stated.

b. 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.

Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

c. Foreign currency translation

(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.

(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 expense in the year in which they arise except those arising from investments in non-integral operations.

R SYSTEMS NV, BELGIUM

NOTES TO ACCOUNTS

(iv) Foreign currency translation

The Functional currency of the company is Euro (€) but the Financial Statements had been prepared in Indian Rupees. In translating the financial statements, the assets and liabilities, both monetary and non-monetary, are translated at the closing rate; income and expense items are translated at yearly average exchange rates; and all resulting exchange differences are accumulated in a foreign currency translation reserve.

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2010, the rates used were € 1= Rs. 60.57. For translating assets and liabilities at the year-end, the rates used were € 1= Rs. 59.52.

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2009, the rates used were € 1= Rs. 67.27. For translating assets and liabilities at the year-end, the rates used were € 1= Rs. 66.63.

d Income taxes

Income tax on the profit or loss for the year comprises of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date in accordance with the tax laws of the country where such operations are domiciled and any adjustment to tax payable in respect of previous year.

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 recognized 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. If the company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits.

e. Cash and cash equivalents

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

3. Notes to account

a. Related Party Disclosures

Holding Company	R Systems International Limited
Fellow Subsidiaries	R Systems (Singapore) Pte Ltd, Singapore
	R Systems, Inc., USA
	R Systems Solutions, Inc., USA
	Indus Software, Inc., USA
	R Systems S.A.S., France
	R Systems Europe B.V, Netherlands
	ECnet Ltd, Singapore
	Following are the subsidiaries of ECnet Ltd, Singapore
	ECnet (M) Sdn Bhd, Malaysia
	ECnet Systems (Thailand) Co. Ltd., Thailand
	ECnet (Shanghai) Co. Ltd., People's Republic of China
	ECnet (Hong Kong) Ltd., Hong Kong
	ECnet, Inc., USA
	ECnet Kabushiki Kaisha, Japan
Key management personnel	Satinder Singh Rekhi, Director
	Sartaj Singh Rekhi, Director

R SYSTEMS NV, BELGIUM
NOTES TO ACCOUNTS

- b. The Board of Directors of R Systems NV in the meeting dated January 10, 2011 has proposed liquidation of the Company subject to the required statutory and corporate approvals in India and Belgium. Accordingly the financials for the year ended December 31, 2010 have been prepared on liquidation basis and all the assets are recorded at realisable value and liabilities at settlement amount. Further, cost in relation to above said liquidation has been provided during the year ended December 31, 2010'
- c. Previous year figures have been regrouped / reclassified where necessary to make them comparable to the current year classification

As per our report of even date.

For S.K. RELAN & CO.
Firm registration number: 001720N
Chartered Accountants

For and on behalf of the Board of Directors of R Systems NV, Belgium

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Satinder Singh Rekhi
[Director]

Sd/-
Sartaj Singh Rekhi
[Director]

Place : New Delhi
Date : February 20, 2011

Place: CA, U.S.A.
Date : February 20, 2011

Place : CA, U.S.A.
Date : February 20, 2011

AUDITORS' REPORT

To
The Members,
R Systems, Europe BV, Netherland

We have audited the attached Balance Sheet of R Systems, Europe BV a wholly-owned subsidiary of R Systems International Limited, India, as at 31st December, 2010 and 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 and have been prepared in accordance with accounting principles generally accepted in India. Our responsibility is to express an opinion on these financial statements based on our audit.

1. 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.
2. We have obtained all the information and explanations, which to best of our knowledge and belief were necessary for the purposes of our audit and subject to the Notes on accounts, we report that-
 - a) In our opinion the Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of accounts;
 - b) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Notes thereon give a true and fair view
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2010;
 - ii) in the case of the Profit and Loss Account, of the **PROFIT** for the year ended on that date;
 - iii) in the case of the Cash Flow Statement, of the cash flow for the year ended on that date;

For S.K.RELAN & CO.
Firm Registration No. 001720N
Chartered Accountants

PLACE: NEW DELHI
DATED: February 20, 2011

Sd/-
CA. S.K. RELAN
Membership No.12149

R SYSTEMS EUROPE B.V.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Balance Sheet as at December 31, 2010

	Schedules	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	18,213,869	18,213,869
		18,213,869	18,213,869
Loan funds			
Secured loans	2	3,326,203	11,366,707
TOTAL		21,540,072	29,580,576
APPLICATION OF FUNDS			
Fixed assets			
Gross block	3	165,828,220	180,279,876
Less : Accumulated depreciation / amortisation		149,015,940	145,912,697
Net block		16,812,280	34,367,179
Current assets, loans and advances			
Sundry debtors	4	29,187,701	12,714,157
Cash and bank balances	5	45,269,847	68,272,236
Other current assets	6	29,484,051	30,319,049
Loans and advances	7	6,035,443	9,336,353
(A)		109,977,042	120,641,795
Less : Current liabilities and provisions			
Current liabilities	8	105,194,354	125,224,711
Provisions	9	5,065,913	5,930,487
(B)		110,260,267	131,155,198
Net current assets (A-B)		(283,225)	(10,513,403)
Reserves & Surplus	10	5,011,017	5,726,800
TOTAL		21,540,072	29,580,576
Notes to accounts	15		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors of
R Systems Europe B.V.

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Bart V Eunen
[Director]

Sd/-
Satinder Singh Rekhi
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Enschede, Netherland Place : CA, U.S.A.
Date : February 20, 2011 Date : February 20, 2011

R SYSTEMS EUROPE B.V.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Profit and Loss Account for the year ended December 31, 2010

	Schedules	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
INCOME			
Revenue		351,811,400	557,225,016
Other income	11	6,867,620	230,005
TOTAL		358,679,020	557,455,021
EXPENDITURE			
Personnel expenses	12	179,456,191	263,298,171
Operating and other expenses	13	156,706,175	256,645,471
Depreciation / amortisation	3	19,022,093	24,563,852
Finance expenses	14	1,408,491	2,887,905
TOTAL		356,592,950	547,395,399
Profit before tax		2,086,070	10,059,622
Current tax expenses / (credit)		-	(27)
Profit after tax		2,086,070	10,059,649
Notes to accounts	15		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors of
R Systems Europe B.V.

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Bart V Eunen
[Director]

Sd/-
Satinder Singh Rekhi
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Enschede, Netherland
Date : February 20, 2011

Place : CA, U.S.A.
Date : February 20, 2011

R SYSTEMS EUROPE B.V.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT
Cash Flow Statement for the year ended December 31, 2010

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
A. Cash flow from operating activities		
Net profit before taxation	2,086,070	10,059,622
Adjustments for:		
Depreciation / amortisation	19,022,093	24,563,852
Other excess provisions written back	(3,028,400)	-
Write back of provision for doubtful debts	(1,303,712)	-
Unrealised foreign exchange loss / (gain)	(7,015,679)	(1,036,486)
Interest income	(677,694)	(230,005)
Interest expense	200,456	1,023,428
Operating profit before working capital changes	9,283,134	34,380,411
Movements in working capital :		
Decrease / (Increase) in sundry debtors	(16,843,590)	41,831,126
Decrease / (Increase) in other current assets	(2,446,581)	25,283,559
Decrease / (Increase) in loans and advances	2,199,883	-
Decrease / (Increase) in intra-group balances	(3,972,083)	735,886
Increase / (Decrease) in provisions	(235,095)	(1,999,321)
Increase / (Decrease) in current liabilities	374,763	(13,846,336)
Cash generated from / (used in) operations	(11,639,569)	86,385,325
Less: Taxes Paid	-	-
Net cash from / (used in) operating activities	(11,639,569)	86,385,325
B. Cash flows used in investing activities		
Purchase of fixed assets	(4,893,077)	(10,984,078)
Interest received	677,694	230,005
Net cash used in investing activities	(4,215,383)	(10,754,073)
C. Cash flows used in financing activities		
Repayment of borrowings	(6,946,981)	(15,829,600)
Interest paid	(200,456)	(1,023,428)
Net cash used in financing activities	(7,147,437)	(16,853,028)
Net increase / (decrease) in cash and cash equivalents (A + B + C)	(23,002,389)	58,778,224
Cash and cash equivalents at the beginning of the year	68,272,236	9,494,012
Cash and cash equivalents at the end of the year	45,269,847	68,272,236

As per our report of even date

For S.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors of
R Systems Europe B.V.

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Bart V Eunen
[Director]

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Satinder Singh Rekhi
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Enschede, Netherland
Date : February 20, 2011

Place : CA, U.S.A.
Date : February 20, 2011

R SYSTEMS EUROPE B.V.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 1: Share capital		
<u>Authorised Share Capital</u>		
15,850 ordinary shares of Euro 100 each	EUR 1,585,000	EUR 1,585,000
<u>Issued, subscribed and paid up capital</u>		
3,170 ordinary shares of Euro 100 each	18,213,869	18,213,869
	18,213,869	18,213,869
Schedule 2: Secured loans		
-From other		
Finance lease obligation (refer note below)	3,326,203	11,366,707
	3,326,203	11,366,707

Amount repayable within one year is Rs. 24,85,366 (Previous year Rs.76,42,661)

R SYSTEMS EUROPE B.V.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedule 3: Fixed assets

(Amount in Rs.)

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	AS ON 1.1.2010	ADDITION DURING THE YEAR	ADJUSTMENT DURING THE YEAR	TOTAL 31.12.2010	UPTO 1.1.2010	FOR THE THE YEAR	ADJUSTMENT DURING THE YEAR	TOTAL 31.12.2010	AS AT 31.12.2010	AS AT 31.12.2009
Leasehold improvements	39,004,428	-	4,166,921	34,837,507	28,196,475	6,607,242	3,127,156	31,676,561	3,160,946	10,807,953
Office & electrical equipments	36,354,640	-	3,883,839	32,470,801	24,917,516	5,236,235	2,753,022	27,400,729	5,070,072	11,437,124
Furniture & fixtures	36,443,075	-	3,893,286	32,549,789	29,455,043	4,599,845	3,226,710	30,828,178	1,721,611	6,988,032
Computer hardware	23,377,634	1,198,587	2,497,479	22,078,742	19,628,716	1,730,981	2,127,068	19,232,629	2,846,113	3,748,918
Computer software	45,100,099	3,609,415	4,818,133	43,891,381	43,714,947	847,790	4,684,894	39,877,843	4,013,538	1,385,152
Total	180,279,876	4,808,002	19,259,658	165,828,220	145,912,697	19,022,093	15,918,850	149,015,940	16,812,280	34,367,179
Previous year	178,184,720	10,879,693	8,784,537	180,279,876	127,887,135	24,563,852	6,538,290	145,912,697	34,367,179	50,297,585

R SYSTEMS EUROPE B.V.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 4: Sundry debtors		
Debts outstanding for more than six months		
Unsecured, considered good	-	-
Considered doubtful	2,375,645	2,659,796
Other debts		
Unsecured, considered good	29,187,702	12,714,157
Considered doubtful	-	280,342
	31,563,346	15,654,295
Less : Provision for doubtful debts	2,375,645	2,940,138
	29,187,701	12,714,157
Schedule 5: Cash and bank balances		
Cash in hand	16,762	62,545
Balance with non schedule banks		
On current accounts	34,646,336	52,410,218
On cash credit / overdraft accounts	6,350,134	11,112,256
On deposit accounts *	4,256,615	4,687,217
	45,269,847	68,272,236
* Balance in ABN AMRO deposit account is blocked as bank guarantee for the building in Enschede		
Schedule 6: Other current assets		
Unbilled revenue	29,484,051	30,319,049
	29,484,051	30,319,049
Schedule 7: Loans and advances (Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	5,996,942	9,282,688
Advance receivables from R Systems International Limited	38,501	53,665
	6,035,443	9,336,353
Schedule 8: Current liabilities		
Sundry creditors	50,590,668	54,696,582
Payables to R Systems S.A.S.	46,276,666	56,017,323
Payables to R Systems, Inc.	-	174,920
Other liabilities	8,327,020	14,335,886
	105,194,354	125,224,711
Schedule 9: Provisions		
Provision for leave encashment	5,065,913	5,930,487
	5,065,913	5,930,487
Schedule 10: Reserves & Surplus		
Profit and Loss account		
Carry forward Losses as per the last account	46,544,908	56,604,557
Add: Transferred of profit from profit and loss account	(2,086,070)	(10,059,649)
	44,458,838	46,544,908
Share premium account		
Balance as per last account	(44,846,887)	(44,846,887)
	(44,846,887)	(44,846,887)
Foreign currency translation reserve		
Balance as per last account	4,028,779	3,802,318
Add: Current year translation differences	1,370,287	226,461
	5,399,066	4,028,779
	5,011,017	5,726,800

R SYSTEMS EUROPE B.V.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
Schedule 11: Other income		
Miscellaneous income	1,857,814	-
Other excess provisions written back	3,028,400	-
Write back of provision for doubtful debts	1,303,712	-
Interest income	677,694	230,005
	6,867,620	230,005
Schedule 12: Personnel expenses		
Salaries, wages and bonus	150,207,209	224,016,825
Contribution to statutory and other funds	26,591,483	36,928,091
Staff welfare	2,657,499	2,353,255
	179,456,191	263,298,171
Schedule 13: Operating and other expenses		
Recruitment and training expenses	1,654,966	3,851,784
Travelling and conveyance	6,074,969	10,434,340
Insurance	982,051	1,893,993
Repair and maintenance	13,644,498	19,807,539
Rent - premises	17,584,506	16,887,769
Rent - equipment	934,889	1,365,676
Power & fuel	1,701,975	2,045,192
Communication costs	1,488,264	8,430,867
Printing and stationery	748,277	514,344
Advertising and sales promotion	867,384	5,049,458
Foreign exchange fluctuation (net)	236,313	25,030
Rates & taxes	392,998	429,109
Legal and professional expenses	110,262,847	185,136,912
Miscellaneous expenses	132,238	773,458
	156,706,175	256,645,471
Schedule 14: Financial expenses		
Interest Expense	200,456	1,023,428
Bank charges	1,208,035	1,864,477
	1,408,491	2,887,905

R SYSTEMS EUROPE B.V., NETHERLAND
NOTES TO ACCOUNTS

SCHEDULE – 15: NOTES TO ACCOUNTS

BACKGROUND:-

1. Company Overview

R Systems Europe B.V. (The "Company"), formerly Sento Europe B.V was incorporated on May 31, 1999. The company was established by Xtrasource Acquisition, Inc. a company incorporated in United States. As on January 23, 2008, R Systems International Limited, a company incorporated in India acquired all shares of company from Xtrasource Acquisition, Inc. and become the ultimate holding company & subsequently changed its name. The address of the registered office is Brammelerstraat 8, 7511 JG Enscheda, The Netherlands.

The company providing outsourcing solutions services by means of electronic communication such as email, telephone and fax, mainly in Europe.

2. Statement of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual and going concern basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

All figures are in Rupees except where expressly stated.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

(c) 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.

(d) Depreciation

Depreciation is provided on Straight Line method over the remaining 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>
Leasehold improvements	Lower of lease period or useful life
Office and electrical equipment's	5 years
Furniture and fittings	5 years
Computer Hardware	1-5 years

(e) 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, fixed assets / intangibles are depreciated / amortised on the revised carrying amount over its remaining useful life.

(f) Intangibles

Costs relating to acquired software are capitalised and amortised on a straight-line basis over their useful lives as estimated by the management at 5 years or below in specific cases.

(g) 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.

(h) 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.

Revenue from outsourcing solutions services comprises income from time-and-material which is recognised when the related services are performed in accordance with the specific terms of the contract with the customer.

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.

Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

(i) Foreign currency translation

(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.

(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 expense in the year in which they arise except those arising from investments in non-integral operations.

(iv) Foreign currency translation

The Functional currency of the company is Euro (€) but the Financial Statements had been prepared in Indian Rupees. In translating the financial statements, the assets and liabilities, both monetary and non-monetary, are translated at the closing rate; income and expense items are translated at yearly average exchange rates; and all resulting exchange differences are accumulated in a foreign currency translation reserve.

R SYSTEMS EUROPE B.V., NETHERLAND
NOTES TO ACCOUNTS

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2010, the rates used were €1= Rs. 60.57. For translating assets and liabilities at the year-end, the rates used were €1= Rs. 59.52.

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2009, the rates used were €1= Rs. 67.27. For translating assets and liabilities at the year-end, the rates used were €1= Rs. 66.63.

(j) Employee benefits

Retirement benefits in the form of defined contribution schemes 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 funds.

(k) Income taxes

Income tax on the profit or loss for the year comprises of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date in accordance with the tax laws of the country where such operations are domiciled and any adjustment to tax payable in respect of previous year.

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 recognized 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. If the company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits.

(l) Provision

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

(m) Cash and cash equivalents

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

3. Related Party Disclosures

Holding Company R Systems International Limited

Fellow Subsidiaries
R Systems (Singapore) Pte Ltd, Singapore
R Systems, Inc., USA
R Systems Solutions, Inc., USA
Indus Software, Inc., USA
R Systems N.V., Belgium
R Systems S.A.S., France
ECnet Ltd, Singapore

Following are the subsidiaries of ECnet Ltd, Singapore

ECnet (M) Sdn Bhd, Malaysia
ECnet Systems (Thailand) Co. Ltd., Thailand
ECnet (Shanghai) Co. Ltd., People's Republic of China
ECnet (Hong Kong) Ltd., Hong Kong

R SYSTEMS EUROPE B.V., NETHERLAND
NOTES TO ACCOUNTS

	ECnet, Inc., USA
	ECnet Kabushiki Kaisha, Japan
Key management personnel	Bart V Eunen, Director
	Satinder Singh Rekhi, Director
	Ramneet Singh Rekhi, Director
	Sartaj Singh Rekhi, Director

Details of transactions with related parties for year ended December 31, 2010 and December 31, 2009:
(Amount in Rs)

Particulars	December 31,	
	2010	2009
R Systems Europe S.A.S		
Sub-contracting expenses	67,854,694	115,974,040
Amount Payable	46,276,666	56,017,323
R Systems International Ltd		
Sub-contracting expenses	370,676	1,977,487
Amount Receivable	38,501	53,665
R Systems Inc., USA		
Amount payable	-	174,920

Payment to key management personnel for year ended December 31, 2010 and December 31, 2009:
(Amount in Rs)

Name of Key Management Personnel	For the year ended December 31,	
	2010	2009
Bart V Eunen	7,606,212	8,627,469

4. Leases - In case of assets taken on lease

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

	Year ended December 31, 2010	Year ended December 31, 2009
	Rs.	Rs.
Lease payments for the year	19,431,729	21,903,523
Minimum Lease Payments:		
Not later than one year	18,449,293	20,412,964
Later than one year but not later than five years	71,054,363	1,458,738
Later than five years	-	-

The operating lease arrangements extend for a maximum of 5 years from their respective dates of inception.

R SYSTEMS EUROPE B.V., NETHERLAND
 NOTES TO ACCOUNTS

The company has finance leases for computers hardware and software, furniture and fixture, leasehold improvements, office and electrical equipment. The lease term is from 3 to 5 years and after the expiry of initial lease term, the company has an option to buy the assets under finance lease at a nominal value. Gross block & net block includes assets obtained on finance lease as per the details given below:

	Gross block		Net block	
	As at December 31,		As at December 31,	
	2010	2009	2010	2009
	Rs.	Rs.	Rs.	Rs.
Computers	941,170	4,513,773	31,370	245,871
Software	-	2,913,927	-	40,899
Office and electrical equipment	25,726,002	29,796,370	4,565,569	10,167,251
Total	26,667,172	37,224,070	4,596,939	10,454,021

Minimum lease payments and present values for assets obtained on finance lease are as follows:-

	Year ended December 31, 2010 Rs.	Year ended December 31, 2009 Rs.
Total minimum lease payments during the year	7,110,776	11,936,684
Less : Amount representing finance charges	163,824	615,479
Present value of minimum lease payments	6,946,952	11,321,204
Minimum Lease Payments:		
Not later than one year [For finance lease: Present value Rs. 2,485,366 as on December 31, 2010 (Rs. 7,642,661 as on December 31, 2009)]	2,490,008	7,822,923
Later than one year but not later than five years [For finance lease: Present value Rs. 840,837 as on December 31, 2010 (Rs. 3,724,046 as on December 31, 2009)]	840,837	3,729,285
Later than five years [For finance lease: Present value Rs. Nil as on December 31, 2010 (Rs. Nil as on December 31, 2009)]	Nil	Nil

5. The Company has a policy of recognising deferred tax assets only to the extent that there is reasonable certainty or virtual certainty supported by convincing evidence as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realised. During the year ended December 31 2010 and 2009, based on the management estimate of future taxable income no deferred tax has been recognised in the books of accounts.

R SYSTEMS EUROPE B.V., NETHERLAND
NOTES TO ACCOUNTS

6. Previous year figures have been regrouped / reclassified where necessary to make them comparable to the current year classification

As per our report of even date.

For S.K. RELAN & CO.
Firm registration number: 001720N
Chartered Accountants

For and on behalf of the Board of Directors of R Systems Europe B.V.,
Netherland

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Satinder Singh Rekhi
[Director]

Sd/-
Bart V Eunen
[Director]

Place : New Delhi
Date : February 20, 2011

Place : CA, U.S.A.
Date : February 20, 2011

Place : Enschede, Netherland.
Date : February 20, 2011

AUDITORS' REPORT

To
The Members,
R Systems, SAS France

We have audited the attached Balance Sheet of R Systems, SAS France a wholly-owned subsidiary of R Systems International Limited, India, as at 31st December, 2010 and 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 and have been prepared in accordance with accounting principles generally accepted in India. Our responsibility is to express an opinion on these financial statements based on our audit.

1. 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.

2. We have obtained all the information and explanations, which to best of our knowledge and belief were necessary for the purposes of our audit and subject to the Notes on accounts, we report that-
 - a) In our opinion the Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of accounts;

 - b) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Notes thereon give a true and fair view
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2010;

 - ii) in the case of the Profit and Loss Account, of the **PROFIT** for the year ended on that date;

 - iii) in the case of the Cash Flow Statement, of the cash flow for the year ended on that date;

For S.K.RELAN & CO.
Firm Registration No. 001720N
Chartered Accountants

Sd/-
CA. S.K. RELAN
Membership No.12149

PLACE: NEW DELHI
DATED: February 20, 2011

R SYSTEMS, S.A.S.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Balance Sheet as at December 31, 2010			
	Schedules	As at December 31 , 2010 Rs.	As at December 31 , 2009 Rs.
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	8,759,263	8,759,263
Reserve and surplus	2	30,055,798	33,281,513
TOTAL		38,815,061	42,040,776
APPLICATION OF FUNDS			
Fixed assets			
Gross block	3	21,193,348	23,728,289
Less : Accumulated depreciation / amortisation		20,596,229	22,396,571
Net block		597,119	1,331,718
Current assets, loans and advances			
Sundry debtors	4	59,969,510	69,820,368
Cash and bank balances	5	1,114,624	794,012
Other current assets	6	355,900	398,469
Loans and advances	7	3,998,285	4,247,271
(A)		65,438,319	75,260,120
Less : Current liabilities and provisions			
Current liabilities	8	23,832,165	30,302,606
Provisions	9	3,388,212	4,248,456
(B)		27,220,377	34,551,062
Net current assets (A-B)		38,217,942	40,709,058
TOTAL		38,815,061	42,040,776
Notes to accounts	14		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors of
R Systems S.A.S.

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Bart V Eunen
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Enschede, Netherland
Date : February 20, 2011

R SYSTEMS, S.A.S.**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT****Profit and Loss Account for the year ended December 31, 2010**

	Schedules	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
INCOME			
Revenue		71,488,788	120,010,379
Other income	10	652	2,086,553
TOTAL		71,489,440	122,096,932
EXPENDITURE			
Personnel expenses	11	51,413,692	95,181,687
Operating and other expenses	12	17,279,599	21,341,807
Depreciation / amortisation	3	602,807	638,601
Finance expenses	13	121,613	152,592
TOTAL		69,417,711	117,314,687
Profit before tax		2,071,729	4,782,245
Current tax expense		783,750	1,489,355
Profit after tax		1,287,979	3,292,890
Notes to accounts	14		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors of
R Systems S.A.S.

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Bart V Eunen
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Enschede, Netherland
Date : February 20, 2011

R SYSTEMS, S.A.S.**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT****Cash Flow Statement for the year ended December 31, 2010**

	For the year ended December 31, 2010	For the year ended December 31, 2009
	Rs.	Rs.
A. Cash flow from operating activities		
Net profit before taxation	2,071,729	4,782,245
Adjustments for:		
Depreciation / amortization	602,807	638,601
Unrealised foreign exchange loss / (gain)	(91,959)	(39,585)
Interest income	(652)	(3,569)
Interest expense	37,874	65,030
Operating profit before working capital changes	2,619,799	5,442,722
Movements in working capital :		
Decrease / (Increase) in other current assets	-	261,272
Decrease / (Increase) in loans and advances	(98,251)	743,529
Decrease / (Increase) in intra-group balances	3,822,678	940,913
Increase / (Decrease) in provisions	95,753	(1,716,855)
Increase / (Decrease) in current liabilities	(5,254,241)	(3,321,611)
Cash generated from operations	1,185,738	2,349,970
Less: Taxes Paid	827,904	1,691,039
Net cash from operating activities	357,834	658,931
B. Cash flows from / (used in) investing activities		
Purchase of fixed assets	-	(599,125)
Interest received	652	3,569
Net cash from / (used in) investing activities	652	(595,556)
C. Cash flows used in financing activities		
Interest paid	(37,874)	(65,030)
Net cash used in financing activities	(37,874)	(65,030)
Net increase in cash and cash equivalents (A + B + C)	320,612	(1,655)
Cash and cash equivalents at the beginning of the year	794,012	795,667
Cash and cash equivalents at the end of the year	1,114,624	794,012

As per our report of even date

For S.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

Sd/-
CA. S.K. RELAN
Membership No. 12149

Place : New Delhi
Date : February 20, 2011

For and on behalf of the Board of Directors of
R Systems S.A.S.

Sd/-
Bart V Eunen
[Director]

Place : Enschede, Netherland
Date : February 20, 2011

R SYSTEMS, S.A.S.**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT****Schedules to the Accounts**

	As at December 31, 2010	As at December 31, 2009
	Rs.	Rs.
Schedule 1: Share capital		
<u>Authorised Share Capital</u>		
10,000 ordinary shares of Euro 15.24 each	EUR 152,400	EUR 152,400
<u>Issued, subscribed and paid up capital</u>		
10,000 ordinary shares of Euro 15.24 each	8,759,263	8,759,263
	8,759,263	8,759,263
Schedule 2: Reserves and surplus		
Profit and Loss account		
Balance as per last account	28,326,671	25,033,781
Add: Transfer of profit from Profit and Loss Account	1,287,979	3,292,890
	29,614,650	28,326,671
Foreign currency translation reserve		
Balance as per last account	4,954,842	6,997,092
Add: Current year translation differences	(4,513,694)	(2,042,250)
	441,148	4,954,842
	30,055,798	33,281,513

R SYSTEMS, S.A.S.

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

Schedule 3: Fixed assets

(Amount in Rs.)

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	AS ON 1.1.2010	ADDITION DURING THE YEAR	ADJUSTMENT DURING THE YEAR	TOTAL 31.12.2010	UPTO 1.1.2010	FOR THE THE YEAR	ADJUSTMENT DURING THE YEAR	TOTAL 31.12.2010	AS AT 31.12.2010	AS AT 31.12.2009
Furniture & fixtures	8,573,716	-	915,946	7,657,770	7,717,001	336,156	830,265	7,222,892	434,878	856,715
Office & electrical equipments	8,195,123	-	875,502	7,319,621	7,720,120	266,651	829,391	7,157,380	162,241	475,003
Computer Software	6,959,450	-	743,493	6,215,957	6,959,450	-	743,493	6,215,957	-	-
TOTAL	23,728,289	-	2,534,941	21,193,348	22,396,571	602,807	2,403,149	20,596,229	597,119	1,331,718
Previous year	24,334,555	593,428	1,199,694	23,728,289	22,892,651	638,601	1,134,681	22,396,571	1,331,718	1,441,904

R SYSTEMS, S.A.S.
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT
Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 4: Sundry debtors		
Debts outstanding for more than six months		
Unsecured, considered good*	26,796,325	15,126,937
Considered doubtful	-	-
Other debts		
Unsecured, considered good*	33,173,185	54,693,431
Considered doubtful	-	-
	59,969,510	69,820,368
Less : Provision for doubtful debts	-	-
	59,969,510	69,820,368
* Included in Sundry debtors are:		
Dues from companies under the same management		
-R Systems B.V.	59,613,610	69,421,898
Schedule 5: Cash and bank balances		
Cash in hand	13,690	5,608
Balance with non schedule banks	1,100,934	788,404
	1,114,624	794,012
Schedule 6: Other current assets		
Unbilled revenue	355,900	398,469
	355,900	398,469
Schedule 7: Loans and advances		
(Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	2,192,932	2,274,555
Advance Income tax	387,800	385,609
Deposits - others	1,417,553	1,587,107
	3,998,285	4,247,271
Less Provision for doubtful advance		
	3,998,285	4,247,271
Schedule 8: Current liabilities		
Sundry creditors	5,398,254	9,327,715
Other liabilities	5,096,946	7,570,293
Payables to R Systems B.V.	13,336,965	13,404,598
	23,832,165	30,302,606
Schedule 9: Provisions		
Provision for leave encashment	3,388,212	4,248,456
	3,388,212	4,248,456

R SYSTEMS, S.A.S.**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT****Schedules to the Accounts**

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
Schedule 10: Other Income		
Interest Income	652	3,569
Excess provision Written back	-	2,082,984
	652	2,086,553
Schedule 11: Personnel expenses		
Salaries, wages and bonus	37,414,710	72,045,821
Contribution to statutory and other funds	13,737,761	22,804,871
Staff welfare	261,221	330,995
	51,413,692	95,181,687
Schedule 12: Operating and other expenses		
Recruitment and training expenses	317,291	-
Travelling and conveyance	299,224	496,744
Insurance	149,611	166,981
Repair and maintenance	627,202	280,286
Rent - premises	5,248,894	5,224,749
Rent - equipment	2,369,420	3,129,538
Communication costs	4,746,574	5,734,470
Printing and stationery	57,125	112,196
Advertising and sales promotion	38,725	39,678
Legal and professional expenses	1,481,682	2,164,985
Rates and taxes	1,861,109	3,910,648
Miscellaneous expenses	82,742	81,532
	17,279,599	21,341,807
Schedule 13: Financial expenses		
Interest Expense	37,874	65,030
Bank charges	83,739	87,562
	121,613	152,592

SCHEDULE – 14: NOTES TO ACCOUNTS

BACKGROUND:-

1. Company Overview

R Systems, S.A.S, (The "Company"), formerly Sento S.A.S was incorporated on July 13, 2000. The Company was established by Xtrasource Acquisition, Inc. a company incorporated in United States. As on January 23, 2008, R Systems International Limited, a company incorporated in India acquired all shares of company from Xtrasource Acquisition, Inc. and become the ultimate holding company & subsequently changed its name. The address of the registered office is 9, rue Thomas Edison 57070 Metz, France.

The company providing outsourcing solutions services by means of electronic communication such as email, telephone and fax, in Europe.

2. Statement of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual and going concern basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

All figures are in Rupees except where expressly stated.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

(c) 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.

(d) Depreciation

Depreciation is provided on Straight Line method over the remaining 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:-

Category of fixed assets	Estimated useful life
Computer Hardware	1-5 years
Office Furniture & Equipment	5 years

(e) 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, fixed assets / intangibles are depreciated / amortised on the revised carrying amount over its remaining useful life.

(f) Intangibles

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

(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) 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.

Revenue from outsourcing solutions services comprises income from time-and-material which is recognised when the related services are performed in accordance with the specific terms of the contract with the customer.

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.

Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

(i) Foreign currency translation

(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.

(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 expense in the year in which they arise except those arising from investments in non-integral operations.

(iv) Foreign currency translation

The Functional currency of the company is Euro (€) but the Financial Statements had been prepared in Indian Rupees. In translating the financial statements, the assets and liabilities, both monetary and non-monetary, are translated at the closing rate; income and expense items are translated at yearly average exchange rates; and all resulting exchange differences are accumulated in a foreign currency translation reserve.

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2010, the rates used were €1= Rs. 60.57. For translating assets and liabilities at the year-end, the rates used were €1= Rs. 59.52.

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2009, the rates used were €1= Rs. 67.27. For translating assets and liabilities at the year-end, the rates used were €1= Rs. 66.63.

(j) Employee benefits

Retirement benefits in the form of defined contribution schemes 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 funds.

(k) Income taxes

Income tax on the profit or loss for the year comprises of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date in accordance with the tax laws of the country where such operations are domiciled and any adjustment to tax payable in respect of previous year.

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 recognized 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. If the company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits.

(l) Provision

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

(m) Cash and cash equivalents

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

R SYSTEMS, S.A.S., FRANCE
NOTES TO ACCOUNTS

3. Related Party Disclosures

Holding Company	R Systems International Limited
Fellow Subsidiaries	R Systems (Singapore) Pte Ltd, Singapore R Systems, Inc., USA R Systems Solutions, Inc., USA Indus Software, Inc., USA R Systems N.V., Belgium R Systems Europe B.V, Netherlands ECnet Ltd, Singapore

Following are the subsidiaries of ECnet Ltd, Singapore

ECnet (M) Sdn Bhd, Malaysia
ECnet Systems (Thailand) Co. Ltd., Thailand
ECnet (Shanghai) Co. Ltd., People's Republic of China
ECnet (Hong Kong) Ltd., Hong Kong
ECnet, Inc., USA
ECnet Kabushiki Kaisha, Japan

Key management personnel Bart V Eunen, Director

Details of transactions with related parties for year ended December 31, 2010 and December 31, 2009:
(Amount in Rs)

Particulars	December 31,	
	2010	2009
R Systems Europe B.V.		
Services rendered	67,854,694	115,974,040
Amount receivable	46,276,645	56,017,300

4. Leases - In case of assets taken on lease

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

	Year ended December 31, 2010	Year ended December 31, 2009
	Rs.	Rs.
Lease payments for the year	6,480,231	8,224,316
Minimum Lease Payments:		
Not later than one year	5,643,986	5,460,329
Later than one year but not later than five years	15,519,488	-
Later than five years	-	-

The operating lease arrangements extend for a maximum of 5 years from their respective dates of inception.

R SYSTEMS, S.A.S., FRANCE
NOTES TO ACCOUNTS

5. Previous year figures have been regrouped / reclassified where necessary to make them comparable to the current year classification

As per our report of even date.

For S.K. RELAN & CO.
Firm registration number: 001720N
Chartered Accountants

For and on behalf of the Board of Directors of R Systems, S.A.S., France

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Bart V Eunen
[Director]

Place : New Delhi
Date : February 20, 2011

Place: Enschede, Netherland.
Date : February 20, 2011

AUDITORS' REPORT

To
The Members,
ECNET Ltd., Singapore

1. We have audited the attached Balance Sheet of ECNET LIMITED, Singapore, a subsidiary of R Systems International Limited, India, as at 31st December, 2010 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 and have been prepared in accordance with 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 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. We have obtained all the information and explanations, which to best of our knowledge and belief were necessary for the purposes of our audit and subject to the Notes on accounts, we report that-
 - a) In our opinion the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of accounts;
 - b) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Notes thereon give a true and fair view
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2010;
 - ii) in the case of the Profit and Loss Account, of the **LOSS** for the year ended on that date.
 - iii) in the case of the Cash Flow Statement, of the cash flow for the year ended on that date;

For S.K.RELAN & CO.
Firm Registration No. 001720N
Chartered Accountants

PLACE: NEW DELHI
DATED: February 20, 2011

Sd/-
CA. S.K. RELAN
Membership No.12149

ECNET LIMITED, SINGAPORE
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Balance Sheet as at December 31, 2010

	Schedules	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	2,128,290,504	2,128,290,504
TOTAL		2,128,290,504	2,128,290,504
APPLICATION OF FUNDS			
Fixed assets			
Gross block	2	34,547,587	21,546,715
Less : Accumulated depreciation / amortisation		23,352,247	19,195,844
Net block		11,195,340	2,350,871
Investments	3	6,056,926	5,774,920
Current assets, loans and advances			
Sundry debtors	4	7,696,374	10,406,460
Cash and bank balances	5	8,860,595	4,015,510
Other current assets	6	2,734,494	13,520,898
Loans and advances	7	50,575,274	40,524,015
(A)		69,866,737	68,466,883
Less : Current liabilities and provisions			
Current liabilities	8	232,183,008	202,169,805
(B)		232,183,008	202,169,805
Net current assets (A-B)		(162,316,271)	(133,702,922)
Reserves & Surplus	9	2,273,354,509	2,253,867,635
TOTAL		2,128,290,504	2,128,290,504
Notes to accounts	14	-	

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and behalf of the Board of Directors of ECnet Ltd, Singapore

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Cai Li Ting
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

ECNET LIMITED, SINGAPORE
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Profit and Loss Account for the year ended December 31, 2010

	Schedules	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
INCOME			
Revenue		137,606,725	122,371,188
Other income	10	34,565,856	27,817,603
TOTAL		172,172,581	150,188,791
EXPENDITURE			
Personnel expenses	11	100,314,685	84,503,810
Operating and other expenses	12	69,493,281	75,759,623
Depreciation / amortisation	2	3,738,781	3,081,140
Finance expenses	13	11,466,050	9,948,402
TOTAL		185,012,797	173,292,975
Loss before tax		(12,840,216)	(23,104,184)
Current Tax expenses		-	-
Loss after tax		(12,840,216)	(23,104,184)
Notes to accounts	14		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and behalf of the Board of Directors of ECnet Ltd, Singapore

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Cai Li Ting
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

ECNET LIMITED, SINGAPORE
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Cash Flow Statement for the year ended December 31, 2010

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
A. Cash flow from operating activities		
Net loss before taxation	(12,840,216)	(23,104,184)
Adjustments for:		
Depreciation / amortization	3,738,781	3,081,140
Provision for doubtful debts/advances	610,244	-
Bad debts	-	866,466
Provision for doubtful debts written back	(11,186,734)	(189,128)
Unrealised foreign exchange loss / (gain)	(6,904,415)	5,137,997
Loss on sale / discard of fixed assets	187,386	-
Interest income	(1,808)	(2,450)
Interest expense	11,247,707	9,735,275
Operating loss before working capital changes	(15,149,055)	(4,474,884)
Movements in working capital :		
Decrease / (Increase) in sundry debtors	13,896,820	18,054,878
Decrease / (Increase) in other current assets	10,786,404	(5,884,921)
Decrease / (Increase) in loans and advances	(10,661,503)	(8,923,073)
Increase / (Decrease) in current liabilities	30,013,203	11,285,314
Cash generated from operations	28,885,869	10,057,314
Less: Taxes Paid	-	-
Net cash from operating activities	28,885,869	10,057,314
B. Cash flows used in investing activities		
Purchase of fixed assets	(12,808,368)	(352,138)
Proceeds from sale of fixed assets	13,483	-
Interest received	1,808	2,450
Net cash used in investing activities	(12,793,077)	(349,688)
C. Cash flows used in financing activities		
Interest paid	(11,247,707)	(9,735,275)
Net cash used in financing activities	(11,247,707)	(9,735,275)
Net increase in cash and cash equivalents (A + B + C)	4,845,085	(27,649)
Cash and cash equivalents at the beginning of the year	4,015,510	4,043,159
Cash and cash equivalents at the end of the year	8,860,595	4,015,510

As per our report of even date

For S.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and behalf of the Board of Directors of ECnet Ltd, Singapore

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Cai Li Ting
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

ECNET LIMITED, SINGAPORE
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 1: Share capital		
17,904,335 Ordinary Shares of No Par Value	2,128,290,504	2,128,290,504
	2,128,290,504	2,128,290,504

ECNET LIMITED, SINGAPORE

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

Schedule 2: Fixed assets

(Amount in Rs.)

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	AS ON 1.1.2010	ADDITION DURING 2010	ADJUSTMENT DURING THE YEAR	TOTAL 31.12.2010	UPTO 1.1.2010	FOR THE 2010	ADJUSTMENT DURING THE YEAR	TOTAL 31.12.2010	AS AT 31.12.2010	AS AT 31.12.2009
Leasehold Improvements	1,030,725	1,364,194	(440,315)	1,954,604	453,085	321,343	(257,973)	516,455	1,438,149	577,640
Computer Hardware	17,278,080	790,760	474,704	18,543,544	15,772,758	1,268,923	454,730	17,496,411	1,047,133	1,505,322
Furniture & Fixtures	-	194,280	0	194,280	-	38,043	1,343	39,386	154,894	-
Office & Electrical Equipments	379,786	-	18,546	398,332	315,023	53,298	17,265	385,586	12,746	64,763
Computer Software	2,858,124	10,459,133	139,570	13,456,827	2,654,978	2,057,174	202,257	4,914,409	8,542,418	203,146
Total	21,546,715	12,808,368	192,504	34,547,587	19,195,844	3,738,781	417,622	23,352,247	11,195,340	2,350,871
Previous Year	23,085,430	352,138	(1,890,853)	21,546,715	17,108,206	3,081,140	(993,502)	19,195,844	2,350,871	5,977,224

ECNET LIMITED, SINGAPORE
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 3: Investments		
Long term investments (at cost)		
Other than trade, unquoted		
ECnet (M) Sdn BHD	2,931,212	2,794,737
ECnet Systems (Thailand) Co Ltd	3,125,700	2,980,170
ECnet (Shanghai) Co. Ltd	12,447,746	11,868,189
ECnet (Hong Kong)	35	33
ECnet Inc	118,777	113,246
ECnet Kabushi Kaisha	5,577,638	5,317,948
Less Provision for Diminution against Investment	18,144,180	17,299,403
	6,056,926	5,774,920
Aggregate amount of unquoted investments	6,056,926	5,774,920
Aggregate amount of quoted investments	Nil	Nil
Schedule 4: Sundry debtors		
Debts outstanding for more than six months		
Unsecured, considered good	-	-
Considered doubtful	5,264,778	5,737,167
Other debts		
Unsecured, considered good	7,696,374	10,406,460
Considered doubtful	1,901,975	762,956
	14,863,127	16,906,583
Less : Provision for doubtful debts	7,166,753	6,500,123
	7,696,374	10,406,460
Schedule 5: Cash and bank balances		
Cash on hand	50,359	20,671
Balance with non schedule banks	8,810,236	3,994,839
	8,860,595	4,015,510
Schedule 6: Other current assets		
Unbilled revenue	2,734,494	13,520,898
	2,734,494	13,520,898
Schedule 7: Loans and advances		
(Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	2,861,654	2,580,622
Advance receivables from R Systems, Inc.	455,615	-
Advance receivables from ECnet (M) Sdn Bhd.	17,473,583	21,751,041
Advance receivables from ECnet Systems (Thailand) Co. Ltd.	7,150,073	-
Advance receivables from ECnet Kabushiki Kaisha.	5,480,047	6,622,001
Advance receivables from ECnet (Shanghai) Co. Ltd.	14,321,506	4,388,788
Advance receivables from ECnet (Hong Kong) Ltd.	-	267,914
Advance receivables from ECnet, Inc.	-	1,209,380
Deposits - others	2,832,796	3,704,269
	50,575,274	40,524,015
Schedule 8: Current liabilities		
Sundry creditors	9,852,466	7,431,373
Payables to R Systems International Limited	138,610,615	109,148,064
Payables to R Systems (Singapore) Pte. Ltd.	79,990,424	75,729,163
Payables to R Systems, Inc.	-	109,333
Payables to ECnet (Hong Kong) Ltd.	1,680,963	-
Payables to ECnet Systems (Thailand) Co. Ltd.	-	8,134,925
Payables to ECnet, Inc.	692,398	-
Deferred revenue	118,592	417,192
Other liabilities	1,237,550	1,199,755
	232,183,008	202,169,805
Schedule 9: Reserves & Surplus		
Profit and loss account		
Carry forward Losses as per the last account	2,231,647,996	2,208,543,812
Add: Transfer of loss from Profit and Loss Account	12,840,216	23,104,184
	2,244,488,212	2,231,647,996
Foreign currency translation reserve		
Balance as per last account	22,219,639	26,221,792
Add: Current year translation differences	6,646,658	(4,002,153)
	28,866,297	22,219,639
	2,273,354,509	2,253,867,635

ECNET LIMITED, SINGAPORE
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
Schedule 10: Other income		
Interest Income	1,808	2,450
Provision for doubtful debts written back	11,186,734	189,128
Management fees	23,377,314	27,626,025
	34,565,856	27,817,603
Schedule 11: Personnel expenses		
Salaries, wages and bonus	90,259,633	78,778,536
Contribution to provident fund and other funds	5,567,770	2,043,279
Staff welfare expenses	4,487,282	3,681,995
	100,314,685	84,503,810
Schedule 12: Operating and other expenses		
Recruitment and training expenses	332,106	127,167
Travelling and conveyance	6,571,009	14,084,863
Insurance	80,550	80,650
Repair and maintenance	3,814,790	2,624,099
Provision for doubtful debts and advances	610,244	-
Rent - premises	10,982,199	11,890,381
Rent - equipment	458,909	372,985
Power and fuel	690,837	1,516,686
Communication costs	7,441,861	8,112,025
Printing and stationery	587,017	462,527
Advertising and sales promotion	133,516	-
Legal and professional expenses	33,270,875	28,117,471
Foreign exchange fluctuation (net)	2,698,117	6,598,261
Loss on sale/discard of fixed assets	187,386	-
Bad debts	-	866,466
Membership and subscription	199,151	58,112
Rates & taxes	1,127,235	718,734
Seminar expenses	217,143	67,268
Miscellaneous expenses	90,336	61,928
	69,493,281	75,759,623
Schedule 13: Financial expenses		
Interest expenses	11,247,707	9,735,275
Bank charges	218,343	213,127
	11,466,050	9,948,402

Schedule 14: Notes to accounts

1. Company Overview

ECnet Limited (The "Company") is a subsidiary of R Systems International Limited, a company incorporated in India. The company was incorporated under the laws of the Singapore in 1996 and R Systems International Limited acquired the majority share on January 8, 2004. The registered office of the Company is located at 15 Changi Business Park Central 1 #05-01 Singapore 486073.

The Company provides collaborative Internet-based supply chain solutions and management services, customers technical and administrative support services and information technology consultancy services

2. Statement of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual and going concern basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

All figures are in Rupees except where expressly stated.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

(c) 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.

(d) Depreciation

Depreciation is provided on Straight Line Method over the remaining 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>
Leasehold Improvements	5 years
Computer Hardware	3 years
Furniture & Fixtures	5 years
Office & Electrical Equipment	3 years

(e) 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, fixed assets / intangibles are depreciated / amortised on the revised carrying amount over its remaining useful life.

(f) Intangibles

Computer software

Costs relating to acquired software are capitalised and amortised on a straight-line basis over their useful lives as estimated by the management at 3-5 years or below in specific cases.

(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) 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.

Rendering of services

Revenue from rendering of services that are of short duration is recognized when the services are completed.

Subscriptions

Revenue from subscription services includes one-time activation and set-up charges, monthly subscription charges and usages fees. Revenue from one-time activation and set-up charges is recognized when the services are rendered, completed and accepted by the customers. Revenue from monthly subscription charges is recognized over the term of the subscription period which coincides with the financial year end. Usage fees are recognized on an accrual basis.

Other services

Revenue from provision of information technology related services is recognized when the services is performed, completed and accepted by the customers.

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.

Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

(i) Foreign currency translation

(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.

(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 expense in the year in which they arise except those arising from investments in non-integral operations.

(iv) Foreign currency translation

The functional currency of the Company is Singapore Dollar (SGD) but the financial statement has been prepared in Indian Rupees. In translating the financial statements, the assets and liabilities, both monetary and non-monetary, are translated at the closing rate; income and expense items are translated at yearly average exchange rates; and all resulting exchange differences are accumulated in a foreign currency translation reserve.

For translating income and expense during the year ended December 31, 2010, the rates used were SGD 1= Rs. 33.55. For translating assets and liabilities at the year-end, the rates used were SGD 1= Rs. 34.73.

For translating income and expense during the year ended December 31, 2009, the rates used were SGD 1= Rs. 32.72. For translating assets and liabilities at the year-end, the rates used were SGD 1= Rs. 33.11.

(j) **Employee benefits**

Retirement benefits in the form of defined contribution schemes 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 funds.

(k) **Income taxes**

Income tax on the profit or loss for the year comprises of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date in accordance with the tax laws of the country where such operations are domiciled and any adjustment to tax payable in respect of previous year.

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 recognized 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. If the company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits.

(l) **Provision**

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

(m) **Cash and cash equivalents**

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

ECNET LIMITED, SINGAPORE
NOTES TO ACCOUNTS

3. Related Party Disclosures

Holding Company	R Systems International Limited
Fellow Subsidiaries	R Systems, Inc., USA Indus Software, Inc., USA R Systems Solutions, Inc., USA R Systems N.V., Belgium R Systems Europe B.V., Netherlands R Systems S.A.S., France R Systems (Singapore) Pte Limited, Singapore
Wholly Owned Subsidiaries of ECnet limited	ECnet (M) Sdn Bhd, Malaysia ECnet Systems (Thailand) Co. Ltd., Thailand ECnet (Shanghai) Co. Ltd., People's Republic of China ECnet (Hong Kong) Ltd., Hong Kong ECnet, Inc., USA
Key management personnel	ECnet Kabushiki Kaisha, Japan Tarun Shankar Mathur, Director Tan Cant Wee, Director (Resigned in 2010) Cai Li Ting, Director

(a) Details of transactions with related parties for year ended December 31, 2010 and December 31, 2009:

Transaction	(Amount in Rs.)	
	For the year ended December, 31	
	2010	2009
<u>R System International Limited</u>		
a). Services rendered	2,509,576	-
b). Consultancy fees Paid	16,510,167	22,863,404
c). Interest Paid	7,367,238	5,950,586
<u>R Systems (Singapore) Pte Ltd</u>		
a). Services rendered	1,938,422	1,840,388
b). Management fee received	7,688,743	10,373,569
c). Interest Paid	3,880,467	3,784,687
<u>ECnet (M) Sdn Bhd.</u>		
a). Services rendered	8,771,789	12,358,956
b). Management fee received	6,204,315	6,597,965
<u>ECnet (Shanghai) Co. Ltd.</u>		
a). Services rendered	6,604,537	3,645,429
b). Management fee received	4,024,261	3,499,929
<u>ECnet (Hong Kong) Ltd.</u>		
a). Services rendered	86,165	98,333
b). Management fee received	1,184,268	1,267,126
<u>ECnet Kabushiki Kaisha.</u>		
a). Services rendered	8,783	9,412
b). Management fee received	966,834	1,151,247
<u>ECnet Systems (Thailand) Co. Ltd.,</u>		
a). Services rendered	15,596,492	8,066,077
b). Management fee received	3,308,892	4,736,189

ECNET LIMITED, SINGAPORE
NOTES TO ACCOUNTS

(b) Inter-companies balances as at December 31, 2010 and December 31, 2009:

Outstanding balances	(Amount in Rs.)	
	As at December, 31	
	2010	2009
<u>R System International Limited</u>		
- Amount Payables	138,610,615	109,148,064
<u>R Systems (Singapore) Pte Ltd</u>		
- Amount Payables	79,990,424	75,729,163
<u>R Systems, Inc.</u>		
- Amount Receivables	455,615	-
- Amount Payables	-	109,333
<u>ECnet (M) Sdn Bhd.</u>		
- Amount Receivables	17,473,583	21,751,041
<u>ECnet Systems (Thailand) Co. Ltd.,</u>		
- Amount Receivables	7,150,073	-
- Amount Payables	-	8,134,925
<u>ECnet Kabushiki Kaisha</u>		
- Amount Receivables (Net of Provision Rs. 17,731,124 and Rs. 17,282,259 in 2010 and 2009, respectively)	5,480,047	6,622,001
<u>ECnet (Shanghai) Co. Ltd.</u>		
- Amount Receivables (Net of Provision Rs. 7,622,367 and Rs. 19,289,164 in 2010 and 2009, respectively)	14,321,506	4,388,788
<u>ECnet (Hong Kong) Ltd.</u>		
- Amount Receivables	-	267,914
- Amount Payables	1,680,963	-
<u>ECnet, Inc.</u>		
- Amount Receivables (Net of Provision Rs. 142,977,159 in 2010 and Rs. 148,984,834 in 2009, respectively)	-	1,209,380
- Amount Payables	692,398	-
TOTAL	176,093,594	158,882,361

*net off provisions.

R Systems International Limited, being the holding company of ECnet Limited had granted option to one of the employee of ECnet Limited under "R Systems International Limited Year 2004 Employee Stock Option Plan" and few employees of ECnet Limited under the 'R Systems International Limited Year 2004 Employee Stock Option Plan – ECnet". In consequence to the said grant of option to the employee, R Systems International Limited had incurred certain cost for issuing such options/shares. The said cost is insignificant.

4. The Board of Directors of R Systems International Limited at its meeting held on October 30, 2010 granted its approval for corporate restructuring of its Singapore Operations which involves conversion of loan by R Systems International Limited to ECnet Limited into equity investment and thereafter amalgamation of ECnet Limited and R Systems Singapore Limited, subject to corporate and regulatory approvals in India and Singapore.

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

The Company has operating leases mainly on equipment, networking, and office premise and furniture rental. The future minimum payments required under non-cancelable operating leases at year-end are as follows:

Year ended	Year ended
December	December
31, 2010	31, 2009

ECNET LIMITED, SINGAPORE
NOTES TO ACCOUNTS

	Rs.	Rs.
Lease payments for the year	13,840,157	13,252,032
Minimum Lease Payments:		
Not later than one year	9,471,184	8,157,083
Later than one year but not later than five years	3,157,061	3,290,747
Later than five years	-	-

These leases have an average life of between 1 and 3 years with no renewal option or escalation clause included in the contracts

- The Company has a policy of recognising deferred tax assets only to the extent that there is reasonable certainty or virtual certainty supported by convincing evidence as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realised. During the year ended December 31 2010 and 2009, based on the management estimate of future taxable income no deferred tax has been recognised in the books of accounts.
- Previous year figures have been regrouped / reclassified where necessary to make them comparable to the current year classification

As per our report of even date.

For S.K. RELAN & CO.
Firm registration number: 001720N
Chartered Accountants

For and on behalf of the Board of Directors of ECnet Limited., Singapore

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Cai Li Ting
[Director]

Place : New Delhi
Date : February 20, 2011

Place: Singapore
Date : February 20, 2011

Place: Singapore
Date : February 20, 2011

AUDITORS' REPORT

To
The Members,
ECNET (M) SDN. BHD, MALAYSIA

1. We have audited the attached Balance Sheet of ECNET (M) SDN. BHD., a subsidiary of ECnet Ltd., Singapore, which is again a subsidiary of R Systems International Limited, India, as at 31st December, 2010 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 and have been prepared in accordance with 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 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. We have obtained all the information and explanations, which to best of our knowledge and belief were necessary for the purposes of our audit and subject to the Notes on accounts, we report that
 - a) In our opinion the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of accounts;
 - b) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Notes thereon give a true and fair view
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2010;
 - ii) in the case of the Profit and Loss Account, of the **PROFIT** for the period ended on that date.
 - iii) in the case of the Cash Flow Statement, of the cash flow for the year ended on that date;

For S.K.RELAN & CO.
Firm Registration No. 001720N
Chartered Accountants

Sd/-
CA. S.K. RELAN
Membership No.12149

PLACE: NEW DELHI
DATED: February 20, 2011

ECNET (M) SDN. BHD., MALAYSIA
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Balance Sheet as at December 31, 2010

	Schedules	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	2,393,480	2,393,480
TOTAL		2,393,480	2,393,480
APPLICATION OF FUNDS			
Fixed assets			
Gross block	2	6,373,982	4,699,220
Less : Accumulated depreciation / amortisation		5,351,174	4,413,297
Net block		1,022,808	285,923
Current assets, loans and advances			
Sundry debtors	3	4,898,773	5,399,115
Cash and bank balances	4	6,624,085	10,295,247
Other current assets	5	1,422,019	4,943,800
Loans and advances	6	1,481,905	1,976,330
(A)		14,426,782	22,614,492
Less : Current liabilities and provisions			
Current liabilities	7	18,839,993	26,406,158
Provisions	8	-	41,094
(B)		18,839,993	26,447,252
Net current assets (A-B)		(4,413,211)	(3,832,760)
Reserves & Surplus	9	5,783,883	5,940,317
TOTAL		2,393,480	2,393,480
Notes to accounts	14		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and behalf of the Board of Directors of
ECnet (M) Sdn. Bhd., Malaysia

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Vincent Tey Chyng Siang
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

ECNET (M) SDN. BHD., MALAYSIA
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Profit and Loss Account for the year ended December 31, 2010

	Schedules	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
INCOME			
Revenue		37,897,430	43,355,582
Other income	10	473,799	291,343
TOTAL		38,371,229	43,646,925
EXPENDITURE			
Personnel expenses	11	10,161,712	6,191,061
Operating and other expenses	12	27,024,884	31,135,103
Depreciation /amortisation	2	629,584	253,767
Finance expenses	13	28,695	29,644
TOTAL		37,844,875	37,609,575
Profit before tax		526,354	6,037,350
Current Tax expenses		100,231	1,548,519
Profit after tax		426,123	4,488,831
Notes to accounts	14		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and behalf of the Board of Directors of
ECnet (M) Sdn. Bhd., Malaysia

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Vincent Tey Chyng Siang
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

ECNET (M) SDN. BHD., MALAYSIA
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Cash Flow Statement for the year ended December 31, 2010

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
A. Cash flow from operating activities		
Net profit before taxation	526,354	6,037,350
Adjustments for:		
Depreciation / amortization	629,584	253,767
Loss / (profit) on Sale of Assets	(14,860)	2,189
Provision for doubtful debts	81,445	-
Provision for doubtful debts written back	-	(290,465)
Excess provision written back	(458,939)	(877)
Unrealised foreign exchange (loss) / gain	(272,156)	285,014
Operating profit before working capital changes	491,428	6,286,978
Movements in working capital :		
Decrease / (Increase) in sundry debtors	418,897	2,260,924
Decrease / (Increase) in other current assets	3,521,781	(4,943,800)
Decrease / (Increase) in loans and advances	1,256,741	(1,466,843)
Increase / (Decrease) in current liabilities	(7,107,226)	6,802,617
Cash generated from / (used in) operations	(1,418,379)	8,939,876
Less: Taxes Paid	903,641	1,507,425
Net cash from / (used in) operating activities	(2,322,020)	7,432,451
B. Cash flows used in investing activities		
Purchase of fixed assets	(1,364,610)	(459,737)
Proceeds from sale of fixed assets	15,468	6,815
Net cash used in investing activities	(1,349,142)	(452,922)
C. Cash flows from / (used in) financing activities		
Net cash from / (used in) financing activities	-	-
Net increase in cash and cash equivalents (A + B + C)	(3,671,162)	6,979,529
Cash and cash equivalents at the beginning of the year	10,295,247	3,315,718
Cash and cash equivalents at the end of the year	6,624,085	10,295,247

As per our report of even date

For S.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and behalf of the Board of Directors of
ECnet (M) Sdn. Bhd., Malaysia

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Vincent Tey Chyng Siang
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

ECNET (M) SDN. BHD., MALAYSIA
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December	As at December
	31, 2010	31, 2009
	Rs.	Rs.
Schedule 1: Share capital		
<u>Authorised Share Capital</u>		
500,000 Ordinary Shares of RM 1 Each	RM 500,000	RM 500,000
<u>Issued, subscribed and paid up capital</u>		
200,000 Ordinary Shares of RM 1 Each	2,393,480	2,393,480
	2,393,480	2,393,480

ECNET (M) SDN. BHD., MALAYSIA
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

Schedule 2: Fixed assets

(Amount in Rs.)

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	AS ON 1.1.2010	ADDITION DURING 2010	ADJUSTMENT DURING THE Year	TOTAL 31.12.2010	UPTO 1.1.2010	FOR THE 2010	ADJUSTMENT DURING THE Year	TOTAL 31.12.2010	AS AT 31.12.2010	AS AT 31.12.2009
Leasehold Improvements	66,641	51,040	(5,333)	123,014	66,570	44,381	(6,804)	117,755	5,259	70
Computer Hardware	1,109,157	402,151	(79,145)	1,590,453	938,919	230,254	(73,176)	1,242,349	348,104	170,238
Furniture & Fixtures	681,982	137,586	(7,605)	827,173	681,473	9,875	(7,980)	699,328	127,845	510
Office & Electrical Equipments	841,157	337,684	(57,994)	1,236,835	828,040	122,182	(61,019)	1,011,240	225,595	13,118
Computer Software	2,000,282	436,150	(160,075)	2,596,507	1,898,295	222,893	(159,314)	2,280,502	316,005	101,987
Total	4,699,220	1,364,610	(310,152)	6,373,982	4,413,297	629,584	(308,293)	5,351,174	1,022,808	285,923
Previous Year	4,536,871	459,737	297,388	4,699,220	4,447,869	253,767	288,339	4,413,297	285,923	89,001

ECNET (M) SDN. BHD., MALAYSIA
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 3: Sundry debtors		
Debts outstanding for more than six months		
Unsecured, considered good	388,880	525,017
Considered doubtful	8,451,675	7,747,521
Other debts		
Unsecured, considered good	4,509,893	4,874,098
Considered doubtful	-	-
	13,350,448	13,146,636
Less : Provision for doubtful debts	8,451,675	7,747,521
	4,898,773	5,399,115
Schedule 4: Cash and bank balances		
Cash on hand	22,191	20,547
Balance with non schedule banks	6,601,894	10,274,700
	6,624,085	10,295,247
Schedule 5: Other Current Assets		
Unbilled Revenue	1,422,019	4,943,800
	1,422,019	4,943,800
Schedule 6: Loans & Advances (Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	215,699	1,510,598
Advance Tax	762,316	-
Deposits - others	503,890	465,732
	1,481,905	1,976,330
Schedule 7: Current liabilities		
Sundry creditors	1,218,867	4,235,755
Payables to Ecnnet Limited	17,621,126	22,163,554
Other liabilities	-	6,849
	18,839,993	26,406,158
Schedule 8: Provisions		
Income Tax payables	-	41,094
	-	41,094
Schedule 9 : Reserves & Surplus		
Profit and Loss Account		
Carry forward Losses as per the last account	4,331,658	8,820,489
Add: Transfer of profit from Profit and Loss Account	(426,123)	(4,488,831)
	3,905,535	4,331,658
Foreign currency translation reserve		
Balance as per last account	1,608,659	1,893,628
Add: Current year translation differences	269,689	(284,969)
	1,878,348	1,608,659
	5,783,883	5,940,317

ECNET (M) SDN. BHD., MALAYSIA
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	For the year ended December 31, 2010	For the year ended December 31, 2009
	Rs.	Rs.
Schedule 10: Other income		
Provision for doubtful debts written back	-	290,465
Other written back	458,939	877
Profit on sale of assets	14,860	-
	473,799	291,342
Schedule 11: Personnel expenses		
Salaries, wages and bonus	8,762,736	5,287,518
Contribution to provident fund and other funds	1,222,505	740,879
Staff welfare expenses	176,471	162,664
	10,161,712	6,191,061
Schedule 12: Operating and other expenses		
Recruitment and training expenses	369,252	179,786
Travelling and conveyance	5,081,526	3,841,499
Repair and maintenance	76,675	90,783
Loss on sale of Assets	-	2,189
Rent - premises	1,116,861	1,084,356
Power and fuel	83,281	89,405
Communication costs	699,621	659,737
Printing and stationery	349,508	118,775
Legal and professional expenses	12,074,853	16,327,707
Provision for doubtful debts	81,445	-
Director's remuneration	1,555,611	1,486,231
Foreign Exchange fluctuation (Net)	(1,012,471)	164,843
Management fees	6,277,749	6,788,551
Miscellaneous expenses	270,973	301,240
	27,024,884	31,135,102
Schedule 13: Financial expenses		
Bank charges	28,695	29,644
	28,695	29,644

Schedule 14: Notes to accounts

1. Company Overview

ECnet M) SDN. BHD (The "Company") is a wholly owned subsidiary of ECnet Limited, a company incorporated in the Republic of Singapore, which is again a subsidiary of R Systems International Limited, a company incorporated in India. The registered office of the company is located at Level 12, Suite 12.05 Menara Summit, Persiaran Kewajipan, USJ1, 47600 UEP Subang Jaya, Selangor Darul Ehsan, Malaysia.

The Company provides Internet-based supply chain management solutions and management services

2. Statement of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual and going concern basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

All figures are in Rupees except where expressly stated.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

(c) 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.

(d) Depreciation

Depreciation is provided on Straight Line Method over the remaining 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>
Computer Equipment	3 years
Furniture and Fixture	5 years
Office and Electrical Equipment	3 years
Leasehold improvement	5 years

(e) 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, fixed assets / intangibles are depreciated / amortised on the revised carrying amount over its remaining useful life.

(f) Intangibles

Computer software

Costs relating to acquired software are capitalised and amortised on a straight-line basis over their useful lives as estimated by the management at 3 to 5 years or below in specific cases.

(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) 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.

Rendering of services

Revenue from rendering of services that are of short duration is recognized when the services are completed.

Subscriptions

Revenue from subscription services includes one-time activation and set-up charges, monthly subscription charges and usages fees. Revenue from one-time activation and set-up charges is recognized when the services are rendered, completed and accepted by the customers. Revenue from monthly subscription charges is recognized over the term of the subscription period which coincides with the financial year end. Usage fees are recognized on an accrual basis.

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.

Other services

Revenue from provision of information technology related services is recognized when the services is performed, completed and accepted by the customers.

Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

(i) Foreign currency translation

(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.

(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 expense in the year in which they arise except those arising from investments in non-integral operations.

(iv) Foreign currency translation

The functional currency of the Company is Malaysian Ringgit (MYR) but the financial statement has been prepared in Indian Rupees. In translating the financial statements, the assets and liabilities, both monetary and non-monetary, are translated at the closing rate; income and expense items are translated at yearly average exchange rates; and all resulting exchange differences are accumulated in a foreign currency translation reserve.

For translating income and expense during the year ended December 31, 2010, the rates used were MYR 1= Rs. 14.32. For translating assets and liabilities at the year-end, the rates used were MYR 1= Rs. 14.79.

For translating income and expense during the year ended December 31, 2009, the rates used were MYR 1= Rs. 13.90. For translating assets and liabilities at the year-end, the rates used were MYR 1= Rs. 13.70.

(j) Employee benefits

Retirement benefits in the form of defined contribution schemes 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 funds.

(k) Income taxes

Income tax on the profit or loss for the year comprises of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date in accordance with the tax laws of the country where such operations are domiciled and any adjustment to tax payable in respect of previous year.

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 recognized 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. If the company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits.

(l) Provision

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

(m) Segment reporting policies

The Company operates one business segment, providing Internet-based supply chain solutions, management services and rendering information technology consultancy services.

(n) Cash and cash equivalents

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

3. Related Party Disclosures

ECNET (M) SDN. BHD ,MALAYSIA
NOTES TO ACCOUNTS

Holding Company	ECnet Limited, Singapore
Fellow Subsidiaries	ECnet Systems (Thailand) Co. Ltd., Thailand ECnet (Shanghai) Co. Ltd., People's Republic of China ECnet (Hong Kong) Ltd., Hong Kong ECnet, Inc., USA ECnet Kabushiki Kaisha, Japan
Other Related companies	R Systems International Limited, India R Systems, Inc., USA Indus Software, Inc., USA R Systems Solutions, Inc., USA R Systems N.V., Belgium R Systems Europe B.V., Netherlands R Systems S.A.S., France
Key Management Personnel	R Systems (Singapore) Pte Limited, Singapore Tarun Shankar Mathur, Director Vincent Tey Chyng Siang , Director

- (a) Details of transactions with related parties for year ended December 31, 2010 and December 31, 2009:

TRANSACTIONS	(Amount in Rs.)	
	For the year ended December, 31	
	2010	2009
<u>ECnet Limited, Singapore</u>		
a). Sub-Contracting Expenses	9,262,753	12,818,598
b). Management Fees Paid	6,277,749	6,788,551

- (b). Inter-companies balances as at December 31, 2010 and December 31, 2009:

OUTSTANDING BALANCES	(Amount in Rs.)	
	As at December, 31	
	2010	2009
<u>ECnet Limited, Singapore</u>		
- Amount Payables	17,621,126	22,163,554

4. **Leases - In case of assets taken on lease**

The Company has operating leases mainly on equipment, networking, and office premise and furniture rental. The future minimum payments required under non-cancelable operating leases at year-end are as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
	Rs.	Rs.
Lease payments for the year	1,116,861	1,084,356
Minimum Lease Payments:		
Not later than one year	-	-
Later than one year but not later than five years	-	-
Later than five years	-	-

ECNET (M) SDN. BHD, MALAYSIA
NOTES TO ACCOUNTS

5. The Company has a policy of recognising deferred tax assets only to the extent that there is reasonable certainty or virtual certainty supported by convincing evidence as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realised.
During the year ended December 31 2010 and 2009, based on the management estimate of future taxable income no deferred tax has been recognised in the books of accounts.
6. Previous year figures have been regrouped / reclassified where necessary to make them comparable to the current year classification

As per our report of even date.

For S.K. RELAN & CO.
Firm registration number: 001720N
Chartered Accountants

For and on behalf of the Board of Directors of ECnet (M) Sdn Bhd., Malaysia

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Vincent Tey Chyng Siang
[Director]

Place : New Delhi
Date : February 20, 2011

Place: Singapore
Date : February 20, 2011

Place: Singapore
Date : February 20, 2011

AUDITORS' REPORT

To
The Members,
ECnet Inc., USA

1. We have audited the attached Balance Sheet of ECnet Inc., a subsidiary of ECnet Ltd., Singapore, which is again a subsidiary of R Systems International Limited, India as at 31st December, 2010 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 and have been prepared in accordance with 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 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. We have obtained all the information and explanations, which to best of our knowledge and belief were necessary for the purposes of our audit and subject to the Notes on accounts, we report that
 - a) In our opinion the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of accounts;
 - b) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Notes thereon give a true and fair view
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2010;
 - ii) in the case of the Profit and Loss Account, of the **LOSS** for the year ended on that date.
 - iii) in the case of the Cash Flow Statement, of the cash flow for the year ended on that date;

For S.K.RELAN & CO.
Firm Registration No. 001720N
Chartered Accountants

Sd/-
CA. S.K. RELAN
Membership No.12149

PLACE: NEW DELHI
DATED: February 20, 2011

ECNET, INC., USA
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Balance Sheet as at December 31, 2010

	Schedules	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	91,110	91,110
TOTAL		91,110	91,110
APPLICATION OF FUNDS			
Fixed assets			
Gross block	2	34,566	35,836
Less : Accumulated depreciation / amortisation		34,563	35,833
Net block		3	3
Current assets, loans and advances			
Sundry debtors	3	-	34,905
Cash and bank balances	4	77,604	2,014,687
Loans and advances	5	56,113	58,175
(A)		133,717	2,107,767
Less : Current liabilities and provisions			
Current liabilities	6	142,410,582	149,595,013
(B)		142,410,582	149,595,013
Net current assets (A-B)		(142,276,865)	(147,487,246)
Reserves & Surplus	7	142,367,972	147,578,353
TOTAL		91,110	91,110
Notes to accounts	10		

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 and on behalf of the Board of Directors of EC Net, Inc., USA

For S.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Satinder Singh Rekhi
[Director]

Place : New Delhi
Date : February 20, 2011

Place : CA, U.S.A
Date : February 20, 2011

ECNET, INC., USA
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Profit and Loss Account for the year ended December 31, 2010

	Schedules	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
INCOME			
Other income	8	996	137
TOTAL		996	137
EXPENDITURE			
Finance expenses	9	19,864	17,219
TOTAL		19,864	17,219
Loss before tax		(18,868)	(17,082)
Current Tax expense		-	-
Loss after tax		(18,868)	(17,082)
Notes to accounts	10		

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 and on behalf of the Board of Directors of EC Net, Inc., USA

For S.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Satinder Singh Rekhi
[Director]

Place : New Delhi
Date : February 20, 2011

Place : CA, U.S.A
Date : February 20, 2011

ECNET, INC., USA
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT
Cash Flow Statement for the year ended December 31, 2010

	For the year ended December 31, 2010	For the year ended December 31, 2009
	Rs.	Rs.
A. Cash flow from operating activities		
Net loss before taxation	(18,868)	(17,082)
Adjustments for:		
Unrealised foreign exchange loss / (gain)	5,229,250	10,070,070
Operating profit before working capital changes	5,210,382	10,052,988
Movements in working capital :		
Decrease / (Increase) in sundry debtors	34,905	2,383
Decrease / (Increase) in loans and advances	2,062	3,973
Increase / (Decrease) in current liabilities	(7,184,431)	(8,155,463)
Cash generated from / (used in) operations	(1,937,082)	1,903,881
Less: Taxes Paid	-	-
Net cash from / (used in) operating activities	(1,937,082)	1,903,881
B. Cash flows from / (used in) investing activities		
Net cash from / (used in) investing activities	-	-
C. Cash flows from / (used in) financing activities		
Net cash from / (used in) financing activities	-	-
Net increase in cash and cash equivalents (A + B + C)	(1,937,082)	1,903,881
Cash and cash equivalents at the beginning of the year	2,014,686	110,805
Cash and cash equivalents at the end of the year	77,604	2,014,686

As per our report of even date

For S.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

Sd/-
CA. S.K. RELAN
Membership No. 12149

Place : New Delhi
Date : February 20, 2011

For and on behalf of the Board of Directors of
EC Net, Inc., USA

Sd/-
Satinder Singh Rekhi
[Director]

Place : CA, U.S.A
Date : February 20, 2011

ECNET, INC., USA
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010	As at December 31, 2009
	Rs.	Rs.
Schedule 1: Share capital		
<u>Authorised Share Capital</u>		
10000 Shares of USD 2 Each	USD 20,000	USD 20,000
<u>Issued, subscribed and paid up capital</u>		
1000 Shares of USD 2 Each	91,110	91,110
	91,110	91,110

ECNET, INC., USA

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

Schedule 2: Fixed assets

(Amount in Rs.)

PARTICULARS	AS ON 1.1.2010	ADDITION DURING 2010	ADJUSTMENT DURING THE YEAR	TOTAL 31.12.2010	UPTO 1.1.2010	FOR THE 2010	ADJUSTMENT DURING THE YEAR	TOTAL 31.12.2010	AS AT 31.12.2010	AS AT 31.12.2009
Office & Electrical Equipments	35,836	-	(1,270)	34,566	35,833	-	(1,270)	34,563	3	3
Total	35,836	-	(1,270)	34,566	35,833	-	(1,270)	34,563	3	3
Previous Year	38,283	-	(2,447)	35,836	38,280	-	(2,447)	35,833	3	3

ECNET, INC., USA
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 3: Sundry debtors		
Debts outstanding for more than six months		
Unsecured, considered good	-	34,905
Considered doubtful	774,577	803,048
Other debts		
Unsecured, considered good	-	-
Considered doubtful	-	-
	774,577	837,953
Less : Provision for doubtful debts	774,577	803,048
	-	34,905
Schedule 4: Cash and bank balances		
Balance with non schedule banks	77,604	2,014,687
	77,604	2,014,687
Schedule 5.: Loans and advances (Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	56,113	58,175
	56,113	58,175
Schedule 6: Current liabilities		
Sundry creditors	192,801	234,793
Payables to ECnet Limited	142,191,408	149,353,821
Other liabilities	26,373	6,399
	142,410,582	149,595,013
Schedule 7 : Reserves & Surplus		
Profit and loss account		
Carry forward Losses as per the last account	138,660,858	138,643,776
Add: Transfer of loss from Profit and Loss Account	18,868	17,082
	138,679,726	138,660,858
Foreign currency translation reserve		
Balance as per last account	8,917,495	18,987,566
Add: Current year translation differences	(5,229,249)	(10,070,071)
	3,688,246	8,917,495
	142,367,972	147,578,353

ECNET, INC., USA**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT****Schedules to the Accounts**

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
Schedule 8: Other income		
Miscellaneous income	996	137
	996	137
Schedule 9: Financial expenses		
Bank charges	19,864	17,219
	19,864	17,219

Schedule – 9: Notes to account

1. Company Overview

ECnet, Inc. (the “Company”) is a wholly owned subsidiary of ECnet Ltd. a company incorporated in the Republic of Singapore, which is again a subsidiary of R Systems International Limited, a company incorporated in India. The address of the registered office is Corporation Trust Center 1209 Orange Street Wilmington, New Castle, DE 19801, U.S.A.

The main object of the Company is to provide services of Supply Chain Management through Internet. There is no revenue during the year ended on December 31, 2010.

2. Statement of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual and going concern basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

All figures are in Rupees except where expressly stated.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management’s best knowledge of current events and actions, actual results could differ from these estimates.

(c) 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.

(d) Depreciation

Depreciation is provided on Straight Line Method over the remaining 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>
Office & Electrical Equipment	3 years

(e) 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, fixed assets / intangibles are depreciated / amortised on the revised carrying amount over its remaining useful life.

(f) 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.

Rendering of services

Revenue from rendering of services that are of short duration is recognized when the services are completed.

Subscriptions

Revenue from subscription services includes one-time activation and set-up charges, monthly subscription charges and usages fees. Revenue from one-time activation and set-up charges is recognized when the services are rendered, completed and accepted by the customers. Revenue from monthly subscription charges is recognized over the term of the subscription period which coincides with the financials year end. Usage fees are recognized on an accrual basis.

Other services

Revenue from provision of information technology related services is recognized when the services is performed, completed and accepted by the customers.

Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

(g) Foreign currency translation

(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.

(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 expense in the year in which they arise except those arising from investments in non-integral operations.

(iv) Foreign currency translation

The functional currency of the Company is United States Dollar (US \$) but the financial statements has been prepared in Indian Rupees. In translating the financial statements, the assets and liabilities, both monetary and non-monetary, are translated at the closing rate; income and expense items are translated at yearly average exchange rates; and all resulting exchange differences are accumulated in a foreign currency translation reserve.

For translating income and expense during the year ended December 31, 2010, the rates used were US \$ 1= Rs. 45.68. For translating assets and liabilities at the year-end, the rates used were US \$ 1= Rs. 44.89.

For translating income and expense during the year ended December 31, 2009, the rates used were US \$ 1= Rs. 48.27. For translating assets and liabilities at the year-end, the rates used were US \$ 1= Rs. 46.54.

(h) Income taxes

Income tax on the profit or loss for the year comprises of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date in accordance with the tax laws of the country where such operations are domiciled and any adjustment to tax payable in respect of previous year.

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 recognized 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. If the company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits.

(i) Cash and cash equivalents

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

3. Related Party Disclosures

Holding Company	ECnet Limited, Singapore
Fellow Subsidiaries	ECnet Systems (Thailand) Co. Ltd., Thailand ECnet (Shanghai) Co. Ltd., People's Republic of China ECnet (Hong Kong) Ltd., Hong Kong ECnet, Inc., USA ECnet Kabushiki Kaisha, Japan
Other Related companies	R Systems International Limited, India R Systems, Inc., USA Indus Software, Inc., USA R Systems Solutions, Inc., USA R Systems N.V., Belgium R Systems Europe B.V., Netherlands R Systems S.A.S., France R Systems (Singapore) Pte Limited, Singapore
Key Management Personnel	Satinder Singh Rekhi, Director

Inter-companies balances as at December 31, 2010 and December 31, 2009:

OUTSTANDING BALAN CES	(Amount in Rs.)	
	As at December, 31	
	2010	2009
<u>ECnet Limited, Singapore</u>		
- Amount Payables	142,191,408	149,353,821

ECNET, INC., USA
NOTES TO ACCOUNT

4. The Company has a policy of recognising deferred tax assets only to the extent that there is reasonable certainty or virtual certainty supported by convincing evidence as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realised.
During the year ended December 31 2010 and 2009, based on the management estimate of future taxable income no deferred tax has been recognised in the books of accounts.
5. No Staff Cost was incurred during the year. None of the directors have received any fees or emoluments in respect of their services rendered to the company during the year.
6. Previous year figures have been regrouped / reclassified where necessary to make them comparable to the current year classification.

As per our report of even date.

For S.K. RELAN & CO.
Firm registration number: 001720N
Chartered Accountants

For and on behalf of the Board of Directors of ECnet, Inc., USA

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Satinder Singh Rekhi
[Director]

Place : New Delhi
Date : February 20, 2011

Place: CA, USA
Date : February 20, 2011

AUDITORS' REPORT

To
The Members,
EC Net (Hong Kong) Ltd., Hong Kong

1. We have audited the attached Balance Sheet of ECNET (HONG KONG) LTD., a subsidiary of ECnet Ltd., Singapore, which is again a subsidiary of R Systems International Limited, India, as at 31st December, 2010 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 and have been prepared in accordance with 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 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. We have obtained all the information and explanations, which to best of our knowledge and belief were necessary for the purposes of our audit and subject to the Notes on accounts, we report that
 - a) In our opinion the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of accounts;
 - b) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Notes thereon give a true and fair view
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2010;
 - ii) in the case of the Profit and Loss Account, of the **PROFIT** for the year ended on that date.
 - iii) in the case of the Cash Flow Statement, of the cash flow for the year ended on that date;

For S.K.RELAN & CO.
Firm Registration No. 001720N
Chartered Accountants

PLACE:NEW DELHI
DATED: February 20, 2011

Sd/-
CA. S.K. RELAN
Membership No.12149

ECNET (HONG KONG) LIMITED, HONG KONG
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Balance Sheet as at December 31, 2010

	Schedules	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	12	12
Reserve & surplus	2	1,901,580	294,803
TOTAL		1,901,592	294,815
APPLICATION OF FUNDS			
Current assets, loans and advances			
Sundry debtors	3	92,982	176,996
Cash and bank balances	4	588,967	439,471
Loans and advances	5	1,491,755	396,786
(A)		2,173,704	1,013,253
Less : Current liabilities and provisions			
Current liabilities	6	238,618	718,438
Income Tax Payables	7	33,494	-
(B)		272,112	718,438
Net current assets (A-B)		1,901,592	294,815
TOTAL		1,901,592	294,815
Notes to accounts	11		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and behalf of the Board of Directors of
ECnet (Hong Kong) Limited, Hong Kong

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Cai Li Ting
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

ECNET (HONG KONG) LIMITED, HONG KONG
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Profit and Loss Account for the year ended December 31, 2010

	Schedules	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
INCOME			
Revenue		3,654,086	3,762,524
Other income	8	6	30
TOTAL		3,654,092	3,762,554
EXPENDITURE			
Operating and other expenses	9	1,677,888	2,305,701
Finance expenses	10	10,773	19,391
TOTAL		1,688,661	2,325,092
Profit before tax		1,965,431	1,437,462
Current Tax expenses		324,293	200,278
Profit after tax		1,641,138	1,237,184
Notes to accounts	11		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and behalf of the Board of Directors of
ECnet (Hong Kong) Limited, Hong Kong

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Cai Li Ting
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

ECNET (HONG KONG) LIMITED, HONG KONG
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Cash Flow Statement for the year ended December 31, 2010

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
A. Cash flow from operating activities		
Net profit before taxation	1,965,431	1,437,462
Adjustments for:		
Provision for Doubtful Debts	81,190	447,403
Unrealised foreign exchange loss / (gain)	(34,361)	4,316
Interest income	(6)	(30)
Operating profit before working capital changes	2,012,254	1,889,151
Movements in working capital :		
Decrease / (Increase) in sundry debtors	2,824	(320,297)
Decrease / (Increase) in loans and advances	(1,094,969)	(349,525)
Increase / (Decrease) in current liabilities	(479,820)	(804,204)
Cash generated from operations	440,289	415,125
Less: Taxes Paid	290,799	200,278
Net cash from operating activities	149,490	214,847
B. Cash flows used in investing activities		
Interest received	6	30
Net cash used in investing activities	6	30
C. Cash flows from / (used in) financing activities		
Net cash from / (used in) financing activities	-	-
Net increase in cash and cash equivalents (A + B + C)	149,496	214,877
Cash and cash equivalents at the beginning of the year	439,471	224,594
Cash and cash equivalents at the end of the year	588,967	439,471

As per our report of even date

For S.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and behalf of the Board of Directors of
ECnet (Hong Kong) Limited, Hong Kong

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Cai Li Ting
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

ECNET (HONG KONG) LIMITED, HONG KONG
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 1: Share capital		
<u>Authorised Capital</u>		
10,000 Ordinary Shares of HKD 1 Each	HKD 10,000	HKD 10,000
<u>Issued, subscribed and paid up capital</u>		
2 Ordinary Shares of HKD 1 Each	12	12
	12	12
Schedule 2: Reserve & surplus		
Profit and loss account		
Balance as per last account	382,264	(854,920)
Add: Transfer of profit from Profit and Loss Account	1,641,138	1,237,184
	2,023,402	382,264
Foreign currency translation reserve		
Balance as per last account	(87,461)	(91,777)
Add: Current year translation differences	(34,361)	4,316
	(121,822)	(87,461)
	1,901,580	294,803
Schedule 3: Sundry debtors		
Debts outstanding for more than six months		
Unsecured, considered good	3,244	123,353
Considered doubtful	20,890	742,673
Other debts		
Unsecured, considered good	89,738	53,643
Considered doubtful	-	-
	113,872	919,669
Less : Provision for doubtful debts	20,890	742,673
	92,982	176,996
Schedule 4: Cash and bank balances		
Balance with non schedule banks	588,967	439,471
	588,967	439,471
Schedule 5: Loans and advances		
(Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	40,136	396,786
Advance receivables from ECnet Limited	1,451,619	-
	1,491,755	396,786
Schedule 6: Current liabilities		
Sundry creditors	222,713	201,428
Advance from Customer	15,905	2,576
Payables to ECnet Limited	-	514,434
	238,618	718,438
Schedule 7: Income Tax Payables		
Income Tax Payables	33,494	-
	33,494	-

ECNET (HONG KONG) LIMITED, HONG KONG
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
Schedule 8: Other income		
Interest income	6	30
	6	30
Schedule 9: Operating and other expenses		
Communication costs	16,932	28,717
Legal and professional expenses	462,419	467,727
Provision for Doubtful Debts	81,190	447,403
Printing & Stationary	-	5,747
Foreign Exchange fluctuation (Net)	(64,126)	49,572
Misc. expenses	-	5,672
Management fees	1,181,473	1,300,863
	1,677,888	2,305,701
Schedule 10: Financial expenses		
Bank charges	10,773	19,391
	10,773	19,391

Schedule 11: Notes to accounts

1. Company Overview

ECnet (Hong Kong) Limited, (The "Company") is a wholly owned subsidiary of ECnet Limited, a company incorporated in the Republic of Singapore, which is again a subsidiary of R Systems International Limited, a company incorporated in India. The Company provides Internet-based supply chain management services. The registered office of the company is located at Room No.1903, 19/F, World-wide House, 19 Des Voeux Road, Central, Hong Kong.

2. Statement of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual and going concern basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

All figures are in Rupees except where expressly stated.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

(c) 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, fixed assets / intangibles are depreciated / amortised on the revised carrying amount over its remaining useful life.

(d) 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.

(e) 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.

Rendering of services

Revenue from rendering of services that are of short duration is recognized when the services are completed.

Subscriptions

Revenue from subscription services includes one-time activation and set-up charges, monthly subscription charges and usages fees. Revenue from one-time activation and set-up charges is recognized when the services are rendered, completed and accepted by the customers. Revenue from monthly subscription charges is recognized over the term of the subscription period which coincides with the financials year end. Usage fees are recognized on an accrual basis.

Other services

Revenue from provision of information technology related services is recognized when the services is performed, completed and accepted by the customers.

Interest

ECNET (HONG KONG) LIMITED, HONG KONG
NOTES TO ACCOUNTS

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

(f) Foreign currency translation

(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.

(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 expense in the year in which they arise except those arising from investments in non-integral operations.

(iv) Foreign currency translation

The functional currency of the Company is Hong Kong Dollar (HKD) but the financial statement has been prepared in Indian Rupees. In translating the financial statements, the assets and liabilities, both monetary and non-monetary, are translated at the closing rate; income and expense items are translated at yearly average exchange rates; and all resulting exchange differences are accumulated in a foreign currency translation reserve.

For translating income and expense during the year ended December 31, 2010, the rates used were HKD 1= Rs. 5.88. For translating assets and liabilities at the year-end, the rates used were HKD 1= Rs. 5.80.

For translating income and expense during the year ended December 31, 2009, the rates used were HKD 1= Rs. 6.30. For translating assets and liabilities at the year-end, the rates used were HKD 1= Rs. 6.05.

(g) Income taxes

Income tax on the profit or loss for the year comprises of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date in accordance with the tax laws of the country where such operations are domiciled and any adjustment to tax payable in respect of previous year.

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 recognized 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. If the company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits.

(h) Provision

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

ECNET (HONG KONG) LIMITED, HONG KONG
 NOTES TO ACCOUNTS

(i) **Segment reporting policies**

The Company operates one business segment, providing Internet-based supply chain solutions, management services and rendering information technology consultancy services in Singapore.

(j) **Cash and cash equivalents**

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

3. Related Party Disclosures

Holding Company	ECnet Limited, Singapore
Fellow Subsidiaries	ECnet Systems (Thailand) Co. Ltd., Thailand ECnet (Shanghai) Co. Ltd., People's Republic of China ECnet (M) SDN. BHD, Malaysia ECnet, Inc., USA ECnet Kabushiki Kaisha, Japan
Other Related companies	R Systems International Limited, India R Systems, Inc., USA Indus Software, Inc., USA R Systems Solutions, Inc., USA R Systems N.V., Belgium R Systems Europe B.V., Netherlands R Systems S.A.S., France R Systems (Singapore) Pte Limited, Singapore
Key Management Personnel	Tarun Shankar Mathur, Director Cai Li Ting, Director

(a) Details of transactions with related parties for year ended December 31, 2010 and December 31, 2009:

TRANSACTIONS	(Amount in Rs.) For the year ended December, 31	
	2010	2009
<u>ECnet Limited, Singapore</u>		
a). Sub-Contracting Expenses	85,808	100,339
b). Management Fees Paid	1,181,473	1,300,863

(b). Inter-companies balances as at December 31, 2010 and December 31, 2009:

OUTSTANDING BALANCES	(Amount in Rs.) As at December, 31	
	2010	2009
<u>ECnet Limited, Singapore</u>		
- Amount Receivables	1,451,619	-
- Amount Payables	-	514,434

4. The Company has a policy of recognising deferred tax assets only to the extent that there is reasonable certainty or virtual certainty supported by convincing evidence as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realised.

During the year ended December 31 2010 and 2009, based on the management estimate of future taxable income no deferred tax has been recognised in the books of accounts.

5. Previous year figures have been regrouped / reclassified where necessary to make them comparable to the current year classification

ECNET (HONG KONG) LIMITED, HONG KONG
NOTES TO ACCOUNTS

As per our report of even date.

For S.K. RELAN & CO.
Firm registration number: 001720N
Chartered Accountants

For and on behalf of the Board of Directors of ECnet (Hong Kong) Ltd.,
Hong Kong

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Cai Li Ting
[Director]

Place : New Delhi
Date : February 20, 2011

Place: Singapore
Date : February 20, 2011

Place: Singapore
Date : February 20, 2011

AUDITORS' REPORT

To
The Members,
ECNET Systems (Thailand) Co. Ltd., Thailand

1. We have audited the attached Balance Sheet of ECNET SYSTEMS (THAILAND) COMPANY LTD., a subsidiary of ECnet Ltd., Singapore, which is again a subsidiary of R Systems International Limited, India, as at 31st December, 2010 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 and have been prepared in accordance with 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 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. We have obtained all the information and explanations, which to best of our knowledge and belief were necessary for the purposes of our audit and subject to the Notes on accounts, we report that
 - a) In our opinion the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of accounts;
 - b) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Notes thereon give a true and fair view
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2010;
 - ii) in the case of the Profit and Loss Account, of the **LOSS** for the year ended on that date.
 - iii) in the case of the Cash Flow Statement, of the cash flow for the year ended on that date;

For S.K.RELAN & CO.
Firm Registration No. 001720N
Chartered Accountants

Sd/-
CA. S.K. RELAN
Membership No.12149

PLACE: NEW DELHI
DATED: February 20, 2011

ECNET SYSTEMS (THAILAND) COMPANY LIMITED, THAILAND**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT****Balance Sheet as at December 31, 2010**

	Schedules	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	2,339,600	2,339,600
Reserve and surplus	2	11,836,726	13,081,813
		14,176,326	15,421,413
APPLICATION OF FUNDS			
Fixed assets			
Gross block	3	2,233,790	1,844,079
Less : Accumulated depreciation / amortisation		1,970,211	1,784,558
Net block		263,579	59,521
Current assets, loans and advances			
Sundry debtors	4	6,151,071	1,372,151
Cash and bank balances	5	10,141,339	3,047,309
Other current assets	6	4,530,866	2,467,756
Loans and advances	7	1,196,425	9,183,932
(A)		22,019,701	16,071,148
Less : Current liabilities and provisions			
Current liabilities	8	8,106,954	634,650
Provisions	9	-	74,606
(B)		8,106,954	709,256
Net current assets (A-B)		13,912,747	15,361,892
TOTAL		14,176,326	15,421,413
Notes to accounts	13		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and behalf of the Board of Directors of
ECnet Systems (Thailand) Company Limited, Thailand

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Cai Li Ting
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

ECNET SYSTEMS (THAILAND) COMPANY LIMITED, THAILAND
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Profit and Loss Account for the year ended December 31, 2010

	Schedules	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
INCOME			
Revenue		25,216,976	29,266,417
TOTAL		25,216,976	29,266,417
EXPENDITURE			
Personnel expenses	10	3,741,656	4,120,919
Operating and other expenses	11	23,458,123	20,129,210
Depreciation /amortisation	3	74,946	100,582
Finance expenses	12	21,377	45,252
TOTAL		27,296,102	24,395,963
Profit / (loss) before tax		(2,079,126)	4,870,454
Current tax expenses		4,087	939,123
Profit / (loss) after tax		(2,083,213)	3,931,331
Notes to accounts	13		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and behalf of the Board of Directors of
ECnet Systems (Thailand) Company Limited, Thailand

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Cai Li Ting
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

**ECNET SYSTEMS (THAILAND) COMPANY LIMITED, THAILAND
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**

Cash Flow Statement for the year ended December 31, 2010

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
A. Cash flow from operating activities		
Net profit / (loss) before taxation	(2,079,126)	4,870,454
Adjustments for:		
Depreciation / amortization	74,946	100,582
Provision for doubtful debt	-	48,146
Unrealised foreign exchange loss / (gain)	837,796	(2,858,036)
Operating profit / (loss) before working capital changes	(1,166,384)	2,161,146
Movements in working capital :		
Decrease / (Increase) in sundry debtors	(4,778,920)	2,126,348
Decrease / (Increase) in other current assets	(2,063,110)	(2,377,719)
Decrease / (Increase) in loans and advances	7,987,507	(1,373,926)
Increase / (Decrease) in current liabilities	7,472,304	81,613
Cash generated from operations	7,451,397	617,462
Less: Taxes Paid	78,693	864,517
Net cash from / (used in) operating activities	7,372,704	(247,055)
B. Cash flows used in investing activities		
Purchase of fixed assets	(278,674)	(21,354)
Net cash used in investing activities	(278,674)	(21,354)
C. Cash flows used in financing activities		
Net cash used in financing activities	-	-
Net increase in cash and cash equivalents (A + B + C)	7,094,030	(268,409)
Cash and cash equivalents at the beginning of the year	3,047,309	3,315,718
Cash and cash equivalents at the end of the year	10,141,339	3,047,309

As per our report of even date

For S.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors of
ECnet Systems (Thailand) Company Limited, Thailand

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Cai Li Ting
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

ECNET SYSTEMS (THAILAND) COMPANY LIMITED, THAILAND
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 1: Share capital		
<u>Authorised Share Capital</u>		
4,00,000 Ordinary Shares of 5 THB Each	THB 2,000,000	THB 2,000,000
<u>Issued, subscribed and paid up capital</u>		
4,00,000 Ordinary Shares of 5 THB Each	2,339,600	2,339,600
	2,339,600	2,339,600
Schedule 2: Reserves and surplus		
Profit and loss account		
Balance as per last account	11,094,556	7,163,225
Add: Transfer of profit / (loss) from Profit and Loss Account	(2,083,213)	3,931,331
	9,011,343	11,094,556
Foreign currency translation reserve		
Balance as per last account	1,987,257	2,369,911
Add: Current year translation differences	838,126	(382,654)
	2,825,383	1,987,257
	11,836,726	13,081,813

ECNET SYSTEMS (THAILAND) COMPANY LIMITED, THAILAND
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

Schedule 3: Fixed assets

(Amount in Rs.)

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	AS ON 1.1.2010	ADDITION DURING 2010	ADJUSTMENT DURING THE YEAR	TOTAL 31.12.2010	UPTO 1.1.2010	FOR THE 2010	ADJUSTMENT DURING THE YEAR	TOTAL 31.12.2010	AS AT 31.12.2010	AS AT 31.12.2009
Leasehold Improvements	63,098	-	3,799	66,897	32,600	12,823	2,519	47,942	18,955	30,498
Computer Hardware	770,991	278,674	46,424	1,096,089	770,977	46,765	48,453	866,195	229,894	14
Furniture & Fixtures	438,998	-	26,433	465,431	438,994	-	26,433	465,427	4	4
Office & Electrical Equipments	570,992	-	34,381	605,373	541,987	15,358	33,301	590,646	14,727	29,005
Total	1,844,079	278,674	111,037	2,233,790	1,784,558	74,946	110,707	1,970,211	263,579	59,521
Previous year	1,873,140	21,354	(50,415)	1,844,079	1,732,214	100,582	(48,238)	1,784,558	59,521	140,926

ECNET SYSTEMS (THAILAND) COMPANY LIMITED, THAILAND
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 4: Sundry debtors		
Debts outstanding for more than six months		
Unsecured, considered good	-	-
Considered doubtful	-	-
Other debts		
Unsecured, considered good	6,151,071	1,372,151
Considered doubtful	-	-
	6,151,071	1,372,151
Less : Provision for doubtful debts	-	-
	6,151,071	1,372,151
Schedule 5: Cash and bank balances		
Cash on hand	22,424	21,150
Balance with non schedule banks	10,118,915	3,026,159
	10,141,339	3,047,309
Schedule 6: Other Current Assets		
Unbilled revenue	4,530,866	2,467,756
	4,530,866	2,467,756
Schedule 7: Loans and advances (Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	929,381	755,726
Advance receivables from ECnet Limited	-	8,176,329
Deposits - others	267,044	251,877
	1,196,425	9,183,932
Schedule 8 : Current liabilities		
Sundry creditors	630,690	634,650
Payables to ECnet Limited	7,459,752	-
Advance from customers	16,512	-
	8,106,954	634,650
Schedule 9 : Provisions		
Income tax payables	-	74,606
	-	74,606

ECNET SYSTEMS (THAILAND) COMPANY LIMITED, THAILAND
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
Schedule 10: Personnel expenses		
Salaries, wages and bonus	3,691,483	4,081,712
Contribution to provident fund and other funds	50,173	39,207
	3,741,656	4,120,919
Schedule 11: Operating and other expenses		
Recruitment & training	123,785	-
Travelling and conveyance	2,000,370	2,088,956
Repair and maintenance	5,403	-
Rent - premises	380,597	372,720
Rent - equipment	12,751	11,378
Provision for doubtful debt	-	48,146
foreign exchange fluctuation (net)	350,203	54,081
Communication costs	374,521	401,583
Printing and stationery	106,536	48,263
Advertising and sales promotion	118,628	107,319
Legal and professional expenses	16,698,561	12,042,834
Rates & taxes	411	13,362
Management fees	3,269,165	4,923,372
Miscellaneous expenses	17,192	17,196
	23,458,123	20,129,210
Schedule 12: Financial expenses		
Bank charges	21,377	45,252
	21,377	45,252

ECNET SYSTEMS (THAILAND) COMPANY LIMITED, THAILAND
NOTES TO ACCOUNTS

Schedule 13: Notes to accounts

1. Company Overview

ECnet Systems (Thailand) Company Limited (The "Company") is a wholly owned subsidiary of ECnet Limited, a company incorporated in the Republic of Singapore, which is again a subsidiary of R Systems International Limited, a company incorporated in India. The Company provides services of Supply Chain Management through Internet. The registered office of the Company is located at 2/3 Moo 14, Bangan Tower A, 2nd floor, Room no. 205, Bangna-Trad K.M. 6.5, Bangkaew, Bangplee, Samutprakarn.

2. Statement of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual and going concern basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

All figures are in Rupees except where expressly stated.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

(c) 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.

(d) Depreciation

Depreciation is provided on Straight Line Method over the remaining 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>
Computer Equipment	3 years
Furniture & Fitting	5 years
Office Equipment	3 years
Leasehold Improvements	5 years

(e) 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, fixed assets / intangibles are depreciated / amortised on the revised carrying amount over its remaining useful life.

(f) 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.

(g) 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.

Rendering of services

Revenue from rendering of services that are of short duration is recognized when the services are completed.

Subscriptions

Revenue from subscription services includes one-time activation and set-up charges, monthly subscription charges and usages fees. Revenue from one-time activation and set-up charges is recognized when the services are rendered, completed and accepted by the customers. Revenue from monthly subscription charges is recognized over the term of the subscription period which coincides with the financial year end. Usage fees are recognized on an accrual basis.

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.

Other services

Revenue from provision of information technology related services is recognized when the services is performed, completed and accepted by the customers.

Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

(h) Foreign currency translation

(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.

(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 expense in the year in which they arise except those arising from investments in non-integral operations.

ECNET SYSTEMS (THAILAND) COMPANY LIMITED, THAILAND
NOTES TO ACCOUNTS

(iv) Foreign currency translation

The functional currency of the Company is Thailand Bhat (THB) but the financial statement has been prepared in Indian Rupees. In translating the financial statements, the assets and liabilities, both monetary and non-monetary, are translated at the closing rate; income and expense items are translated at yearly average exchange rates; and all resulting exchange differences are accumulated in a foreign currency translation reserve.

For translating income and expense during the year ended December 31, 2010, the rates used were THB 1= Rs. 1.43. For translating assets and liabilities at the year-end, the rates used were THB 1= Rs. 1.49.

For translating income and expense during the year ended December 31, 2009, the rates used were THB 1= Rs. 1.43. For translating assets and liabilities at the year-end, the rates used were THB 1= Rs. 1.41.

(i) **Employee benefits**

Retirement benefits in the form of defined contribution schemes 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 funds.

(j) **Income taxes**

Income tax on the profit or loss for the year comprises of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date in accordance with the tax laws of the country where such operations are domiciled and any adjustment to tax payable in respect of previous year.

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 recognized 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. If the company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits.

(k) **Provision**

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

(l) **Cash and cash equivalents**

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

ECNET SYSTEMS (THAILAND) COMPANY LIMITED, THAILAND
 NOTES TO ACCOUNTS

3. Related Party Disclosures

Holding Company	ECnet Limited, Singapore
Fellow Subsidiaries	ECnet (M) Sdn Bhd, Malaysia ECnet (Shanghai) Co. Ltd., People's Republic of China ECnet (Hong Kong) Ltd., Hong Kong ECnet, Inc., USA ECnet Kabushiki Kaisha, Japan
Other Related Companies	R Systems International Limited, India R Systems, Inc., USA Indus Software, Inc., USA R Systems Solutions, Inc., USA R Systems N.V., Belgium R Systems Europe B.V., Netherlands R Systems S.A.S., France R Systems (Singapore) Pte Limited, Singapore
Key Management Personnel	Satinder Singh Rekhi, Director Tarun Shankar Mathur, Director Cai Liting, Director

(a) Details of transactions with related parties for year ended December 31, 2010 and December 31, 2009:

TRANSACTIONS	(Amount in Rs.)	
	For the year ended December, 31	
	2010	2009
<u>ECnet Limited, Singapore</u>		
a). Sub-Contracting Expenses	15,350,140	8,404,370
b). Management Fees Paid	3,269,165	4,923,372

(b) Inter-companies balances as at December 31, 2010 and December 31, 2009:

OUTSTANDING BALANCES	(Amount in Rs.)	
	As at December, 31	
	2010	2009
<u>ECnet Limited, Singapore</u>		
- Amount Receivables	-	8,176,329
- Amount Payables	7,459,752	-

ECNET SYSTEMS (THAILAND) COMPANY LIMITED, THAILAND
 NOTES TO ACCOUNTS

4. **Leases - In case of assets taken on lease**

The Company has operating leases mainly on equipment, networking, and office premise and furniture rental. The future minimum payments required under non-cancelable operating leases at year-end are as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
	Rs.	Rs.
Lease payments for the year	435,612	491,707
Minimum Lease Payments:		
Not later than one year	132,373	374,567
Later than one year but not later than five years	-	109,248
Later than five years	-	-

5. The Company has a policy of recognising deferred tax assets only to the extent that there is reasonable certainty or virtual certainty supported by convincing evidence as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realised.

During the year ended December 31 2010 and 2009, based on the management estimate of future taxable income no deferred tax has been recognised in the books of accounts.

6. Previous year figures have been regrouped / reclassified where necessary to make them comparable to the current year classification

As per our report of even date.

For S.K. RELAN & CO.
 Firm registration number: 001720N
 Chartered Accountants

For and on behalf of the Board of Directors of ECnet Systems (Thailand)
 Compnay Limited, Thaliand

Sd/-
 CA. S.K. RELAN
 Membership No. 12149

Sd/-
 Tarun Shankar Mathur
 [Director]

Sd/-
 Cai Li Ting
 [Director]

Place : New Delhi
 Date : February 20, 2011

Place: Singapore.
 Date : February 20, 2011

Place: Singapore
 Date : February 20, 2011

AUDITORS' REPORT

To
The Members,
ECnet Kabushiki Kaisha, Japan

We have audited the attached Balance Sheet of ECnet Kabushiki Kaisha, Japan, subsidiary of ECnet Ltd., Singapore, which is again a subsidiary of R Systems International Limited, India, as at 31st December, 2010 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 and have been prepared in accordance with accounting principles generally accepted in India. Our responsibility is to express an opinion on these financial statements based on our audit.

1. 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.
2. We have obtained all the information and explanations, which to best of our knowledge and belief were necessary for the purposes of our audit and subject to the Notes on accounts, we report that
 - a) In our opinion the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of accounts;
 - b) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Notes thereon give a true and fair view
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2010;
 - ii) in the case of the Profit and Loss Account, of the **PROFIT** for the year ended on that date.
 - iii) in the case of the Cash Flow Statement, of the cash flow for the year ended on that date;

For S.K.RELAN & CO.
Firm Registration No. 001720N
Chartered Accountants

Sd/-
CA. S.K. RELAN
Membership No.12149

PLACE : NEW DELHI
DATED: February 20, 2011

ECNET KABUSHIKI KAISHA, JAPAN
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Balance Sheet as at December 31, 2010

	Schedules	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	4,288,000	4,288,000
TOTAL		4,288,000	4,288,000
APPLICATION OF FUNDS			
Current assets, loans and advances			
Sundry debtors	2	116,531	171,097
Cash and bank balances	3	654,334	525,774
(A)		770,865	696,871
Less : Current liabilities and provisions			
Current liabilities	4	23,594,714	24,186,419
(B)		23,594,714	24,186,419
Net current assets (A-B)		(22,823,849)	(23,489,548)
Reserves & Surplus	5	27,111,849	27,777,548
TOTAL		4,288,000	4,288,000
Notes to accounts	9		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors of
ECnet Kabushiki Kaisha, Japan

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Cai Li Ting
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

ECNET KABUSHIKI KAISHA, JAPAN
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Profit and Loss Account for the year ended December 31, 2010

	Schedules	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
INCOME			
Revenue		2,691,346	6,385,518
Other income	6	242	1,371
TOTAL		2,691,588	6,386,889
EXPENDITURE			
Operating and other expenses	7	20,795	4,786,142
Finance expenses	8	68,925	92,269
TOTAL		89,720	4,878,411
Profit before tax		2,601,868	1,508,478
Current Tax expense		-	-
Profit after tax		2,601,868	1,508,478
Notes to accounts	9		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors of
ECnet Kabushiki Kaisha, Japan

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Cai Li Ting
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

ECNET KABUSHIKI KAISHA, JAPAN
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Cash Flow Statement for the year ended December 31, 2010

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
A. Cash flow from operating activities		
Net profit before taxation	2,601,868	1,508,478
Adjustments for:		
Unrealised foreign exchange loss / (gain)	(1,936,169)	1,976,738
Operating profit before working capital changes	665,699	3,485,216
Movements in working capital :		
Decrease / (Increase) in sundry debtors	54,566	1,765,713
Increase / (Decrease) in current liabilities	(591,705)	(5,327,640)
Cash generated from / (used in) operations	128,560	(76,711)
Less: Taxes Paid	-	-
Net cash from / (used in) operating activities	128,560	(76,711)
B. Cash flows from / (used in) investing activities		
Net cash from / (used in) investing activities	-	-
C. Cash flows from / (used in) financing activities		
Net cash from / (used in) financing activities	-	-
Net increase in cash and cash equivalents (A + B + C)	128,560	(76,711)
Cash and cash equivalents at the beginning of the year	525,774	602,485
Cash and cash equivalents at the end of the year	654,334	525,774

As per our report of even date

For S.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors of
ECnet Kabushiki Kaisha, Japan

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Cai Li Ting
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

ECNET KABUSHIKI KAISHA, JAPAN
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 1: Share capital		
<u>Authorised capital</u>		
800 Shares of Yen 50,000 each	YEN 40,000,000	YEN 40,000,000
<u>Issued, subscribed and paid up capital</u>		
200 Shares of Yen 50,000 each	4,288,000	4,288,000
	4,288,000	4,288,000
Schedule 2: Sundry debtors		
Debts outstanding for more than six months		
Unsecured, considered good	-	98,882
Considered doubtful	-	-
Other debts		
Unsecured, considered good	116,531	72,215
Considered doubtful	-	-
	116,531	171,097
Less : Provision for doubtful debts	-	-
	116,531	171,097
Schedule 3: Cash and bank balances		
Cash on hand	2,698	2,476
Balance with non schedule banks	651,636	523,298
	654,334	525,774
Schedule 4: Current liabilities		
Sundry creditors	-	87,531
Advance from Customer	130,003	87,666
Payables to ECnet Limited	23,395,816	24,011,222
Other liabilities	68,895	-
	23,594,714	24,186,419
Schedule 5 : Reserves & Surplus		
Profit and loss account		
Carry forward Losses as per the last account	23,395,517	24,903,995
Add: Transfer of profit from Profit and Loss Account	(2,601,868)	(1,508,478)
	20,793,649	23,395,517
Foreign currency translation reserve		
Balance as per last account	4,382,031	6,358,769
Add: Current year translation differences	1,936,169	(1,976,738)
	6,318,200	4,382,031
	27,111,849	27,777,548

ECNET KABUSHIKI KAISHA, JAPAN
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	For the year ended December 31, 2010	For the year ended December 31, 2009
	Rs.	Rs.
Schedule 6: Other income		
Miscellaneous income	242	1,371
	242	1,371
Schedule 7: Operating and other expenses		
Communication costs	160,352	247,772
Legal and professional expenses	278,204	2,969,209
Rates and taxes	36,178	35,883
Foreign exchange fluctuation (net)	(1,413,810)	351,638
Management fees	959,871	1,181,640
	20,795	4,786,142
Schedule 8: Financial expenses		
Bank charges	68,925	92,269
	68,925	92,269

Schedule – 9: Notes to account

1. Company Overview

ECnet Kabushiki Kaisha (the “Company”) is a wholly owned subsidiary of ECnet Ltd. a company incorporated in the Republic of Singapore, which is again a subsidiary of R Systems International Limited, a company incorporated in India. The address of the registered office is 1-6-17 Godo Build. 6 F Kaji-cho, Chiyoda-ku Tokyo Japan 101-0044.

The main object of the Company is to provide services of Supply Chain Management through Internet.

2. Statement of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual and going concern basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

All figures are in Rupees except where expressly stated.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management’s best knowledge of current events and actions, actual results could differ from these estimates.

(c) 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, fixed assets / intangibles are depreciated / amortised on the revised carrying amount over its remaining useful life.

(d) 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.

Rendering of services

Revenue from rendering of services that are of short duration is recognized when the services are completed.

Subscriptions

Revenue from subscription services includes one-time activation and set-up charges, monthly subscription charges and usages fees. Revenue from one-time activation and set-up charges is recognized when the services are rendered, completed and accepted by the customers. Revenue from monthly subscription charges is recognized over the term of the subscription period which coincides with the financials year end. Usage fees are recognized on an accrual basis.

Other services

Revenue from provision of information technology related services is recognized when the services is performed, completed and accepted by the customers.

Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

(e) Foreign currency translation

(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.

(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 expense in the year in which they arise except those arising from investments in non-integral operations.

(iv) Foreign currency translation

The functional currency of the Company is Japanese yen (JPY) but the financial statement has been prepared in Indian Rupees. In translating the financial statements, the assets and liabilities, both monetary and non-monetary, are translated at the closing rate; income and expense items are translated at yearly average exchange rates; and all resulting exchange differences are accumulated in a foreign currency translation reserve.

For translating income and expense during the year ended December 31, 2010, the rates used were JPY 1= Rs. 0.52. For translating assets and liabilities at the year-end, the rates used were JPY 1= Rs. 0.55.

For translating income and expense during the year ended December 31, 2009, the rates used were JPY1= Rs. 0.52. For translating assets and liabilities at the year-end, the rates used were JPY1= Rs. 0.51.

(f) Income taxes

Income tax on the profit or loss for the year comprises of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date in accordance with the tax laws of the country where such operations are domiciled and any adjustment to tax payable in respect of previous year.

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 recognized 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. If the company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits.

(g) Cash and cash equivalents

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

3. Related Party Disclosures

The Company is wholly owned subsidiary of ECnet Limited (subsidiary of R Systems International limited), Singapore and having five fellow subsidiary companies under the holding of same management:

- (a) ECnet Systems (Thailand) Co. Ltd., Thailand
- (b) ECnet (M)Sdn Bhd, Malaysia
- (c) ECnet (Shanghai) Co. Ltd., People's Republic of China
- (d) ECnet (Hong Kong) Ltd., Hong Kong
- (e) ECnet, Inc., USA

Other fellow subsidiary companies

- (a) R Systems (Singapore) Pte Ltd, Singapore
- (b) R Systems, Inc., USA
- (c) Indus Software, Inc., USA
- (d) R Systems Solutions, Inc., USA
- (e) R Systems N.V., Belgium
- (f) R Systems Europe B.V., Netherlands
- (g) R Systems S.A.S., France

Key management personnel

- (a) Tarun Shankar Mathur, Director
- (b) Vijay Ganpati Kale, Director
- (c) Cai Li Ting, Director

(a) Details of transactions with related parties for year ended December 31, 2010 and December 31, 2009:

TRANSACTIONS	(Amount in Rs.)	
	For the year ended December, 31	
	2010	2009
<u>ECnet Limited, Singapore</u>		
a). Sub-Contracting Expenses	8,694	9,640
b). Management Fees Paid	959,871	1,181,640

(b). Inter-companies balances as at December 31, 2010 and December 31, 2009:

OUTSTANDING BALANCES	(Amount in Rs.)	
	As at December, 31	
	2010	2009
<u>ECnet Limited, Singapore</u>		
- Amount Payables	23,395,816	24,011,222

ECNET KABUSHIKI KAISHA, JAPAN
NOTES TO ACCOUNT

4. The Company has a policy of recognising deferred tax assets only to the extent that there is reasonable certainty or virtual certainty supported by convincing evidence as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realised.
During the year ended December 31 2010 and 2009, based on the management estimate of future taxable income no deferred tax has been recognised in the books of accounts.
5. No Staff Cost was incurred during the year. None of the directors have received any fees or emoluments in respect of their services rendered to the company during the year.
6. Previous year figures have been regrouped / reclassified where necessary to make them comparable to the current year classification.

As per our report of even date.

For S.K. RELAN & CO.
Firm registration number: 001720N
Chartered Accountants

For and on behalf of the Board of Directors of ECnet Kabushiki
Kaisha, Japan

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Sd/-
Cai Li Ting
[Director]

Place : New Delhi
Date : February 20, 2011

Place: Singapore
Date : February 20, 2011

Place: Singapore
Date : February 20, 2011

AUDITORS' REPORT

To
The Members,
EC Net (Shanghai) Co. Ltd., Shanghai

We have audited the attached Balance Sheet of EC Net (Shanghai) Co. Ltd., a subsidiary of ECnet Ltd., Singapore, which is again a subsidiary of R Systems International Limited, India, as at 31st December, 2010 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 and have been prepared in accordance with accounting principles generally accepted in India. Our responsibility is to express an opinion on these financial statements based on our audit.

1. 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.
2. We have obtained all the information and explanations, which to best of our knowledge and belief were necessary for the purposes of our audit and subject to the Notes on accounts, we report that-
 - a) In our opinion the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of accounts;
 - b) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Notes thereon give a true and fair view
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2010;
 - ii) in the case of the Profit and Loss Account, of the **PROFIT** for the year ended on that date.
 - iii) in the case of the Cash Flow Statement, of the cash flow for the year ended on that date;

For S.K.RELAN & CO.
Firm Registration No. 001720N
Chartered Accountants

PLACE : NEW DELHI
DATED: February 2, 2011

Sd/-
CA. S.K. RELAN
Membership No.12149

ECNET (SHANGHAI) CO. LTD., SHANGHAI
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Balance Sheet as at December 31, 2010

	Schedules	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	9,122,099	9,122,099
TOTAL		9,122,099	9,122,099
APPLICATION OF FUNDS			
Fixed assets			
Gross block	2	1,610,210	4,468,026
Less : Accumulated depreciation / amortisation		1,333,215	4,274,116
Net block		276,995	193,910
Current assets, loans and advances			
Sundry debtors	3	938,615	1,715,226
Cash and bank balances	4	11,847,314	10,605,135
Loans and advances	5	266,594	307,117
Other current Assets	6	118,826	-
(A)		13,171,349	12,627,478
Less : Current liabilities and provisions			
Current liabilities	7	22,153,685	23,819,944
Provisions	8	154,094	131,003
(B)		22,307,779	23,950,947
Net current assets (A-B)		(9,136,430)	(11,323,469)
Reserves & Surplus	9	17,981,534	20,251,658
TOTAL		9,122,099	9,122,099
Notes to accounts	14		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and behalf of the Board of Directors of
ECnet (Shanghai) Co. Ltd., Shanghai

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

ECNET (SHANGHAI) CO. LTD., SHANGHAI
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Profit and Loss Account for the year ended December 31, 2010

	Schedules	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
INCOME			
Revenue		22,837,914	17,773,572
Other income	10	43,654	579,727
TOTAL		22,881,568	18,353,299
EXPENDITURE			
Personnel expenses	11	6,890,837	6,288,948
Operating and other expenses	12	13,616,963	10,872,880
Depreciation / amortisation	2	152,749	146,730
Finance expenses	13	38,140	39,709
TOTAL		20,698,689	17,348,267
Profit before tax		2,182,879	1,005,032
Current Tax expense		-	-
Profit after tax		2,182,879	1,005,032
Notes to accounts	14		

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.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and behalf of the Board of Directors of
ECnet (Shanghai) Co. Ltd., Shanghai

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

ECNET (SHANGHAI) CO. LTD., SHANGHAI
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Cash Flow Statement for the year ended December 31, 2010

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
A. Cash flow from operating activities		
Net profit before taxation	2,182,879	1,005,032
Adjustments for:		
Depreciation / amortisation	152,749	146,730
Provision for doubtful debts written back	-	(540,756)
Bad debts	6,461	-
Unrealised foreign exchange loss / (gain)	(28,340)	693,521
Interest income	(43,654)	(38,971)
Operating profit before working capital changes	2,270,095	1,265,556
Movements in working capital :		
Decrease / (Increase) in sundry debtors	770,150	3,139,771
Decrease / (Increase) in loans and advances	40,523	(1,212)
Increase / (Decrease) in provisions	23,091	131,003
Increase / (Decrease) in current liabilities	(1,666,259)	(2,199,790)
Cash generated from operations	1,437,600	2,335,328
Less: Taxes Paid	-	-
Net cash from operating activities	1,437,600	2,335,328
B. Cash flows used in investing activities		
Purchase of fixed assets	(239,074)	(148,568)
Interest received	43,654	38,971
Net cash used in investing activities	(195,420)	(109,597)
C. Cash flows from / (used in) financing activities		
Net cash from / (used in) financing activities	-	-
Net increase in cash and cash equivalents (A + B + C)	1,242,180	2,225,731
Cash and cash equivalents at the beginning of the year	10,605,134	8,379,403
Cash and cash equivalents at the end of the year	11,847,314	10,605,134

As per our report of even date

For S.K. Relan & Co
Firm Registration No. 001720N
Chartered Accountants

For and on behalf of the Board of Directors of
ECnet (Shanghai) Co. Ltd., Shanghai

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011

ECNET (SHANGHAI) CO. LTD., SHANGHAI
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 1: Share capital		
Shares of No Par Value	9,122,099	9,122,099
	9,122,099	9,122,099

ECNET (SHANGHAI) CO. LTD., SHANGHAI
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

Schedule 2: Fixed assets

(Amount in Rs.)

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	AS ON 1.1.2010	ADDITION DURING 2010	SALE/ADJUSTMENT DURING THE YEAR	TOTAL 31.12.2010	UPTO 1.1.2010	FOR THE 2010	ADJUSTMENT DURING THE YEAR	TOTAL 31.12.2010	AS AT 31.12.2010	AS AT 31.12.2009
Leasehold Improvements	151,297	-	(151,297)	-	143,733	7,415	(151,149)	-	-	7,564
Computer Hardware	3,124,189	224,980	(2,703,559)	645,610	3,006,214	110,523	(2,701,324)	415,413	230,197	117,975
Furniture & Fixtures	461,567	-	(2,262)	459,305	461,567	-	(2,262)	459,305	-	-
Office & Electrical Equipments	730,973	14,094	(239,772)	505,295	662,602	34,811	(238,916)	458,497	46,798	68,371
Total	4,468,026	239,074	(3,096,890)	1,610,210	4,274,116	152,749	(3,093,650)	1,333,215	276,995	193,910
Previous Year	4,579,354	148,568	(259,896)	4,468,026	4,381,861	146,730	(254,474)	4,274,116	193,910	197,494

ECNET (SHANGHAI) CO. LTD., SHANGHAI
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	As at December 31, 2010 Rs.	As at December 31, 2009 Rs.
Schedule 3: Sundry debtors		
Debts outstanding for more than six months		
Unsecured, considered good	11,705	1,375,800
Considered doubtful	-	-
Other debts		
Unsecured, considered good	926,910	339,426
Considered doubtful	-	-
	938,615	1,715,226
Less : Provision for doubtful debts	-	-
	938,615	1,715,226
Schedule 4: Cash and bank balances		
Cash on hand	94,335	117,173
Balance with non schedule banks	11,752,979	10,487,962
	11,847,314	10,605,135
Schedule 5: Loans and advances		
(Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	61,235	100,747
Deposits - others	205,359	206,370
	266,594	307,117
Schedule 6: Other Current Assets		
Unbilled revenue	118,826	-
	118,826	-
Schedule 7: Current liabilities		
Sundry creditors	75,298	75,669
Advance from Customer	38	-
Payables to ECnet Limited	22,078,349	23,744,275
	22,153,685	23,819,944
Schedule 8: Provisions		
Income tax	154,094	131,003
	154,094	131,003
Schedule 9 : Reserves & Surplus		
Profit and loss account		
Carry forward Losses as per the last account	15,928,677	16,933,709
Add: Transfer of profit from Profit and Loss Account	(2,182,879)	(1,005,032)
	13,745,798	15,928,677
Foreign currency translation reserve		
Balance as per last account	4,322,981	5,011,082
Add: Current year translation differences	(87,245)	(688,101)
	4,235,736	4,322,981
	17,981,534	20,251,658

ECNET (SHANGHAI) CO. LTD., SHANGHAI
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Schedules to the Accounts

	For the year ended December 31, 2010 Rs.	For the year ended December 31, 2009 Rs.
Schedule 10: Other income		
Interest	43,654	38,971
Provision for doubtful debt written back	-	540,756
	43,654	579,727
Schedule 11: Personnel expenses		
Salaries, wages and bonus	4,696,874	4,244,932
Contribution to provident fund and other funds	2,193,963	2,005,344
Staff welfare expenses	-	38,672
	6,890,837	6,288,948
Schedule 12: Operating and other expenses		
Recruitment and training expenses	16,186	11,458
Repair and maintenance	36,419	-
Travelling and conveyance	556,748	1,012,783
Rent - premises	809,304	859,373
Power and fuel	40,397	28,770
Communication costs	275,767	263,296
Printing and stationery	201,883	104,421
Foreign exchange fluctuation (net)	(297,962)	175,434
Legal and professional expenses	6,788,470	3,904,466
Bad debts	6,461	-
Rates and taxes	1,167,324	902,898
Management Fees	4,015,962	3,608,563
Miscellaneous expenses	4	1,418
	13,616,963	10,872,880
Schedule 13: Financial expenses		
Bank charges	38,140	39,709
	38,140	39,709

ECNET (SHANGHAI) CO. LTD., SHANGHAI
NOTES TO ACCOUNTS

Schedule 14: Notes to accounts

1. Company Overview

ECnet (Shanghai) Co. Ltd. (the "Company") is a wholly owned subsidiary of ECnet Ltd. a company incorporated in the Republic of Singapore, which is again a subsidiary of R Systems International Limited, a company incorporated in India. The address of the registered office is Rm H, 20th Floor, Foresight Mansion, No. 768, Xie Tu Rd, Shanghai 200023, People's Republic of China.

The main object of the Company is to provide services of Supply Chain Management through Internet

2. Statement of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual and going concern basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

All figures are in Rupees except where expressly stated.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

(c) 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.

(d) Depreciation

Depreciation is provided on Straight Line Method over the remaining 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>
Computer Hardware	3 years
Furniture & fixture	5 years
Office & electrical Equipment	3 years
Leasehold Improvements	5 years

(e) 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, fixed assets / intangibles are depreciated / amortised on the revised carrying amount over its remaining useful life.

(f) 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.

(g) 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.

Rendering of services

Revenue from rendering of services that are of short duration is recognized when the services are completed.

Subscriptions

Revenue from subscription services includes one-time activation and set-up charges, monthly subscription charges and usages fees. Revenue from one-time activation and set-up charges is recognized when the services are rendered, completed and accepted by the customers. Revenue from monthly subscription charges is recognized over the term of the subscription period which coincides with the financial year end. Usage fees are recognized on an accrual basis.

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.

Other services

Revenue from provision of information technology related services is recognized when the services is performed, completed and accepted by the customers.

Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

(e) Foreign currency translation

(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.

(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 expense in the year in which they arise except those arising from investments in non-integral operations.

(iv) Foreign currency translation

The functional currency of the Company is Chinese Yuan Renminbi (CNY) but the financial statement has been prepared in Indian Rupees. In translating the financial statements, the assets and liabilities, both monetary and non-monetary, are translated at the closing rate; income and expense items are translated at yearly average exchange rates; and all resulting exchange differences are accumulated in a foreign currency translation reserve.

For translating income and expense during the year ended December 31, 2010, the rates used were CNY 1= Rs. 6.74. For translating assets and liabilities at the year-end, the rates used were CNY 1= Rs. 6.85.

For translating income and expense during the year ended December 31, 2009, the rates used were CNY 1= Rs. 7.16. For translating assets and liabilities at the year-end, the rates used were CNY 1= Rs. 6.88.

ECNET (SHANGHAI) CO. LTD., SHANGHAI
NOTES TO ACCOUNTS

(f) Income taxes

Income tax on the profit or loss for the year comprises of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date in accordance with the tax laws of the country where such operations are domiciled and any adjustment to tax payable in respect of previous year.

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 recognized 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. If the company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits.

(g) Employee benefits

Retirement benefits in the form of defined contribution schemes 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 funds.

(h) Cash and cash equivalents

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

3. Related Party Disclosures

Holding Company	ECnet Limited, Singapore
Fellow Subsidiaries	ECnet Systems (Thailand) Co. Ltd., Thailand ECnet (M) Sdn Bhd, Malaysia ECnet (Hong Kong) Ltd., Hong Kong ECnet, Inc., USA ECnet Kabushiki Kaisha, Japan
Other Related companies	R Systems International Limited, India R Systems, Inc., USA Indus Software, Inc., USA R Systems Solutions, Inc., USA R Systems N.V., Belgium R Systems Europe B.V., Netherlands R Systems S.A.S., France R Systems (Singapore) Pte Limited, Singapore
Key Management Personnel	Tarun Shankar Mathur, Director

- (a) Details of transactions with related parties for year ended December 31, 2010 and December 31, 2009:

TRANSACTIONS	For the year ended December, 31	
	2010	2009
(Amount in Rs.)		
<u>ECnet Limited, Singapore</u>		
a). Sub-Contracting Expenses	6,627,364	3,731,596
b). Management Fees Paid	4,015,962	3,608,563

ECNET (SHANGHAI) CO. LTD., SHANGHAI
NOTES TO ACCOUNTS

(b) Inter-companies balances as at December 31, 2010 and December 31, 2009:

OUTSTANDING BALANCES	(Amount in Rs.)	
	As at December, 31	
	2010	2009
<u>ECnet Limited, Singapore</u>		
- Amount Payables	22,078,349	23,744,275

4. 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, 2010 Rs.	Year ended December 31, 2009 Rs.
Lease payments for the year	809,304	859,373
Minimum Lease Payments:		
Not later than one year	821,436	847,237
Later than one year but not later than five years	308,039	600,126
Later than five years	-	-

The operating lease arrangements extend for a maximum of 3 years from their respective dates of inception. None of the operating lease arrangements have price escalation clause.

5. The Company has a policy of recognising deferred tax assets only to the extent that there is reasonable certainty or virtual certainty supported by convincing evidence as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realised. During the year ended December 31 2010 and 2009, based on the management estimate of future taxable income no deferred tax has been recognised in the books of accounts.
6. Previous year figures have been regrouped / reclassified where necessary to make them comparable to the current year classification

As per our report of even date.

For S.K. RELAN & CO.
Firm registration number: 001720N
Chartered Accountants

For and behalf of the Board of Directors of ECnet (Shanghai) Co. Ltd.,
Shanghai

Sd/-
CA. S.K. RELAN
Membership No. 12149

Sd/-
Tarun Shankar Mathur
[Director]

Place : New Delhi
Date : February 20, 2011

Place : Singapore
Date : February 20, 2011