Collaborating Minds - A Force Multiplier

R Systems International Limited

ANNUAL REPORT 2008

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Collaborating Minds - A Force Multiplier

Force is what changes or tends to change the state of rest or motion in an object. Force causes businesses, economies and markets to accelerate and change direction. At R Systems, we passionately believe that collaboration is a force multiplier. Our incredibly talented minds collaborate internally and with our clients to help them succeed in a competitive environment. We put our collaborative weight behind our clients, whether it is to increase speed to market new products or enhancing their brand value through superior Net Promoter Score (NPS).

At R Systems we have no doubt that our talented people are our greatest asset. No financial measure can value this precious asset. This asset leaves our premises every day and has a choice to come back next day. At R Systems we provide an environment for our incredibly smart associates to grow their passion and imagination. Collaboration makes it fun and stimulating. All this is with a singular purpose, first to understand our customer's needs and then to challenge ourselves to exceed their expectations. We opened ourselves to an external survey, and were placed a creditable fifth overall in the recent NASSCOM 2008 Survey on “Exciting Emerging Companies to work for”. R Systems topped in Career Planning System, scoring 167% above the industry average.

What makes R Systems different is our unique philosophy. We believe in recognizing our people and offering them a platform to learn, harness skills, collaborate and perform. We have created an environment for recognition and reward through programs such as Best Mentor, Best Internal Trainer, Best Buddy etc. These have brought talented individuals with different skills, knowledge, experience and points of view to work together for our clients and deliver tangible measurable results. To harness our talent we have also embraced best practices. R Systems attained the PCMM Level 3 in August 2008, and is targeting PCMM Level 5 in the year 2009.

The combination of our talent, culture, values, best practices, and organizational behavior gives us a competitive advantage. The world is undergoing a transformation and 2009 will be another challenging year for all businesses globally. We are ready to take on the future. To confront it. To challenge it. To serve our customers with passion and imagination. To create value.

Index...

Safe Harbor:

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

Corporate Information

The Board of Directors
As on March 23, 2009

Mr. Satinder Singh Rekhi
(Chairman and Managing Director)

Mr. O'Neil Nalavadi
(Director Finance and Chief Financial Officer)

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

Mr. Raj Swaminathan
(Director and Chief Operating Officer)

Mr. Raj Kumar Gogia
(Non-Executive Independent Director)

Mr. David Richard Sanchez
(Non-Executive Independent Director)

Mr. Gurbax Singh Bhasin
(Non-Executive Independent Director)

Mr. Suresh Paruthi
(Non-Executive Independent Director)

Committees of the Board of Directors

Audit Committee

Mr. Raj Kumar Gogia
(Chairman)

Mr. David Richard Sanchez
(Member)

Mr. Gurbax Singh Bhasin
(Member)

Mr. Suresh Paruthi
(Member)

Mr. O'Neil Nalavadi
(Member)

Shareholders / Investors Grievance Committee

Mr. Raj Kumar Gogia
(Chairman)
Mr. Suresh Paruthi
(Member)

Mr. Satinder Singh Rekhi
(Member)

Lt. Gen. Baldev Singh (Retd.)
(Member)

Remuneration Committee

Mr. Raj Kumar Gogia
(Chairman)

Mr. David Richard Sanchez
(Member)

Mr. Gurbax Singh Bhasin
(Member)

Mr. Suresh Paruthi
(Member)

Compensation Committee

Mr. Raj Kumar Gogia
(Chairman)

Mr. David Richard Sanchez
(Member)

Mr. Suresh Paruthi
(Member)

Lt. Gen. Baldev Singh (Retd.)
(Member)

Company Secretary and Vice President Finance

Mr. Nand Sardana

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

Corporate Office
C - 40, Sector - 59,
Noida (U.P.) - 201 307

Statutory Auditors
S. R. Batliboi & Associates
Chartered Accountants
Golf View Corporate Tower B, Sector - 42,
Sector Road, Gurgaon - 122 002

Registrar & Share Transfer Agent

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

Bankers to the Company

1. State Bank of India
2. ICICI Bank Limited
3. HDFC Bank Limited
4. Axis Bank Limited
5. ABN Amro Bank
6. Oriental Bank of Commerce
7. Vijaya Bank
8. State Bank of Bikaner & Jaipur
9. Syndicate Bank
10. Punjab National Bank
11. Canara Bank
12. Citibank N.A.
13. California Bank & Trust, U.S.A.
14. State Bank of India, U. K.
15. Fortis Bank N.V., The Netherlands
16. Sumitomo Mitsui Banking Corporation (SMBC), Japan

Listed At

National Stock Exchange of India Limited
Bombay Stock Exchange Limited

Subsidiaries of R Systems International Limited

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

Subsidiaries of ECnet Limited

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

Financial Highlights

(On the basis of Consolidated Financial Statements under Indian GAAP)

FINANCIAL PERFORMANCE

(Rs. in Lakhs)

	2008	2007	2006	2005	2004
Operating Income	35,939.23	24,705.75	20,394.58	15,779.34	13,234.56
Other Income	549.43	570.84	402.08	43.00	39.72
Exceptional Income	-	144.52	-	-	-
Total Income	36,488.66	25,421.11	20,796.66	15,822.34	13,274.28
Operating Profit	3,055.05	2,191.19	1,588.25	1,513.23	174.68
EBT	3,001.76	2,310.15	1,390.83	1,441.88	69.18
EAT	2,796.64	1,897.14	782.43	1,247.70	22.91
Share Capital	1,336.25	1,350.88	1,350.88	513.92	513.72
Reserve and Surplus	15,829.01	12,905.83	11,472.55	5,601.75	4,586.36
Secured Loans	325.65	63.14	242.58	1,013.30	1,258.65
Fixed Assets (net)	7,465.93	6,103.69	5,548.51	2,820.82	2,820.75
Investment	0.25	120.36	134.63	16.45	15.93
Current Assets (net)	10,193.50	8,446.40	7,783.16	4,087.31	3,432.96

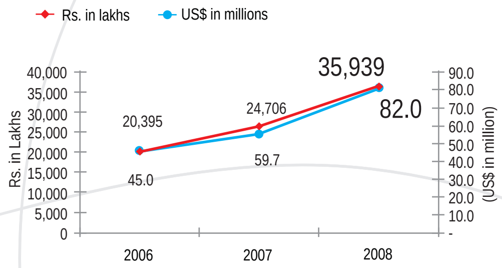
KEY RATIOS

	2008	2007	2006	2005	2004
Debt -Equity Ratio	0.02	0.01	0.04	0.17	0.29
Days Sales Outstanding	67	74	82	88	82
Current Ratio	2.57	2.93	2.72	2.79	2.71
Cash and Bank Balances / Total Assets (%)	26.33%	26.88%	29.54%	12.23%	11.26%
Cash and Bank balances / Total Income (%)	17.44%	20.15%	25.57%	7.29%	7.28%
Operating Profit / Total income (%)	8.37%	8.62%	7.64%	9.56%	1.32%
EBT / Total income (%)	8.23%	9.09%	6.69%	9.11%	0.52%
EAT / Total income (%)	7.66%	7.46%	3.76%	7.89%	0.17%
Return on Avg. Equity (%)	17.80%	14.01%	8.26%	22.22%	0.45%
Return on Avg. Capital Employed (%)	19.14%	16.95%	14.03%	21.98%	2.67%
Earning Per Share (Rs.)					
- Basic	20.61	13.97	6.17	11.65	0.21
- Diluted	20.36	13.78	6.17	11.65	0.21
Dividend Per Share (Rs.)	2.40	1.80	1.20	-	-
Book Value Per Share (Rs.)	128.46	105.54	94.93	59.66	49.64

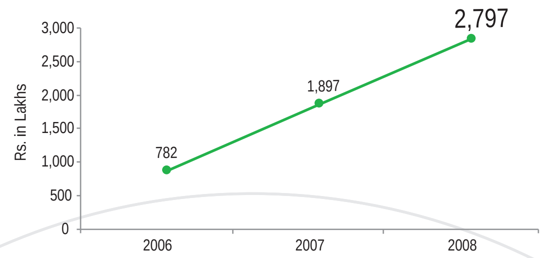
Previous year's figures have been regrouped or recasted where necessary to conform to current year classification including the effect of consolidation of shares and bonus issue in the year 2006.

Notes:
Operating Profit - Earning before interest and tax excluding exceptional and prior period items
EBT- Earnings before tax
EAT - Earnings after tax
EBIT- Earnings before interest and tax
Debt Equity ratio = Long Term Debt / Equity
Days Sales Outstanding = Average Trade Receivables / Net Credit Sales*360
Current Ratio = Current Assets / Current Liabilities
Return on Avg. Equity (%) = EAT / Average Equity
Return on Avg. Capital Employed (%) = EBIT / Average Capital Employed

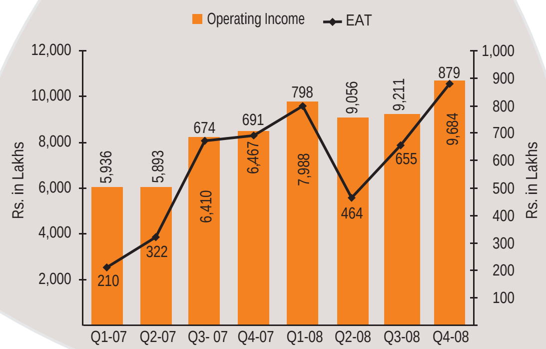
Operating Income (Consolidated)



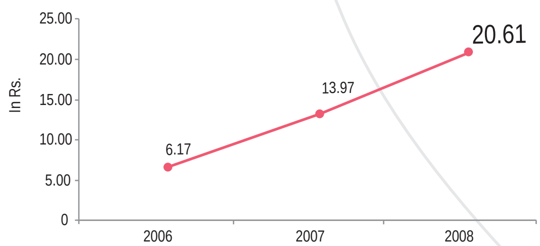
EAT (Consolidated)



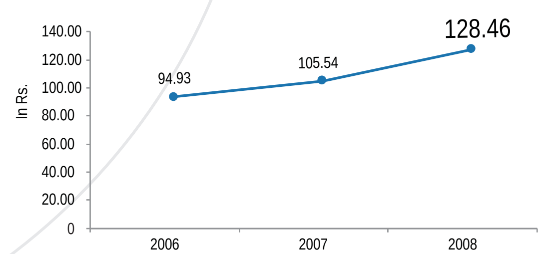
Quarterly Operating Income & EAT (Consolidated)



Basic Earning Per Share (Consolidated)



Book Value Per Share (Consolidated)



From the desk of Chairman

Dear Fellow Stakeholders,

It is often said that change is permanent. The world experienced change in extreme measure in 2008. The global financial markets suffered a series of tremors triggered by falling asset prices, defaults, and freezing of credit markets. The fear and negative sentiments that followed the meltdown later engulfed all sectors of the global economy. We had to manage our business with no past experience of such severe change. I am pleased to report that despite these economic challenges R Systems reported record revenues, profits, cash-flows and earnings per share in 2008. These achievements were possible because of the brilliant collaborating minds in R Systems with a strong focus on creating value for customers and other stakeholders.

R Systems in 2008:

R Systems consolidated revenues reached a new record of Rs. 359.4 crores - a growth of 45.5% over last year. Earnings before depreciation taxes and allowances ("EBITDA"), a key indicator of operating performance grew, to Rs. 46.5 crores - a growth of 95.6% over 2007. Net profits expanded to Rs. 27.9 crores - a growth of 47.4%, which resulted in 47.5% growth in the earnings per share to Rs. 20.6.

Our revenue growth came from an aggressive expansion into Europe in FY 2008 and a healthy increase in our global customer franchise. Our customer roster includes a mix of Fortune 1000 and mid-sized companies. Margin expansion was a result of quality revenues, favorable exchange rate, disciplined cost management and excellence in execution.

R Systems has consistently maintained a strong balance sheet to deal with all economic cycles for the benefit of its stakeholders. In FY 2008 we further strengthened our financial position through performance and judicious treasury management. Shareholders' funds increased to Rs. 171.6 crores or Rs. 128.5 per share and cash and bank balances increased to Rs. 63.6 crores or Rs. 47.6 per share. R Systems is well positioned to maximize from the opportunities in the years ahead and emerge stronger.

How we have grown?

Ever since we established the company our vision was based on putting the customer first. We listen carefully to our customers, understand their needs and organize ourselves around the customers to serve them. We committed ourselves to deliver measurable high performance to our customers with our services. Over a period we noticed that all technologies, products and services get commoditized which drove the bar higher to retain the relationship with customers. This dynamics shaped our strategy to focus relentlessly on our core competencies, which are Product Life Cycle Management for ISV customers across focused verticals and around our own intellectual properties in Financial Services and Supply Chain.

We focus on core competencies for a simple reason. It is to increase our cumulative experience in specific areas and enhance our competitive advantage. We believe that cumulative experience which is gained from doing the same thing repetitively over a long period of time improves both knowledge and skills. In our industry superior experience, knowledge and skills are huge differentiators. We took inspiration from Albert Einstein, who said, "The only source of knowledge is experience." However as an organization we recognized that it is just not enough to do the same thing repetitively, but to do it with discipline, purpose, rigorous application

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of our minds and retain the knowledge for future benefits. In theory it is simple, however the process gets complex when talented individuals with cross disciplinary capabilities have to come together to deliver solutions and services. This required harmonious collaboration and developing the methods to retain knowledge. This led to our proprietary tools, frameworks, processes and methodologies which are now integral to our business model. They help us in making continuous improvement, training employees and driving efficiencies for our stakeholders.

This brings us to the second and equally important pillar of our business: our people. We know - like our customers - our employees have a choice and we do not take them for granted. We have created an extremely vibrant eco-system for our people to grow and flourish. This is a combination of best practices, processes, continuous learning, our culture and our values. We encourage our people to grow, and to contribute to their team's growth. Leadership is attained in R Systems through thought and performance, not title. We encourage our people to aim higher leveraging experience without getting discouraged from mistakes.

Recognizing that change is permanent and evolution is critical we strive hard to innovate. We put our accumulated knowledge and experience to innovate with new solutions and services for our clients. These endeavors have led to R Systems deepening the relationship with customers, expanding our customer base and generating new revenue streams.

The journey ahead:

The near term in 2009 will be challenging for most businesses worldwide. The global downturn that has caused most business to face contracting revenues will result in immediate cutbacks of investment programs and new initiatives. However as dust settles, which it invariably will, we will see the surviving companies emerge with new plans. In today's economic environment the critical issues are having a strong financial position and human capital. We are fortunate that we have them both to deal with the challenges, create new opportunities and take advantage as green shoots of recovery emerge. There are exciting new opportunities in virtualization, WiMax, Digital Media and businesses trying to improve their brand value through NPS.

As we enter the new era of transformation I am extremely thankful to all our stakeholders who have contributed to R Systems success. I am grateful to all our supporters - customers, shareholders, bankers, the stock exchanges, Securities and Exchange Board of India, the software technology parks of India, various government and other organizations.

To my colleagues worldwide at R Systems, I am very proud of you and thankful. Our high performance in 2008 is because of your passion, commitment, and hard work. Let us take on the future and aim higher.

Sincerely,

Satinder Singh Rekhi
(Chairman and Managing Director)

R Systems in Brief

Our Company

Founded in 1993, R Systems is a leading provider of outsourced product development and customer support services. We help companies accelerate the speed to market with a high degree of time and cost predictability by using our proprietary pSuite execution framework. Our steadily growing clientele includes Fortune 1000, government and mid-sized organizations across industry verticals including Banking and Finance, High Technology and Independent Software Vendors, Government, Health Care, Manufacturing and Logistic Industries. With our 8 global service centres in India, USA, Europe and Singapore, we serve over 125 customers in over 40 countries across 6 continents.

Our Offerings

iPLM Services

Under our iPLM suite of services, software product and service companies usually enter into multiple-year contracts with us to help, develop, sustain, and support their products. Best of breed services are rendered using a combination of on-site, onshore and offshore modules. Proprietary project tracking and reporting tools create a collaborative environment with clients. The overview of iPLM is as below:

Schematic

Designed to meet the specific needs of outsourced software product development companies, our iPLM services enable our customers by getting products to market faster, providing greater flexibility in resource deployment, lowering costs and improving quality.

BPO Services

We offer customer care and technical support services to the high technology sectors. Our customer care services enhance the brand value of our clients and are offered through a seamlessly integrated global hybrid delivery model concurrently using our 8 global service centres in 18 languages.

Enterprise Application Services

Designed to improve organizations' operations by using IT as a strategic tool, it includes solutions like Supply Chain Management,

Our Belief:
"Quality is a way of life…
It's the essence of excellence
in everything we do well!"

Our Vision
"Building a growth-oriented, process-driven and talent-centric organization to provide innovative software solutions and world-class support to delight our clients globally"

Our Core Values:

- Quality Orientation
- Customer & Business Focus
- Respect for individuals
- Honesty & Integrity
- Fairness
- Team Effort
- Continuous Improvement & Innovation
- Security

Our Mission
"To meet the global demand for information technology and technical support with imagination and passion while creating value for our customers and wealth for our employees and shareholders"

Business Intelligence, and Enterprise Portal Solutions. In partnership with industry leading vendors such as Microsoft, IBM, Oracle and BEA Systems, we implement and offer long term offshore support services to these solutions.

Our Products Group

Indus® Lending Solutions

A modular and parameter driven, n-tier application helps in automating the customer acquisition lifecycle for multiple retail products offered through multiple business channels. It helps customers launch new products and schemes; change rules on-the-fly and customize product offerings and is equipped with tools to evaluate risk and improve decision-making. It tracks the repayment schedules and comes with a powerful customer servicing module. Delinquent accounts can be tracked all the way from early collections to accounts that need to be resolved through legal means. The lending solutions from the Indus Lending Solutions Business contain three modules - 'Indus Loan Origination', 'Indus Loan Servicing' and 'Indus Collections'.

ECnet® Supply Chain Execution

Our manufacturing vertical providing total solutions by integrating our manufacturing customers with their trading partners and logistic providers. Our integrated suite 'ECnet G5 Solution' aims to reduce all supply chain costs through improved collaboration, optimization and holistic management of the complex interaction. Services are provided under a hosted solution model under which both the client and their trading partners pay a monthly fee.

Our businesses revolve around the creation of value for our customers and the development of our employees.

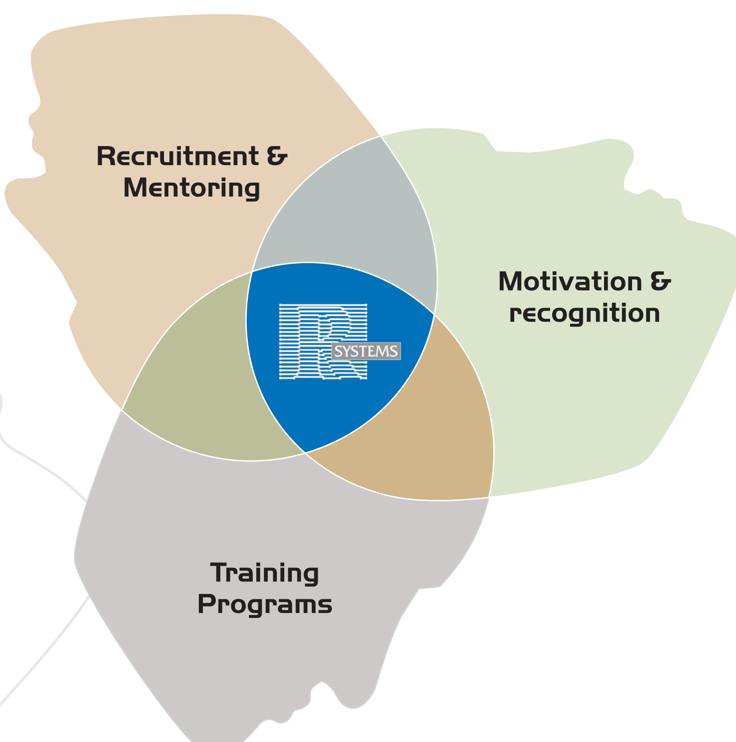
Building and utilising the team's potential

To build a strong people-centric culture through good people practices is one of the key business basics of R Systems. While it has put in place rigorous systems for Training and Development, we believe the quality of recruits to be a prime factor in shaping our Team strength. Through an array of campus recruitment procedures, screening evaluations and behavioural assessments, we ensure that our joinees have a high level of potential.

From an applicant's point of view, a major attraction of Employee Value Proposition (EVP) is that the Company matches their personal career aspirations with organizational objectives. There is clarity about the career path for a joinee and the promotional avenues are made known.

A Mentorship process is in place to help employees stay on track towards their goals of advancement. Part of our Performance Improvement Plan, it aims to enhance individual competencies and is supplemented by project training and knowledge sharing sessions.

Our philosophy of an ideal business model revolves around the creation of value for our customers, development of our employees and growth from them. We help our people gain both technical and domain mastery of the clients' business through training, project rotations and varied client engagements.



Training Programs

Trainings conducted at R Systems are classified into Technical (eg. Java, MS, RDBMS, Oracle etc.), Functional (Project management, Domain trainings etc), Behavioural and Quality based trainings.

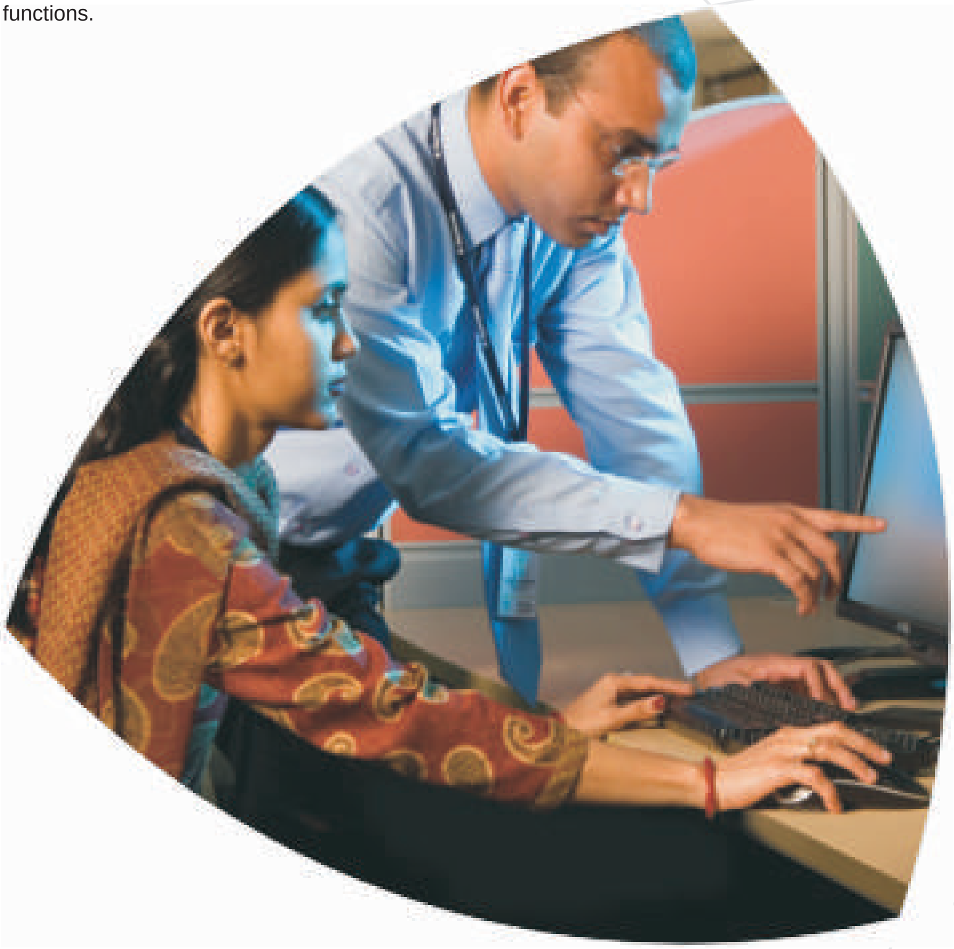
- Trainings are conducted as per the Training Process which forms a part of the organization's competency development plan.
- The Training needs are identified through Training needs Identification and analysis from various sources like projected Business requirements, Individual Competency gaps from Appraisals and career plans, Project based requirements and strategic directions.
- Effectiveness of Trainings is measured through Instructor's Feedback, Participant's feedback and Effectiveness Feedback collected from Managers.
- Statistical Process Control (SPC) is used to improve the capability, effectiveness and efficiency of the training and competency functions.

Motivation & recognition

The reward systems in the Company recognize outstanding achievements by individual associates & project teams that merit special recognition. R Systems has also institutionalized Performance Awards. The active encouragement and incentivisation of various kinds of contributions are all part of an overall work environment that fosters creativity and innovation.

Key Acknowledgements

- Technical Long Service Awards
- Employee of the Year
- Manager of the Year
- Best Internal Trainer
- Best Buddy
- Best Mentor
- Spot Award at Project/ Process level



Encouraging recognitions...

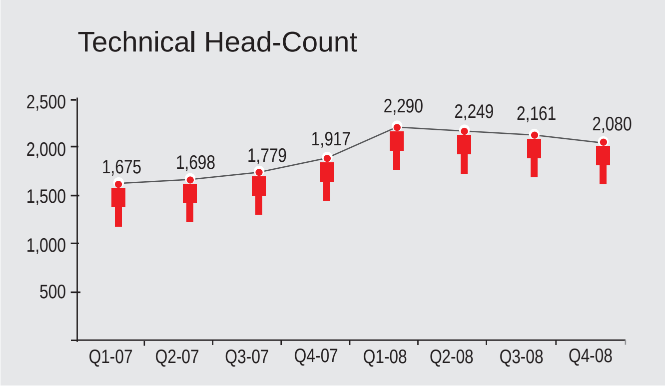
Findings from recent NASSCOM EEC Survey are encouraging. Some highlights of our score:

Career Planning System
167% above industry average

Training and Development System
113% above industry average

Recruitment System
63% above industry average

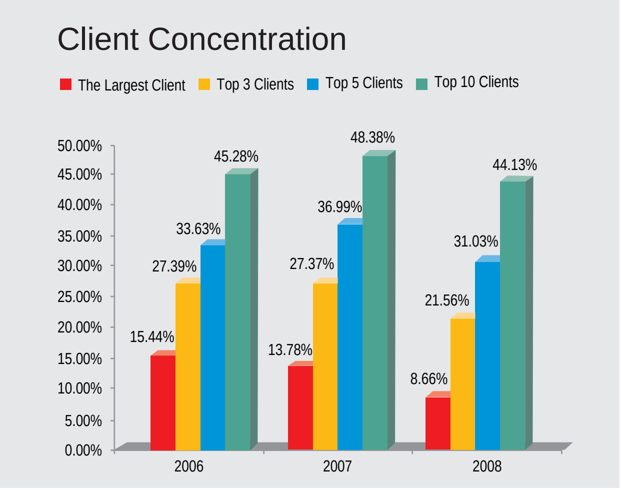
Performance Review System
60% above industry average



Collaborating to deliver to the market

R Systems kicked-off several strategic engagements in its iPLM service offering during 2008 with new and existing customers. These engagements involved collaborating with clients in product development, maintenance and technical support in varied segments like digital media, mobility, health care, etc. At the end of 2008 R Systems had accumulated over 20 million person hours of experience in iPLM collaborative engagements positively impacting over 1500 high tech products.

In R Systems Product Groups Indus® successfully delivered several implementations across its full suite of consumer financial products to global banks that had awarded contracts in 2007. R Systems also made a breakthrough in Telecom industry successfully by deploying Indus® collections product for a leading Telecom company in India to efficiently manage collections from millions of customers. In supply chain several existing customers placed their faith in ECnet® Supply Chain Solutions and awarded new contracts to R Systems for their global operations. These successes underscore how R Systems collaborates internally and externally to deliver value to its clientele.



Voice of customers

Dear colleagues,
P7maint for HE22-MPP6 and 376-MPP2 was reached on Nov 28, just in time and as planned. Congratulation to all contributing to this success - it's your success.Thank you for all your efforts!
Looking to our bug statistics we made a big step forward, especially in the last 2 weeks before this milestone. We corrected some major problems. Just to remember: The changing account problem should be fixed, now and once for ever. But also other errors making problems in the field were fixed successfully. Further highlights besides bug fixing:
- on 376- we implemented the feature "disallowing from accessing HD channels", which was requested by some customers heavily.
- We released the new SA sdk-2.0 as a basis to deliver new SA-HW to the field and to have in future only one sdk for HE30 and HE22 to be maintained.

we are now using same VMX build on HE22 and HE30 which should also decrease maintenance efforts.

- we made some important measurements in the HD area giving PLM the appropriate background for a strategically decision .
- we realized the advices of the so called "configuration guide" which are assumed to increase our overall system stability.
- we improved our booting time - at least a little bit.
What will be the next steps? The maintenance team plans to have a P3 declaration for HE22-MPP7 and 376-MPP3 already before Christmas. P7maint is aimed for E02/09. This will be necessary due to our service contract to fix customer reported bugs in a certain time. Planned content: correction of bugs reported from the customers. Nothing more. For now. But let's see.
Official 376-MPP2 notice, <<IPTV maintenance: P7maint for 3.7.6_MPP2 reached in time>> , HE22-MPP6 bellow.

A Global Leader in Telecom Infrastructure

Congrats yet again, all for successful and on time delivery. All your hardwork has resulted in a favorable feedback from the customer and I am thankful to you all for making that happen.

let's now all focus on 3.0 and repeat this success.

A Leading Global Electronics Company

"Though the projects have just been recently implemented, we are confident that through electronically integrating our trading partners to our supply chain via ECnet, we will reap immense benefits such as improving our procurement execution abilities, cutting costs and improving the overall productivity of both our staff and trading partners. By trading online via ECnet's web-based services, our trading partners also stand to benefit with ECSource, a one-stop sourcing, procurement and fulfillment portal provided by ECnet."

A Leading Electronic Contract Manufacturer in APAC Region

With our 8 global service centres in India, USA, Europe and Singapore, we serve over 125 customers in over 40 countries across 6 continents.

An exciting growth industry

Based on the NASSCOM's report "Strategic Review 2009", Worldwide technology products and related services spend is estimated to cross USD 1.6 trillion in 2008, a growth of 5.6 per cent over 2007. Steady growth in outsourcing spend was driven by increased adoption of global sourcing. While the global sourcing market size has increased threefold in the period 2004-2008, the addressable market is more than five times the current market size, signifying the immense opportunity at hand.

The Indian IT-BPO industry is estimated to achieve revenues of USD 71.7 billion in FY2009, with the IT software and services industry accounting for USD 60 billion of revenues. The export revenues are estimated to gross USD 47.3 billion in FY2009. Sustained demand, robust fundamentals and a supportive business environment will help in realising significant potential that the IT-BPO industry offers, both for exports and the domestic market. The industry can achieve an export target of USD 60-62 billion by FY 2011:

- Sufficient demand, strong fundamentals and a favorable environment support a positive outlook for Indian IT-BPO exports.
- Increased focus on cost and productivity in the recessionary environment is likely to fuel demand for offshore services.
- Global tech spending forecasts remain strong, supported by momentum in EMEA countries and the Asia Pacific.
- Worldwide adoption of outsourcing, another key influencing factor, is also expected to grow rapidly over the next five years.
- Further, strong imperatives for increasing technology adoption in India represent significant potential for growth in the domestic market.

Collaborating to expand global footprints

As part of our iPLM suite we offer customer care and technical support services to the high technology sector. Our services are offered through a seamlessly integrated global hybrid delivery model concurrently using our service centres in India, US, Europe and Singapore. Our BPO division is scaling greater heights and making our customers succeed with structured processes and practices with relentless focus to enhance the brand value of our clients with scientifically measured NPS.

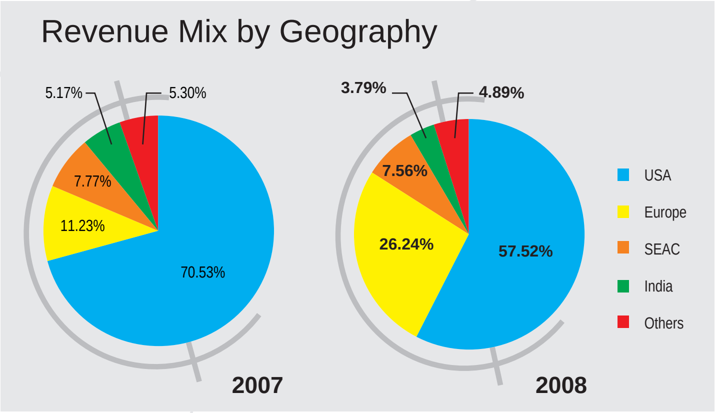
R Systems successfully completed the acquisition of R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.) and R Systems S.A.S, France (formerly known as Sento S.A.S, France), two wholly owned subsidiaries based in Europe effective January 23, 2008. The immediate benefits are that it has strengthened our global delivery capabilities to support our customers worldwide for products and services in 18 languages from eight service centres in India, USA, Singapore and Europe.

To integrate Sento EU with R Systems culture, firstly R Systems had initiated R Systems' employee visits to Netherlands, and Sento EU employees visits to our India and USA offices to increase personal interaction, to understand the company's IT infrastructure and technology, and to familiarize themselves with the HR policies and operating efficiencies of each other. Our collaborative mindset helped us achieve complete integration within 3 months.

The consolidation of our European initiative brings with it a good client base with ongoing revenue streams and also, cross-selling opportunities. The revenue share of European operations has gone up from 11% in the previous year to 26% in 2008 and this also implies that our US revenues accounted for 58% in 2008 as compared to 71% in 2007, thereby reducing our dependence on the USA market.

R Systems is confident that the European operations will continue to enhance stakeholders' value in near term.

Successful acquisition of Sento, Europe has strengthened our global delivery capabilities to support our customers worldwide for products and services.



Broadening the horizon by adding markets and market segments

R Systems has diversified in terms of geographical markets and industry verticals in which it offers its services. Building on the proven track record in iPLM, Consumer Finance, and SCM, we added new industry segments in hospitality, and Telecom. These represent new opportunities for our expertise and growth.

Outsourced product development and customer support continue to be vital in the markets we address. The primary drivers are lower costs, efficiency, reduced cycle time in development and the imperative to provide better experience to customers through technical support. In place of in-house development and support, clients opt to ally with external partners to cut costs. It also enables our clients to concentrate on their brand building and customer relationships. Thus, the third party service providers have a significant role to play in the software industry.

Our approach of functioning as an extension of our client's enterprise and the robustness of our global delivery model keep us in excellent standing with our customers, most of whom are the leaders in their respective categories. Our growth philosophy is one of taking carefully measured risks and it is coupled with a conservative financial strategy.

Over the decade, we have served over 200 customers including leading companies from the fields of digital media, internet security, health care, banking, financial services and enterprise software.

Our capability to deliver operating excellence consistently offsets the risks and maintains our readiness to convert the emerging opportunities, some of which are new geographies, while some are in new market segments.

The capability at R Systems to deliver operating excellence consistently offsets the risks and maintains our readiness to convert the emerging opportunities, some of which are new geographies, while some are in new market segments.

DIRECTORS' REPORT

Dear Shareholders,

Your directors have great pleasure in presenting the Fifteenth Annual Report on the business and operations of R Systems International Limited ("R Systems" or the "Company") together with the audited statements of accounts for the year ended December 31, 2008.

1. **Financial Results**

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

Particulars	*Financial Year ended (Rs. in Lakhs)*	
	31.12.2008	*31.12.2007*
Total income	21,013.01	16,467.65
Profit before depreciation and tax	3,183.87	3,360.47
Less : Depreciation	663.17	534.49
Profit before tax	***2,520.70***	***2,825.98***
Less : Current tax	268.69	315.88
Less : MAT credit entitlement	(117.03)	(49.81)
Less : Fringe benefit tax	79.80	66.79
Less : Deferred tax	(75.52)	75.98
Profit after tax (available for appropriation)	***2,364.76***	***2,417.14***
Proposed final dividend	316.93	244.49
Corporate dividend tax on final dividend	53.86	41.55
Transfer to general reserve	236.48	181.29
Balance carried forward to Balance Sheet	**1,757.49**	**1,949.81**

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

Particulars	*Financial Year ended (Rs. in Lakhs)*	
	31.12.2008	*31.12.2007*
Total income	36,488.66	25,421.12
Profit before depreciation and tax	4,158.66	3,014.26
Less: Depreciation	1,156.90	704.11
Profit before tax	***3,001.76***	***2,310.15***
Less : Current tax	317.87	328.11
Less : MAT credit entitlement	(117.03)	(49.80)
Less : Fringe benefit tax	79.80	66.79
Less : Deferred tax	(75.52)	67.91
Profit after tax (available for appropriation)	***2,796.64***	***1,897.14***
Proposed final dividend	316.93	244.49
Corporate dividend tax on final dividend	53.86	41.55
Transfer to general reserve	236.48	181.28
Balance carried forward to Balance Sheet	**2,189.37**	**1,429.82**

2. **Results of Operations**

   Standalone Accounts

   - Total income for the year 2008 increased to Rs. 21,013.01 lakhs as against Rs. 16,467.65 lakhs during the year 2007, a growth of 27.60%.
   - Profit after tax was Rs. 2,364.76 lakhs during the year 2008 as compared to Rs. 2,417.14 lakhs during 2007, a decline of 2.17%.
   - Basic earnings per share was Rs. 17.42 for the financial year 2008 as compared to earnings per share of Rs. 17.80 for the financial year 2007, a decline of 2.13%.

   Consolidated Accounts

   - Consolidated total income for the year 2008 increased to Rs. 36,488.66 lakhs as against Rs. 25,421.12 lakhs during the year 2007, a growth of 43.54%.
   - Profit after taxes was Rs. 2,796.64 lakhs during the year 2008 as compared to Rs. 1,897.14 lakhs during 2007, a growth of 47.41%.
   - Basic earnings per share was Rs. 20.61 for the financial year 2008 as compared to earnings per share of Rs. 13.97 for the financial year 2007, a growth of 47.53%.

3. **Appropriations and Reserves**

   Dividend

   Taking into consideration the profits for 2008 and positive outlook for future, the Board of Directors (the "Board") is pleased to recommend a final dividend of Rs. 2.40 per equity share, being 24% on the par value of Rs. 10 per share (previous year Rs. 1.80 per share, being 18% on the par value of Rs. 10 per share), to be appropriated from the profits of the Company for the financial year 2008 subject to the approval of the shareholders at the ensuing Annual General Meeting. The dividend, if approved, will be paid to all those equity shareholders whose names appear in the Register of Members of the Company as at the opening business hours on April 18, 2009 after giving effect to all valid share transfers in physical form which would be received by the Company's registrar and share transfer agent M/s Link Intime India Private Limited up to the end of business hours on April 17, 2009 and to those whose names appear as beneficial owners in the records of National Securities Depository Limited ("NSDL") and Central Depository Services (India) Limited ("CDSL") as on the said date.

   The register of members and share transfer books shall remain closed from April 18, 2009 to April 27, 2009, both days inclusive.

   Transfer to Reserves

   It is proposed to transfer a sum of Rs. 23,647,603 (Rupees two crores thirty six lakhs forty seven thousand six hundred three only) to General Reserve being 10% of the current year's profit

DIRECTORS' REPORT

in accordance with the Companies (Transfers of Profits to Reserves) Rules, 1975.

4. Business

iPLM Services Group

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

Products Group

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

Customers and Delivery Centres

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

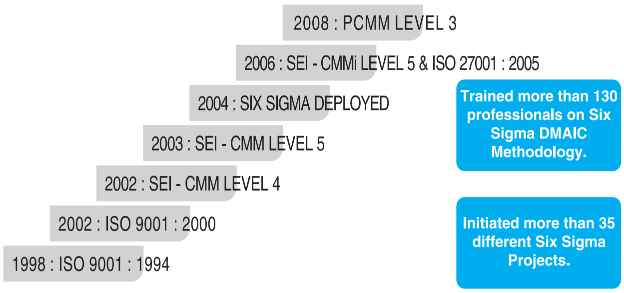
To further strengthen the business, the Company had during the year under review setup branch offices in the Netherlands and Japan.

There were no changes in the nature of the Company's business and generally in the classes of business in which the Company has an interest and in the business carried on by the subsidiaries during the year under review. For details of Company's subsidiaries please refer note number 15 relating to subsidiaries.

5. Quality

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

R Systems journey for various quality certifications / standards for the development and service centres in India is given below:



During the year ended December 31, 2008 Software Development and BPO Centres of R Systems based in Noida have been certified by the world-renowned consulting firm KPMG for PCMM Level 3. With the said certification R Systems joins an elite group of PCMM certified companies across the globe.

As on the date of this report, Noida IT centre is ISO 9001 : 2000, SEI-CMMi level 5, ISO 27001 : 2005 and PCMM Level 3 certified; Noida BPO centre is ISO 9001 : 2000, ISO 27001 : 2005 and PCMM Level 3 certified. Pune and Chennai development centres are SEI-CMM Level 5, ISO 9001 : 2000 and ISO 27001 : 2005 certified. The continuing compliance with these standards demonstrates the rigor of R Systems processes and differentiates us to keep our competitive edge in service offering.

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

6. Acquisitions

During the year ended December 31, 2008, the Company acquired 100% shares of Sento Europe B.V., the Netherlands (subsequently renamed as R Systems Europe B.V.) and Sento S.A.S., France (subsequently renamed as R Systems S.A.S.). Accordingly R Systems Europe B.V., the Netherlands and

DIRECTORS' REPORT

R Systems S.A.S., France (collectively referred to as R Systems Europe) became the wholly owned subsidiaries of R Systems w.e.f January 23, 2008.

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

7. Directors

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

Lt. Gen. Baldev Singh (Retd.) was reappointed as President and Senior Executive Director of R Systems by the Board at its meeting held on October 28, 2007 for a period of one year and three months i.e. w.e.f January 01, 2008 to April 01, 2009. On January 21, 2009 he was again reappointed as President and Senior Executive Director for a period of three years i.e. w.e.f April 01, 2009 to April 01, 2012.

Mr. David Richard Sanchez and Mr. Gurbax Singh Bhasin were reappointed as directors of R Systems at the previous annual general meeting held on May 02, 2008.

Mr. O'Neil Nalavadi was reappointed as Director Finance and Chief Financial Officer of R Systems by the Board at its meeting held on January 21, 2009 for a period of three years i.e. w.e.f January 01, 2009 to January 01, 2012.

At the ensuing Annual General Meeting Mr. O'Neil Nalavadi, Mr. Suresh Paruthi and Mr. Raj Swaminathan, directors of the Company are liable to retire by rotation in accordance with the provisions of Section 255 and 256 of the Companies Act, 1956 and being eligible, offer themselves for reappointment as directors of R Systems.

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

8. Employees Stock Options Plans

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

a. R Systems International Ltd. - Year 2004 Employee Stock Option Plan: For the employees of R Systems and its subsidiaries other than ECnet Limited.

b. R Systems International Ltd. - Year 2004 Employee Stock Option Plan - ECnet: For the employees of ECnet Limited, a subsidiary of R Systems.

c. Indus Software Employees Stock Option Plan – Year 2001: Initially formulated for the employees of Indus Software Private Limited which got amalgamated with R Systems and the plan continues as per the scheme of amalgamation approved by the Hon'ble High Courts of Delhi and Mumbai. As on the date of this report, no stock options are in force under this plan.

d. R Systems International Limited Employee Stock Option Scheme 2007: For the employees of R Systems and its subsidiaries.

As required under Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme), Guidelines, 1999, details relating to options approved, granted, vested, exercised, lapsed, in force etc. under the prevailing employees stock option plans / schemes during the year ended December 31, 2008 after making the required adjustments for consolidation of each of the 5 equity shares of Rs. 2 each into 1 equity share of Rs.10 each are as follows:

DIRECTORS' REPORT

S. No.	Particulars	R Systems International Ltd. Year 2004 Employee Stock Option Plan (a)	R Systems International Ltd. Year 2004 Employee Stock Option Plan ECnet (b)	Indus Software Employees Stock Option Plan Year 2001 (c)
a.	Total number of shares covered under the plan	199,500	200,000	73,898
b.	Pricing Formula	Prevailing Price once the Company's shares are listed and at the Fair Market Value as per the terms of R Systems International Ltd. - Year 2004 Employees Stock Option Plan on the date such option is granted when the Company's shares are not listed.	Prevailing Price once the Company's shares are listed and at the Fair Market Value as per the terms of R Systems International Ltd. - Year 2004 Employees Stock Option Plan - ECnet on the date such option is granted when the Company's shares are not listed.	As approved under the "Scheme of Amalgamation" of Indus Software Private Limited with the Company by the Hon'ble High Courts of Delhi and Mumbai
c.	Options granted during the year	Nil	Nil	Nil
d.	Options vested during the year	32,165	1,640	Nil
e.	Options exercised during the year	Nil	Nil	Nil
f.	The total number of shares arising as a result of exercise of options during the year	Nil	Nil	Nil
g.	Options lapsed during the year	11,205	11,001	Nil
h.	Variation of terms of options during the year	Clause 25A as reproduced below is recommended for shareholders approval in the ensuing annual general meeting *	Clause 25A as reproduced below is recommended for shareholders approval in the ensuing annual general meeting *	Nil
i.	Money realized by exercise of options during the year (Rs.)	Nil	Nil	Nil
j.	Total number of options in force at the end of the year	83,275	6,800	Nil
k.	Employee wise details of options granted to (during the year);			
(i)	Senior managerial personnel;	Nil	Nil	Nil
(ii)	Any other employee who receives a grant in any one year of options amounting to 5% or more of options granted during that year;	Nil	Nil	Nil
(iii)	identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant.	Nil	Nil	Nil
l.	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options.	17.21	17.21	17.21

DIRECTORS' REPORT

*Clause 25A as given below is proposed to be incorporated in R Systems International Ltd. - Year 2004 Employee Stock Option Plan and R Systems International Ltd. - Year 2004 Employee Stock Option Plan - ECnet

"25A. TAX LIABILITY

(a) In the event of any tax liability, including any tax liability arising on account of change in the tax laws relating to Employees Stock Option Schemes, arising on account of the grant / issue of options and / or allotment of the shares to the Employee, the liability shall be that of the Employee alone and the Company shall be indemnified to the extent of applicable taxes, if any, levied at any point of time.

(b) The Company shall have the right to deduct from the salary, for any obligation towards tax deduction arising in connection with the Employee Stock Option or the Shares acquired upon the Exercise thereof. The Company shall have no obligation to deliver Shares or to release Shares in pursuance of the Award until the Company's tax deducting obligations, if any, have been satisfied by the Option Grantee.

(c) All tax liabilities arising on disposal of the shares after exercise would require to be handled by the Employee."

No stock options were granted under the aforementioned plans during the year ended December 31, 2008. Further all options granted under Indus Software Employees Stock Option Plan - Year 2001 are already vested and exercised or lapsed and no options were in force as on December 31, 2008.

During the year ended December 31, 2008 R Systems did not grant any options under any of the aforementioned plans. For options granted in the earlier years R Systems used the fair value of the stock options for calculating the employees compensation cost.

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

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

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

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

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

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

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

Further, for the purpose of valuation of the options granted during the year 2005 under R Systems International Ltd. - Year 2004 Employee Stock Option Plan, the management obtained fair value of the options at the date of grant from a firm of Chartered Accountants (N Maini & Co.), to determine accounting impact, if any, of options granted. In the considered opinion of the valuer (mentioned above), the fair value of these option determined using 'Black Scholes Valuation Model' is "Nil" and thus no accounting thereof is required.

DIRECTORS' REPORT

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

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

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

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

a.	Total number of shares covered under the plan	650,000
b.	Pricing Formula	**"Exercise Price"** means the market price which is payable for exercising the options and **"Market Price"** means the latest available closing price, prior to the date of the meeting of the Board of Directors / Compensation Committee, in which options are granted, on the stock exchange on which the shares of the Company are listed. If the shares are listed on more than one stock exchange, then the stock exchange where there is highest trading volume on the said date shall be considered.
c.	Options granted during the year	Nil
d.	Options vested during the year	144,375
e.	Options exercised during the year	Nil
f.	The total number of shares arising as a result of exercise of options during the year	Nil
g.	Options lapsed during the year	50,000
h.	Variation of terms of options during the year	Nil
i.	Money realized by exercise of options during the year (Rs.)	Nil
j.	Total number of options in force at the end of the year	560,500
k.	Employee wise details of options granted to (during the year);	
(i)	Senior managerial personnel;	Nil
(ii)	Any other employee who receives a grant in any one year of options amounting to 5% or more of options granted during that year;	Nil
(iii)	identified employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant.	Nil
l.	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options.	17.21

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

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

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

Assumptions	Unit	Scheme	Comments by the valuer
Strike price	Rs.	120.70	
Current share price	Rs.	118.50	Price on the date of grant by Board of Directors i.e. closing price on July 11, 2007
Expected option life	No of Years	4	Being the vesting period.

DIRECTORS' REPORT

Assumptions	Unit	Scheme	Comments by the valuer
Volatility	%	44	On the basis of industry average.
Risk free return	%	7	Zero coupon rate estimated from trading government securities for a maturity corresponding to expected life of option - taken from sites of NSE.
Expected dividend Yield	%	0.86	Company has declared Dividends of 12% in the past. Assuming that it will continue declaring similar dividends in future.

The stock based compensation cost calculated as per the intrinsic value method for the financial year 2007 and 2008 was nil. If the stock based compensation cost was calculated as per fair value method prescribed by SEBI, the total cost to be recognized in the financial statements for the year 2008 would be Rs. 10,790,693 (Previous year Rs. 7,689,451). The effect of adopting the fair value method on the net income and earnings per share is presented below:

Pro Forma adjusted Net Income and Earnings Per Share

(Amount in Rs.)

Particulars	Year ended December 31, 2008	Year ended December 31, 2007
Net Income as reported	**236,476,025**	241,713,718
Add: Intrinsic Value Compensation Cost	**-**	-
Less: Fair Value Compensation cost	**10,790,693**	7,689,451
Adjusted Pro-forma Net Income	**225,685,332**	234,024,267
Earnings Per Share		
Basic		
- As reported	**17.42**	17.80
- Proforma	**16.63**	17.23
Diluted		
- As reported	**17.21**	17.56
- Proforma	**16.43**	17.00

Weighted average exercise price of options granted during the year

S. No.	Particulars	Scheme a	Scheme b	Scheme c	Scheme d
1.	Exercise price equals market price	N.A.	N.A.	N.A.	N.A.
2.	Exercise price is greater than market price	N.A.	N.A.	N.A.	N.A.
3.	Exercise price is less than market price	N.A.	N.A.	N.A.	N.A.

Weighted average fair value of the options granted during the year

S. No.	Particulars	Scheme a	Scheme b	Scheme c	Scheme d
1.	Exercise price equals market price	N.A.	N.A.	N.A.	N.A.
2.	Exercise price is greater than market price	N.A.	N.A.	N.A.	N.A.
3.	Exercise price is less than market price	N.A.	N.A.	N.A.	N.A.

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

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

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

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

As no options are granted during the year under Scheme a, Scheme b, Scheme c and Scheme d, hence the required information is not applicable.

9. Liquidity and Borrowings - Consolidated Financial Statement

The consolidated cash and cash equivalent as on December 31, 2008 were Rs. 2,043.89 lakhs as against Rs. 1,876.49 lakhs as on December 31, 2007.

Net cash provided by consolidated operating activities was Rs. 2,933.52 lakhs for the year ended December 31, 2008 as against Rs. 870.18 lakhs for the year ended December 31, 2007. The increase in cash from operating activities during the year ended 2008 was due to growth in business activities and profitability of the Group. Cash flow generated from operating activities is the significant source of funding for investing and financing activities. The cash in hand per share was Rs. 47.63 as on December 31, 2008 as compared to Rs. 37.92 as on December 31, 2007.

During the year under review, R Systems consolidated operations invested Rs. 1,042.36 lakhs in fixed assets. The cash outflow during the year 2008 as a result of acquisition of R Systems Europe B.V. and R Systems S.A.S. was Rs. 277.45 lakhs and Rs. 271.03 lakhs. R Systems paid Rs. 234.69 lakhs as deferred payment compensation to the erstwhile shareholders of R Systems Solutions, Inc. The interest received during 2008 was Rs. 310.54 lakhs as against Rs. 327.89 lakhs in 2007.

Cash flow from financing activities during the year 2008 resulted into net cash outflow of Rs. 904.63 lakhs mainly due to an outflow of Rs. 496.60 lakhs for repayment of borrowing net of

DIRECTORS' REPORT

fresh borrowings, cash outflow due to buyback of shares amounting to Rs. 70.31 lakhs, payment of Rs. 53.29 lakhs as interest over borrowings, Rs. 242.89 lakhs pertaining to the dividend declared for the year 2007 and Rs. 41.55 lakhs for the dividend tax paid thereon.

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

R Systems has lines of credits from State Bank of India amounting to Rs. 500 lakhs and R Systems, Inc., has lines of credit from California Bank & Trust, U.S.A. of US$ 2.2 million (Rs. 1,093.80 lakhs). R Systems Europe B.V. has a line of credit amounting EURO 1.25 million (Rs. 876.11 lakhs) from Fortis Commercial Finance N.V. The total borrowings outstanding under these lines of credit as of December 31, 2008 were Rs. 106.03 lakhs as against no borrowings as on December 31, 2007. The total liability of R Systems against motor vehicles purchased against loan was Rs. 41.17 lakhs and in relation to other assets was Rs. 178.45 lakhs as on December 31, 2008. R Systems primary bankers in India are State Bank of India, ICICI Bank Limited, HDFC Bank Limited and Axis Bank Limited while in U.S.A., Singapore and Europe the primary bankers are California Bank & Trust, Citibank N.A. and Fortis Bank N.V. respectively.

10. Buy Back

The Board of Directors of the Company at its meeting held on September 07, 2008, had approved the buy-back of the Company's equity shares of Rs. 10 each, not exceeding 1,306,941 number of equity shares from the existing owners, at a maximum price of Rs. 150 per equity share, for an aggregate amount not exceeding Rs. 80,000,000 from the open market through stock exchange(s) in terms of the SEBI (Buy Back of Securities) Regulations, 1998 pursuant to the first proviso to clause (b) of sub-section (2) of Section 77A of the Companies Act, 1956. Consequently, the Company made a public announcement dated October 15, 2008 regarding buy-back of equity shares. The buy-back will be completed within a period of 12 months from the date of passing of resolution by the Board of Directors i.e. by September 06, 2009.

11. Changes in the Capital Structure

The issued and paid up share capital as on December 31, 2007 was Rs. 135,827,060 divided into 13,582,706 equity shares of Rs. 10 each and as on December 31, 2008 was Rs. 134,500,360 divided into 13,450,036 equity shares of Rs. 10 each.

Pursuant to the offer for buy-back as of December 31, 2008, the Company had bought back 146,346 equity shares of Rs. 10 each at an average price of Rs. 48.04 per share, utilising a sum of Rs. 7,030,950 (inclusive of brokerage and applicable taxes of Rs. 25,671). Out of this, 132,670 equity shares of Rs. 10 each have been extinguished till the year end and 13,676 shares, lying in Share Suspense Account as at the year end, have been extinguished subsequent to the balance sheet date. The amount of Rs. 5,567,490 paid towards buy back of shares, in excess of the face value, has been charged to Securities Premium Account. The Company has also transferred Rs. 1,463,460 from free reserves to Capital Redemption Reserve Account, which represents the nominal value of shares bought back during the year. For details relating to changes in the capital structure subsequent to the balance sheet date, please refer point number 13 below.

12. Stock Exchanges where the securities of R Systems are listed

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

National Stock Exchange of India Limited ("NSE")
Exchange Plaza, Bandra Kurla Complex,
Bandra - (E), Mumbai - 400 051

Bombay Stock Exchange Limited ("BSE")
Phiroze Jeejeebhoy Towers,
Dalal Street , Mumbai - 400 001

The annual listing fee for the year 2008 - 09 has been paid within the scheduled time to NSE and BSE. The annual listing fee for the year 2009 - 10 will fall due on March 31, 2009 and will be paid within the scheduled time as prescribed under the provisions of Listing Agreement.

13. Material changes affecting the financial position of the Company

Subsequent to the balance sheet date till the date of this report, the Company has bought back and extinguished 420,423 equity shares of Rs. 10 each (including 13,676 equity shares of Rs. 10 each which were bought on or before December 31, 2008) pursuant to the offer for buy-back as approved by the Board at its meeting held on September 07, 2008.

Except as detailed above there were no other significant events after the end of the financial year 2008 which would materially affect the financial position of R Systems.

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

The particulars as prescribed under Section 217 (1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 for the year ended December 31, 2008 are as follows:

A. Conservation of Energy

During the year ended December 31, 2008 R Systems has continued its action plans to curtail the energy bills by adopting various energy conservation options / technologies as identified by Federation of Indian Chambers of Commerce & Industry ("FICCI") through a detailed Energy Audit carried out by FICCI for R Systems Noida operations in the year 2007. Significant measures are taken to reduce energy consumption by using energy efficient equipments and devices. R Systems constantly evaluates new technologies and makes appropriate investments to be energy efficient. Currently the Company uses CFL fittings and electronic ballasts to reduce power consumption of fluorescent tubes. The air is conditioned with energy efficient compressors for central air conditioning and with split air conditioning for localized areas. R Systems is always in search of innovative and efficient energy conservative technologies and applies them prudently. However R Systems being in the software industry, its operations are not energy intensive and energy costs constitute a very small portion of the total cost and the financial impact of these measures is not material.

Form A is not applicable to the software industry.

B. Technology Absorption

The particulars with respect to technology absorption are given below:

(a) Research and Development (R & D)

1. Specific areas in which R & D carried out by the Company

R Systems continues to invest in developing new versions of its proprietary products to operate in different environments and in developing new tools in CRM, RMA and other processes to serve the customers. In addition R Systems carries out research makes investment in developing new prototypes in varied areas like digital media, mobility, WiMax etc. to demonstrate to clients.

2. Benefits derived as a result of the above R & D

Research and development has helped R Systems in fulfilling clients' needs, wining new engagements from existing clients, wining new customers, growing revenues and enhancing the quality of services. We have been benefited in product improvement, cost reduction, better product development, import substitution etc. which has resulted in high product quality and increased business potential.

3. Future plan of action

The Company continues to focus its efforts on innovations in software development processes, methodologies and tools.

4. Expenditure on R & D

The Company's R & D activities are part of its normal software development process. There is no separate R & D department and hence there is no specific capital or recurring R & D expenditure. It is not practicable to identify R & D expenditure out of the total expenditure incurred by the Company.

(b) Technology absorption, adaptation and innovation

1. Efforts made towards technology absorption, adaptation and innovation

The Company has established practice streams in specific technologies to analyze their implications and the benefits they can provide to Company's customers. These steps enable the Company to find and execute the most appropriate solutions for its clients.

2. Benefits derived as a result of the above efforts

The benefits derived from the above mentioned efforts are fulfilling customer needs, efficiency in operations, improvement in quality and growth in revenues.

3. Technology imported during the last 5 years

Not applicable, as no technology has been imported by the Company.

C. Foreign Exchange Earnings and Outgo (Accrual Basis)

A significant percentage of R Systems revenues are generated from exports. The development and service centres in Noida, Pune and Chennai are registered with the Software Technology Park of India in their respective areas as 100% Export Oriented Undertakings. All efforts of the Company are geared to increase the business of software exports in different products and markets. We have made investments in sales and marketing activities in various growing markets.

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

	Particulars	Financial Year ended (Rs. in Lakhs)	
		31.12.2008	31.12.2007
(a)	Earnings (Accrual Basis)	19,772.75	14,881.89
(b)	Expenditure (Accrual Basis)	3,447.24	2,496.00
(c)	CIF value of imports	397.72	348.29

15. Subsidiaries

During the year ended December 31, 2008, the Company had acquired 100% shares of Sento Europe B.V., the Netherlands (subsequently renamed as R Systems Europe B.V.) and Sento S.A.S., France (subsequently renamed as R Systems S.A.S.) wholly owned subsidiaries of XtraSource Acquisition, Inc., U.S.A. which in turn is a subsidiary of Sento Corporation, U.S.A. For the said acquisitions R Systems had invested Rs. 420.53 lakhs in R Systems Europe B.V., the Netherlands and Rs. 325.94 lakhs in R Systems S.A.S., France during the year ended December 31, 2008.

Further during the year under review R Systems renewed commercial guarantee of US$ 2.30 millions to California Bank & Trust, U.S.A. for working capital line of credit of US$ 2.20 millions granted by California Bank & Trust to R Systems, Inc. (a wholly owned subsidiary of R Systems). R Systems also provided a commercial guarantee of Euro 1.35 millions to Fortis Commercial Finance N.V., the Netherlands for working capital

DIRECTORS' REPORT

line of credit of Euro 1.25 millions granted by Fortis Commercial Finance N.V. to R Systems Europe B.V. (a wholly owned subsidiary of R Systems).

After the aforesaid acquisitions, R Systems had fourteen subsidiaries as on December 31, 2008. The names and country of incorporation of those subsidiaries are as follows:

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

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

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

The holding company is required to attach the documents relating to its subsidiaries as prescribed under Section 212 of the Companies Act, 1956 along with its annual report. R Systems has applied and has been exempted by the Ministry of Corporate Affairs vide its letter no. 47/563/2008-CL-III dated December 08, 2008 from attaching the balance sheet, profit & loss account, directors' report, auditors' report etc. in respect of the subsidiaries. Accordingly, the annual report of R Systems does not contain the financial statements of its subsidiaries, but contains the consolidated audited financial statement of the Company and its subsidiaries. Further as directed by the Ministry of Corporate Affairs, information in aggregate in respect of key items such as (a) capital (b) reserves (c) total assets (d) total liabilities (e) details of investments (except in case of investments in subsidiaries) (f) turnover (g) profit before taxation (h) provisions for taxation (i) profit after taxation and (j) proposed dividend for each subsidiary has been disclosed in brief abstract forming part of the consolidated balance sheet.

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

16. Particulars of employees

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

17. Directors' responsibility statement

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

(i) In the preparation of the annual accounts for the financial year ended December 31, 2008, the applicable accounting standards had been followed along with proper explanation relating to material departures, wherever applicable;

(ii) The directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review;

(iii) The directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

(iv) The directors had prepared the annual accounts for the financial year ended December 31, 2008 on a going concern basis.

18. Auditors

M/s S. R. Batliboi & Associates, Chartered Accountants, the statutory auditors of R Systems hold office, in accordance with the provisions of the Companies Act, 1956, until the conclusion of the forthcoming Annual general Meeting and are eligible for reappointment. The Company has received letter from auditors to the effect that their appointment, if made, would be in accordance with Section 224 (1B) of the Companies Act, 1956 and that they are not disqualified for such reappointment within the meaning of Section 226 of the said Act.

Further, the auditors' report being self-explanatory, does not call for any further comments by the Board of Directors.

19. Audit committee

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

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

20. Details of utilisation of IPO proceeds

Pursuant to the Initial Public Offer, the Company collected Rs. 7,062.50 lakhs (net of selling shareholders' proceeds). For details of utilisation of IPO proceeds please refer note no. 19 under Schedule 18 in the standalone financial results for the financial year ended December 31, 2008.

21. Corporate Governance

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

Details of remuneration paid to the executive directors during the year ended December 31, 2008

(Amount in Rs.)

1.	Name of the Director	Mr. Satinder Singh Rekhi
(a)	Salary, benefits and allowances (fixed)	14,565,824
(b)	Retention bonus (fixed) #	890,000
(c)	Stock options granted	Nil
(d)	Pension	As per the applicable policy for employees
(e)	Service contract	5 years
(f)	Notice period	36 months
(g)	Severance fees	Compensation in lieu of notice
(h)	Shareholding in R Systems as on the date of this report	90,600 equity shares of Rs. 10 each in his own name & 1,921,718 equity shares of Rs.10 each as trustee of Satinder & Harpreet Rekhi Family Trust.

\# approved by the Central Government for the year 2006

(Amount in Rs.)

2.	Name of the Director	Mr. O'Neil Nalavadi
(a)	Salary, benefits and allowances (fixed)	8,834,906
(b)	Retention bonus (fixed) #	445,000
(c)	Perquisites (performance linked)*	1,011,042
(d)	Stock options granted	Nil
(e)	Pension	As per the applicable policy for employees
(f)	Service contract	3 years**
(g)	Notice period	As per contract
(h)	Severance fees	Compensation in lieu of notice
(i)	Shareholding in R Systems as on the date of this report	240,000 equity shares of Rs.10 each

\# approved by the Central Government for the year 2006

* Mr. O'Neil Nalavadi is entitled to a bonus for every successful acquisition completed by the Company or its subsidiary equal to 1% of the revenues of the previous twelve months of the target acquired subject to a maximum of US$ 25,000 (USD twenty five thousand only). Accordingly he was paid Rs. 1,011,042 (USD 25,000 @ Rs. 40.44) for acquisition of R Systems Europe B.V., The Netherlands (formerly Sento Europe B.V.) and R Systems S.A.S., France (formerly Sento S.A.S.).

** Reappointed by the Board w.e.f. January 01, 2009 for a term of three years subject to the approval of the shareholders, Central Government and other authorities, if required.

(Amount in Rs.)

3.	Name of the Director	Lt. Gen. Baldev Singh (Retd.)
(a)	Salary, benefits and allowances (fixed)	2,706,000
(b)	Retention bonus (fixed) #	2,233,334
(c)	Incentive (fixed)	1,500,000
(d)	Provident fund	144,000
(e)	Stock options granted	As detailed below*
(f)	Pension	As per the applicable policy for employees
(g)	Service contract	1 year and 3 months**
(h)	Notice period	As per contract
(i)	Severance fees	Compensation in lieu of notice
(j)	Shareholding in R Systems as on the date of this report	78,808 equity shares of Rs. 10 each

\# approved by the Central Government for the year 2006

* Lt. Gen. Baldev Singh (Retd.) was awarded with 27,700 stock options of Rs. 2 per share on September 01, 2004 under R Systems International Ltd. - Year 2004 Employee Stock Option Plan, exercisable at a price at par with other employees covered under the plan. The granted options shall vest over a period of 4 years in equal installments and vested options can be exercised over a period of 10 years from the date of grant. On January 30, 2006 R Systems had consolidated each of its 5 equity shares of Rs. 2 each into 1 equity share of Rs.10 each. Consequently the balance options also stand revised from Rs. 2 each to Rs.10 each. As on December 31, 2008, entire options

DIRECTORS' REPORT

granted (i.e. 5,540 stock options) were already vested. 50% of the total options granted (i.e. 2,770 stock options) was already exercised and balance 50% of the total options granted (i.e. 2,770 stock options) of Rs.10 each is in force.

** Reappointed by the Board w.e.f. April 01, 2009 for a term of three years subject to the approval of the shareholders, Central Government and other authorities, if required.

(Amount in Rs.)

4.	Name of the Director	Mr. Raj Swaminathan
(a)	Salary, benefits and allowances (fixed)	4,492,134
(b)	Incentive (fixed)	1,100,000
(c)	Provident fund	9,360
(d)	Stock options granted	As detailed below*
(e)	Pension	As per the applicable policy for employees
(f)	Service contract	3 years
(g)	Notice period	2 months
(h)	Severance fees	Compensation in lieu of notice
(i)	Shareholding in R Systems as on the date of this report	Nil

* 60,000 stock options have been granted to Mr. Raj Swaminathan under R Systems International Limited Employees Stock Option Scheme 2007 on July 11, 2007. These Options are exercisable at a price at par with other employees covered under the plan. The granted options shall vest over a period of 4 years in equal installments and vested options can be exercised over a period of 10 years from the date of grant. As on the date of this report out of the total options granted to him, 15,000 options are already vested but not exercised.

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

Details of remuneration paid to the non-executive directors during the year ended December 31, 2008

Non-executive directors are not entitled to any remuneration except the sitting fee for attending the directors' meetings. The sitting fee paid to the non-executive directors during the year ended December 31, 2008 is as follows:

S. No.	Name of the Director	Sitting fee paid (Rs.)
1.	Mr. Raj Kumar Gogia	105,000
2.	Mr. Suresh Paruthi	105,000
3.	Mr. David Richard Sanchez	Nil
4.	Mr. Gurbax Singh Bhasin	Nil
	Total	**210,000**

As on the date of this report none of the aforementioned non-executive independent directors except Mr. David Richard Sanchez holds any shares or options in R Systems.

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

22. Deposits

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

23. Customer and employee relations

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

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

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

24. Management discussion and analysis report

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

25. Acknowledgments

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

On behalf of the Board
For R Systems International Limited

Place : Singapore **Satinder Singh Rekhi**
Date : March 23, 2009 **(Chairman and Managing Director)**

Annexure to the Directors' Report

Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended December 31, 2008

Employed for full financial year

S. No.	Name	Designation / nature of duties	Qualification	Age (Years)	Date of Joining	Experience (Years)	Gross remuneration (Rs.)	Previous employment and designation
1	Ajit Srinivasan	Vice President	B.A.(Economics), M.A.(Economics), P.G.D.G.	45	December 18, 2000	19	3,061,583	GE Capital BPMSL Gurgaon, AVP Systems & Business System Integration Manager
2	Anand Jankiraman	Technical Architect	BS (Computer Science)	35	May 1, 2007*1	14	4,874,400	Trisoft Systems, Development Head
3	Ashok Bhatia	Sales Director- Govt. Solutions*6	BE, PGDM from SPCCM, Mumbai	42	January 1, 2006*1	18	11,471,817	ACT Inc., Pittsburgh, PA, Vice President - Marketing
4	Ashok Jagtap	Senior Vice President	B.Sc.(Maths), M.Sc.(Maths)	53	July 3, 1995	27	2,612,332	Krupp Industries, Pune, Senior Systems Executive
5	Avirag Jain	Executive Vice President and Chief Technology Officer	BSc, MBA specialization in Finance and International Marketing	43	October 1, 1997	21	3,271,940	Modi Olivitti Ltd. Project Manager
6	Charan Shiv Prasad	Market Research Analyst	MBA, (The University of findlay, Ohio), PGDMM, PGDSM, BBM	30	May 1, 2007*1	8	5,402,671	Jain Software Consulting, Illinois US, World Space India
7	Debraj Ganguly	Market Research Analyst	MBA – IIM Calcutta, B Tech – IIT Kharagpur	36	February 3, 2005	13	7,077,426	i Healthcare Services India Ltd. Vice President – Business Development,
8	Gurjinder Singh	AVP Sales	BA in English from Delhi University; PGDBM from Symbiosis, Pune; Advanced Diploma in IT and Software Exports from NIIT; Advanced Management Programme (YPP) from IIM Calcutta	36	January 1, 2008*2	14	3,459,010	Birlasoft, Manager Global Business Development covering (US, UK and Asia Pacific Markets)
9	Gurpreet Saini	Market Research Analyst	MBA – Nagpur University in Marketing and Finance	34	January 1, 2008*1	11	4,046,582	FCS Software Solution, Manager
10	Harsh Verma	VP Global Innovative Research	BE (Hons) in Electrical & Electronics Engineering, MS and PhD in Computer Science from BITS, Pilani, Executive Mgmt Prog from IIM, Ahmedabad, Post-Doctoral Res Prog, UC Berkeley.	49	February 19, 2007	25	6,072,422	Glocol, Inc., California, USA, VP-R&D and Director
11	Jeremy Dawson	Sales Manager	BS - Buisness Administration (Graduation)	37	January 1, 2008*1	14	6,467,529	DSA Inc - Manager
12	Judy K. Kilgore	Administrative Service Manager	Course in Business Management and Business Ethics from Secramento, California	56	January 1, 2008*1	19	2,843,161	RiceX Corporation
13	Lt. Gen. Baldev Singh (Retd.)	President & Senior Executive Director	Masters in Military Sciences, Madras University	68	September 1, 1997	43	6,583,334*3	Indian Army, Ministry of Defence, Lt. General
14	Mandeep Sodhi	Vice President - Sales	Bachelors degree in Electronics Engineering from Maharastra University and MBA from University of California Davis	42	January 1, 2008*1	17	15,930,938	Sark Synertek; Noida
15	Mukesh Bindal	Vice President – IT	BE in Computer Science	43	October 18, 2002	20	3,528,251	Newtron IT Labs, Vice President
16	Narendra Kr. Garg	Vice President – IT	BE in Computer Science & Technology from IIT, Roorkee and MTech in Automation and Computer Vision from IIT Kharagpur.	43	October 15, 1998	21	2,847,356	Defence Research and Development Organisation
17	O'Neil Nalavadi	Director Finance & Chief Financial Officer	Chartered Accountant; Bachelors of Commerce and Economics degree with First Class Honors from the University of Bombay	49	January 1, 2006*1	23	10,290,948*4	UBICS, Inc, Sr. VP, CFO and Director
18	Prashant Singh	Market Research Analyst	MBA (Drexel University, Philadelphia), MMS (Master of Management Science, DAW, Indore), BMS (Bachelor of Management Science, DAW, Indore).	32	May 1, 2007*1	8	5,142,382	AMC Theatres, New Jersey, USA, Manager
19	Raj Swaminathan	Director & Chief Operating Officer	MBA - XLRI	49	May 1, 2006	24	5,601,494	GE - Capital; Vice-President (Technology)
20	Ravi Madugala	Director- Information Systems*6	M.sc. in Computer Science, University of Dayton, Ohio	43	July 1, 2007*1	16	5,477,270	University of Dayton, Internship
21	Satinder Singh Rekhi	Chairman & Managing Director	Bachelor of Technology from IIT, Kharagpur; MBA from California State University, Sacramento; Senior management programs from University of Berkeley and Harvard Business School	58	January 1, 2006*1	26	15,455,824*5	Digital Information Systems Corporation Sr. Management personnel
22	Shankar Seetharaman	Senior Vice President	B.Com, Chartered Accountant	47	May 2, 2000	23	3,033,309	Skycell Communications Ltd, Chennai, GM - Revenue Assurance & Collections
23	Sidhartha Shankar Dubey	Vice President –BPO	Six sigma black belt from Indian Statistical Institute, M.A.	38	May 28, 2006	15	2,442,271	Patni Computer Systems
24	Supriyo Sanyal	Market Research Analyst	IIT, Kharagpur	43	August 8, 2005	21	7,317,655	ICICI OneSource USA, Vice President Marketing & Business Development
25	Thiru Dorai	VP- Strategic Solutions	Bachelors Degree in Engineering from University of Bangalore and post graduate diploma in Marketing & Sales Management as well as Electronic Commerce from Bangalore	47	January 1, 2006*1	24	6,114,524	HCL Delux Pvt. Ltd., Head- EPS Line of Business.
26	Vidya Sambasivam	Associate Vice President	B.E.(Computer), PMP	38	December 1, 2001	14	2,412,170	Value Software Technologies Pvt. Ltd, Consultant
27	Vikas Aggarwal	Associate Vice President	B.E.(Electronics & Telecommunication), P.G.D.B.A.	37	September 6, 2000	13	2,416,174	GE Capital TFS Ltd. New Delhi, National Operations Manager

DIRECTORS' REPORT

Employed for part of the year

S. No.	Name	Designation / nature of duties	Qualification	Age (Years)	Date of Joining	Experience (Years)	Gross remuneration (Rs.)	Previous employment and designation
1	Balamurugan Paramasivam	Associate Consultant	Master of Computer Applications	30	May 1, 2008	7	1,507,507	Wipro Technologies, Japan, System Engineer
2	Belin Raj	Country Manager, Japan	Bachelor of Engineering	40	February 1, 2008	16	4,126,426	Satyam Computer Services, Japan, Senior Manager
3	Kenneth J. Moris	Director Business Development*6	BSEE, MMS, MBA	48	April 2, 2007	25	4,415,098	Xoriant Corporation, Sunnyvale, California, Director Business Development
4	Rajiv Donde	Client Services-Director*6	Bachelors and a Masters degree in Economics, MBA with major in Finance and MIS	54	January 1, 2006*1	17	273,247	VantageMed Corp., CIO, Corporate HIPAA Oficer & Executive Team Manager.
5	Vijay Kumar G. Kale	Project Manager	BE (Computers)	37	January 8, 2007	11	1,196,413	Infosys Technologies Ltd., Project Manager

*1 Prior to joining R Systems International Limited these employees were working with R Systems, Inc., a wholly owned subsidiary of R Systems International Limited. The date of joining in the subsidiary, of these employees is given hereunder:

Name	Date of Joining
Anand Jankiraman	May 23, 2005
Ashok Bhatia	December 11, 2000
Charan Shiv Prasad	August 1, 2005
Gurpreet Saini	May 2, 2006
Jeremy Dawson	March 11, 2002
Judy K Kilgore	October 28, 2004
Mandeep Sodhi	April 1, 1993
O'Neil Nalavadi	January 17, 2000
Prashant Singh	July 5, 2005
Rajiv Donde	March 31, 2005
Ravi Madugula	February 16, 1996
Satinder Singh Rekhi	April 1, 1993
Thiru Dorai	July 6, 1999

*2 Prior to joining R Systems International Limited he was working with R Systems (Singapore) Pte. Ltd., a wholly owned subsidiary of R Systems International Limited. He joined the subsidiary on August 25, 2004.

*3 Includes an amount of Rs. 2,233,334 which was approved by the Central Government for the year 2006.

*4 Includes an amount of Rs. 445,000 which was approved by the Central Government for the year 2006.

*5 Includes an amount of Rs. 890,000 which was approved by the Central Government for the year 2006.

*6 Not a member of the Board of Directors of the company.

Notes:

1. The remuneration includes basic salary, allowances and taxable value of perquisites.
2. Mr. Satinder Singh Rekhi, Lt. Gen. Baldev Singh (Retd.) and Mr. Mandeep Sodhi are related to each other. None of the other employee is related to any director of the Company.
3. None of the employee owns more than 2% of the outstanding shares of the Company as on December 31, 2008.
4. Nature of employment is contractual in all the above cases.

On behalf of the Board
For R Systems International Limited
Satinder Singh Rekhi
(Chairman and Managing Director)

Place : Singapore
Date : March 23, 2009

CORPORATE GOVERNANCE

Report on Corporate Governance

1. Company's Philosophy on Corporate Governance

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

2. Board of Directors

(i) R Systems has an optimum combination of executive and non-executive directors on its Board. The board of directors of R Systems (the "Board") comprised of eight directors, i.e. the executive chairman, three executive directors and four non-executive independent directors. The Independent directors have been 50% of the total strength of the Board at all times during the year under review. None of the directors of R Systems is a director or a committee member or a chairperson of any other company in India. The names and categories of the directors on the Board and their attendance at the Board meetings held during the year under review are as follows:

Name of Director	Category of Director	Designation	No. of Board Meetings held during the year	No. of Board Meetings attended	Attendance at the last Annual General Meeting	No. of directorship in bodies corporate outside India
Mr. Satinder Singh Rekhi	Promoter & Executive Director	Chairman and Managing Director	6	1 + 5*	No	9
Mr. O'Neil Nalavadi	Executive Director	Director Finance and Chief Financial Officer	6	5*	Yes	1
Lt. Gen. Baldev Singh (Retd.)	Executive Director	President and Senior Executive Director	6	6	Yes	Nil
Mr. Raj Swaminathan	Executive Director	Director and Chief Operating Officer	6	3 + 3*	Yes	Nil
Mr. Raj Kumar Gogia	Non-Executive Independent Director	Director	6	6	Yes	Nil
Mr. David Richard Sanchez	Non-Executive Independent Director	Director	6	4*	No	3
Mr. Gurbax Singh Bhasin	Non-Executive Independent Director	Director	6	5*	Yes	9
Mr. Suresh Paruthi	Non-Executive Independent Director	Director	6	6	Yes	Nil

* Attendance by teleconference

The expression 'independent director' has the meaning as defined under Clause 49 of the Listing Agreement.

Appointment / Reappointment of Directors

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

A. Mr. O'Neil Nalavadi (Director Finance and Chief Financial Officer)

Mr. O'Neil Nalavadi aged about 49 years had joined R Systems Group as CFO in January 2000. Mr. Nalavadi brings with him over 23 years of experience in financial, accounting, mergers

CORPORATE GOVERNANCE

and acquisitions with both public and private companies. Prior to joining R Systems, Mr. Nalavadi was Senior Vice President, CFO and director of UBICS, Inc., a public company listed on NASDAQ. He also served in various management capacities for companies in the UB Group in the United Kingdom and India from 1984 to 1997, including public companies listed on London Stock Exchange. Mr. Nalavadi has successfully completed several mergers and acquisitions worldwide and has extensive experience in successfully integrating back office operations to deliver measurable benefits and enhance return on investment. Mr. Nalavadi is a Chartered Accountant and was awarded the Bachelors of Commerce and Economics degree with First Class Honors from the University of Bombay.

As on the date of this report

- Mr. O'Neil Nalavadi does not hold any office of director / member in other company's board / committee except the office of director on the board of R Systems NV, Belgium (a wholly owned subsidiary of R Systems).
- No stock options have been granted to him under the prevailing stock option plans of the Company.
- As on the date of this report, he holds 240,000 equity shares of Rs. 10 each being 1.84% of the total paid up share capital in R Systems.

B. Mr. Suresh Paruthi (Non-Executive Independent Director)

Mr. Suresh Paruthi aged about 58 years had completed his Bachelor of Technology (Hons.) from IIT, Kharagpur in 1972. He has also completed a certificate course in export marketing from the Indian Institute of Foreign Trade, New Delhi. He is having a wide experience of efficiently serving various multinationals; some of them are Siemens Limited, Bhartia Cutler Hammer Ltd. & Omron Asia Pacific Pte. Ltd.

As on the date of this report

- Mr. Suresh Paruthi does not hold any office of director / member in other company's board / committee.
- No stock options have been granted to him under the prevailing stock option plans of the Company.
- As on the date of this report he does not hold any shares in R Systems.

C. Mr. Raj Swaminathan (Director and Chief Operating Officer)

Mr. Raj Swaminathan aged about 49 years has over 24 years of experience in IT & Financial Services Industry. He has done his MBA from Xavier Labour Relations Institute, Jamshedpur after his Bachelor of Engineering from Bangalore University. Prior to joining R Systems, Raj has had a distinguished 11 years career at GE where he was Vice President and CIO at GE-Countrywide, India and part of the senior Global Consumer Finance corporate IT team. Earlier in his career, Raj also headed the IT function at Standard Chartered Bank for the consumer, corporate banking and treasury businesses.

As on the date of this report

- Mr. Raj Swaminathan does not hold any office of director / member in other company's board / committee.
- Mr. Raj Swaminathan was awarded with 60,000 stock options under R Systems International Limited Employees Stock Option Scheme 2007 on July 11, 2007. These options are exercisable at a price at par with other employees covered under the plan. The granted options shall vest over a period of 4 years in equal installments and vested options can be exercised over a period of 10 years from the date of grant. As on the date of this report out of the total options granted to him, 15,000 options are already vested but not exercised.
- As on the date of this report he does not hold any shares in R Systems.

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

Lt. Gen. Baldev Singh (Retd.) aged about 68 years has more than 42 years of experience, including handling top managerial, diplomatic and human resource development related assignments. Mr. Singh has a Masters in Military Sciences from the prestigious Madras University in India and attended two short courses at University of California at Berkeley, in Strategic Account Management and Marketing. He joined the Board of R Systems on September 01, 1997.

As on the date of this report

- Lt. Gen. Baldev Singh (Retd.) does not hold any office of director / member in other company's board / committee.
- Lt. Gen. Baldev Singh (Retd.) was awarded with 27,700 stock options of Rs. 2 per share on September 01, 2004 under R Systems International Ltd. - Year 2004 Employee Stock Option Plan, exercisable at a price at par with other employees covered under the plan. The granted options shall vest over a period of 4 years in equal installments and vested options can be exercised over a period of 10 years from the date of grant. On January 30, 2006 R Systems had consolidated each of its 5 equity shares of Rs. 2 each into 1 equity share of Rs. 10 each. Consequently the balance options also stand revised from Rs. 2 each to Rs. 10 each. As on December 31, 2008, entire options granted (i.e. 5,540 stock options) were already vested. 50% of the total options granted (i.e. 2,770 stock options) was already exercised and balance 50% of the total options granted (i.e. 2,770 stock options) of Rs. 10 each is in force.
- As on the date of this report, he holds 78,808 equity shares of Rs. 10 each being 0.60% of the total paid up share capital in R Systems.

CORPORATE GOVERNANCE

(ii) As per Listing Agreement, the Board must meet at least four times a year with a maximum gap of not more than four months between any two meetings. During the financial year 2008, the Board met six times on the following dates:

S. No.	Date of the Meeting
1.	February 24, 2008
2.	April 05, 2008
3.	April 25, 2008
4.	July 26, 2008
5.	September 07, 2008
6.	October 24, 2008

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

Code of Conduct

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

The Company has obtained the confirmation for the compliance with the said code from all its Board members and senior management personnel for the year ended December 31, 2008. A declaration to that effect given by the Chief Executive Officer of R Systems Mr. Satinder Singh Rekhi is given at the end of this report.

R Systems has formulated the following committees of its directors

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

3. Audit Committee

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

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

Composition of the Audit Committee as on December 31, 2008, its meetings and attendance during the year

Composition of the Audit Committee	Category of Director	Chairman/ Member	Total meetings during the year	Attendance at the meetings
Mr. Raj Kumar Gogia	Non-Executive Independent Director	Chairman	6	6
Mr. David Richard Sanchez	Non-Executive Independent Director	Member	6	3*
Mr. Gurbax Singh Bhasin	Non-Executive Independent Director	Member	6	1 + 4*
Mr. Suresh Paruthi	Non-Executive Independent Director	Member	6	6
Mr. O'Neil Nalavadi	Executive Director (Director Finance and Chief Financial Officer)	Member	6	5*

* Attendance by teleconference

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

Powers of the Audit Committee

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

Terms of reference of the Audit Committee

1. Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.
2. Recommending to the Board, the appointment, reappointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.

CORPORATE GOVERNANCE

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

4. Remuneration Committee

Brief description and terms of reference

The Remuneration Committee consists of only non-executive independent directors. Under its terms of reference, the Committee, evaluates and finalises among other things, compensation and benefits of R Systems executive directors. The Committee recommends / approves the remuneration package of executive directors to the Board after taking into consideration the financial position of the Company, the executive director's performance, qualifications and experience, comparable industry compensation packages, trend in the industry, past remuneration drawn and the proposed compensation package of the proposed appointee with a view to provide a package which is appropriate for the responsibilities involved.

Composition of the Remuneration Committee as on December 31, 2008, its meetings and attendance during the year

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

* Attendance by teleconference

Remuneration policy

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

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

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Details of remuneration paid to the executive directors during the year ended December 31, 2008

(Amount in Rs.)

1.	Name of the Director	Mr. Satinder Singh Rekhi
(a)	Salary, benefits and allowances (fixed)	14,565,824
(b)	Retention bonus (fixed) #	890,000
(c)	Stock options granted	Nil
(d)	Pension	As per the applicable policy for employees
(e)	Service contract	5 years
(f)	Notice period	36 months
(g)	Severance fees	Compensation in lieu of notice
(h)	Shareholding in R Systems as on the date of this report	90,600 equity shares of Rs. 10 each in his own name & 1,921,718 equity shares of Rs. 10 each as trustee of Satinder & Harpreet Rekhi Family Trust.

approved by the Central Government for the year 2006

(Amount in Rs.)

2.	Name of the Director	Mr. O'Neil Nalavadi
(a)	Salary, benefits and allowances (fixed)	8,834,906
(b)	Retention bonus (fixed) #	445,000
(c)	Perquisites (performance linked)*	1,011,042
(d)	Stock options granted	Nil
(e)	Pension	As per the applicable policy for employees
(f)	Service contract	3 years**
(g)	Notice period	As per contract
(h)	Severance fees	Compensation in lieu of notice
(i)	Shareholding in R Systems as on the date of this report	240,000 equity shares of Rs. 10 each

approved by the Central Government for the year 2006

* Mr. O'Neil Nalavadi is entitled to a bonus for every successful acquisition completed by the Company or its subsidiary equal to 1% of the revenues of the previous twelve months of the target acquired subject to a maximum of US$ 25,000 (USD twenty five thousand only). Accordingly he was paid Rs. 1,011,042 (USD 25,000 @ Rs. 40.44) for acquisition of R Systems Europe B.V., The Netherlands (formerly Sento Europe B.V.) and R Systems S.A.S., France (formerly Sento S.A.S.).

** Reappointed by the Board w.e.f. January 01, 2009 for a term of three years subject to the approval of the shareholders, Central Government and other authorities, if required.

(Amount in Rs.)

3.	Name of the Director	Lt. Gen. Baldev Singh (Retd.)
(a)	Salary, benefits and allowances (fixed)	2,706,000
(b)	Retention bonus (fixed) #	2,233,334
(c)	Incentive (fixed)	1,500,000
(d)	Provident fund	144,000
(e)	Stock options granted	As detailed below*
(f)	Pension	As per the applicable policy for employees
(g)	Service contract	1 year and 3 months**
(h)	Notice period	As per contract
(i)	Severance fees	Compensation in lieu of notice
(j)	Shareholding in R Systems as on the date of this report	78,808 equity shares of Rs. 10 each

approved by the Central Government for the year 2006

* Lt. Gen. Baldev Singh (Retd.) was awarded with 27,700 stock options of Rs. 2 per share on September 01, 2004 under R Systems International Ltd. - Year 2004 Employee Stock Option Plan, exercisable at a price at par with other employees covered under the plan. The granted options shall vest over a period of 4 years in equal installments and vested options can be exercised over a period of 10 years from the date of grant. On January 30, 2006 R Systems had consolidated each of its 5 equity shares of Rs. 2 each into 1 equity share of Rs. 10 each. Consequently the balance options also stand revised from Rs. 2 each to Rs. 10 each. As on December 31, 2008, entire options granted (i.e. 5,540 stock options) were already vested. 50% of the total options granted (i.e. 2,770 stock options) was already exercised and balance 50% of the total options granted (i.e. 2,770 stock options) of Rs. 10 each is in force.

** Reappointed by the Board w.e.f. April 01, 2009 for a term of three years subject to the approval of the shareholders, Central Government and other authorities, if required.

(Amount in Rs.)

4.	Name of the Director	Mr. Raj Swaminathan
(a)	Salary, benefits and allowances (fixed)	4,492,134
(b)	Incentive (fixed)	1,100,000
(c)	Provident fund	9,360
(d)	Stock options granted	As detailed below*
(e)	Pension	As per the applicable policy for employees
(f)	Service contract	3 years
(g)	Notice period	2 months
(h)	Severance fees	Compensation in lieu of notice
(i)	Shareholding in R Systems as on the date of this report	Nil

* 60,000 stock options have been granted to Mr. Raj Swaminathan under R Systems International Limited Employees Stock Option Scheme 2007 on July 11, 2007. These Options are exercisable at a price at par with other employees covered under the plan. The granted options shall vest over a period of 4 years in equal installments and vested options can be exercised over a period of 10 years from the date of grant. As on the date of this report out of the total options granted to him, 15,000 options are already vested but not exercised.

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

Details of remuneration paid to the non-executive directors during the year ended December 31, 2008

Non-executive directors are not entitled to any remuneration except the sitting fee for attending the directors' meetings. The sitting fee paid to the non-executive directors during the year ended December 31, 2008 is as follows:

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S. No.	Name of the Director	Sitting fee paid (Rs.)
1.	Mr. Raj Kumar Gogia	105,000
2.	Mr. Suresh Paruthi	105,000
3.	Mr. David Richard Sanchez	Nil
4.	Mr. Gurbax Singh Bhasin	Nil
	Total	**210,000**

As on the date of this report none of the aforementioned non-executive independent directors except Mr. David Richard Sanchez holds any shares or options in R Systems.

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

5. **Compensation Committee**

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

Composition of the Compensation Committee as on December 31, 2008, its meetings and attendance during the year

Composition of the Compensation Committee	Category of Director	Total meetings during the year	Attendance at the meetings
Mr. Raj Kumar Gogia	Non-Executive Independent Director	1	1
Mr. David Richard Sanchez	Non-Executive Independent Director	1	1*
Mr. Suresh Paruthi	Non-Executive Independent Director	1	1
Lt. Gen. Baldev Singh (Retd.)	Executive Director (President and Senior Executive Director)	1	1

* Attendance by teleconference

6. **Shareholders / Investors Grievance Committee**

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

Composition of the Shareholders / Investors Grievance Committee as on December 31, 2008, its meetings and attendance during the year

Composition of the Shareholders / Investors Grievance Committee	Category of Director	Chairman / Member	Total meetings during the year	Attendance at the meetings
Mr. Raj Kumar Gogia	Non-Executive Independent Director	Chairman	25	25
Mr. Suresh Paruthi	Non-Executive Independent Director	Member	25	25
Mr. Satinder Singh Rekhi	Executive Director (Chairman and Managing Director)	Member	25	25*
Lt. Gen. Baldev Singh (Retd.)	Executive Director (President and Senior Executive Director)	Member	25	22 + 3*

* Attendance by teleconference

(i)	Name and designation of compliance officer	Mr. Nand Sardana Company Secretary and Compliance Officer
(ii)	Number of shareholders' complaints received during the year ended December 31, 2008	37
(iii)	Number of complaints not resolved to the satisfaction of shareholders	Nil
(iv)	Number of pending complaints	Nil

7. **Share Transfers in Physical Mode**

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

CORPORATE GOVERNANCE

8. General Body Meetings

I. Details for the last three Annual General Meetings ("AGM")

1. The twelfth AGM for the financial year 2005 was held on Monday, April 17, 2006 at 11.30 A.M. at the Registered Office of the Company at B - 104A, Greater Kailash - I, New Delhi - 110 048. Following special resolutions were passed at the said meeting:

- Appointment of Mr. Avirag Jain as alternate director to Mr. O'Neil Nalavadi.
- Appointment and remuneration of Mr. Satinder Singh Rekhi as Chairman and Managing Director of the Company.
- Appointment and remuneration of Mr. O'Neil Nalavadi as Director Finance of the Company.
- Appointment and remuneration of Lt. Gen. Baldev Singh (Retd.) as President and Senior Executive Director of the Company.

2. The thirteenth AGM for the financial year 2006 was held on Tuesday, May 01, 2007 at 09.30 A.M. at Air Force Auditorium, Subroto Park, New Delhi - 110 010. Following special resolutions were passed at the said meeting:

- Appointment and remuneration of Mr. Raj Swaminathan as the Director and Chief Operating Officer of the Company.
- Modification of the terms of employment of Mr. O'Neil Nalavadi, Director Finance and Chief Financial Officer of the Company.
- Approval for the enhanced sitting fee payable to the non-executive directors for attending the Board and/or Committee Meetings.
- Appointment and remuneration of Mr. Sartaj Singh Rekhi as the Executive Manager of R Systems, Inc. wholly owned subsidiary of R Systems International Limited.
- Adoption and approval of R Systems International Limited Employees Stock Option Scheme 2007.
- Extension of benefits under R Systems International Limited Employees Stock Option Scheme 2007 to the employees of R Systems subsidiaries.
- Redistribution of the funds requirement as stated in the Prospectus.
- Temporarily investment of surplus funds in fixed / term deposits with Scheduled Banks in addition to Nationalized Banks.

3. The fourteenth AGM for the financial year 2007 was held on Friday, May 02, 2008 at 10.00 A.M. at FICCI Auditorium, Tansen Marg, New Delhi - 110 001. Following special resolutions were passed at the said meeting:

- Reappointment and payment of remuneration to Lt. Gen. Baldev Singh (Retd.) as President and Senior Executive Director of the Company.
- Reconfirmation of the remuneration payable to Mr. Raj Swaminathan for the remaining term of his present appointment as Director and Chief Operating Officer of R Systems.
- Modification in the terms of employment and approval for increase in remuneration payable to Mr. Satinder Singh Rekhi as Chairman and Managing Director of the Company.
- Reappointment and remuneration of Mr. Sartaj Singh Rekhi as the Executive Manager, R Systems, Inc. (wholly owned subsidiary of R Systems International Limited).
- Reallocation of the funds requirement as stated in the prospectus and subsequently revised.

II. Details for the last three Extra Ordinary General Meetings ("EGM")

1. At the EGM held on Wednesday, January 25, 2006 at 11.30 A.M., at the Corporate Office of the Company at C - 40, Sector - 59, Noida - 201 307, following special resolutions were passed:

- Increase in annual bonus limits of Lt. Gen. Baldev Singh (Retd.) as the Managing Director of the Company.
- Appointment of Mr. Satinder Singh Rekhi as the Chairman and Managing Director of the Company.
- Appointment of Mr. O'Neil Nalavadi as the Director Finance of the Company.
- Appointment of Lt. Gen. Baldev Singh (Retd.) as President and Senior Executive Director of the Company.
- Appointment of Mr. Avirag Jain as alternate director to Mr. O'Neil Nalavadi.
- Conversion of warrants held by Intel and GE into equity shares of the Company.
- Increase in the authorised share capital from Rs. 10 Crores to Rs. 20 Crores and thereafter consolidation of 5 equity shares of Rs. 2 each into 1 equity share of Rs. 10 each of R Systems.
- Approval for issue of bonus shares in the ratio of 1:1.
- Approval for alteration in the Articles of Association of the Company.
- Approval for making an initial public offer by the Company.

2. At the EGM held on Monday, July 11, 2005 at 11.30 A.M. at the Registered Office of the Company at B - 104A, Greater Kailash - I, New Delhi - 110 048, following special resolution was passed:

- Approval for reduction of securities premium account.

3. At the EGM held on Monday, August 23, 2004 at 11.30 A.M. at the Registered Office of the Company at B - 104A, Greater Kailash - I, New Delhi - 110 048, no special resolution was passed.

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III. The special resolutions moved at the last AGM were passed on a show of hands by the shareholders present at the meeting and no resolution was put to vote by postal ballot.

IV. No special resolution is proposed to be conducted through Postal Ballot.

V. A procedure for postal ballot shall be as laid down in Companies (Passing of the Resolutions by Postal Ballot) Rules, 2001.

9. Disclosures

Related Party Transactions

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

Details on materially significant related party transactions are shown in note no. 4 under Schedule 18 in the standalone and in note no. 4 under Schedule 19 in the consolidated financial results for the financial year ended December 31, 2008.

Statutory Compliance, Penalties and Strictures

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

Whistle Blower Policy

R Systems has in place a mechanism for employees to report concerns about unethical behaviors, actual or suspected fraud, violation of code of conduct of the Company etc. The mechanism also provides for adequate safeguards against victimization of employees who avail of the mechanism and also provides for direct access to the Whistle Blower to the Chairman of the Audit Committee. We affirm that during the financial year ended December 31, 2008, no employee has been denied access to the Audit Committee.

Risk Management Policy

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

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

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

Remuneration Committee

The Company has a Remuneration Committee consisting of only non-executive independent directors. The Chairman of the Remuneration Committee had attended the Annual General Meeting held on May 02, 2008 to answer the shareholder queries. A detailed note on the Remuneration Committee is provided elsewhere in this report.

Whistle Blower Policy

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

10. Means of Communication

Quarterly results

a) The quarterly and full year audited and unaudited results have been published in Business Standard (English and Hindi), The Financial Express and Jansatta as statutorily required during the year ended December 31, 2008.

b) The financial results and other corporate information are displayed on R Systems website www.rsystems.com. The website also displays official news releases.

c) The presentation made to institutional investors or to the industry analysts is also put on the website of the Company.

11. General Shareholder Information

i) Annual General Meeting

Date and Time	:	April 27, 2009, at 09.00 A.M.
Venue	:	MPCU Shah Auditorium, Shree Delhi Gujarati Samaj Marg, 2, Raj Niwas Marg, Civil Lines, Delhi - 110 054

ii) Financial year

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

iii) Date of Book Closure

April 18, 2009 to April 27, 2009 (both days inclusive)

iv) Dividend Payment Date

Within 30 days from the date of Annual General Meeting

v) Listing on Stock Exchanges

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

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

The annual listing fee for the year 2008 - 09 has been paid within the scheduled time to NSE and BSE. The annual listing fee for the year 2009 - 10 will fall due on March 31, 2009 and will be paid within the scheduled time as prescribed under the provisions of Listing Agreement.

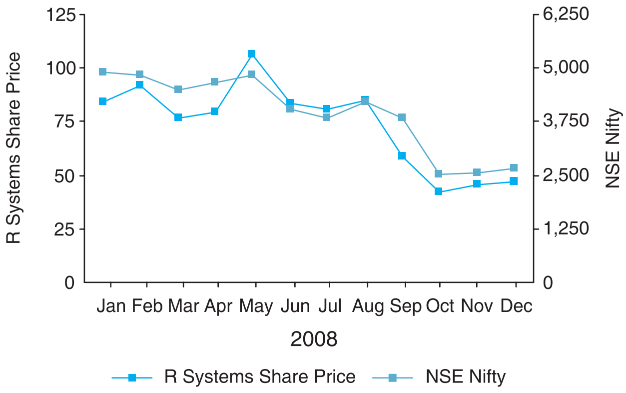
vi) Market Price Data: High, Low during each month in last financial year

The monthly high and low quotations of R Systems equity shares traded on NSE and BSE during each month in the previous financial year ended December 31, 2008 in comparison with NSE Nifty and BSE Sensex are as follows:

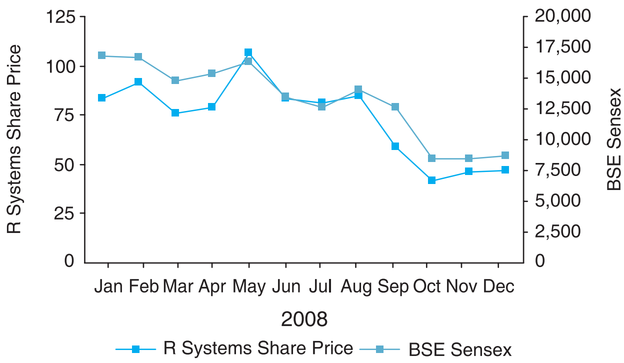
Month 2008	NSE				BSE			
	Share Price		Nifty		Share Price		Sensex	
	High (Rs.)	Low (Rs.)	High	Low	High (Rs.)	Low (Rs.)	High	Low
Jan	129.60	84.20	6,287.85	4,899.30	130.50	83.55	20,873.33	16,729.94
Feb	108.85	91.90	5,483.90	4,838.25	108.10	91.50	18,663.16	16,608.01
Mar	98.60	76.40	4,953.00	4,503.10	98.70	76.25	16,677.88	14,809.49
Apr	112.85	79.25	5,195.50	4,647.00	113.10	79.15	17,378.46	15,343.12
May	116.45	106.50	5,228.20	4,835.30	116.15	106.10	17,600.12	16,275.59
Jun	109.80	83.25	4,739.60	4,040.55	109.00	83.40	16,063.18	13,461.60
Jul	91.85	80.95	4,476.80	3,816.70	91.90	81.15	14,942.28	12,575.80
Aug	94.05	85.20	4,620.40	4,214.00	93.45	84.85	15,503.92	14,048.34
Sep	94.00	58.95	4,504.00	3,850.05	93.70	58.65	15,049.86	12,595.75
Oct	58.40	42.25	3,950.75	2,524.20	58.60	41.50	13,055.67	8,509.56
Nov	48.90	45.50	3,148.25	2,553.15	48.45	45.80	10,631.12	8,451.01
Dec	51.55	47.10	3,077.50	2,656.45	51.30	46.75	10,099.91	8,739.24

The aforesaid table is based on the closing price of the shares of R Systems and closing of NSE Nifty and BSE Sensex at NSE and BSE website.

CORPORATE GOVERNANCE



The aforesaid chart is based on the monthly low of closing price of the shares of R Systems and monthly low of closing NSE Nifty.



The aforesaid chart is based on the monthly low of closing price of the shares of R Systems and monthly low of closing BSE Sensex.

vii) Registrar and Share Transfer Agent

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

viii)Share Transfer System

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

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

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

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

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

Date of declaration/ payment of dividend	Dividend for the year	Due date for transfer to IEPF
May 01, 2007	2006	May 31, 2014
May 02, 2008	2007	June 01, 2015

x) Distribution of Shareholding as on December 31, 2008

Shareholding of nominal value of (Rs.)	Shareholders		Share Capital	
	Number	% to total	Amount in Rs.	% to total
1 - 2,500	21,351	91.150	13,948,870	10.371
2,501 - 5,000	1,142	4.875	4,400,680	3.272
5,001 - 10,000	521	2.224	4,045,360	3.008
10,001 - 20,000	214	0.914	3,193,330	2.374
20,001 - 30,000	48	0.205	1,204,230	0.895
30,001 - 40,000	31	0.132	1,133,790	0.843
40,001 - 50,000	24	0.102	1,138,020	0.846
50,001 - 1,00,000	40	0.171	2,918,100	2.170
Above 1,00,000	53	0.226	102,517,980	76.221
TOTAL	**23,424**	**100.000**	**134,500,360**	**100.000**

Please also refer the note given in point number (xi) below.

CORPORATE GOVERNANCE

xi) Category wise Shareholding as on December 31, 2008

Category	Category of Shareholder	No. of shares	Percentage
(A)	**Promoters & Promoter Group**		
1	Indian	1,998,345	14.86
2	Foreign	3,743,948	27.84
	Sub Total (A)	**5,742,293**	**42.69**
(B)	**Public Shareholding**		
1	**Institutions**		
(a)	Mutual Funds / UTI	716,020	5.32
(b)	Financial Institutions / Banks	-	0.00
(c)	Foreign Institutional Investors	-	0.00
	Sub Total (B)(1)	**716,020**	**5.32**
2	**Non-institutions**		
(a)	Bodies Corporate #	2,017,397	15.00
(b)	Individual shareholders holding nominal share capital up to Rs. 1 lakh	2,879,243	21.41
(c)	Individual shareholders holding nominal share capital in excess of Rs. 1 lakh	2,010,710	14.95
(d)	Any Other **(Clearing Member)**	9,150	0.07
(e)	Any Other **(Trust)**	75,223	0.56
	Sub-Total (B)(2)	**6,991,723**	**51.98**
	Total Public Shareholding (B)(1) + (B)(2)	**7,707,743**	**57.31**
	Grand Total	**13,450,036**	**100.00**

Includes 300 shares held by R Systems International Limited under the Offer for Buy Back pursuant to the Public Announcement dated October 15, 2008.

The issued and paid up share capital as on December 31, 2007 was Rs. 135,827,060 divided into 13,582,706 equity shares of Rs. 10 each and as on December 31, 2008 was Rs. 134,500,360 divided into 13,450,036 equity shares of Rs. 10 each.

During the year ended December 31, 2008, the Company had bought back and extinguished 132,670 equity shares of Rs. 10 each pursuant to the Offer for Buy Back as per the Public Announcement dated October 15, 2008. In addition the Company also purchased 13,676 equity shares of Rs. 10 each on or before December 31, 2008, the delivery of which was received subsequent to December 31, 2008 and were extinguished on January 06, 2009.

xii) Dematerialisation of shares and liquidity

About 58.98% of the shares were in dematerialised form as on December 31, 2008. The equity shares of the Company are traded on NSE and BSE.

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

R Systems has not issued any GDRs / ADRs. There were no outstanding convertible warrants as on December 31, 2008 except stock options granted under the prevailing employees stock option plans as detailed elsewhere in the directors' report.

xiv) Development Centres

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

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

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

(c) 4th Floor, Suma Centre,
Opp Himali Society, Erandwane, Pune 411 004.

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

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

4. R Systems, Inc., U.S.A.
5000, Windplay Drive, Suite 5, EL Dorado Hills, CA 95762, U.S.A.

5. R Systems Solutions, Inc. U.S.A.
Metro Annex Building 9, Suite B, 1193 West 2400 South,
West Valley City, UT 84119

6. ECnet Limited, Singapore
17, Changi Business Park Central 1,
#05-01, Singapore 486073

7. R Systems Europe B.V., The Netherlands
Brammelerstraat 8, 7511 JG Enschede, The Netherlands
(Became the wholly owned subsidiary w.e.f. January 23, 2008)

8. R Systems S.A.S., France
9, rue Thomas Edison, 57070 Metz, France
(Became the wholly owned subsidiary w.e.f. January 23, 2008)

Other Offices of R Systems and its subsidiaries

9. U.S.A. Branch Office
5000, Windplay Drive, Suite 5
EL Dorado Hills, CA 95762, U.S.A.

10. EU Branch Office
Brammelerstraat 8, 7511 JG Enschede, The Netherlands

CORPORATE GOVERNANCE

11. Japan Branch Office
    Chiyoda Platform Square 3 - 21, Kanda, Nishikicho,
    Chiyoda - Ku, Tokyo 101 - 0054

12. U.K. Branch Office
    75, Westow Hill, London, SE 19 1 TX, UK

13. R Systems NV, Belgium
    Diestseweg 32 C, B - 2440, Geel, Belgium

14. Indus Software, Inc.
    5000, Windplay Drive, Suite 5
    EL Dorado Hills, CA 95762, U.S.A.

15. R Systems (Singapore) Pte. Limited
    17, Changi Business Park Central 1,
    #05-01, Singapore 486073

16. ECnet (M) SDN. BHD, Malaysia
    Level 12, Suite 12.05 Menara Summit,
    Persiaran Kewajipan, USJ1, 47600 UEP Subang Jaya,
    Selangor Darul Ehsan, Malaysia

17. ECnet Systems (Thailand) Co. Limited, Thailand
    2/3 Moo 14, Bangna Tower - A, 2nd Floor,
    Room No. 205 Bangna - Trad Rd. K.M. 6.5, Bangkaew,
    Bangplee, Samutprakarn, Thailand - 10540

18. ECnet (Shanghai) Co. Ltd., People's Republic of China
    Rm H, 20th Floor, Foresight Mansion, No. 768,
    Xie Tu Rd, Shanghai 200023,
    People's Republic of China

19. ECnet, Inc., U.S.A.
    Corporation Trust Center 1209 Orange Street,
    Wilmington, New Castle, DE 19801, U.S.A.

20. ECnet (Hong Kong) Limited, Hong Kong
    Room 1903, 19/F, World-Wide House,
    19 Des Voeux Road Central, Hong Kong

21. ECnet Kabushiki Kaisha, Japan
    1-6-17 Godo Build. 6 F, Kaji-cho, Chiyoda-ku,
    Tokyo Japan 101-0044

xv) Address for correspondence

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

Registrar and Share Transfer Agent

M/s Link Intime India Private Limited
A - 40, 2nd Floor,
Naraina Industrial Area, Phase - II,
Near Batra Banquet Hall, New Delhi - 110 028
Tele : 011 - 414 10592 - 94, Fax : 011 - 414 10591

For general correspondence:

R Systems International Limited
Corporate Office
C - 40, Sector - 59, Noida (U.P.) - 201 307
Email : investors@india.rsystems.com
Tele : 0120 - 430 3500, Fax : 0120 - 258 7123

CODE OF CONDUCT DECLARATION

I, Satinder Singh Rekhi, Chief Executive Officer of R Systems International Limited, to the best of my knowledge and belief, hereby declare that all Board members and senior management personnel have affirmed compliance with the Company's Code of Conduct for the year ended December 31, 2008.

Place : NOIDA
Date : February 12, 2009

Satinder Singh Rekhi
(Chief Executive Officer)

CORPORATE GOVERNANCE

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

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

a. We have reviewed the financial statements and the cash flow statement of the Company for the year ended December 31, 2008 and that to the best of our knowledge and belief:

   i. these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;

   ii. these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

b. There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or violative of the Company's Code of Conduct.

c. We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or proposed to take to rectify these deficiencies.

d. We have indicated wherever applicable, to the auditors and to the Audit Committee

   i) significant changes in internal control over financial reporting during the year;

   ii) significant changes in accounting policies during the year, if any and that the same have been disclosed in the notes to the financial statements; and

   iii) instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system over financial reporting.

Satinder Singh Rekhi (Chief Executive Officer)	O'Neil Nalavadi (Chief Financial Officer)
Place: NOIDA Date : February 12, 2009	Place : EDH, CA, U.S.A. Date : February 12, 2009

CERTIFICATE ON CORPORATE GOVERNANCE COMPLIANCE

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

We have examined the compliance of conditions of Corporate Governance by R Systems International Limited (the "Company"), for the year ended December 31, 2008, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

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

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

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

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

For SKP & Co.,
Company Secretaries

(CS. Sundeep K. Parashar)
Prop.
M. No. 18715
C.P. No. 6575
Date : March 23, 2009
Place : Delhi

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

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

A. Industry Structure and Developments

Based on the NASSCOM's report "Strategic Review 2009", the year 2008 was a transformational year for the Indian Information Technology-Business Process Outsourcing (IT-BPO) sector. The industry was confronted with the challenges presented by meltdown of financial markets, failure of banks, steep fall in GDP in major economies in Q4, volatility in exchange rates and commodity prices among other negative sentiments.

Worldwide sourcing trends in 2008

Worldwide technology products and related services spend is estimated to cross USD 1.6 trillion in 2008, a growth of 5.6 per cent over 2007. IT-BPO services (including software products) touched USD 967 billion, an above average growth of 6.3 per cent in 2008, underscoring its increasing importance.

Worldwide BPO spending in 2008 grew by 12 per cent, which was the highest among all the segments. The growth in BPO is driven by companies trying to engage more with their customers and rely on third party outsourcers to handle business processes. As a result BPO today is an integral part of the global delivery chain and is increasingly involved in managing mission critical processes for its clients.

With global corporations demanding global foot print from their service provider's offshore IT-BPO service providers continued to expand globally with multi-shore delivery capabilities and broader service offering. The expansion was pursued both organically and in organically.

While the global sourcing market size has increased threefold in the period 2004-2008, the addressable market is more than five times the current market size, signifying the immense opportunity for the industry.

The Performance of the Indian IT-BPO Industry

The Indian IT-BPO industry is estimated to achieve revenues of USD 71.7 billion in FY2009, with the IT software and services industry accounting for USD 60 billion of revenues. During this period, direct employment is expected to reach nearly 2.23 million, an addition of 226,000 employees, while indirect employment is estimated to touch 8 million.

The export revenues are estimated to gross USD 47.3 billion in FY2009, accounting for 66 per cent of the total IT-BPO industry revenues. Cross currency movement during the year, led by the strengthening (and high volatility) of the US dollar versus some of the major invoicing currencies (Euro, Pound), suppressed volume growth in the European market by about 2.2 per cent at an industry level.

Exports by geography: While the US with a 60 per cent share remains the largest export market for Indian IT-BPO services, incremental growth is being driven by the European market, with UK and Continental Europe growing by a compound annual growth rate of 41.4 per cent and 51.4 per cent in the period FY2004- 2008.

Exports by vertical market: The industry's vertical market mix is well balanced across several mature and emerging sectors. While the Banking, Financial Services and Insurance segment ("BFSI") remains the biggest sector with over 41 per cent of total revenues, verticals like Hi-tech /Telecom, Manufacturing and Retail are increasingly gaining share.

Exports by service-segment: The IT Services segment aggregated export revenues of USD 26.9 billion, accounting for 57 per cent of total exports. Indian IT service providers have evolved from application development and maintenance companies, to full service players providing testing services, infrastructure services, consulting and system integration. Within these segments, it was IT outsourcing that exhibited strong growth, in line with global trends. BPO is the fastest growing segment of the industry and is estimated to reach USD 12.8 billion in FY2009, growing at 17.5 per cent. Additionally, the engineering, R&D, and software products segment is also expected to grow by 14.4 per cent in the current fiscal, to touch USD 7.3 billion, which highlights the strong impetus and renewed focus on improving IP driven service capabilities in India.

B. Company Overview

R Systems International Limited (the "Company") and its subsidiaries (collectively referred to as "R Systems") is one of the leading provider of outsourced product development and customer support services. R Systems diversified offering includes:

iPLM Services Group

R Systems help companies accelerate the speed to market for their products and services with a high degree of time and cost

MANAGEMENT'S DISCUSSION AND ANALYSIS

predictability by using our proprietary pSuite framework. Clients can choose services specific to their needs from R Systems' **iPLM** suite of services. R Systems help companies build scalable, configurable and secure products and applications; and help its clients to support their customers worldwide for products and services using our global delivery model in 18 languages. R Systems competitive advantage in product development and support is further enhanced by its global delivery capabilities, multi-language support capabilities and agile development methodologies supported by R Systems' proprietary PSuite Framework.

Products Group

indus® lending solutions is a modular and parameter driven, n-tier application that helps automate the Customer Acquisition Lifecycle for multiple retail products offered through multiple business channels. It allows customers to launch new products and schemes; change rules on-the-fly and customise product offerings based on their individual needs. The product is equipped with tools to evaluate risk and improve decision-making. It will track the repayment schedules of the customer and can come with a powerful customer-servicing module. During the year 2008, we have implemented our product for one of the largest telecom company in India. R Systems has over 30 referable clients that includes world class banks and financial institutions.

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

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

C. Opportunities and Threats

Key global sourcing drivers will continue to be cost optimisation, access to talent, business improvements, efficiency, increasing speed-to-market and access to emerging markets. The future outlook for all these drivers is positive, leading to increased momentum for global sourcing. The global economic recession is expected to increase the focus on cost reduction by businesses. There may be some threats to this development if some countries try to pursue protectionism to preserve local jobs.

R Systems is well positioned to leverage the following factors which are key to its differentiated strategy for growth in the marketplace:-

- +125 world class clients including global 1000 companies;
- Over 20 million people hours of experience in product development, technical support and customer care;
- Global delivering capabilities through eight development and service centres in India, USA, Singapore, Netherlands and France to provide technical support and customer care in 18 languages;
- In consumer finance, our solution enables over 30 global banks and financial institutions to originate and manage the entire range of consumer finance portfolio;
- In supply chain, our hosted solution enables over 25 global companies including reputed electronics giants to execute supply chain transactions on 24*7 basis to handle over $1 billion transactions per month.

Despite the strengths of R Systems, the market is competitive and the Company has to reckon with threats from competitors including their disruptive tactics, intense demand for global talent, attrition of employees, adverse changes in foreign currency rates and economic cycles. R Systems is cognizant of risks and uncertainties which are managed proactively through risk mitigation processes and strategies.

D. Segment-wise and Product-wise Performance

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

E. Performance and Outlook

During the year ended 2008, R Systems earned record consolidated revenues of Rs. 35,939.23 lakhs (a growth of 45.47%) over FY 2007. Net consolidated profits increased to Rs. 2,796.64 lakhs a year-on-year growth of 47.41%. The basic earnings increased to Rs. 20.61 per share, up 47.53% from the previous year's Rs. 13.97 per share. The record revenue growth and margin improvement under adverse economic environment is a result of successful execution of organic and in-organic growth strategies, managing operations efficiently, a relentless focus on understanding customer needs and exceeding their expectations and managing treasury and financial risks.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The silver lining of the global economic downturn is the opportunity for the industry to evolve and emerge stronger. While external opportunities will emerge from companies trying to outsource to reduce cost structure and merge systems, global corporations merging the service providers will have to position themselves to take advantage of these opportunities and look inwards to manage processes and talent efficiently.

R Systems is well positioned to deal with near term challenges and emerge stronger to enhance shareholder wealth through its deep domain knowledge in multiple areas, proven global delivery model, rigorous execution, and excellent roster of clients and highly driven and talented pool of employees.

F. Risk and Concerns

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

G. Internal Control Systems and Their Adequacy

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

Further, R Systems has taken the initiative to have critical non financial areas such as security infrastructure, quality models, development processes and delivery models reviewed and certified by independent organizations. R Systems has continued its investment in organization behavior and management processes to ensure that these certified industry standards are continually adhered to. As on the date of this report, Noida IT centre is ISO 9001 : 2000, SEI-CMMi level 5, ISO 27001 : 2005 and PCMM Level 3 certified; Noida BPO centre is ISO 9001 : 2000, ISO 27001 : 2005 and PCMM Level 3 certified. Pune and Chennai development centres are SEI-CMM Level 5, ISO 9001 : 2000 and ISO 27001 : 2005 certified.

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

H. Material Development in Human Resources / Industrial Relations Front, Including Number of People Employed.

Our employees are our most precious assets and we value their commitment in building R Systems. In the IT and ITES industry attracting, developing, deploying and retaining talent is critical and R Systems has defined and implemented a People Management Initiative which is in line with industry best practices and People CMM. It effectively manages the Employee Life Cycle so that individuals are committed, have pride and show pro-activeness on the job.

Our global development and service centre in Noida is awarded with PCMM Level 3 certification by KPMG during the year 2008. With the certification R Systems joins an elite group of PCMM certified companies across the globe.

Further, R Systems has been ranked 5th in 'Exciting Emerging Companies to work for' Survey 2008 by NASSCOM. It reflects our commitment and efforts to provide industry best work environment and work culture to enhance work satisfaction and the robustness of our HR systems and processes.

R Systems ended 2008 with 2,465 head counts including 385 sales and support staff as against 2,195 head counts including 278 sales and support staff as on December 31, 2007.

I. Discussion on Financial Position and Financial Performance with respect to Operating Performance

Analysis and Discussions of Consolidated Financial Position as on December 31, 2008

1. Share Capital

(Rs. in Lakhs)

Particulars	As on December 31,	
	2008	2007
Authorised Share Capital	**2,000.00**	2,000.00
Issued, Subscribed & Paid up Capital	**1,358.27**	1,358.27
Less: Equity shares buy back	**13.27**	-
Less: Share Suspense Account	**1.36**	-
Less: Advance to Indus Software Employee Welfare Trust	**7.39**	7.39
Total	**1,336.25**	1,350.88

R Systems has only one class of shares – equity shares of par value Rs. 10 each. R Systems authorised share capital is Rs. 2,000 lakhs, divided into 200 lakhs equity shares of Rs. 10 each and remained unchanged from the previous year 2007.

During the year 2008, the Board of Directors of R Systems had approved a buy-back of Company's equity shares from the open market not to exceed 1,306,941 equity shares at a maximum price of Rs. 150 per share subject to a maximum of Rs. 800 lakhs. As of December 31, 2008, the Company had bought

MANAGEMENT'S DISCUSSION AND ANALYSIS

back 146,346 equity shares of Rs. 10 each at an average price of Rs. 48.04 per share for an aggregate amount of Rs. 70.31 lakhs (inclusive of brokerage and applicable taxes of Rs. 0.26 lakhs). Out of the acquired shares 132,670 shares were extinguished till December 31, 2008 and 13,676 shares were extinguished on January 6, 2009 subsequent to the balance sheet date. The shares extinguished after the balance sheet date, amounting to Rs. 1.36 lakhs, were accounted for in the share suspense account and reduced from issued and paid up Share Capital.

The issued, subscribed and paid up share capital was Rs. 1,336.25 lakhs as on December 31, 2008 as compared to Rs. 1,350.88 lakhs as on December 31, 2007 after adjusting Rs.7.39 lakhs advance to Indus Software Employee Welfare Trust in compliance with guidance note issued by the Institute of Chartered Accountant of India.

During 2007, the R Systems had granted 632,500 options on July 11, 2007 to eligible employees under R Systems International Limited Employee Stock Option Scheme 2007 out of which the total no of options outstanding under the plan as on December 31, 2008 was 560,500 while the options pending determination by the compensation committee was 89,500 as on December 31, 2008. There was no grant of options under any of the employee stock option plans during the year 2008.

2. Reserve and Surplus

(Rs. in Lakhs)

Particulars	As on December 31,	
	2008	2007
Capital Redemption Reserve	**14.63**	-
Securities Premium Account	**9,738.37**	9,794.05
Capital Reserve	**0.32**	0.32
General Reserve	**428.25**	206.41
Profit and Loss Account	**5,384.21**	3,172.22
Foreign currency translation reserve	**263.23**	(267.17)
Total	**15,829.01**	12,905.83

R Systems global reserves increased by 22.65 % to Rs 15,829.01 lakhs as on December 31, 2008 from Rs 12,905.83 lakhs as on December 31, 2007. The movement in the various components of Reserve and Surplus during the year 2008 is discussed below:-

a) Capital Redemption Reserve

During the year 2008, R Systems transferred Rs. 14.63 lakhs from General Reserve to Capital Redemption Reserve Account, which represents the nominal value of shares bought back during the year.

b) Securities Premium Account

The movement of Rs. 55.67 lakhs in the Share Premium Account during the year 2008 was on account of amount paid for the buy back of shares in excess of their face value.

c) Capital Reserve

There was no movement in the capital reserve during the year 2008.

d) General Reserve

The General Reserve as on December 31, 2008 was Rs 428.25 lakhs as compared to Rs 206.41 lakhs as on December 31, 2007. During the year 2008, the General Reserve increased by Rs 236.48 lakhs as a result of recommendation of dividend of Rs 2.40 per share by the Board of Directors and decreased due to transfer of Rs 14.63 lakhs to Capital Redemption Reserve. The afore-said decrease represents the nominal value of shares bought back during the year.

e) Profit and Loss Account

The balance in the Profit and Loss Account as on December 31, 2008 was Rs 5,384.21 lakhs as compared to Rs 3,172.22 lakhs as on December 31, 2007. The increase was due to:-

- transfer of current year profits net of appropriations amounting to Rs 2,189.37 lakhs;
- adjustment of Rs 22.62 lakhs in accordance with transitional provisions of Accounting Standard -30 i.e. "Financial Instruments: Recognition and Measurement", which the company had early adopted during the year 2008.

f) Foreign Currency Translation Reserve

The Foreign Currency Translation Reserve increased during the year 2008 by Rs 530.39 lakhs mainly as a result of the depreciation of Rupee against US$ and other foreign currencies net of other adjustments.

3. Secured Loans

The total amount of secured loans (including finance lease obligations) was Rs 325.65 lakhs as on December 31, 2008 compared to Rs 63.14 lakhs as on December 31, 2007. The increase in secured loans was mainly attributable to cash credit facilities and finance lease obligations of R Systems Europe B.V. which was acquired during the year 2008.

4. Deferred Payments Liability

Deferred payments liability represents the amount payable by R Systems to erstwhile shareholders of R Systems Solutions, Inc. which will accrue after 12 months from December 31, 2008. There was no amount payable after one year as on December 31, 2008 as against Rs 106.30 lakhs as on December 31, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

as a result of payment of and reclassification of amount payable within 12 months in current liabilities. The amount payable to erstwhile shareholders within a year is shown under "Current Liabilities" amounting to Rs. 97.83 lakhs as on December 31, 2008 against Rs. 209.22 lakhs as on December 31, 2007.

5. Deferred Tax Liability (net)

R Systems accounts for deferred tax in compliance with the Accounting Standard -22 issued by the Institute of Chartered Accountants of India. The deferred tax asset was Rs. 237.73 lakhs as on December 31, 2008 as against Rs. 129.37 lakhs as on December 31, 2007 as a result of timing differences on provision for leave encashment and gratuity. Further, the deferred tax liability as on December 31, 2008 was Rs. 406.50 lakhs as against Rs. 373.66 lakhs as on December 31, 2007 which was attributable to timing differences in book base and tax base of fixed assets. The net deferred tax liability decreased from Rs. 244.30 lakhs in 2007 to Rs. 168.77 lakhs in 2008.

6. Fixed Assets

The gross block of fixed assets as on December 31, 2008 increased to Rs.12,175.51 lakhs as against Rs. 8,040.78 lakhs as on December 31, 2007. R Systems added Rs.1,629.86 lakhs in gross block of fixed assets on account of additions during the year 2008 and Rs 2,143.20 lakhs and Rs 219.84 lakhs due to acquisition of R Systems Europe B.V. and R Systems S.A.S. during the year 2008 including goodwill of Rs 746.66 lakhs and Rs 20.36 lakhs respectively.

The additions in gross block are mainly on account of up gradation and expansion of development and service centres, purchases of computer hardware, software and networking items. Afore-said additions include capitalisation of investment in global telephony network to offer seamless global services to our clients from any of R Systems global development and service centres to further strengthen our global delivery model.

Deletions or adjustments during the year are on account of write-off of old fixed assets including old networking equipments which have become redundant resulting in loss of Rs. 60.35 lakhs during the year 2008.

Capital work-in-progress ("Capital WIP") decreased to Rs. 32.13 lakhs as on December 31, 2008 from Rs. 497.58 lakhs as on December 31, 2007. The decrease in Capital WIP was mainly due to assets capitalised during the year 2008 which were shown under Capital WIP on December 31, 2007.

The estimated amount of contracts remaining to be executed on capital account and not provided for as on December 31, 2008 was Rs. 8.33 lakhs as against Rs. 183.19 lakhs as on December 31,2007.

7. Investments

The current investments have been shown at lesser of cost or fair value at the end of each year. During the year 2008, R Systems reassessed the fair value of its current investments after a financial evaluation and provided for the loss which resulted decrease in carrying value of investments from Rs 120.36 lakhs as on December 31, 2007 to Rs 0.25 lakhs as on December 31, 2008.

8. Sundry Debtors

Sundry debtors (net of provisions) increased from Rs 6,135.15 lakhs as on December 31, 2007 to Rs 7,902.21 lakhs as on December 31, 2008. The increase in debtors was primarily on account of increase in the scale of business operations and acquisition of R Systems Europe B.V. and R Systems S.A.S during the year 2008.

The days sales outstanding ("DSO") measured by average net trade receivables divided by net credit sales for the year 2008 was 67 days as against 74 days for 2007. The improvement in DSO was on account of disciplined account and relationship management with customers.

9. Cash and Bank Balance

Cash and bank balance, including bank deposits, as on December 31, 2008 was Rs. 6,364.38 lakhs as against Rs. 5,123.14 lakhs as on December 31, 2007. The cash and bank balance per share as on December 31, 2008 was Rs. 47.63 as against Rs. 37.92 as on December 31, 2007. The treasury policy of R Systems is to invest surplus funds with highly rated banking institutions at minimal risk with short and medium term maturities depending on future requirement of funds.

10. Other Current Assets

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

The other current assets increased to Rs 1,458.93 lakhs as on December 31, 2008 from Rs 837.34 lakhs as on December 31, 2007. The increase in other current assets was mainly on account of increase in net unbilled revenue from Rs. 766.93 lakhs as on December 31, 2007 to Rs. 1,417.01 lakhs as on December 31, 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS

11. Loans and Advances

Loans and advances are short term loans advanced during the course of business recoverable in cash or kind or value to be received. The total loans and advances as on December 31, 2008 was Rs. 981.39 lakhs compared to Rs. 737.95 lakhs as on December 31, 2007 net of provisions for unrecoverable advances.

12. Current Liabilities

Current liabilities are liabilities likely to fall due for payment within a period of twelve months. The total current liabilities of R Systems as on December 31, 2008 were Rs. 4,524.07 lakhs as against to Rs. 3,092.24 lakhs as on December 31, 2007. The increase in current liabilities was mainly on account of provision for mark-to-market loss of Rs. 467.59 lakhs on outstanding forwards as on December 31, 2008 and first time inclusion of current liabilities of Rs. 1,057.96 lakhs of R Systems Europe B.V. and R Systems S.A.S during the year 2008 offset by payment of Rs. 234.69 lakhs to erstwhile shareholders of R Systems Solutions, Inc.

13. Provisions

During the year 2008, the provisions increased to Rs.1,989.34 lakhs as against Rs. 1,294.93 lakhs as on December 31, 2007. This was mainly on account of increase in provisions for long term compensated absences, gratuity benefits and employee bonus as a result of increase in the scale of R Systems' business, acquisition of R Systems Europe B.V. and R Systems S.A.S and increase in provision for proposed dividend for the year 2008 which was offset by decrease in net income tax provision as on December 31, 2008.

14. Liquidity

The consolidated cash and cash equivalent as on December 31, 2008 were Rs. 2,043.89 lakhs as against Rs. 1,876.49 lakhs as on December 31, 2007.

Net cash provided by consolidated operating activities was Rs. 2,933.52 lakhs for the year ended December 31, 2008 compared to Rs. 870.18 lakhs for the year ended December 31, 2007. The increase in cash from operating activities during the year ended 2008 was due to growth in business activities and increase in consolidated profits of R Systems. Cash flow generated from operating activities is the significant source of funding for investing and financing activities of the Company.

During the year 2008, R Systems invested Rs. 1,042.36 lakhs in fixed assets. The cash outflow during the year 2008 was as a result of acquisition of R Systems Europe B.V., and R Systems, S.A.S. of Rs 277.45 lakhs and Rs 271.03 lakhs respectively. R Systems paid Rs. 234.69 lakhs as deferred payments compensation to the erstwhile shareholders of R Systems Solutions, Inc. The interest received during the year 2008 was Rs. 310.54 lakhs as against Rs. 327.89 lakhs during the year 2007.

Cash used in financing activities during the year 2008 was Rs. 904.63 lakhs mainly due to a net outflow of Rs. 496.60 lakhs for repayment of borrowing net of fresh borrowings, buyback of shares amounting to Rs 70.31 lakhs, payment of Rs. 53.29 lakhs as interest on the borrowings, payment of 2007 dividend of Rs. 242.89 lakhs and Rs. 41.55 lakhs for the dividend distribution tax.

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

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

(Rs. in Lakhs)

Object	Total Estimated Project Cost*	Amount incurred till December 31, 2008	Amount incurred till December 31, 2007
Upgrading and expansion of existing infrastructure*	2,299.93	2,299.93	2,143.12
Repayment of outstanding loans	365.50	365.50	365.50
Financing general working capital requirements	1,795.10	1,746.24	863.24
General corporate purposes*	1,590.60	586.20	586.20
Meeting offer expenses *	1,011.37	1,011.37	1,011.37
Total	**7,062.50**	**6,009.24**	**4,969.43**

* The Company had obtained an approval from its shareholders at the annual general meeting held on May 2, 2008 for reallocation in the estimated project cost among above mentioned heads.

As on December 31, 2008 the Company invested the surplus IPO funds pending utilization in fixed deposits with nationalized banks. The same has been lien marked for expansion of business against performance guarantees issued by the Bank in favour of Department of telecommunication for licenses as domestic & International 'Other Service Provider'. The lien has been removed subsequent to the Balance sheet date.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Analysis and Discussions of Consolidated Operating Performance for the Year Ended December 31, 2008

The following section discusses in detail the composition of different items in the profit and loss account of R Systems. The discussion is based on the consolidated financials of R Systems International Ltd. and its subsidiaries.

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

(Rs. in Lakhs)

	Year ended December 31,2008	% of Total income	Year ended December 31,2007	% of Total income	Growth %
Income					
Operating income	**35,939.23**	**98.49**	24,705.75	97.19	45.47
Write back of deferred payment to erstwhile shareholders of ECnet Limited	**-**	**0.00**	144.52	0.57	(100.00)
Other income	**549.43**	**1.51**	570.84	2.25	(3.75)
Total income	**36,488.66**	**100.00**	25,421.12	100.00	43.54
Expenditure					
Personnel expenses	**21,645.03**	**59.32**	15,251.72	60.00	41.92
Operating and other expenses	**10,561.95**	**28.95**	7,103.88	27.94	48.68
Depreciation/amortisation	**1,156.90**	**3.17**	704.11	2.77	64.31
Financial expenses	**123.02**	**0.34**	60.10	0.24	104.68
Total expenditure	**33,486.90**	**91.77**	23,119.81	90.95	44.84
Net profit before tax and prior period items	**3,001.76**	**8.23**	2,301.30	9.05	30.44
Prior period expense/ (Income)	**-**	**-**	(8.85)	-	-
Net profit before tax	**3,001.76**	**8.23**	2,310.15	9.09	29.94
Current tax	**317.88**		328.12		
MAT credit entitlement	**(117.04)**		(49.80)		
Deferred tax	**(75.52)**		67.91		
Fringe benefit tax	**79.80**		66.78		
Total tax expense	**205.12**	**0.56**	413.01	1.62	(50.34)
Net profit after tax	**2,796.64**	**7.66**	1,897.14	7.46	47.41
Appropriations					
Proposed final dividend	**316.93**		244.49		
Tax on proposed final dividend	**53.86**		41.55		
Transfer to general reserve	**236.48**		181.29		
Surplus carried to balance sheet	**2,189.37**	**6.00**	1,429.81	5.62	53.12

1. Income

A. Operating Income

R Systems derives operating income principally from software development, customization services and from the business process outsourcing services. Operating income is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

During the year 2008, operating income increased by 45.47% to Rs 35,939.23 lakhs compared to Rs 24,705.75 lakhs in the year 2007.

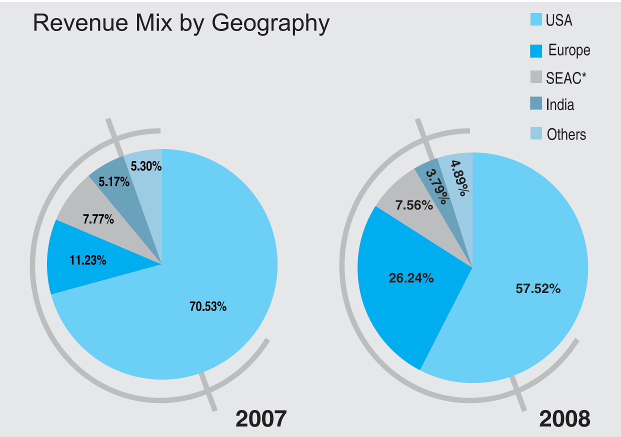
R Systems derives its revenue from two business segments viz software development and customization services and business process outsourcing services. The revenue from software development and customization services increased from Rs. 21,152.79 lakhs in the year 2007 to Rs. 25,656.21 lakhs in the year 2008 registering a growth of 21.29 % year on year ("yoy"). The revenue from business process outsourcing services increased from Rs. 3,552.96 lakhs in the year 2007 to Rs 10,283.02 lakhs in 2008 registering a growth of 189.42% yoy. The increase in revenue from business process outsourcing services was mainly attributable to the acquisition of R Systems Europe B.V., and R Systems, S.A.S, during the year 2008 which provides technical support services from Europe. Revenue break up percentage from Software development and customization services and business process outsourcing services during year ended December 31, 2008 and 2007 is as follows-:

(Rs. in Lakhs)

	Year ended December 31,2008	%	Year ended December 31,2007	%	Growth %
Software development and customization services	**25,656.21**	**71.39**	21,152.79	85.62	21.29
Business process outsourcing services	**10,283.02**	**28.61**	3,552.96	14.38	189.42
Total Revenue	**35,939.23**	**100.00**	24,705.75	100.00	45.47

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

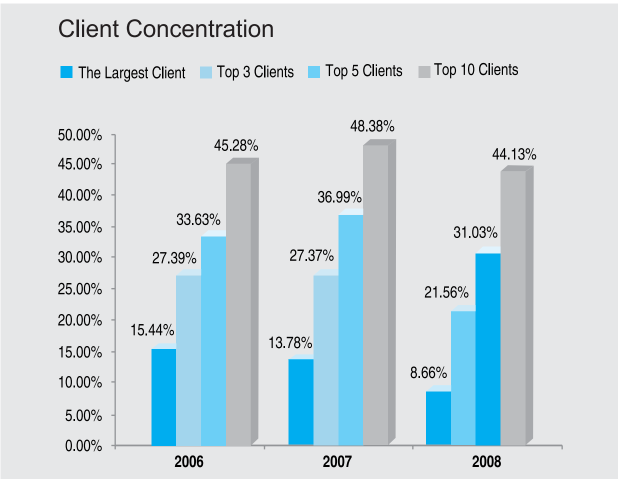
MANAGEMENT'S DISCUSSION AND ANALYSIS



* SEAC:- South East Asian Countries

Revenues from USA decreased from 70.53% during the year 2007 to 57.52% during the year 2008 mainly due to increase in revenues from Europe.

The breakdown of R Systems revenue on the basis of client concentration for the year 2008 and 2007 is as follows:-



Revenues from services provided to the top 10 clients, as a percentage of R Systems total operating revenues decreased from 48.38% in the year 2007 to 44.13% in the year 2008 due to improvement in client diversity. Revenues from existing clients during 2008 were above 92% which reflects Company's ability to retain clients.

R Systems derives over 95% of revenues from exports or consolidation of overseas subsidiaries. Fluctuation in the value of currencies vis-à-vis Rupee affects the revenues of R Systems when the revenues are reported in Rupees. During the year under review there was wide fluctuation in INR against the USD and other currencies. For example the average rate of USD v/s Rupee was Rs. 43.81 in the year 2008 compared to Rs. 41.36 in the year 2007 which had impacted positively in our operating income growth in rupee term during the year ended 2008.

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

During the year 2007, R Systems had renegotiated and settled the deferred payment compensation in respect of the ECnet acquisition at a lower amount with certain erstwhile shareholders and as a result there was a write back of deferred payment compensation of Rs. 144.52 lakhs.

C. Other Income

The global other income amounted to Rs 549.43 lakhs during the year 2008 as compared to Rs 570.84 lakhs in 2007. During the year under review other income primarily comprised of the following:

- Interest Income on deposits with banks of Rs. 366.40 lakhs.
- Provision for doubtful debts and advances written back: Rs 107.03 lakhs as a result of realization of debts earlier considered as doubtful.
- Write back of miscellaneous provisions no longer required Rs 4.11 lakhs.
- Miscellaneous income of Rs. 71.88 lakhs.

2. Expenditures

A. Personnel Expenses

Personnel expenses consist primarily of salaries, wages, bonus, commissions, perquisites, provision for long term compensated absences, gratuity benefits, contribution towards provident and other funds and staff welfare expenses.

Personnel expenses increased from Rs. 15,251.72 lakhs in the year 2007 to Rs. 21,645.03 lakhs in the year 2008, registering a growth of 41.92% yoy. As a percentage of total income, personnel expenses decreased from 60.00% in the year 2007 to 59.32% in the year 2008 on account of improvement in utilization of personnel in the provision of services.

The increase in personnel cost was attributable primarily to increase in the number of employees during the year from 2,195 at the end of 2007 to 2,465 at the end of 2008, salary increments during the year 2008 and increased provision on account of leave and gratuity benefits resulting from decrease in

MANAGEMENT'S DISCUSSION AND ANALYSIS

discounting rate based on return on government securities. The number of employees increased on account of the increased scale of operations and acquisition of R Systems Europe B.V. and R Systems, S.A.S.

B. Operating and Other Expenses

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

Operating expenses increased by Rs 3,458.07 lakhs or 48.68% to Rs. 10,561.95 lakhs in 2008 from Rs. 7,103.88 lakhs in 2007.

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

(Rs. in Lakhs)

	Year ended December 31,2008	%	Year ended December 31,2007	%	Growth %
Operating income	**35,939.23**	**100.00**	24,705.75	100.00	45.47
Operating and other expenses					
Traveling and conveyance	**2,334.32**	**6.50**	2,158.36	8.74	8.15
Legal and professional expenses including audit fees	**3,491.70**	**9.72**	2,287.27	9.26	52.66
Communication costs	**706.09**	**1.96**	693.13	2.81	1.87
Repair and maintenance	**520.44**	**1.45**	272.61	1.10	90.91
Rent - premises and equipments	**915.44**	**2.55**	501.78	2.03	82.44
Provision for doubtful debts and advances and debts written off	**396.36**	**1.10**	296.80	1.20	33.55
Recruitment and training expenses	**278.89**	**0.78**	140.26	0.57	98.84
Power and fuel	**358.78**	**1.00**	289.14	1.17	24.09
Advertising and sales promotion	**94.68**	**0.26**	41.25	0.17	129.54
Loss on sale/discard of fixed assets (net)	**60.35**	**0.17**	25.52	0.10	136.47
Loss on impairment of investment	**133.45**	**0.37**	-	-	-
Loss on exchange fluctuation (net)	**745.00**	**2.07**	-	-	-
Others	**526.45**	**1.46**	397.76	1.61	32.35
Total	**10,561.95**	**29.39**	7,103.88	28.75	48.68

Increase in operating expenses such as traveling, legal and professional charges including subcontracting expenses, communication costs, recruitment and training costs, power and fuel was mainly on account of increase in business volume along with inclusion of operating expenses of R Systems Europe B.V., and R Systems, S.A.S. during the year 2008.

During the year R Systems reassessed the market value of its current investments after a financial evaluation and provided for a loss of Rs. 133.45 lakhs.

The loss on exchange fluctuation amounting to Rs 745.00 lakhs was mainly on account of mark-to-market losses on forward contracts as against exchange gain (included with other income) in the year 2007 of Rs. 98.12 lakhs.

C. Financial Expenses

Financial expenses consist of interest expenses on lines of credits from banks and finance charges on assets purchased on finance lease and other bank charges. The financial expenses increased from Rs.60.10 lakhs in the year 2007 to Rs 123.02 lakhs in the year 2008 mainly on account of the lines of credit and finance lease obligations of R Systems Europe B.V.

D. Depreciation/Amortisation

The depreciation provided for the year 2008 was Rs. 1,156.90 lakhs as against Rs. 704.11 lakhs for 2007 representing 3.17% and 2.77% of respective total income. The increase in depreciation was primarily due to inclusion of depreciation of R Systems Europe B.V. and R Systems S.A.S. in the year 2008 and incremental depreciation over capitalisation of fixed assets during 2008.

E. Prior Period Expenses/(Income)

There was no prior period expense/income during the year 2008 as against prior period income of Rs. 8.85 lakhs during the year 2007. The prior period income in the year 2007 comprised of reversal of excess provisions related to employee's salaries and wages of Rs. 22.89 lakhs net of prior period legal and professional expenses of Rs. 14.05 lakhs.

F. Net Profit before Taxation

Net profit before taxation increased to Rs. 3,001.76 lakhs in the year 2008 from Rs. 2,310.15 lakhs in the year 2007. The increase in net profits before taxes was attributable to reasons given earlier.

G. Provision for Tax

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

The Company in respect of operations in India enjoys tax benefits under section 10A of the Income Tax Act, 1961 to the extent of taxable income attributable to services exported from designated 'Software Technology Parks of India (STPI)'. The

MANAGEMENT'S DISCUSSION AND ANALYSIS

benefit under section 10A has been extended up to March 31, 2010. Deferred tax is recognised after eliminating timing differences, which reverse during the tax holiday period.

During the year, the provision for taxation was Rs 205.12 lakhs as compared to Rs 413.01 lakhs in the year 2007. The decrease in provision for taxation was mainly due to write back of deferred tax of Rs. 75.52 lakhs in the year 2008 as against provision of Rs. 67.91 lakhs in the year 2007 on account of extension of 10A holiday period by one year up to March 31, 2010, recognition of deferred tax assets on account of timing differences over increased provision of leave encashment and gratuity liability resulting from decrease in discount rate based on return on government securities, and MAT credit entitlement of Rs. 44.94 lakhs for prior year recognised in 2008.

H. Profit after Tax

Profit after tax increased to Rs. 2,796.64 lakhs or 7.66% of total income in the year 2008 from Rs. 1,897.14 lakhs or 7.46% of total income in the year 2007, a growth of 47.41 % yoy. The increase in net profits after taxes was attributable to reasons given earlier.

I. Dividend

The Board of Directors recommended a dividend of Rs. 2.40 per equity share or 24% on the par value of Rs. 10 per share, a 33.33% increase compared to 2007, to be appropriated from the profits of the Company for the financial year 2008 subject to the approval of the shareholders at the forthcoming annual general meeting. The total payout of the dividend for the year 2008 is proposed to be Rs. 316.93 lakhs as against Rs. 244.49 lakhs in the year 2007. The corporate dividend tax attributable to 2008 dividend accrued in the books is Rs. 53.86 lakhs as against Rs 41.55 lakhs in the year 2007.

J. Management's Discussion and Analysis of Operating Performance on Standalone Financials

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

(Rs. in Lakhs)

	Year ended December 31,2008	% of Total income	Year ended December 31,2007	% of Total income	Growth %
Income					
Operating income	**20,384.82**	**97.01**	15,556.68	94.47	31.04
Provision for diminution in value of long term investments written back	**-**	**-**	104.42	0.63	(100.00)
Write back of deferred payment to erstwhile shareholders of ECnet Limited	**-**	**-**	40.10	0.24	(100.00)
Other income	**628.19**	**2.99**	766.45	4.66	(18.04)
Total Income	**21,013.01**	**100.00**	16,467.65	100.00	27.60
Expenditure					
Personnel expenses	**12,222.13**	**58.16**	9,101.17	55.27	34.29
Operating and other expenses	**5,557.68**	**26.45**	3,966.72	24.09	40.11
Depreciation /amortisation	**663.17**	**3.16**	534.49	3.25	24.07
Financial expenses	**49.33**	**0.23**	48.14	0.28	2.52
Total Expenditure	**18,492.31**	**88.00**	13,650.52	82.89	35.47
Net Profit before Tax and Prior Period Items	**2,520.70**	**12.00**	2,817.13	17.11	(10.52)
Prior period expense/ (income)	**-**	**-**	(8.85)	(0.05)	(100.00)
Net Profit before tax	**2,520.70**	**12.00**	2,825.98	17.16	(10.80)
Current tax	**268.69**	**1.28**	315.88	1.92	(14.94)
MAT credit entitlement	**(117.03)**	**(0.56)**	(49.80)	(0.30)	135.00
Deferred tax	**(75.52)**	**(0.36)**	75.98	0.46	(199.40)
Fringe benefit tax	**79.80**	**0.38**	66.78	0.40	19.51
Total Tax Expense	**155.94**	**0.74**	408.84	2.48	(61.86)
Net Profit after Tax	**2,364.76**	**11.26**	2,417.14	14.68	(2.17)
Appropriations					
Proposed final dividend	**316.93**		244.49		
Tax on proposed final dividend	**53.86**		41.55		
Transfer to General Reserve	**236.48**		181.29		
Surplus carried to Balance Sheet	**1,757.49**	**8.36**	1,949.81	11.84	(9.86)

1. Income

a) Operating Income

R Systems recorded an operating income of Rs. 20,384.82 lakhs in the year 2008 as compared to Rs. 15,556.68 lakhs in the year 2007, a yoy growth of 31.04%. The growth of income on yoy basis from software development and customization services and business process outsourcing services was 31.91% and 25.36% respectively. The below table explains the contribution by software development and customization services and business process outsourcing services segments towards the operating income of R Systems:-

(Rs. in Lakhs)

	Year ended December 31,2008	%	Year ended December 31,2007	%	Growth %
Software development and customization services	**17,778.60**	**87.21**	13,477.68	86.64	31.91
Business process outsourcing services	**2,606.22**	**12.79**	2,079.00	13.36	25.36
Total Revenue	**20,384.82**	**100.00**	15,556.68	100.00	31.04

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Income Breakdown by Geography

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

	Year Ended	
	December 31, 2008	December 31, 2007
USA	**63.37%**	68.59%
Europe	**19.85%**	17.86%
South East Asia	**6.12%**	2.42%
India	**6.68%**	8.21%
Other	**3.98%**	2.92%
Total	**100.00%**	100.00%

b) Provision for diminution in value of long term investments written back

During the year 2007, R Systems had renegotiated and settled the deferred payment compensation in respect of ECnet acquisition at a lower amount with certain erstwhile shareholders and as a result there was a write back of Rs. 144.52 lakhs. Out of above, Rs 104.42 lakhs had been adjusted against the value of the investment and provision against diminution in value of ECnet investment was subsequently written back.

c) Write back of deferred payment to erstwhile shareholders of ECnet Ltd.

During the year 2007, R Systems had renegotiated and settled the deferred payment compensation in respect of ECnet acquisition at a lower amount with certain erstwhile shareholders and as a result there was a write back of Rs. 144.52 lakhs, out of which Rs 104.42 lakhs had been adjusted against the value of the investment and the remaining amount of Rs 40.10 lakhs is shown as write back of deferred payment to erstwhile shareholders of ECnet Ltd.

d) Other Income

The share of other income in total income was 2.99% in the year 2008 as against 4.66% in the year 2007. The decrease was mainly attributable to exchange gain in the year 2007 of Rs. 139.65 lakhs as against exchange loss (included with operating and other expenses) of Rs. 735.23 lakhs in the year 2008.

2. Expenditures

a) Personnel Expenses

Personnel costs increased from Rs. 9,101.17 lakhs in 2007 to Rs. 12,222.13 lakhs in 2008. As a percentage of total income, personnel cost increased to 58.16% in the year 2008 from 55.27% in 2007 mainly due to increase in the total number of employees, increases in compensation during 2008 and increased provision on account of leave and gratuity benefits resulting from decrease in discounting rate based on return on government securities.

b) Operating and Other Expenses

Operating expenses increased to Rs. 5,557.68 lakhs in the year 2008 as against Rs. 3,966.72 lakhs in the year 2007.

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

(Rs. in Lakhs)

	Year ended December 31,2008	%	Year ended December 31,2007	%	Growth %
Operating income	**20,384.82**	**100.00**	15,556.68	100.00	31.04
Operating and other expenses					
Travelling and conveyance	**1,896.60**	**9.30**	1,781.08	11.45	6.49
Legal and professional expenses including audit fees	**286.01**	**1.40**	304.75	1.96	(6.15)
Communication costs	**417.82**	**2.05**	425.14	2.73	(1.72)
Rent - premises and equipments	**373.06**	**1.83**	261.77	1.68	42.51
Power and fuel	**339.59**	**1.67**	266.70	1.71	27.33
Repair and maintenance	**238.13**	**1.17**	216.10	1.39	10.19
Advertising and sales promotion	**101.03**	**0.50**	37.27	0.24	171.07
Recruitment and training expenses	**100.17**	**0.49**	71.63	0.46	39.84
Foreign exchange fluctuation (net)	**735.23**	**3.61**	-	-	-
Provision for doubtful debts and advances and debts written off	**703.95**	**3.45**	292.19	1.88	140.92
Loss on sale/discard of fixed assets (net)	**60.35**	**0.30**	25.79	0.17	133.95
Others	**305.74**	**1.49**	284.30	1.83	7.54
Total	**5,557.68**	**27.26**	3,966.72	25.50	40.11

The increase in operating expenses in the year 2008 was mainly on account of exchange loss of Rs. 735.23 lakhs as against exchange gain (included with other income) in the year 2007 of Rs. 139.65 lakhs and additional provision of Rs. 294.01 lakhs against loan given to ECnet Limited, Singapore (subsidiary of the Company) considering its negative net worth. Increase in other operating expenses such as traveling, power and fuel, rent, advertising and sales promotion in the year 2008 was on account of increase in business volume.

c) Financial Expenses

The financial expenses decreased to Rs 49.33 lakhs in the year 2008 as against Rs. 48.14 lakhs in the year 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

d) Depreciation/Amortisation

Depreciation expenses in 2008 amounted to Rs. 663.17 lakhs as against Rs. 534.49 lakhs in the year 2007. The increase in depreciation was primarily due to increase in fixed assets during 2008.

e) Prior Period Expenses/(Income)

There was no prior period expense/income during the year 2008 as against prior period income of Rs. 8.85 lakhs during the year 2007. The prior period income in the year 2007 comprised of reversal of excess provisions related to employee's salaries and wages of Rs. 22.89 lakhs net of prior period legal and professional expenses of Rs. 14.05 lakhs.

f) Net Profit Before Taxation

Net profit before taxation was Rs. 2,520.70 lakhs in 2008 as against Rs. 2,825.98 lakhs in 2007, a decrease of 10.80% yoy. It represented 12.00% and 17.16% of total income for the year 2008 and 2007 respectively. The decrease in net profits before taxes was mainly attributable to foreign exchange losses and provision against doubtful debts and loan as explained earlier.

g) Provision for Tax

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

The Company in respect of operations in India enjoys tax benefits under section 10A of the Income Tax Act, 1961 to the extent of taxable income attributable to services exported from designated 'Software Technology Parks of India (STPI)'. The benefit under section 10A has been extended up to March 31, 2010. Deferred tax is recognised after eliminating timing differences which reverse during the tax holiday period.

. During the year 2008, the provision for taxation was at Rs 155.94 lakhs as compared to Rs. 408.84 lakhs in 2007. The decrease in provision for taxation was mainly due to write back of deferred tax of Rs. 75.52 lakhs in the year 2008 as against provision of Rs. 75.98 lakhs in the year 2007 on account of extension of 10A holiday period by one year up to March 31, 2010, recognition of deferred tax assets on account of timing differences over increased provision of leave encashment and gratuity liability resulting from decrease in discount rate based on return on government securities, and MAT credit entitlement of Rs. 44.94 lakhs for prior years recognised in 2008.

h) Profit after Tax

Profit after tax was Rs. 2,364.76 lakhs in the year 2008 as against Rs. 2,417.14 lakhs in the year 2007, a decrease of 2.17% yoy. It represents 11.26% of total income in the year 2008 as against 14.68% of total income in the year 2007. The decrease in net profits after taxes was attributable to reasons given earlier.

i) Dividend

The Board of Directors recommended a dividend of Rs. 2.40 per equity share or 24% on the par value of Rs. 10 per share, a 33.33% increase compared to the year 2007, to be appropriated from the profits of the Company for the year 2008 subject to the approval of the shareholders at the forthcoming annual general meeting. The total payout of the dividend for the year 2008 is proposed to be Rs. 316.93 lakhs as against Rs. 244.49 lakhs in the year 2007. The corporate dividend tax attributable to 2008 dividend accrued in the books is Rs. 53.86 lakhs as against Rs 41.55 lakhs in the year 2007.

RISK MANAGEMENT REPORT

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

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

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

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

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

1. **Business**
   - Customer Concentration
   - Geographical Concentration
   - Client Risks
   - Competition
   - Acquisitions
   - Credit Risk
2. **Delivery**
   - Execution Risk
   - Disaster Prevention and Recovery
   - Technological Obsolescence
   - Fixed Price Contracts
   - Talent Acquisition & Retention
3. **Financial**
   - Foreign Currency Rate Fluctuations
   - Global Economic Environment
   - Inflation and Cost Structure
4. **Legal and Statutory**
   - Contractual Liabilities
   - Statutory Compliance
   - Directors' & Officers' Liability Risks
   - Failure to Protect Intellectual Property Rights
   - Transfer Pricing Arrangements
5. **Political**
   - Change in Government Policy
   - Visa Regulations/Restrictions

1. Business Risks

Customer Concentration

R Systems revenues are dependent to a considerable extent upon relationships with a limited number of customers and retaining those customers. The percentage of total consolidated revenues during fiscal 2007 and 2008 that R Systems derived from contracts with **our top 10 customer** is as follows:

	Year Ended December 31,	
	2008	2007
Top 10	**44.13%**	48.38%
Top 5	**31.03%**	36.99%
Top 3	**21.56%**	27.37%
The Largest Customer	**8.66%**	13.78%

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

RISK MANAGEMENT REPORT

R Systems business model and strategy involves serving the customers in a manner that they get measurable tangible benefits. When customers see value in the services that R Systems provides, we believe that customer's relationship can be nurtured into the long term. Further with our proactive strategy of adding new customers, we attempt to reduce our dependency on a smaller number of customer relationships. During the year ended 2008, R Systems increased revenues from other customers and reduce dependence on revenues from top 10 customers to 44.13% in the year 2008 from 48.38% in the year 2007.

Geographical Concentration

R Systems has traditionally derived most of its revenues from the US, given the technology focus and specialized product engineering services offered by it. In order to mitigate the risk of geographical concentration, R Systems has stepped up its business activities in other geographic areas like Europe, Japan and South East Asia and recent acquisition in Europe is the part of this strategy. These efforts were successful and as a result during the year 2008 revenue from the US region declined to 57.52% of R Systems consolidated revenue in the year 2008 as against 70.53% in the year 2007.

Revenues by Geographies	Year Ended December 31,	
	2008	2007
USA	57.52%	70.53%
Europe	26.24%	11.23%
South East Asia	7.56%	7.77%
India	3.79%	5.17%
Others	4.89%	5.30%
Total	**100.00%**	**100.00%**

Client Risks

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

Competition

The IT & ITES sector is a highly competitive sector. Our competitors include IT outsourcing firms in India as well as in other countries, national and multinational consulting and technology firms, Indian IT services firms, software firms and in-house IT departments of large companies.

R Systems expects competition to be very intense in the near term as global economic slow down may encourage existing suppliers to be aggressive in wining new business and customers may drive a harder bargain. However, we believe that R Systems is well positioned and enjoys following competitive advantages:

- Experience in providing end-to-end solutions and services to independent software vendors and technology service providers;
- Unique and proprietary iPLM & iSuite® FRAMEWORK frame work with best practices, tools and methodologies for flawless execution;
- Investment in processes, talent, and methodologies;
- Strong customer franchise consisting of large and mid-sized corporations;
- Strong financial position;
- Proven global delivery model;
- Deep domain knowledge in lending business solutions and supply chain management.

Acquisitions

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

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

Credit Risk

As part of R Systems business practice, the payment collection process may extend over a period of time. Customers budgeting constraints can impact their ability to make the required payments. In addition in the present recessionary environment, the

RISK MANAGEMENT REPORT

creditworthiness of our clients may deteriorate and we can be adversely affected by bankruptcies or other business failures of our customers.

R Systems' credit terms are standard and there is rigorous process in following up with customers for payments as and when the invoices fall due for payment. The Company has suitably streamlined its processes to develop a more focused and aggressive receivables management systems to ensure timely collections as a result of the global liquidity crunch.

2. Delivery

Execution Risks

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

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

Disaster Prevention and Recovery

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

R Systems has adopted industry-standard security precautions such as ensuring that our employees and strategic partners enter into non-disclosure and confidentiality agreements with us, verifying that there is no information leakage through test procedures, carrying out background checks and verifications, creating and maintaining data back-ups, and maintaining an adequate disaster recovery plan.

R Systems makes continual investments in organization behavior and management processes to ensure that these certified industry standards are continually adhered to. As on the date of this report, Noida IT centre is ISO 9001 : 2000, SEI-CMMi level 5, ISO 27001 : 2005 and PCMM Level 3 certified; Noida BPO centre is ISO 9001 : 2000, ISO 27001 : 2005 and PCMM Level 3 certified. Pune and Chennai development centres are SEI-CMM Level 5, ISO 9001 : 2000 and ISO 27001 : 2005 certified. The continuing compliance with these standards demonstrates the rigor of R Systems processes and differentiates us to keep our competitive edge in service offering.

Technological Obsolescence

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

Risks Associated with Fixed Price Contracts

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

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

Talent Acquisition & Retention

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

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

During the year ended December 31, 2008 Software Development and BPO Centres of R Systems based in Noida had been certified by the world-renowned consulting firm, KPMG for PCMM Level 3. With the said certification R Systems joins an elite group of PCMM certified companies across the globe.

Further, R Systems has been ranked 5th in 'Exciting Emerging Companies to work for' Survey 2008 by NASSCOM. It reflects our commitment and efforts to provide industry best work environment and work culture to enhance work satisfaction and the robustness of our HR systems and processes.

3. Financial

Foreign Currency Rate Fluctuations

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

In fiscal year 2008, we have experienced a relatively volatile Rupee, with the conversion rates from US$ to Rupee closing at Rs. 49.72 per US$ on December 31, 2008 as against closing rate of Rs. 39.44 per US$ on December 31, 2007 with an average rate of Rs. 43.81 for the year 2008 as against Rs. 41.36 for the year 2007. The afore-said favorable movement in US$ has resulted a favorable impact on our revenues however the net impact on margins have been offset by foreign exchange losses of Rs. 745.02 lakhs mainly due to Company's conservative policy of mark-to-market of forward contracts.

While the Company can not directly influence exchange rates, it is incumbent upon management to follow a well thought out policy to hedge the foreign currency without taking speculative positions. R Systems attempts to minimize currency fluctuation risks on export earnings by taking forward covers on Rupee – USD/EURO exchange rate based on anticipated revenues and debtors at periodic intervals. The Company has laid down appropriate policies and processes for the use of financial derivative instruments consistent with its risk management strategy. The company does not use the foreign exchange forward contracts for trading or speculation purposes.

Global Economic Environment

As per the Strategic Review 2009 by NASSCOM global technology related spending in 2009 is likely to be impacted by the recessionary environment and a rebound is expected from 2010. However, worldwide adoption of outsourcing is also expected to rise significantly in the coming years. Foreign companies are increasingly looking inwards and focusing on process benchmarking, enhanced utilisation of infrastructure and talent, increasing productivity and greater customer engagement. In addition to this, lesser wage pressure, lower attrition along with favorable movement in US$ rate are positives for the industry to sustain its margins and invest in future growth.

To mitigate risks in the near term and create a foundation for growth R Systems has increased diversification across geographies, investing in customer relationships, talent and processes competencies to serve the customers.

Inflation and Cost Structure

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

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

4. Legal and Statutory

Contractual Liabilities

The primary contractual risks that R Systems faces pertain to obligations of R Systems to provide services with full adherence to contracted terms of quality, time deadlines, output per hour, protection of confidential information, protection of intellectual property rights, patents, and copyrights. R Systems has a rigorous process to evaluate the legal risks involved in a contract, ascertains

RISK MANAGEMENT REPORT

its legal responsibilities under the applicable law of the contract and tries to restrict its liabilities to the maximum extent possible. As a policy R Systems attempts to protect itself with "no consequential losses" and "maximum liability" clauses. R Systems also ensures that risks are protected through various insurances like professional liability, workers compensation, directors' and officers' liability insurance. The Company's past record in this regard has been good and there has been no significant damages awarded against the Company that has resulted in material adverse impact on our financial position. R Systems also has an escalation process to immediately involve senior management personnel in case R Systems customers or contractors make any assertion of breach of contract.

Statutory Compliance

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

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

Directors and Officers Liability Risks

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

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

Failure to Protect Intellectual Property Rights

R Systems has not registered some of its intellectual property under the relevant intellectual property laws and is in the process of applying for the same. We have applied for the registration of the following three marks as our trade mark - **iPLM**, **Products FOREMOST**, **pSuite FRAMEWORK**. Our **pSuite FRAMEWORK** logo as reproduced below has been registered w.e.f. January 01, 2006 and other two are awaiting approval.

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

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

Transfer Pricing Arrangements and Income Taxes

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

5. Political

Change in Government Policy

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

Visa Restrictions and Regulations

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

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

AUDITORS' REPORT

On Standalone Financial Statements

To

The Members of R Systems International Limited

1. We have audited the attached Balance Sheet of R Systems International Limited (the "Company") as at December 31, 2008 and also the Profit and Loss Account and Cash Flow Statement of the Company for the year ended on that date annexed thereto. These Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 (as amended) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:

   i. We have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purpose of our audit;

   ii. In our opinion, proper books of account, as required by law, have been kept by the Company so far as appears from our examination of those books;

   iii. The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

   iv. In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;

   v. On the basis of the written representations received from the Directors, as on December 31, 2008, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on December 31, 2008 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;

   vi. in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;

      a) in the case of the balance sheet, of the state of affairs of the Company as at December 31, 2008,

      b) in the case of the profit and loss account, of the profit for the year ended on that date, and

      c) in the case of cash flow statement, of the cash flows for the year ended on that date.

For S.R. BATLIBOI & ASSOCIATES

Chartered Accountants

per Sanjay Vij

Partner

Membership No.: 95169

Place : NOIDA

Date : February 12, 2009

ANNEXURE TO AUDITORS' REPORT

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

Re: R Systems International Limited

(i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) Fixed assets have been physically verified by the management during the year and no material discrepancies were identified on such verification.

(c) There was no substantial disposal of fixed assets during the year.

(ii) The Company has no inventory and therefore, the provisions of clause 4(ii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.

(iii) (a) The following are the particulars of loans granted by the Company to companies, firms and other parties covered in the Register maintained under Section 301 of the Companies Act, 1956:

Sl. No.	Name of Party	Relationship with Company	Opening balance	Loan granted during the year	Maximum Amount Rs.	Year end Balance (at closing rate) Rs.
1.	ECnet Limited, Singapore	Subsidiary	40,916,100	38,950,930	94,822,750	94,822,750

(b) In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions for such loans are not prima facie prejudicial to the interest of the Company. (Also refer Note 16 under Schedule 18 of financial statements).

(c) The loans granted were originally re-payable within 1-2 years. As explained, the same has been revised during the year and the loan is now repayable on demand. As informed, the Company has not demanded repayment of any such loan during the year. The payment of interest has been regular.

(d) There is no overdue amount of loans granted to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.

(e) As informed, the Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Therefore, the provisions of clause 4(iii)(f) and 4(iii)(g) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.

(iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of fixed assets and for the sale of services. During the course of our audit, no major weakness has been noticed in the internal controls system in respect of these areas. Due to nature of Company's business, clause (iv) of the Companies (Auditor's Report) Order, 2003 (as amended) is not applicable to the Company with respect to purchase of inventory and sale of goods.

(v) (a) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that the transactions that need to be entered into the register maintained under section 301 have been so entered.

(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements exceeding value of Rupees five lakhs have been entered into during the financial year at prices which are reasonable having regard to the prevailing market prices at the relevant time.

(vi) The Company has not accepted any deposits from the public.

(vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

(viii) To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the Company.

(ix) (a) The Company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, employees' state insurance, income-tax, wealth-tax, service tax, sales tax, customs duty and investor education and protection fund. As explained to us, this clause is not applicable to Company for excise duty and cess.

(b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, employees' state insurance, income-tax, wealth-tax, service tax, sales tax, customs duty, investor education and protection fund and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became

ANNEXURE TO AUDITORS' REPORT

payable. As explained to us, this clause is not applicable to Company for excise duty and cess.

(c) According to the information and explanation given to us, there are no dues of income tax, wealth tax, service tax, sales tax and customs duty, which have not been deposited on account of any dispute. As explained to us, this clause is not applicable to Company for excise duty and cess.

(x) The Company has no accumulated losses at the end of the financial year and it has not incurred any cash losses in the current and immediately preceding financial year.

(xi) Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to any bank. The Company did not have any dues from any financial institution or any outstanding debentures during the year.

(xii) According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.

(xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.

(xv) According to the information and explanations given to us, the Company had during the year given guarantee for loans taken by its subsidiaries from bank or financial institutions, the terms and conditions whereof in our opinion are not prima-facie prejudicial to the interest of the Company.

(xvi) Based on information and explanations given to us by the management, term loans were applied for the purpose for which the loans were obtained.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.

(xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.

(xix) The Company did not have any outstanding debentures during the year.

(xx) We have verified that the end use of money raised by public issue is as disclosed in the notes to the financial statements.

(xxi) Based upon the audit procedures performed by us for expressing our opinion on these financial statements and information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For S.R. BATLIBOI & ASSOCIATES

Chartered Accountants

per Sanjay Vij

Partner

Membership No.: 95169

Place : NOIDA

Date : February 12, 2009

BALANCE SHEET AS AT DECEMBER 31, 2008

(All amounts are in Rupees unless otherwise stated)

	Schedule No.	As at December 31, 2008	As at December 31, 2007
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	**133,624,620**	135,088,080
Reserves and surplus	2	**1,674,838,898**	1,478,747,829
		1,808,463,518	1,613,835,909
Loan funds			
Secured loans	3	**4,116,539**	6,083,942
		4,116,539	6,083,942
Deferred payments liability (refer note 11(b) under schedule 18)		**-**	10,630,002
Deferred tax liability (net)	4	**16,877,430**	24,429,549
TOTAL		**1,829,457,487**	1,654,979,402
APPLICATION OF FUNDS			
Fixed assets	5		
Gross block		**630,211,391**	573,007,951
Less : Accumulated depreciation / amortisation		**215,463,480**	181,574,630
Net block		**414,747,911**	391,433,321
Capital work-in-progress including capital advances		**3,213,404**	28,146,373
		417,961,315	419,579,694
Investments	6	**579,061,551**	507,679,330
Current assets, loans and advances			
Sundry debtors	7	**538,320,650**	452,264,749
Cash and bank balances	8	**558,687,177**	438,352,098
Other current assets	9	**51,815,693**	54,995,205
Loans and advances	10	**79,288,444**	116,382,235
(A)		**1,228,111,964**	1,061,994,287
Less : Current liabilities and provisions			
Current liabilities	11	**230,866,641**	216,719,099
Provisions	12	**164,810,702**	117,554,810
(B)		**395,677,343**	334,273,909
Net current assets (A-B)		**832,434,621**	727,720,378
TOTAL		**1,829,457,487**	1,654,979,402
Notes to accounts	18		

The schedules referred to above and the notes to accounts form an integral part of the Balance Sheet.
As per our report of even date.

For S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

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

per Sanjay Vij Partner Membership No. 95169	Satinder Singh Rekhi [Managing Director]	O'Neil Nalavadi [Director Finance & CFO]	Lt. Gen. Baldev Singh (Retd) [President & Senior Executive Director]	Nand Sardana [Company Secretary]
Place : NOIDA Date : February 12, 2009	Place : NOIDA Date : February 12, 2009	Place : EDH, CA, USA Date : February 12, 2009	Place : NOIDA Date : February 12, 2009	Place : NOIDA Date : February 12, 2009

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2008

(All amounts are in Rupees unless otherwise stated)

	Schedule No.	For the year ended December 31, 2008	For the year ended December 31, 2007
INCOME			
Sale of software products and rendering software development services		**2,038,482,256**	1,555,668,414
Provision for diminution in value of long term investments written back		**-**	10,442,237
Deferred payment compensation to erstwhile shareholders of ECnet Limited written back (refer note 11(a) under schedule 18)		**-**	4,009,985
Other income	13	**62,819,032**	76,644,142
TOTAL		**2,101,301,288**	1,646,764,778
EXPENDITURE			
Personnel expenses	14	**1,222,212,531**	910,117,223
Operating and other expenses	15	**555,767,893**	396,672,300
Depreciation / amortisation	5	**66,317,384**	53,449,466
Financial expenses	16	**4,933,628**	4,812,512
TOTAL		**1,849,231,436**	1,365,051,501
Profit before tax and prior period items		**252,069,852**	281,713,277
Prior period income/(expenses)	17	**-**	884,829
Profit for the year before tax and after prior period items		**252,069,852**	282,598,106
Current tax [Including tax/ (excess provision written back) related to earlier year (Rs.718,550) (Previous year Rs.759,520 (net of excess provision written back Rs.329,812))]		**26,869,162**	31,588,306
MAT credit entitlement [Including credit entitlement relating to earlier year Rs.4,493,844, (previous year Rs. Nil)]		**(11,703,591)**	(4,980,214)
Deferred tax		**(7,552,119)**	7,597,629
Fringe benefit tax		**7,980,375**	6,678,667
Total tax expense		**15,593,827**	40,884,388
Profit available for appropriation		**236,476,025**	241,713,718
Appropriations			
Proposed final dividend		**31,693,018**	24,448,871
Tax on proposed final dividend		**5,386,229**	4,155,087
Transfer to General Reserve		**23,647,603**	18,128,529
Surplus carried to Balance Sheet		**175,749,175**	194,981,231
Earnings per share (also refer note 13 under Schedule 18)			
Basic [Nominal value of shares Rs.10 (Previous year: Rs.10)]		**17.42**	17.80
Diluted [Nominal value of shares Rs.10 (Previous year: Rs.10)]		**17.21**	17.56
Notes to accounts	18		

The schedules referred to above and the notes to accounts form an integral part of the Profit and Loss Account.
As per our report of even date.

For S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

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

per Sanjay Vij
Partner
Membership No. 95169

Place : NOIDA
Date : February 12, 2009

Satinder Singh Rekhi
[Managing Director]

Place : NOIDA
Date : February 12, 2009

O'Neil Nalavadi
[Director Finance & CFO]

Place : EDH, CA, USA
Date : February 12, 2009

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

Place : NOIDA
Date : February 12, 2009

Nand Sardana
[Company Secretary]

Place : NOIDA
Date : February 12, 2009

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2008

(All amounts are in Rupees unless otherwise stated)

	For the year ended December 31, 2008	For the year ended December 31, 2007
A. Cash flow from operating activities		
Net profit before taxation	**252,069,852**	282,598,106
Adjustments for:		
Depreciation /amortisation	**66,317,384**	53,449,466
Provision for doubtful debts	**31,285,879**	19,612,796
Provision for doubtful advances	**38,950,930**	9,550,013
Bad debts and advances written off	**158,637**	56,377
Deferred payment compensation to erstwhile shareholders of ECnet Limited written back (refer note 11(a) under schedule 18)	**-**	(4,009,985)
Loss on sale / discard of fixed assets(net)	**6,034,659**	2,579,476
Unrealised foreign exchange loss / (gain)	**45,682,967**	(11,803,297)
Interest income	**(40,325,676)**	(39,740,799)
Provision for doubtful debts and advances written back	**(10,703,381)**	(18,130,412)
Other excess provisions written back	**(411,763)**	(438,285)
Provision for diminution in value of long term investments written back	**-**	(10,442,237)
Interest expense	**1,256,782**	3,003,079
Operating profit before working capital changes	**390,316,270**	286,284,298
Movements in working capital :		
(Increase) in sundry debtors	**(98,163,765)**	(136,199,197)
Decrease in other current assets	**327,950**	40,967,626
Decrease / (Increase) loans and advances	**10,668,024**	(13,779,694)
(Increase) in margin money deposit	**(45,312,652)**	(63,547,205)
Increase in provisions	**48,736,848**	4,907,663
Increase / (Decrease) in current liabilities	**(22,623,819)**	10,861,151
Cash generated from operations	**283,948,856**	129,494,642
Direct taxes paid, net of refunds	**(36,504,250)**	(22,050,166)
Interest on income-tax refund	**-**	86,830
Cash flow before extraordinary items	**247,444,606**	107,531,306
Extraordinary item	**-**	-
Net cash from operating activities (A)	**247,444,606**	107,531,306
B. Cash flows used in investing activities		
Purchase of fixed assets	**(70,962,820)**	(75,987,972)
Proceeds from sale of fixed assets	**1,537,727**	1,856,202
Investment in R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V., Netherlands) (refer note 11(d) under Schedule 18)	**(42,053,275)**	-
Investment in R Systems, S.A.S. France (formerly known as Sento S.A.S., France) (refer note 11(d) under Schedule 18)	**(32,593,766)**	-
Acquisition of subsidiary (net of deferred compensation to the erstwhile shareholders of R Systems Solutions, Inc. USA) (also refer note 11(b) under Schedule 18)	**(23,468,978)**	(38,698,900)
Settlement of deferred payment compensation to erstwhile shareholders of ECnet Limited (refer note 11(a) under Schedule 18)	**-**	(5,466,240)
Investment in subsidiary R Systems NV, Belgium	**-**	(3,471,640)
Additional Investment in subsidiary R Systems, Inc., USA	**-**	(19,940,000)

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2008

(All amounts are in Rupees unless otherwise stated)

		For the year ended December 31, 2008	For the year ended December 31, 2007
	Additional Investment in subsidiary R Systems Solutions, Inc., USA (refer note 11(b) under Schedule 18)	**-**	(43,852,500)
	Interest received	**34,739,900**	35,236,432
	Investment in long term fixed deposits with scheduled banks	**(468,766,926)**	(403,951,206)
	Proceeds from long term fixed deposits with scheduled banks	**432,579,210**	490,100,000
	Net cash used in investing activities (B)	**(168,988,928)**	(64,175,824)
C.	**Cash flows used in financing activities**		
	Proceeds from borrowings	**1,647,300**	2,501,868
	Repayment of borrowings	**(3,614,703)**	(34,806,314)
	Buy back of equity shares	**(7,030,950)**	-
	Interest paid	**(1,256,782)**	(3,003,079)
	Dividends paid	**(24,288,716)**	(16,201,135)
	Tax on dividend paid	**(4,155,087)**	(2,770,057)
	Net cash used in financing activities (C)	**(38,698,938)**	(54,278,717)
	Net Increase/ (decrease) in cash and cash equivalents (A + B + C)	**39,756,738**	(10,923,235)
	Cash and cash equivalents at the beginning of the year	**106,787,011**	117,710,246
	Cash and cash equivalents at the end of the year	**146,543,749**	106,787,011
	Components of cash and cash equivalents as at	**December 31, 2008**	December 31, 2007
	Cash on hand	**106,116**	158,976
	Balances with scheduled banks		
	On current accounts	**12,957,803**	13,477,220
	On cash credit accounts	**7,644,368**	9,260,471
	On EEFC accounts	**25,388,722**	24,362,527
	On deposit accounts	**472,053,763**	355,242,097
	On unclaimed dividend/IPO refund accounts	**333,517**	167,112
	Balances with other banks		
	On current account	**40,202,888**	35,683,695
		558,687,177	438,352,098
	Less: Margin money deposit	**(120,063,875)**	(74,751,223)
	Less : Long term deposits	**(290,589,888)**	(254,402,172)
	Less : Unclaimed dividend/IPO refund accounts	**(333,517)**	(167,112)
	Less: Unrealised gain on foreign currency cash and cash equivalents	**(1,156,148)**	(2,244,580)
	Net cash and cash equivalents	**146,543,749**	106,787,011

Note:

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

As per our report of even date.

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

Chartered Accountants

per Sanjay Vij Partner Membership No. 95169	Satinder Singh Rekhi [Managing Director]	O'Neil Nalavadi [Director Finance & CFO]	Lt. Gen. Baldev Singh (Retd) [President & Senior Executive Director]	Nand Sardana [Company Secretary]
Place : NOIDA Date : February 12, 2009	Place : NOIDA Date : February 12, 2009	Place : EDH, CA, USA Date : February 12, 2009	Place : NOIDA Date : February 12, 2009	Place : NOIDA Date : February 12, 2009

SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	As at December 31, 2008	As at December 31, 2007
Schedule 1: Share capital		
Authorised		
20,000,000 (Previous year 20,000,000) equity shares of Rs.10 each	**200,000,000**	200,000,000
Issued, subscribed and paid up		
13,782,206 (Previous year 13,782,206) equity shares of Rs.10 each fully paid-up	**137,822,060**	137,822,060
Less: Equity shares buy-back		
997,500 (Previous year 997,500) equity shares of Rs.2 each fully paid-up (equivalent to 199,500 (Previous year 199,500) equity shares of Rs.10 each) (refer note 10(a) under Schedule 18)	**1,995,000**	1,995,000
13,582,706 (Previous year 13,582,706) equity shares of Rs.10 each fully paid-up (refer note 10(a) and 10(b) under Schedule 18)	**135,827,060**	135,827,060
Less: Equity shares buy-back (refer note 10(b) under Schedule 18)		
132,670 (Previous year Nil) equity shares of Rs.10 each fully paid-up	**1,326,700**	-
	134,500,360	135,827,060
Less: 13,676 (Previous year Nil) equity shares of Rs.10 each fully paid-up lying in Share Suspense Account (refer note 10(b) under Schedule 18)	**136,760**	-
	134,363,600	135,827,060
Less: Advance to Indus Software Employees Welfare Trust (refer note 12(b) under Schedule 18)	**738,980**	738,980
	133,624,620	135,088,080

Note:

Also refer note 12 under Schedule 18 for details of options in respect of equity shares.

Schedule 2: Reserves and surplus		
Capital Redemption Reserve		
Balance as per last account	**-**	-
Add: Transferred from General Reserve (refer note 10(b) under Schedule 18)	**1,463,460**	-
	1,463,460	-
Securities Premium Account		
Balance as per last account	**981,687,568**	981,687,568
Less: Utilised for buy back of equity shares (refer note 10(b) under Schedule 18)	**5,567,490**	-
	976,120,078	981,687,568
Less: Advance to Indus Software Employees Welfare Trust (also refer note 12(b) under Schedule 18)	**2,282,728**	2,282,728
	973,837,350	979,404,840
General Reserve		
Balance as per last account	**20,640,719**	2,512,190
Add: Transferred from current year Profit and Loss Account	**23,647,603**	18,128,529
Less: Transferred to Capital Redemption Reserve	**1,463,460**	-
	42,824,862	20,640,719

SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	As at December 31, 2008	As at December 31, 2007
Profit and Loss Account		
Balance as per last account	**478,702,270**	283,721,039
Add: Adjustment in accordance with transitional provisions of AS-30 (refer note 2(c) under Schedule 18)	**2,261,781**	-
Add: Transferred from current year Profit and Loss Account	**175,749,175**	194,981,231
	656,713,226	478,702,270
	1,674,838,898	1,478,747,829

Schedule 3: Secured loans

From bank		
For motor vehicles (refer note 1 below)	**3,574,873**	6,083,942
(Secured by hypothecation of underlying motor vehicles)		
From others		
For motor vehicles (refer note 2 below)	**541,666**	-
(Secured by hypothecation of underlying motor vehicles)		
	4,116,539	6,083,942

Note:
(1) In case of motor vehicle loans from bank, amount repayable within one year is Rs.1,930,564 (Previous year Rs.3,363,465)
(2) In case of motor vehicle loans from others, amount repayable within one year is Rs.193,438 (Previous year Rs.Nil)

Schedule 4: Deferred tax liability (net)

Deferred tax liability		
Differences in depreciation/amortisation and other differences in block of fixed assets as per tax books and financial books	**40,650,154**	37,366,217
Gross deferred tax liability	**40,650,154**	37,366,217
Deferred tax assets		
Provision for gratuity	**14,351,012**	6,995,694
Provision for leave encashment	**9,421,712**	5,940,974
Gross deferred tax assets	**23,772,724**	12,936,668
Net deferred tax liability	**16,877,430**	24,429,549

Schedule 5: Fixed assets

(All amounts are in Rupees unless otherwise stated)

	Land - freehold	Land- leasehold	Building- freehold	Building- leasehold (1)	Leasehold improvements	Computers	Office and electrical equipments	Furniture and fittings	Vehicles	Softwares	Product development costs	Total	Previous Year
Gross block													
As at January 1, 2008	4,765,674	10,005,968	30,991,162	83,459,700	2,019,509	203,836,129	82,407,305	73,867,217	21,455,761	56,142,344	4,057,182	573,007,951	508,436,909
Additions	-	-	207,136	4,924,415	833,548	40,957,635	9,182,477	9,487,975	3,500,471	12,599,932	15,510,771	97,204,360	73,510,145
Deductions	-	-	-	-	-	18,624,902	4,720,935	555,323	3,190,653	12,909,107	-	40,000,920	8,939,103
At December 31, 2008	**4,765,674**	**10,005,968**	**31,198,298**	**88,384,115**	**2,853,057**	**226,168,862**	**86,868,847**	**82,799,869**	**21,765,579**	**55,833,169**	**19,567,953**	**630,211,391**	**573,007,951**
Depreciation / amortisation													
As at January 1, 2008	-	609,846	3,169,995	4,381,177	332,675	90,775,093	16,083,637	18,826,004	4,799,914	39,130,776	3,465,513	181,574,630	132,628,589
For the year	-	163,544	510,253	1,429,186	824,873	34,552,840	6,016,616	5,386,452	2,071,965	10,892,303	4,469,352	66,317,384	53,449,466
Deletions / adjustments	-	-	-	-	-	15,396,633	2,562,807	493,803	1,075,739	12,899,552	-	32,428,534	4,503,425
At December 31, 2008	**-**	**773,390**	**3,680,248**	**5,810,363**	**1,157,548**	**109,931,300**	**19,537,446**	**23,718,653**	**5,796,140**	**37,123,527**	**7,934,865**	**215,463,480**	**181,574,630**
Depreciation / amortisation for previous year	-	163,097	509,756	1,356,086	291,006	29,967,435	4,820,635	5,063,456	1,932,636	8,331,069	1,014,290	53,449,466	45,312,422
Net block													
At December 31, 2008	**4,765,674**	**9,232,578**	**27,518,050**	**82,573,752**	**1,695,509**	**116,237,562**	**67,331,401**	**59,081,216**	**15,969,439**	**18,709,642**	**11,633,088**	**414,747,911**	**391,433,321**
At December 31, 2007	4,765,674	9,396,122	27,821,167	79,078,523	1,686,834	113,061,036	66,323,668	55,041,213	16,655,847	17,011,568	591,669		
Capital work in progress (including capital advances of Rs.1,785,639 (Previous year Rs.5,431,645)) (refer note 4 below)												3,213,404	28,146,373
												417,961,315	**419,579,694**

Notes:

(1) Includes Rs.21,155,390 (Previous Year Rs.21,155,390) paid towards land and building under a composite lease for which no separate values are assignable.

(2) Vehicles amounting to Rs.12,519,362 (Previous year Rs.16,863,326) are hypothecated against terms loans for vehicle finance from banks.

(3) Vehicles amounting to Rs.712,306 (Previous year Rs. Nil) are hypothecated against terms loans for vehicle finance from others.

(4) Capital work in progess include product development cost in progress amounting to Rs. Nil (Previous year Rs.15,510,771)

(5) Also refer note 4 under Schedule 18 for assets obtained on loan.

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(All amounts are in Rupees unless otherwise stated)

			As at December 31, 2008		As at December 31, 2007
Schedule 6: Investments					
Long term investments (at cost)					
A.	**Other than trade- unquoted** Equity shares 2,500 (Previous year 2,500) equity shares of Rs.10 each in The Saraswat Co-operative Bank Limited		**25,000**		25,000
B.	**In subsidiary companies:** Unquoted, fully paid up				
(i)	4,070,000 (Previous year 4,070,000) ordinary shares of "no par" value in R Systems (Singapore) Pte. Ltd.		**104,173,570**		104,173,570
(ii)	2,000 (Previous year 2,000) shares of "no par" value in R Systems, Inc., USA		**223,358,532**		223,358,532
(iii)	243,750 (Previous year 243,750) common stock of US$1 each fully paid up in Indus Software Inc., USA	10,785,738		10,785,738	
	Less: Provision for diminution in value	10,784,738	**1,000**	10,784,738	1,000
(iv)	17,651,502 (Previous year 17,651,502) ordinary shares of "no par" value in ECnet Limited, Singapore (also refer note 11(a) under Schedule 18)	34,938,958		34,938,958	
	Less : Adjustment with securties premium as per order of High Court	24,495,721		24,495,721	
		10,443,237		10,443,237	
	Less: Amounts adjusted on settlement of liabilities towards certain erstwhile shareholders (refer note 11(a) under Schedule 18)	10,442,237	**1,000**	10,442,237	1,000
(v)	Investment in R Systems Solutions, Inc,USA (also refer note 11(b) under Schedule 18)				
	8,666,884 (Previous year 8,666,884) Series A convertible preferred stock of "no par" value		**129,531,268**		132,796,088
	10,335,833 (Previous year 10,335,833) common stock of "no par" value				
	1,000,000 (Previous year 1,000,000) common stock of "no par" value		**43,852,500**		43,852,500
(vi)	200 (Previous year 200) shares of Euro 310 each fully paid up in R Systems NV, Belgium		**3,471,640**		3,471,640
(vii)	Investment in R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V., Netherlands) (refer note 11(d) under Schedule 18) 3,170 (Previous year Nil) ordinary shares of Euro 100 each fully paid up		**42,053,275**		-
(viii)	Investment in R Systems S.A.S., France (formerly known as Sento S.A.S., France) (refer note 11(d) under Schedule 18) 10,000 (Previous year Nil) ordinary shares of Euro 15.24 each fully paid up		**32,593,766**		-
			579,061,551		507,679,330
	Aggregate amount of unquoted investments		**579,061,551**		507,679,330
	Aggregate amount of quoted investments		-		-

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(All amounts are in Rupees unless otherwise stated)

	As at December 31, 2008	As at December 31, 2007
Schedule 7: Sundry debtors		
Debts outstanding for a period more than six months		
Unsecured, considered good	**13,496,762**	34,200,782
Considered doubtful	**72,161,896**	38,240,648
Other debts		
Unsecured, considered good	**524,823,888**	418,063,967
Considered doubtful	**10,084,528**	14,071,701
	620,567,074	504,577,098
Less : Provision for doubtful debts	**82,246,424**	52,312,349
	538,320,650	452,264,749
Included in Sundry debtors are: Dues from companies under the same management From subsidiary companies		
R Systems, Inc., USA	**16,970,552**	50,842,861
ECnet Limited, Singapore	**4,306,137**	-
R Systems Solutions, Inc, USA	**11,309,453**	-
R Systems Europe B.V., Netherlands	**633,885**	-

	As at December 31, 2008	As at December 31, 2007
Schedule 8: Cash and bank balances		
Cash on hand	**106,116**	158,976
Balances with scheduled banks		
On current accounts	**12,957,803**	13,477,220
On cash credit accounts	**7,644,368**	9,260,471
On EEFC accounts	**25,388,722**	24,362,527
On deposit accounts	**472,053,763**	355,242,097
On unclaimed dividend/IPO refund accounts	**333,517**	167,112
Balance with other banks		
On current account with California Bank & Trust Maximum balance during the year Rs.76,394,231 (Previous year Rs.65,257,436))	**38,555,292**	35,683,695
On current account with Fortis Bank (Netherlands) N.V. (Maximum balance during the year Rs.1,944,896 (Previous year Rs. NIL)	**1,647,596**	-
	558,687,177	438,352,098

Notes:

1) Balances with scheduled banks - on deposit accounts include receipts lien marked with banks against guarantees issued in favour of various Government departments Rs.120,063,875 (Previous year Rs.74,751,223).
2) Also refer note 19 (c) under Schedule 18 for investment of balance funds from IPO proceeds pending its utilisation.
3) Also refer note 20 under Schedule 18 for details of cash and bank balances.

		As at December 31, 2008		As at December 31, 2007
Schedule 9: Other current assets				
Interest accrued on deposits		**4,150,140**		7,013,023
Interest accrued on staff advance		**39,495**		28,174
Unbilled revenue	47,626,058		56,359,410	
Less: Anticipated cost to complete contracts	-	**47,626,058**	8,405,402	47,954,008
		51,815,693		54,995,205

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(All amounts are in Rupees unless otherwise stated)

	As at December 31, 2008	As at December 31, 2007
Schedule 10: Loans and advances		
(Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received (including Rs.5,348,467 considered doubtful, Previous year Rs.5,585,493)	**38,867,683**	48,554,250
Advance recoverable from subsidiary companies		
a) Advance recoverable from R Systems, Inc., USA (a wholly owned subsidiary company)	**1,313,850**	51,512,070
b) Advance recoverable from ECnet Limited, Singapore (a subsidiary company)	**-**	157,082
c) Advance recoverable from R Systems Solutions, Inc, USA (a wholly owned subsidiary company)	**5,456,373**	2,373,373
d) Advance recoverable from R Systems (Singapore) Pte Ltd, Singapore (a wholly owned subsidiary company)	**-**	29,919
e) Advance recoverable from R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.) (a wholly owned subsidiary company)	**192,464**	-
Loan to ECnet Limited, Singapore (a subsidiary company)	**94,822,750**	40,916,100
[including Rs.94,822,750 considered doubtful, (Previous year Rs.40,916,100)]		
MAT credit receivable	**16,683,805**	4,980,214
Deposits - others	**21,986,930**	14,360,820
Advance income taxes (net of provisions amounting to Rs.78,974,306 (Previous year Rs.Nil))	**135,806**	-
	179,459,661	162,883,828
Less : Provision for doubtful loans and advances	**100,171,217**	46,501,593
	79,288,444	116,382,235
Maximum amounts outstanding from companies under the same management		
From subsidiary companies		
R Systems, Inc., USA	**54,856,309**	69,963,920
ECnet Limited, Singapore	**96,312,670**	42,300,777
R Systems Solutions, Inc, USA	**6,472,392**	2,403,805
R Systems (Singapore) Pte. Ltd., Singapore	**48,653**	1,469,767
R Systems Europe B.V., Netherlands	**192,464**	-

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(All amounts are in Rupees unless otherwise stated)

	As at December 31, 2008	As at December 31, 2007
Schedule 11: Current liabilities		
Sundry creditors		
a) Total outstanding dues of micro enterprises and small enterprises included in Sundry creditors (also refer note 9 under Schedule 18)	**-**	-
b) Total outstanding dues other than micro enterprises and small enterprises included in Sundry creditors	**100,117,975**	101,049,251
Mark-to-market on forward contracts	**46,759,066**	-
Unamortised income on forward contracts	**-**	2,998,572
Payable to subsidiary companies	**2,687,022**	18,038,877
Deferred payment compensation to the erstwhile shareholders of ECnet Limited (refer note 11 (a) under Schedule 18)	**9,285,242**	7,345,396
Deferred payment compensation to the erstwhile shareholders of R Systems Solutions, Inc (refer note 11 (b) under Schedule 18)	**9,782,911**	20,922,415
Deferred revenue	**43,951,341**	50,233,092
Investor education and protection fund (not due)		
(a) Unclaimed dividend	**258,267**	98,112
(b) Unclaimed application money received for allotment of equity shares and due for refund	**75,250**	69,000
Security deposits	**2,087,590**	1,973,613
Other liabilities	**15,861,977**	13,990,771
	230,866,641	216,719,099
Schedule 12: Provisions		
Employee bonus	**20,774,350**	15,733,333
Income tax (net of advance taxes amounting to Rs. Nil (Previous year Rs.42,425,367))	**-**	9,912,825
Fringe benefit tax (net of advance taxes amounting to Rs.18,384,772 (Previous year Rs.14,558,895))	**264,270**	307,690
Proposed final dividend	**31,693,018**	24,448,871
Tax on proposed final dividend	**5,386,229**	4,155,087
Gratuity (refer note 14 under Schedule 18)	**46,466,537**	23,306,788
Long term compensated absences	**60,226,298**	39,690,216
	164,810,702	117,554,810

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(All amounts are in Rupees unless otherwise stated)

		For the year ended December 31, 2008		For the year ended December 31, 2007
Schedule 13: Other income				
Interest on:				
- Bank deposits (Gross of tax deducted at source Rs.8,437,338 (Previous year Rs.9,096,324))		**36,454,071**		37,138,192
- Income-tax refund		**-**		86,830
- Interest on loan to ECnet Limited		**3,871,605**		2,515,777
Provision for doubtful debts and advances written back		**10,703,381**		18,130,412
Other excess provisions written back, as no longer required		**411,763**		438,285
Foreign exchange fluctuation (net)		**-**		13,964,670
Miscellaneous income		**11,378,212**		4,369,976
		62,819,032		76,644,142
Schedule 14: Personnel expenses				
Salaries, wages and bonus		**1,154,984,627**		858,044,847
Contribution to provident fund and other payments		**38,434,781**		31,206,804
Staff welfare expenses		**28,793,123**		20,865,572
		1,222,212,531		910,117,223
Note Also refer note 8 under Schedule 18 for managerial remuneration.				
Schedule 15: Operating and other expenses				
Power and fuel		**33,958,885**		26,670,006
Rent - premises		**32,895,686**		20,647,093
Rent - equipments		**4,410,161**		5,530,160
Rates and taxes		**1,407,271**		2,211,801
Insurance		**5,814,367**		2,965,708
Repair and maintenance				
- Buildings		**1,541,512**		1,010,314
- Others		**22,271,641**		20,599,735
Advertising and sales promotion		**10,102,522**		3,726,859
Commission-others		**5,138,436**		8,347,199
Traveling and conveyance		**189,659,738**		178,108,027
Communication costs		**41,782,195**		42,514,310
Printing and stationery		**4,904,124**		4,640,906
Legal and professional fees		**24,167,904**		27,110,057
Directors' sitting fee		**210,000**		330,000
Auditors' remuneration				
- Statutory audit fee	**1,350,000**		1,573,040	
- Quarterly audit fee	**1,874,160**		1,348,440	
- Other services	**1,043,540**		336,960	
- Out of pocket expenses	**164,948**	**4,432,648**	106,652	3,365,092
Foreign exchange fluctuation (net)		**73,522,920**		-
Provision for doubtful debts		**31,285,879**		19,612,796
Provision for doubtful advances		**38,950,930**		9,550,013
Bad debts and advances written off		**158,637**		56,377

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(All amounts are in Rupees unless otherwise stated)

	For the year ended December 31, 2008	For the year ended December 31, 2007
Loss on sale / discard of fixed assets (net)	**6,034,659**	2,579,476
Recruitment and training expenses	**10,016,831**	7,162,928
Watch and ward expenses	**4,897,514**	4,153,590
Membership and subscription	**3,137,865**	2,730,585
Miscellaneous expenses	**5,065,568**	3,049,268
	555,767,893	396,672,300
Schedule 16: Financial expenses		
Interest		
- on ECB from R Systems (Singapore) Pte Ltd.	**-**	615,421
- on loans from banks	**1,256,782**	2,387,658
Bank charges	**3,676,846**	1,809,433
	4,933,628	4,812,512
Schedule 17: Prior period income/(expenses)		
Salaries, wages and bonus	**-**	2,289,329
Legal and professional fees	**-**	(1,404,500)
	-	884,829

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(All amounts are in Rupees unless otherwise stated)

Schedule 18: Notes to accounts

1. Nature of operations

The Company is a leading global provider of IT solutions and Business Process Outsourcing (BPO) services. The Company's primary focus is to provide full service IT solutions, software engineering services, technical support, customer care and other IT enabled services to the high technology sector, independent software vendors (ISV's), banks, financial services companies and health care sector. The Company develops and markets a suite of applications under the brand name "Indus" for the retail lending sector and undertakes turnkey software projects in the banking and financial services segment.

2. Statement of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with Notified accounting standard by Companies Accounting Standards Rules, 2006 and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual and going concern basis, except for derivative financial instruments that have been measured at fair value. The accounting policies have been consistently applied by the Company and except for the changes in accounting policy discussed more fully below, are consistent with those used in the previous year.

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) Changes in accounting policies

Accounting for derivatives

Pursuant to The Institute of Chartered Accountants of India's (ICAI) Announcement "Accounting for Derivatives", the Company had early adopted AS 30 "Financial Instruments: Recognition and Measurement" w.e.f. April 1, 2008, to the extent that the adoption was not in conflict with existing mandatory accounting standards and other authoritative pronouncements, Companies Act, 1956 and other regulatory requirements. The Company uses foreign exchange forward contracts (derivative financial instrument) to hedge its exposure to movements in foreign exchange rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the Profit and Loss Account.

During the quarter ended March 31, 2008, with respect to derivative contracts, other than those covered under Accounting Standard 11, the Company was following policy of mark to market on a portfolio basis of the aforementioned derivative contracts and recognising the net losses after considering the offsetting effect on the underlying hedge item in the income statement, net gains were ignored. Had the same policy been followed, the profit after tax for the year ended December 31, 2008 would have been higher by Rs.2,261,781.

In the previous year with respect to derivative contracts, other than those covered under Accounting Standard 11, the Company was following the policy of mark to market on a portfolio basis of the aforementioned derivative contracts and recognizing the net gains/losses after considering the offsetting effect on the underlying hedge item in the income statement. Had the previous year policy been followed, the profit after tax for the year ended December 31, 2008 would have been higher by Rs. Nil.

(d) 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.

(e) Depreciation

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

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

Category of fixed assets	Estimated useful life
Land – leasehold	Lease period
Buildings – freehold/leasehold	Lower of lease period or 61 years
Plant and machinery - office and electrical equipments other than i) UPS systems,	20 years

(All amounts are in Rupees unless otherwise stated)

ii) stand alone air conditioners and iii) telephone instruments, other than meridian phones.	
UPS systems	12 years
Stand alone air conditioners and telephone instruments other than meridian phones.	6 years
Computer hardware and network installations	6 years
Furniture and fittings	15 years
Vehicles	10 years

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

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

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

(f) Impairment

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

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

(g) Intangibles

Product development costs

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

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

Computer software

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

(h) Expenditure on new projects

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

(i) 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.

(j) Investments

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

(k) Revenue recognition

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

Sale of software products

Revenue from the sale of software license is recognised when the sale has been completed with the transfer of title.

Rendering of services

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

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

Fixed-price contracts vary in duration depending on the terms of the work being performed. Revenue from fixed price contracts

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(All amounts are in Rupees unless otherwise stated)

(including maintenance and support contracts) is recognised using the percentage of completion method, when reasonable progress has been made on the milestones achieved as specified in the contracts. The stage of completion of project is determined by the proportion that contract efforts incurred for work performed up to the balance sheet date bear to the estimated total contract effort. Changes in contract performance, estimated profitability and final contract settlements may result in revisions to costs and revenues and are recognised in the year in which the revisions are determined. If a loss is projected on any contract in process, the entire projected loss is recognised currently.

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.

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

Interest

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

(l) Foreign currency translation

Foreign currency transactions

(i) Initial recognition

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

(ii) Conversion

Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction.

(iii) Exchange differences

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

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

The premium or discount arising at the inception of forward exchange contracts (except outstanding against firm commitments and highly probable forecast transaction) is amortised as expense or income over the life of the contract. Exchange differences on such contracts are recognised in the statement of profit and loss in the year in which the exchange rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognised as income or as expense for the year.

(v) Translation of Integral foreign operation

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

(m) Employee benefits

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

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

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

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

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

(n) Income taxes

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

Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the relevant tax regulations applicable to the Company. Payments of current income taxes are made based on the assessable profits on the yearly basis from April to March.

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(All amounts are in Rupees unless otherwise stated)

Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the current year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

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

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

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

(o) Earnings per share

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

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

(p) Provision

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

(q) Segment reporting policies

Identification of segments:

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

Intersegment transfers:

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

Allocation of common costs:

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

Unallocated items:

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

Segment Policies:

The Company prepares its segment information in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Company as a whole.

(r) Accounting for derivatives

The Company uses foreign exchange forward contracts (derivative financial instrument) to hedge its exposure to movements in foreign exchange rates. The use of these foreign exchange forward contracts reduces the risk or cost to the Company and the Company does not use the foreign exchange forward contracts or options for trading or speculation purposes.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and

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(All amounts are in Rupees unless otherwise stated)

the ineffective portion of an effective hedge, are taken directly to the Profit and Loss Account.

The fair value of foreign exchange forward contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

  At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

  Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the Profit and Loss Account. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in the Profit and Loss Account.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the Profit and Loss Account. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the Profit and Loss Account. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

The Company uses forward exchange contracts as hedges of its exposure to foreign currency risk in forecasted transactions and firm commitments. (refer note 15 (b) for more details)

(s) Cash and cash equivalents

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

(t) Employee stock compensation cost

Measurement and disclosure of the employee share-based payment plans is done in accordance with SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the Guidance Note on Accounting for Employee Share-based Payments, issued by the Institute of Chartered Accountants of India. The Company measures compensation cost relating to employee stock options using the intrinsic value method. Compensation expense is amortized over the vesting period of the option on a straight line basis.

3. Segment information

Business segments :

The Company considers business segment as the basis for primary segmental reporting. The Company is organised into two business segments – software development and customisation services and BPO services. Costs and expenses which cannot be allocated to any business segment are reflected in the column ‘corporate and others’. Segments have been identified and reported based on the nature of the services, the risks and returns, the organisation structure and the internal financial reporting system.

Geographical segments :

The Company reports secondary segmentation information on the basis of the geographical location of the customers. Although the Company's major operating divisions are managed on a worldwide basis, they operate in five principal geographical areas of the world which are: India, United States of America, South East Asian countries, Europe and Other areas.

The following table provides required information for the primary segments for the year ended December 31, 2008 and December 31, 2007:

(All amounts are in Rupees unless otherwise stated)

Particulars	Software development & customisation services		Business process outsourcing services		Eliminations		Corporate and others		Total	
	Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
REVENUE										
External sales	**1,777,860,138**	1,347,767,967	**260,622,118**	207,900,447	**-**	-	**-**	-	**2,038,482,256**	1,555,668,414
Total revenue	**1,777,860,138**	1,347,767,967	**260,622,118**	207,900,447	**-**	-	**-**	-	**2,038,482,256**	1,555,668,414
RESULT										
Segment result	**246,164,359**	232,952,737	**37,754,671**	24,022,355					**283,919,030**	256,975,092
Unallocated corporate expenses							**82,708,047**	44,339,859	**82,708,047**	44,339,859
Operating profit									**201,210,983**	212,635,233
Interest expenses							**(1,256,782)**	(3,003,079)	**(1,256,782)**	(3,003,079)
Interest income							**40,325,676**	39,740,799	**40,325,676**	39,740,799
Other income							**11,789,975**	33,225,153	**11,789,975**	33,225,153
Income taxes							**(15,593,827)**	(40,884,388)	**(15,593,827)**	(40,884,388)
Net profit									**236,476,025**	241,713,718

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The following table provides required information for the primary segments for the year ended December 31, 2008 and December 31, 2007:

(All amounts are in Rupees unless otherwise stated)

Particulars	Software development & customisation services		Business process outsourcing services		Eliminations		Corporate and others		Total	
	December 31, 2008	December 31,2007	**December 31,2008**	December 31,2007	**December 31,2008**	December 31,2007	**December 31,2008**	December 31,2007	**December 31,2008**	December 31,2007
OTHER INFORMATION										
Segment assets	**972,742,814**	944,414,083	**78,992,384**	69,767,827	**6,700,503**	21,233,046			**1,045,034,695**	992,948,864
Unallocated corporate assets							**1,179,964,329**	996,304,447	**1,179,964,329**	996,304,447
Income Tax Assets							**135,806**	-	**135,806**	-
Total assets	**972,742,814**	944,414,083	**78,992,384**	69,767,827	**6,700,503**	21,233,046	**1,180,100,135**	996,304,447	**2,225,134,830**	1,989,253,311
Segment liabilities	**331,418,630**	250,453,184	**18,330,568**	40,879,745	**6,700,503**	21,233,046			**343,048,695**	270,099,883
Unallocated corporate liabilities							**51,094,688**	66,512,368	**51,094,688**	66,512,368
Income tax liabilities							**22,527,929**	38,805,151	**22,527,929**	38,805,151
Total liabilities	**331,418,630**	250,453,184	**18,330,568**	40,879,745	**6,700,503**	21,233,046	**73,622,617**	105,317,519	**416,671,312**	375,417,402
Capital expenditures	**69,192,294**	88,041,540	**3,079,097**	3,001,855					**72,271,391**	91,043,395
Depreciation and amortisation	**59,736,947**	46,647,620	**6,580,437**	6,801,846					**66,317,384**	53,449,466
Other non-cash expenses	**66,287,624**	24,604,553	**10,142,481**	7,194,109					**76,430,105**	31,798,662

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(All amounts are in Rupees unless otherwise stated)

Geographical segments:

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

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

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

	For the year ended December 31, 2008	For the year ended December 31, 2007
India	**136,160,588**	127,700,176
USA	**1,291,777,338**	1,067,039,915
South East Asia	**124,697,186**	37,599,754
Europe	**404,640,768**	277,820,727
Others	**81,206,376**	45,507,842
Total	**2,038,482,256**	1,555,668,414

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

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

	Carrying amount of assets For the year ended December 31, 2008	Carrying amount of assets For the year ended December 31, 2007	**Addition to fixed assets and intangible assets For the year ended December 31, 2008**	Addition to fixed assets and intangible assets For the year ended December 31, 2007
India	**1,103,333,857**	987,032,186	**72,271,391**	91,043,395
USA	**737,845,884**	845,677,873	**-**	-
South East Asia	**144,521,684**	116,968,208	**-**	-
Europe	**209,422,609**	22,206,772	**-**	-
Others	**30,010,796**	17,368,272	-	-
Total	**2,225,134,830**	1,989,253,311	**72,271,391**	91,043,395

4. Related Party Disclosures

(i) Subsidiaries	R Systems (Singapore) Pte Ltd, Singapore R Systems, Inc., USA Indus Software, Inc., USA R Systems Solutions, Inc., USA R Systems N.V. Belgium (incorporated on August 28, 2007) R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V., Netherlands) (date of acquisition January 23, 2008) R Systems S.A.S., France (formerly known as Sento S.A.S., France) (date of acquisition January 23, 2008) ECnet Ltd, Singapore ECnet (M) Sdn Bhd, Malaysia ECnet Systems (Thailand) Co. Ltd., Thailand ECnet (Shanghai) Co. Ltd., China ECnet (Hong Kong) Ltd., Hong Kong ECnet, Inc., USA ECnet Kabushiki Kaisha, Japan
Key management personnel (directors)	Satinder Singh Rekhi, Chairman and Managing Director Lt. Gen. Baldev Singh (Retd), President and Senior Executive Director O'Neil Nalavadi, Director Finance & Chief Financial Officer Raj Swaminathan, Director & Chief Operating Officer

(ii) Details of transactions with related parties for the year ended December 31, 2008 and December 31, 2007:-

	Year ended December 31, 2008	Year ended December 31, 2007
Sales to		
ECnet Ltd, Singapore [including derecognised revenue of Previous year Rs.15,726,585]	**46,962,347**	4,359,068
R Systems, Inc., USA	**65,679,393**	89,918,775
R Systems (Singapore) Pte Ltd, Singapore	**-**	213,608
R Systems Solutions, Inc., USA	**25,843,724**	-
ECnet Kabushiki Kaisha, Japan	**2,674,514**	-
R Systems Europe BV, Netherlands	**2,531,752**	-
Total	**143,691,730**	94,491,451

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(All amounts are in Rupees unless otherwise stated)

	Year ended December 31, 2008	Year ended December 31, 2007
Other income		
R Systems, Inc., USA	**7,603,293**	2,144,187
Commission on sales and other expenses paid to		
ECnet Ltd., Singapore	**6,830,320**	2,005,177
R Systems, Inc., USA	**116,796**	7,720,452
R Systems (Singapore) Pte Ltd, Singapore	**1,463,065**	-
Total	**8,410,181**	9,725,629
Interest received from		
ECnet Ltd., Singapore	**3,871,605**	2,515,777
Interest paid to		
R System (Singapore) Pte Ltd, Singapore	**-**	615,421
Travel and other expenses reimbursed to		
ECnet Ltd, Singapore	**4,782,120**	661,560
R Systems, Inc., USA	**87,050,737**	61,033,101
R Systems N.V. Belgium	**593,655**	-
R Systems Europe B.V., Netherlands	**3,547,075**	-
Total	**95,973,587**	61,694,661
Travel and other expenses paid by company on behalf of		
ECnet Ltd, Singapore	**3,466,750**	1,411,477
R Systems, Inc., USA	**11,007,943**	14,516,801
R Systems Solutions, Inc., USA	**2,106,303**	-
R Systems (Singapore) Pte Ltd, Singapore	**-**	2,300
R Systems Europe B.V., Netherlands	**572,042**	-
Total	**17,153,038**	15,930,578
Reimbursement for purchase of assets		
R Systems, Inc., USA	**5,907**	293,008
ECnet Ltd, Singapore	**83,194**	-
Total	**89,101**	293,008
Assets obtained on loan from		
R Systems, Inc., USA	**1,919,662**	2,450,403
Guarantee given for loans taken by		
R Systems, Inc, USA	**114,351,400**	90,700,500
R Systems Europe B.V., Netherlands	**94,620,150**	-
Total	**208,971,550**	90,700,500

	Year ended December 31, 2008	Year ended December 31, 2007
Investment/additional investment in		
R Systems, Inc., USA	**-**	19,940,000
R Systems Solutions, Inc., USA	**-**	43,852,500
R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.)	**42,053,275**	-
R Systems S.A.S., France (formerly known as Sento S.A.S., France)	**32,593,766**	-
R Systems N.V. (Belgium)	**-**	3,471,640
Total	**74,647,041**	67,264,140
Loan repaid		
R Systems (Singapore) Pte Ltd, Singapore	**-**	15,000,800
Loan given to		
ECnet Ltd, Singapore	**38,950,930**	8,979,746
Repayment of Loan received from		
ECnet Ltd, Singapore	**-**	2,876,930
Remuneration to key management personnel		
- Satinder Singh Rekhi	**15,455,824**	12,093,063
- O'Neil Nalavadi	**10,290,948**	8,776,462
- Lt. Gen. Baldev Singh (Retd.)	**6,583,334**	6,183,333
- Raj Swaminathan	**5,601,494**	5,434,548
Total	**37,931,600**	32,487,406

Balance outstanding as at the year end	As at December 31, 2008	As at December 31, 2007
Receivable-trade		
ECnet Ltd, Singapore	**4,306,137**	-
R Systems, Inc., USA	**16,970,552**	50,842,861
R Systems Solutions, Inc., USA	**11,309,453**	-
R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.)	**633,885**	-
Total	**33,220,027**	50,842,861
Receivable-others		
ECnet Ltd. Singapore	**-**	157,082
R Systems, Inc., USA	**1,313,850**	51,512,070
R Systems (Singapore) Pte Ltd, Singapore	**-**	29,919
R Systems Solutions, Inc., USA	**5,456,373**	2,373,373
R Systems Europe B.V., Netherlands (formerly known as Sento Europ B.V.)	**192,464**	-
Total	**6,962,687**	54,072,444

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(All amounts are in Rupees unless otherwise stated)

Balance outstanding as at the year end	As at December 31, 2008	As at December 31, 2007
Payable		
ECnet Ltd, Singapore	**859,236**	836,683
R Systems, Inc., USA	**894,812**	16,307,550
Indus Software, Inc., USA	**-**	894,644
R Systems Europe B.V., Netherlands (formerly known as Sento Europ B.V.)	**339,319**	-
R Systems N.V. Belgium	**593,655**	-
Total	**2,687,022**	18,038,877
Assets obtained on loan		
R Systems, Inc., USA	**18,445,610**	16,525,948
R Systems (Singapore) Pte Ltd, Singapore	**157,573**	157,573
Total	**18,603,183**	16,683,521
Guarantee given for loans taken by		
R Systems, Inc., USA	**114,351,400**	90,700,500
R Systems Europe B.V. Netherlands	**94,620,150**	-
Total	**208,971,550**	90,700,500
Loan given (fully provided for)		
ECnet Ltd, Singapore	**94,822,750**	40,916,100

5. Capital commitments

	As at December 31, 2008	As at December 31, 2007
Commitments for acquisition of fixed assets	**832,504**	18,318,527

6. Contingent liabilities not provided for:

	As at December 31, 2008	As at December 31, 2007
Performance guarantees given to Department of telecommunication for Domestic & International 'Other Service Provider' licenses	**102,000,000**	51,000,000
Guarantees given on behalf of wholly owned subsidiary		
R Systems, Inc., USA	**114,351,400**	90,700,500
R Systems Europe B.V. Netherlands	**94,620,150**	-
Total	**310,971,550**	141,700,500

Also refer note 11(a) and (b) below.

7. Leases

In case of assets taken on lease

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

	Year ended December 31, 2008	Year ended December 31, 2007
Lease payments for the year	**19,565,099**	14,363,700
Minimum Lease Payments:		
Not later than one year	**20,521,800**	7,624,700
Later than one year but not later than five years	**15,302,300**	6,610,218
Later than five years	**-**	-

8. Supplementary statutory information

	Year ended December 31, 2008	Year ended December 31, 2007
8.1 (a) **Directors' remuneration**		
Salaries, wages and bonus	**37,778,240**	32,334,046
Contribution to provident fund	**153,360**	153,360
Total	**37,931,600**	32,487,406

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

8.1(b) Computation of net profit under section 349 of the Companies Act, 1956 for calculation of managerial remuneration under section 198:-

	Particulars	Year ended December 31, 2008	Year ended December 31, 2007
	Profit after taxation	**236,476,025**	241,713,718
	Add:		
(i)	Remuneration paid to the whole time directors	**37,931,600**	32,487,406
(ii)	Provision for doubtful debts/ advances	**70,236,809**	29,162,809
(iii)	Tax for the year	**15,593,827**	40,884,388
(iv)	Depreciation/amortisation as per books of accounts	**66,317,384**	53,449,466
	Less:		
(i)	Depreciation/amortisation as envisaged under Section 350 of the Companies Act*	**66,317,384**	53,449,466

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(All amounts are in Rupees unless otherwise stated)

	Particulars	Year ended December 31, 2008	Year ended December 31, 2007
(ii)	Write back of provision for doubtful debts/advances (net)	**10,703,381**	18,130,412
(iii)	Provision for diminution in value of long term investments written back	**-**	10,442,237
(iv)	Deferred payment compensation to erstwhile shareholders of ECnet Limited written back	**-**	4,009,985
	Net Profit for the purpose of managerial remuneration	**349,534,880**	311,665,687
	Overall maximum remuneration to all managerial personnel at 10% of the net profits as calculated above	**34,953,488**	31,166,569
	Overall maximum remuneration to individual managerial personnel at 5% of the net profits as calculated above	**17,476,744**	15,583,284

* The Company depreciates fixed assets based on estimated useful lives that are lower than those implicit in Schedule XIV of the Companies Act, 1956. Accordingly, the rates of depreciation used by the Company are higher than the minimum prescribed under Schedule XIV.

8.1 (c) The remuneration paid in excess of the limits specified in 8.1 (b) above has been approved by the Central Government.

8.2 Earnings in foreign currency (on accrual basis)

	Year ended December 31, 2008	Year ended December 31, 2007
Exports at F.O.B. Value	**1,902,321,668**	1,427,968,238
Interest	**3,871,605**	2,515,777
Reimbursement of Travel/ Communication costs	**63,478,327**	55,560,660
Miscellaneous income	**7,603,293**	2,144,187
Total	**1,977,274,893**	1,488,188,862

8.3 Expenditure in foreign currency (on accrual basis)

	Year ended December 31, 2008	Year ended December 31, 2007
Traveling and conveyance	**167,990,682**	139,485,844
Commission-others	**4,491,120**	7,490,354
Interest	**-**	615,421
Salaries, wages and bonus	**137,371,330**	78,450,545
Consultancy and other miscellaneous expenses	**34,870,616**	23,558,013
Total	**344,723,748**	249,600,177

8.4 Value of imports calculated on CIF basis

	Year ended December 31, 2008	Year ended December 31, 2007
Capital goods	**37,852,208**	32,378,131
Equipments on loan	**1,919,662**	2,450,403
Total	**39,771,870**	34,828,534

8.5 Remittance in foreign currency on account of dividend

Sl. No.	Particulars	Year ended December 31, 2008	Year ended December 31, 2007
	Year to which dividend relates	**December 31, 2007**	December 31, 2006
(a)	Number of non-resident shareholders where direct remittance have been made by the Company	**33**	35
(b)	Number of shares on which dividend is remitted	**5,538,306**	5,614,458
(c)	Amount remitted (Rs.)	**9,968,951**	6,737,350

8.6 The Company is engaged in the business of development of Software, which is not capable of being expressed in any generic unit. Hence, other information pursuant to the provisions of paragraphs 3, 4C and 4D of Part II of Schedule VI to the Companies Act, 1956 are not applicable to the Company.

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

Details of dues to Micro, Small and Medium Enterprises as per MSMED Act, 2006	As at December 31, 2008	As at December 31, 2007
the principal amount and the interest due thereon remaining unpaid to any supplier as at the end of each accounting year	**Nil**	Nil

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(All amounts are in Rupees unless otherwise stated)

Details of dues to Micro, Small and Medium Enterprises as per MSMED Act, 2006	As at December 31, 2008	As at December 31, 2007
the amount of interest paid by the buyer in terms of section 16 of the Micro Small and Medium Enterprise Development Act, 2006 along with the amounts of the payment made to the supplier beyond the appointed day during each accounting year	**Nil**	Nil
the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under Micro Small and Medium Enterprise Development Act, 2006.	**Nil**	Nil
the amount of interest accrued and remaining unpaid at the end of each accounting year; and	**Nil**	Nil
the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise for the purpose of disallowance as a deductible expenditure under section 23 of the Micro Small and Medium Enterprise Development Act, 2006	**Nil**	Nil

10.(a) The Issued, subscribed and paid up capital of the Company as on December 31, 2008, includes the following:

- 67,000 equity shares of Rs.10 each, allotted at a premium of Rs.10,838 (approx) per equity share pursuant to a contract for share swap with existing shareholders of R Systems, Inc., USA after obtaining necessary regulatory approvals on January 2, 2001.
- 3,600,000 equity shares of Rs.10 each, allotted as fully paid up bonus shares by way of capitalisation of accumulated profits on January 5, 2001.

The Company had sub divided each of its equity shares of Rs. 10 each into 5 equity shares of Rs.2 each and accordingly all the afore-mentioned shares had been sub divided on January 5, 2001.

- 3,596,869 equity shares of Rs.2 each, allotted on March 4, 2002 at a premium of Rs.113.42 per equity share pursuant to a “Shareholders Agreement” resulting in share swap with specific shareholders of Indus Software Private Limited (or ‘Indus’) after obtaining necessary regulatory approvals.
- 1,281,364 equity shares of Rs.2 each, allotted on December 28, 2002 at a premium of Rs.113.42 per equity share to the remaining shareholders of Indus, pursuant to the approval of “Scheme of Amalgamation” relating to the amalgamation of Indus with the Company by the High Courts of Delhi and Mumbai.
- The Company had earlier advanced Rs.115,131,450 to R Systems Employee Stock Option Trust, and allotted 997,500 equity shares at the rate of Rs.115.42. During the year ended December 31, 2004, the Company bought back these shares at the rate of Rs.115.42 per equity share.
- 495,667 equity shares of Rs. 2 each issued in January 2006 upon conversion of warrants under the Shareholders Agreement dated February 16, 2002.

The Company had consolidated each of its five equity shares of Rs.2 each into one equity share of Rs.10 each and accordingly the afore-mentioned shares had been consolidated on January 30, 2006.

- 5,355,255 equity shares of Rs. 10 each had been allotted on January 30, 2006 as fully paid up bonus shares by utilisation of Securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956.

(b) The Board of Directors of the Company at its meeting held on September 7, 2008, had approved the Buy-back of the equity shares of Rs.10 each, not exceeding 1,306,941 number of equity shares from the existing owners, at a maximum price of Rs.150 per equity share, for an aggregate amount not exceeding Rs.80,000,000, from the open market through stock exchange(s) in terms of the SEBI (Buy Back of Securities) Regulations, 1998 pursuant to the first proviso to clause (b) of sub-section (2) of Section 77A of the Companies Act, 1956. Consequently, the Company made a public announcement dated October 15, 2008 regarding Buy-back of equity shares.

As of December 31, 2008, the Company has bought back 146,346 equity shares of Rs. 10 each at an average price of Rs.48.04 per share, utilizing a sum of Rs.7,030,950 (inclusive of brokerage and applicable taxes of Rs.25,671). Out of this, 132,670 equity shares of Rs. 10 each have been extinguished till the year end and 13,676 shares, lying in share suspense account as at the year end, have been extinguished subsequent to the balance sheet date. The amount of Rs.5,567,490 paid towards buy back of shares, in excess of the face value, has been charged to Securities Premium Account. The Company has also transferred Rs.1,463,460 from free reserves to Capital Redemption Reserve Account, which represents the nominal value of shares bought back during the year.

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11.(a) During earlier years, the Company had acquired 98.59% shares in ECnet Limited, a company incorporated in Singapore at total consideration of Rs.34,938,958. The Company had based upon an order of High Court of Delhi written down the investment value to Rs.10,443,237 and adjusted the write off of Rs.24,495,721 against the Securities Premium Account as this had not been represented by available assets.

During the year ended December 31, 2007 the Company had settled the liabilities towards certain erstwhile shareholders. As a result thereof, the deferred payment compensation of Rs.14,452,222 was released, as considered appropriate by the management. Out of above, 10,442,237 had been adjusted against the value of the investment. The reassessed amount payable Rs.9,285,242 (Previous year Rs.7,345,396) is shown under 'current liabilities'. The management is exploring alternative plans to turnaround the subsidiary.

(b) During the year ended December 31, 2006 the Company had completed the acquisition and integration of R Systems Solutions, Inc., a technical support company based in the USA. The Company had acquired 8,666,884 Series A convertible preferred stock of "no par" value and 10,335,833 common stock of no par value from the erstwhile shareholders of R Systems Solutions, Inc. The maximum purchase consideration for the above acquisition is US$ 10.34 million i.e. Rs.505,370,852 (Previous year Rs.428,312,517), including consideration determined as contingent of future earn-outs and offshore activities amounting to US$7.49 million i.e. Rs.372,574,764 (Previous year Rs.295,516,429). The Company had recognised the investment at value of US$ 2.85 million i.e. Rs.132,796,088 which represents the consideration assessed as probable to be paid.

Out of such payables, Rs.54,803,268 had been paid at time of acquisition and Rs.62,167,878 had been paid from the date of acquisition till the year ended December 31, 2008. During the year ended December 31, 2008, the Company has reassessed the probable payment for purchase consideration and reversed Rs.3,264,820 against investment appearing in the books. The reassessed amount payable within one year Rs.9,782,911 (Previous year Rs.20,922,415) from the year-end is shown under 'current liabilities'. The balance amount payable after one year is Rs.Nil (Previous year Rs.10,630,002) and has been disclosed separately as 'deferred payments liability'.

During the year ended December 31, 2007, the Company invested an additional amount of US$ 1.00 million i.e. Rs.43,852,500 towards acquisition of additional 1,000,000 common stock of "no par" value in R Systems Solutions, Inc.

(c) R Systems, Inc, USA and R Systems Solutions, Inc, USA have net book worth of Rs.180,950,293 and Rs.20,789,671 (excluding pushdown goodwill recorded in R Systems Solutions, Inc., on acquisition of subsidiary by R Systems International Limited) as at the year ended December 31, 2008, against the recorded investment value of Rs.223,358,532 and Rs.173,383,768 respectively. These subsidiaries are meeting their short term funding requirements through the parent and the fellow subsidiaries. The management will extend its continual financial support to enable these subsidiaries to meet its working capital and other financing requirements. The management plans to pursue these subsidiaries more rigorously. Accordingly, the management is of the view that the diminution is temporary and there is no need to carry any provision against these investments.

(d) During the year ended December 31, 2008, the Company has completed the acquisition of R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.) and R Systems S.A.S, France (formerly known as Sento S.A.S, France), two wholly owned subsidiaries based in Europe effective January 23, 2008. The purchase considerations for the acquisition of R Systems Europe B.V., Netherlands Rs.42,053,275 and R Systems S.A.S., France Rs.32,593,766 have been recognised as investment.

12.(a) R Systems International Limited - Year 2004 Employee Stock Option Plan ('the plan')

During the year 2004, the Company had instituted the plan for all eligible employees as specified in the rules in pursuance of the special resolution duly approved by the shareholders. The plan provides for the issuance of 997,500 options to eligible employees as recommended by the Compensation Committee constituted for this purpose.

The plan is administered by a Compensation Committee and exercise price is "1.60 times the Book Value of the Share as per the audited balance sheet as on December 31, 2003 i.e. Rs.42 per Share or 1.60 times of the book value as per immediate previous accounting year audited balance sheet rounded off to nearest rupee as on the date of Exercise which ever is higher".

During the year ended December 31, 2006, the Company had consolidated each of its five equity shares of Rs.2 each into one equity share of Rs.10 each and then issued 1:1 bonus share to each of the then existing shareholder (excluding the option holders) by utilisation of Securities Premium Account in terms of the provisions of Section 78 of the Companies Act, 1956. Considering these changes in the capital structure, the management had adjusted the number of options vesting to its employees and exercise price to preserve the benefits intended to be made available under the plan i.e. instead of five options of Rs.2 per share, the employees' entitlement had been adjusted to one option of Rs.10 per share and instead of earlier exercise price of Rs.42

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per share for each Rs. 2 share, the exercise price had been accordingly adjusted to Rs. 105 per equity share. During the year, the Company had obtained a legal opinion confirming that the adjustments undertaken to the number of options vesting to its employees and exercise price, pursuant to the consolidation and subsequent bonus issue during the year ended December 31, 2006, does not tantamount to modification and no additional benefit was offered to the existing optionholders.

The vesting period is 4 years (25% in each year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2008 and year ended December 31, 2007 is set out below:

	Year ended December 31, 2008 (Nos.)	Year ended December 31, 2007 (Nos.)
At the beginning		
- Grants outstanding under the plan (Rs.10 per share)	**94,480**	106,960
- Grants pending determination by the Compensation Committee (Rs.10 per share)	**50,185**	37,705
During the year		
- Options granted (Rs.10 per share)	**-**	-
- Options exercised (Rs.10 per share)	**-**	-
- Options lapsed or surrendered (Rs.10 per share)	**11,205**	12,480
At the end		
- Grants outstanding under the plan (Rs.10 per share)	**83,275**	94,480
- Grants pending determination by the Compensation Committee (Rs.10 per share)	**61,390**	50,185

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

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

As a result of the merger of Indus with the Company, all employees had surrendered their options in favour of the Indus Trust to enable them to obtain options for shares in R Systems International Limited after the merger. Also, the Company had issued 206,822 equity shares of Rs.2 each at a premium of Rs.113.42 per share to the Indus Trust in exchange of 21,967 equity shares of Indus, apropos to the agreed swap ratio.

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

The movement in the options (in equivalent number of shares of the Company) held by the Trust during the year ended December 31, 2008 and the year ended December 31, 2007 is set out below:

	Year ended December 31, 2008 (Nos.)	Year ended December 31, 2007 (Nos.)
At the beginning		
- Grants outstanding under the plan (Rs.10 per share)	**-**	-
- Grants pending determination by the Compensation Committee (Rs.10 per share)	**73,898**	73,898
During the year		
- Options granted (Rs.10 per share)	**-**	-
- Options exercised (Rs.10 per share)	**-**	-
- Options lapsed or surrendered (Rs.10 per share)	**-**	-
At the end		
- Grants outstanding under the plan (Rs.10 per share)	**-**	-
- Grants pending determination by the Compensation Committee (Rs.10 per share)	**73,898**	73,898

(c) R Systems International Limited – Year 2004 Employees Stock Option Plan ECnet ('the plan')

The Company had instituted the plan for all eligible employees in pursuance of the special resolution duly approved by the shareholders. The plan provides for the issuance of 1,000,000 options to eligible employees as recommended by the Compensation Committee constituted for this purpose.

The plan is administered by a Compensation Committee and exercise price is "Book Value of the Share as per the audited Balance Sheet as on 31st December 2003 i.e. Rs.26 or as on the date of Exercise, the book value as per immediate

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previous accounting year audited balance sheet rounded off to nearest rupee which ever is higher".

During the year ended December 31, 2006, the Company had consolidated each of its five equity shares of Rs.2 each into one equity share of Rs.10 each and then issued 1:1 bonus share to each of the then existing shareholder (excluding the option holders) by utilisation of Securities Premium Account in terms of the provisions of Section 78 of the Companies Act, 1956. Considering these changes in the capital structure, the management had adjusted the number of options vesting to its employees and exercise price to preserve the benefits intended to be made available under the plan i.e. instead of five options of Rs.2 per share, the employees' entitlement had been adjusted to one option of Rs.10 per share and instead of earlier exercise price of Rs.26 per share for each Rs.2 share, the exercise price had been accordingly adjusted to Rs.65 per equity share. During the year, the Company had obtained a legal opinion confirming that the adjustments undertaken to the number of options vesting to its employees and exercise price, pursuant to the consolidation and subsequent bonus issue during the year ended December 31, 2006, does not tantamount to modification and no additional benefit was offered to the existing optionholders.

The vesting period is 4 years (40% in 1st year & 20% in 2nd, 3rd & 4th year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2008 and year ended December 31, 2007 is set out below:

	Year ended December 31, 2008 (Nos.)	Year ended December 31, 2007 (Nos.)
At the beginning		
- Grants outstanding under the plan (Rs.10 per share)	**17,801**	46,801
- Grants pending determination by the Compensation Committee (Rs.10 per share)	**112,240**	83,240
During the year		
- Options granted (Rs.10 per share)	**-**	-
- Options exercised (Rs.10 per share)	**-**	-
- Options lapsed or surrendered (Rs.10 per share)	**11,001**	29,000
At the end		
- Grants outstanding under the plan (Rs.10 per share)	**6,800**	17,801
- Grants pending determination by the Compensation Committee (Rs.10 per share)	**123,241**	112,240

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

During the year 2007, the Company had instituted the plan for all eligible employees as specified in the rules in pursuance of the special resolution duly approved by the shareholders. The plan provides for the issuance of 650,000 options to eligible employees as recommended by the Compensation Committee constituted for this purpose.

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

The vesting period is 4 years (25% in each year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2008 and year ended December 31, 2007 is set out below:

	Year ended December 31, 2008 (Nos.)	Year ended December 31, 2007 (Nos.)
At the beginning		
- Grants outstanding under the plan (Rs.10 per share)	**610,500**	-
- Grants pending determination by the Compensation Committee (Rs.10 per share)	**39,500**	-
During the year		
- Options granted (Rs.10 per share)	**-**	632,500
- Options exercised (Rs.10 per share)	**-**	-
- Options lapsed or surrendered (Rs.10 per share)	**50,000**	22,000
At the end		
- Grants outstanding under the plan (Rs.10 per share)	**560,500**	610,500
- Grants pending determination by the Compensation Committee (Rs.10 per share)	**89,500**	39,500

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

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

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

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

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

***: R Systems International Limited – Year 2004 Employees Stock Option Plan ECnet.

Further, for the purpose of valuation of the options granted during the year 2005 under R Systems International Limited- Year 2004 Employee Stock Option Plan, the management obtained fair value of the options at the date of grant from a firm of Chartered Accountants (N Maini & Co.), to determine accounting impact, if any, of options granted. In the considered opinion of the valuer (mentioned above), the fair value of these option determined using 'Black Scholes Valuation Model' is "Nil" and thus no accounting thereof is required.

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

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

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

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

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

Assumptions	Unit	Scheme	Comments by the valuer
Strike price	Rs.	120.70	
Current share price	Rs.	118.50	Price on the date of grant by Board of Directors i.e. closing price on July 11, 2007
Expected option life	No of Years	4	Being the vesting period.
Volatility	%	44	On the basis of industry average.
Risk free return	%	7	Zero coupon rate estimated from trading government securities for a maturity corresponding to expected life of option - taken from sites of NSE.
Expected dividend Yield	%	0.86	Company has declared Dividends of 12% in the past. Assuming that it will continue declaring similar dividends in future.

In March 2005 the ICAI has issued a guidance note on "Accounting for Employees Share Based Payments" applicable to 'employee share based plan' the grant date in respect of which falls on or after April 1, 2005. The said guidance note requires the Proforma disclosures of the impact of the fair value method of accounting of employee stock compensation in the financial statements. Since the Company used the intrinsic value method the impact on the

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(All amounts are in Rupees unless otherwise stated)

reported net profit and earnings per share by applying the fair value based method is as follows:

Particulars	Year ended December 31, 2008	Year ended December 31, 2007
Net Income as reported	**236,476,025**	241,713,718
Less:- Fair Value Compensation Cost	**10,790,693**	7,689,451
Adjusted Pro-forma Net Income	**225,685,332**	234,024,267
Earning Per Share		
Basic		
- As reported	**17.42**	17.80
- Proforma	**16.63**	17.23
Diluted		
- As reported	**17.21**	17.56
- Proforma	**16.43**	17.00

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

13. Earnings per share

	Year ended December 31, 2008	Year ended December 31, 2007
Basic [nominal value of share Rs.10 (previous year Rs.10)] (Rs.)	**17.42**	17.80
Diluted [nominal value of share Rs.10 (previous year Rs.10)] (Rs.)	**17.21**	17.56
Net profit after tax (Rs.)	**236,476,025**	241,713,718
Weighted average number of equity shares for calculating Basic EPS	**13,572,178**	13,582,706
Add : Equity shares for no consideration arising on grant of stock options under ESOP	**165,862**	180,658
Weighted average number of equity shares for calculating Diluted EPS	**13,738,040**	13,763,364

Also refer note no. 12 (f) above.

14. Post employment benefits

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

The following table summaries the components of net benefit expense recognised in the Profit and Loss Account.

Net employee benefit expense recognised under Salary, wages and bonus

Particulars	Year ended December 31, 2008	Year ended December 31, 2007
Current service cost	**9,318,275**	7,055,846
Interest cost on benefit obligation	**2,490,799**	1,263,865
Expected return on plan assets	**-**	-
Net actuarial(gain) / loss recognised in the year	**12,677,424**	(87,429)
Past service cost	**-**	-
Net benefit expense	**24,486,498**	8,232,282

Details of defined benefit gratuity plan

Particulars	Year ended December 31, 2008	Year ended December 31, 2007
Defined benefit obligation	**46,466,537**	23,306,788
Fair value of plan assets	**-**	-
Present value of unfunded obligations	**46,466,537**	23,306,788
	46,466,537	23,306,788
Less: Unrecognised past service cost	**-**	-
Plan liability/(asset)	**46,466,537**	23,306,788

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

Particulars	Year ended December 31, 2008	Year ended December 31, 2007
Opening defined benefit obligation	**23,306,788**	16,885,862
Interest cost	**2,490,799**	1,263,865
Current service cost	**9,318,275**	7,055,846
Benefits paid	**(1,326,749)**	(1,811,356)
Actuarial (gains) / losses on obligation	**12,677,424**	(87,429)
Closing defined benefit obligation	**46,466,537**	23,306,788

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(All amounts are in Rupees unless otherwise stated)

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

Particulars	Year ended December 31, 2008 %	Year ended December 31, 2007 %
Discount rate	**5.35% p.a.**	7.85% p.a.
Expected rate of return on plan assets	**Not applicable**	Not applicable
Salary Escalation Rate	**10.0% p.a. for first 2 years and 7% p.a. thereafter**	10.0% p.a. for first 3 years and 7% p.a. thereafter
Attrition rate:	**As per table below**	As per table below

Attrition rate used for the year ended December 31, 2008 and year ended December 31, 2007 are as per the table below:

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

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

Amounts for the current and previous four years are as follows:

	Gratuity				
	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004
Defined benefit obligation	**46,466,537**	23,306,788	16,885,862	13,230,425	-
Plan assets	**-**	-	-	-	-
Surplus/ (deficit)	**(46,466,537)**	(23,306,788)	(16,885,862)	(13,230,425)	-
Experience adjustments on plan liabilities	**116,082**	461,423	231,590	-	-
Experience adjustments on plan assets	**-**	-	-	-	-

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(All amounts are in Rupees unless otherwise stated)

15. Derivative instruments and unhedged foreign currency exposure

(a) Particulars of derivatives	**Purpose**
Forward contract outstanding (including outstanding against highly probable forecast transaction) Sell US $ 7,300,000 (Previous years US $9,900,000) Sell EURO 600,000 (Previous years Nil)	Hedge of debtors

Particulars of unhedged foreign currency exposure as at December 31, 2008 and at December 31, 2007

	Currency	**Foreign Currency amount**		**Closing foreign exchange rate**		**Amount (Rs.)**	
Liabilities		**December 31, 2008**	December 31, 2007	**December 31, 2008**	December 31, 2007	**December 31, 2008**	December 31, 2007
Deferred compensation							
	SGD	**269,285**	269,285	**34.48**	27.28	**9,285,242**	7,345,396
	USD	**196,768**	800,112	**49.72**	39.44	**9,782,911**	31,552,417
Creditors							
	SGD	**24,919**	30,627	**34.48**	27.28	**859,236**	835,399
	USD	**69,902**	484,073	**49.72**	39.44	**3,475,340**	19,089,437
	EURO	**13,311**	-	**70.09**	-	**932,974**	-
Deferred revenue							
	USD	**46,326**	17,656	**49.72**	39.44	**2,303,258**	696,264
Assets Investments* (Gross)							
	USD	**9,698,199**	10,416,961	**49.72**	39.44	**482,175,079**	410,792,858
	SGD	**4,034,469**	5,099,433	**34.48**	27.28	**139,112,528**	139,112,528
	EURO	**49,532**	59,773	**70.09**	58.08	**3,471,640**	3,471,640
Debtors							
	USD	**8,822,768**	11,107,810	**49.72**	39.44	**438,649,947**	438,036,479
	GBP	**187,362**	774	**71.99**	78.76	**13,487,632**	60,924
	AUD	**25,000**	13,972	**34.34**	34.57	**858,500**	483,065
	EURO	**1,683,540**	198,160	**70.09**	58.08	**117,997,639**	11,509,490
Bank balances							
	USD	**775,480**	904,874	**49.72**	39.44	**38,555,292**	35,683,695
	EURO	**23,507**	-	**70.09**	-	**1,647,596**	-
	GBP	**853**	856	**71.99**	78.76	**61,438**	67,412
Loans and advances							
	SGD	**-**	6,855	**-**	27.28	**-**	187,000
	USD	**136,172**	1,396,056	**49.72**	39.44	**6,770,223**	55,053,487
	EURO	**2,746**	-	**70.09**	-	**192,464**	-
Unbilled revenue							
	USD	**705,562**	452,368	**49.72**	39.44	**35,079,057**	17,839,115
Loans to subsidiary company							
	SGD	**2,750,000**	1,500,000	**34.48**	27.28	**94,822,750**	40,916,100

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

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(All amounts are in Rupees unless otherwise stated)

(b) As of December 31, 2008 the Company had derivative financial instruments to sell USD 7,000,000 and EURO 600,000 that are designated as ineffective cash flow hedges relating to highly probable forecasted transactions. The Company has recognised mark-to-market losses of Rs.46,406,233 relating to such derivative financial instruments in the Profit and Loss Account for the year ended December 31, 2008.

16. Details of loans given to subsidiary-ECnet Limited, Singapore (fully provided for)

Balance as at December 31, 2008 is Rs.94,822,750 (Previous year Rs.40,916,100)

Maximum amount outstanding during the year is Rs.94,822,750 (Previous year: Rs. 40,916,100)

Loan is repayable on demand.

17. During the financial year ended December 31, 2007, the Company had received non-refundable license fees of Rs.39,435,000 from one of its customer against sale of eighteen modules (licenses). As at the year-end, the Company is carrying Rs.19,717,500 as deferred revenue against unconsumed modules (licenses). The remaining license fees shall be accounted as revenue when customer consumes the licenses, or when the contract terminates or when the Company estimates that no significant obligations to the customer remain in respect of the contract.

18. As of December 31, 2008 there is uncertainty regarding ultimate realisation relating to some of the customers due to their current financial position therefore revenue aggregating Rs. 8,858,213 has been deferred till the time the realisability becomes reasonably certain.

19. During the year ended December 31, 2006:

(a) The Company had made Initial Public Offering (IPO) of 4,408,361 equity shares of Rs.10 each for cash at premium of Rs.240 per share comprising of fresh issue of 2,825,006 equity shares by the Company and 1,583,355 equity shares offered for sale by the selling shareholders.

(b) Expenses of Rs.101,895,339 net of recovery from certain selling shareholders Rs.2,795,944 incurred in connection with the public issue of the Company had been adjusted against Securities Premium Account in terms of Section 78 of the Companies Act, 1956.

(c) Pursuant to initial public offer the Company gathered Rs.706,250,000 (net of selling shareholders' proceeds), details of utilisation of IPO proceeds are as follows:

Object	Total Estimated Project Cost*	Amount incurred till December 31, 2008	Amount incurred till December 31, 2007
Upgrading and expansion of existing infrastructure*	229,993,200	**229,993,200**	214,311,302
Repayment of outstanding loans	36,550,000	**36,550,000**	36,550,000
Financing general working capital requirements	179,510,000	**174,624,290**	86,324,290
General corporate purposes*	159,059,625	**58,619,823**	58,619,823
Meeting offer expenses*	101,137,175	**101,137,175**	101,137,175
Total	**706,250,000**	**600,924,488**	**496,942,590**

* The Company has obtained approval from its shareholders at the annual general meeting held on May 2, 2008 for reallocation in the estimated project cost among above mentioned heads.

Pending utilisation, balance funds as at December 31, 2008 have been invested in fixed deposit with nationalized banks. The same has been lien marked for expansion of business against performance guarantees issued by the Bank in favour of Department of telecommunication for licenses as domestic & International 'Other Service Provider'. The lien has been removed subsequent to the Balance sheet date.

SCHEDULES

(All amounts are in Rupees unless otherwise stated)

20. Cash and bank balances

Details of balances as on balance sheet dates:

Sl. No.	Particulars	As at December 31, 2008	As at December 31, 2007
	Cash on hand (A)	**106,116**	158,976
	Balance with scheduled banks		
	On current accounts		
1	ICICI Bank Limited	**5,959,079**	6,248,726
2	HDFC Bank Limited	**751,053**	599,661
3	Oriental Bank of Commerce	**199,838**	76,767
4	Vijaya Bank	**70,752**	10,832
5	State Bank of India	**3,607,140**	4,354,784
6	Canara Bank	**199,954**	368,065
7	Axis Bank Limited	**479,690**	584,269
8	Citibank N.A.	**130,813**	129,368
9	State Bank of Bikaner & Jaipur	**62,000**	-
10	ABN Amro Bank N.V.	**1,497,484**	1,104,748
	Total (B)	**12,957,803**	**13,477,220**
1	On cash credit accounts with State Bank of India	**7,644,368**	9,260,471
	Total (C)	**7,644,368**	**9,260,471**
	On EEFC accounts		
1	ICICI Bank Limited- USD	**13,488,300**	13,850
2	HDFC Bank Limited- USD	**6,472**	-
3	State Bank of India - USD	**11,539,776**	24,259,819
4	State Bank of India - EURO	**350,445**	-
5	ABN Amro Bank N.V. - USD	**-**	7,030
6	Citibank, N.A. – USD	**3,729**	81,828
	Total (D)	**25,388,722**	24,362,527
	On deposit accounts		
1	Oriental Bank of Commerce	**197,508,147**	161,174,490
2	Punjab National Bank	**58,930,306**	-
3	Vijaya Bank	**2,739,763**	32,300,000
4	State Bank of India	**22,486,267**	21,220,345
5	ICICI Bank Limited	**92,316,147**	106,946,393
6	State Bank of Bikaner & Jaipur	**92,999,065**	30,000,000
7	HDFC Bank Limited	**5,000,000**	-
8	Canara Bank	**74,068**	74,068

SCHEDULES

(All amounts are in Rupees unless otherwise stated)

Sl. No.	Particulars	As at December 31, 2008	As at December 31, 2007
9	Citibank N.A.	**-**	3,526,801
	Total (E)	**472,053,763**	355,242,097
	On unclaimed dividend/IPO refund accounts		
1	HDFC Bank Limited	**258,267**	98,112
2	ICICI Bank Limited	**75,250**	69,000
	Total (F)	**333,517**	167,112
	Balance with other banks		
	On current accounts		
1	Fortis Bank (Netherland) N.V., Netherlands	**1,647,596**	-
2	California Bank & Trust, USA	**38,555,292**	35,683,695
	Total (G)	**40,202,888**	35,683,695
	Total as per Balance Sheet	**558,687,177**	438,352,098

21. 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.R.BATLIBOI & ASSOCIATES
Chartered Accountants

per Sanjay Vij
Partner
Membership No. 95169

Place : NOIDA
Date : February 12, 2009

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

Satinder Singh Rekhi
[Managing Director]

Place : NOIDA
Date : February 12, 2009

O'Neil Nalavadi
[Director Finance & CFO]

Place : EDH, CA, USA
Date : February 12, 2009

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

Place : NOIDA
Date : February 12, 2009

Nand Sardana
[Company Secretary]

Place : NOIDA
Date : February 12, 2009

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details

Registration No.	0 5 3 5 7 9		State Code	5 5	
Balance Sheet Date	3 1	1 2		2 0 0 8	
	Date	Month		Year	

II. Capital raised during the year (Amount in Rs.Thousands)

Public Issue	Rights Issue
NIL	NIL
Bonus Issue	**Private Placement**
NIL	NIL

III. Position of Mobilisation and Deployment of Funds (Amount in Rs.Thousands)

Total Liabilities	Total Assets
1829457	1829457

SOURCE OF FUNDS

Paid-up Capital	Reserves & Surplus
133625	1674839
Secured Loans	**Unsecured Loans #**
4116	16877

Consists of deferred tax liability (net)

APPLICATION OF FUNDS

Net Fixed Assets	Investments
417961	579061
Net Current Assets	**Misc. Expenditures**
832435	NIL
Accumulated Losses	
NIL	

IV. Performance of Company (Amount in Rs.Thousands)

Turnover*	Total Expenditure
2101301	1849231

*includes other income

+	-	Profit / Loss before tax	+	-	Profit / Loss after tax
✓		252070	✓		236476

(Please tick appropriate box + for profit – for loss)

Earning Per Share in Rs.	Dividend Rate %
17.42	24

The diluted earning per share is Rs.17.21

V. Generic Names of Three Principle Products / Services of Company (as per monetary terms)

Item Code No. (ITC Code)

Product Description. SOFTWARE DEVELOPMENT & IT RELATED SERVICES

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

Satinder Singh Rekhi [Managing Director]	O'Neil Nalavadi [Director Finance & CFO]	Lt. Gen. Baldev Singh (Retd.) [President & Senior Executive Director]	Nand Sardana [Company Secretary]
Place : NOIDA	Place : EDH, CA, USA	Place : NOIDA	Place : NOIDA
Date : February 12, 2009	Date : February 12, 2009	Date : February 12, 2009	Date : February 12, 2009

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

	Name of the Subsidiary	R Systems (Singapore) Pte Limited, Singapore	R Systems, Inc., USA	Indus Software, Inc., USA	R Systems Solutions, Inc., USA	R Systems NV, Belgium	R Systems Europe B.V, Netherlands (1)	R Systems S.A.S, France (1)	ECnet Limited, Singapore	ECnet (M) SDN. BHD, Malaysia	ECnet, Inc., USA	ECnet (Hong Kong) Limited., HongKong	ECnet Systems (Thailand) Co. Limited, Thailand	ECnet Kabushiki Kaisha, Japan	ECnet (Shanghai) Co. Limited., China
1	The financial year of the subsidiary ended on	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008
2	Date from which it become Subsidiary Company	September 19 , 2000	January 2, 2001	April 1, 2002	August 24, 2006	August 28, 2007	January 23, 2008	January 23, 2008	January 8, 2004	January 8, 2004	January 8, 2004	January 8, 2004	January 8, 2004	January 8, 2004	January 8, 2004
3 a	Shares held by the holding company in the subsidiary (including its nominees in the subsidiary)	4,070,000 ordinary shares of no par value	2,000 common shares of no par value	243,750 common shares of no par value	11,335,833 common shares of no par value and 8,666,884 series A preferred stock of no par value	200 common shares of Euro 310 each	3,170 ordinary shares of Euro 100 each	10,000 ordinary shares Euro 15.24 each	98.59% of 17,904,335 ordinary shares no par value	98.59% of 200,000 ordinary shares of RM 1 each	98.59% of 1,000 shares of US$ 2 each	98.59% of 2 ordinary shares of HK $1 each	98.59% of 400.000 ordinary shares of 5 THB each	98.59% of 200 shares of 50,000 Yen each	98.59% of shares of no par value
3 b	Extent of interest of holding company at the end of the financial year of the Subisidary Company	100%	100%	100%	100%	100%	100%	100%	98.59%	98.59%	98.59%	98.59%	98.59%	98.59%	98.59%
4	The net aggregate amount of the Subsidiary Company Profit/(Loss) so far as it concerns the members of the Holding Company														
a	Not dealt with in the Holding Company's accounts														
i)	For the financial year ended December 31,2008	Profit SGD 140,574 i.e. Rs. 48.47 lakhs	Loss USD 7,078 i.e. Rs. 3.52 lakhs	Profit USD 17,343 i.e. Rs. 8.62 lakhs	Loss USD 202,853 i.e. Rs. 100.85 lakhs	Loss Euro 6,409 i.e. Rs. 4.49 lakhs	Profit Euro 453,798 i.e. Rs. 318.06 lakhs	Profit Euro 49,531 i.e. Rs. 34.72 lakhs	Loss SGD 2,613,616 i.e. Rs. 901.19 lakhs	Profit RM 277,517 i.e. Rs. 39.69 lakhs	Profit USD 24,223 i.e. Rs.12.04 lakhs	Profit HKD 640,185 i.e. Rs. 41.07 lakhs	Profit THB 44,779 i.e. Rs. 0.65 lakhs	Profit Yen 25,589,692 i.e. Rs. 140.79 lakhs	Profit CNY 1,171,025 i.e Rs. 85.40 lakhs
ii)	For the previous financial years of the Subsidiary Company since it became the Holding Company 's Subsidiary	Loss SGD 439,998 i.e. Rs. 125.21 lakhs	Loss USD 1,279,129 i.e. Rs. 562.96 lakhs	Loss USD 339,031 i.e. Rs. 160.20 lakhs	Loss USD 409,183 i.e. Rs. 166.53 lakhs	Loss Euro 9,923 i.e. Rs. 5.76 lakhs	N/A	N/A	Loss SGD 3,002,498 i.e. Rs. 823.14 lakhs	Profit RM 485,609 i.e. Rs. 53.80 lakhs	Loss USD 23,303 i.e. Rs. 9.79 lakhs	Profit HKD 687,420 i.e. Rs. 39.70 lakhs	Profit THB 5,880,053 i.e. Rs. 68.55 lakhs	Loss Yen 9,045,667 i.e. Rs. 37.48 lakhs	Loss CNY 4,236,491 i.e. Rs. 232.74 lakhs
b	Dealt with in Holding Company's accounts														
i)	For the financial year ended December 31,2008	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
ii)	For the previous financial years of the Subsidiary Company since it became the Holding Company 's Subsidiary	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL

Notes:

1 During the year ended December 31, 2008, the Company has completed the acquisition of R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.) and R Systems S.A.S, France (formerly known as Sento S.A.S, France), two wholly owned subsidiaries based in Europe effective January 23, 2008.

2 Rupees equivalents have been given on the basis of conversion of foreign currency into rupee using closing rate as on 31 December, 2008.

1 SGD = Rs.	34.48
1 USD = Rs.	49.72
1 EURO = Rs.	70.09
1 RM = Rs.	14.30
1 HKD = Rs.	6.42
1 THB = Rs.	1.45
1 YEN = Rs.	0.55
1 CNY = Rs.	7.29

Disclaimer: We have translated the foreign currency amounts in the financial data derived from our subsidiaries' financial statements at the closing rate as on December 31,2008.The translation should not be considered as a representation that such foreign currency amounts have been, could have been or could be converted into rupees, at any particular rate, rates states above, or at all.

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

Satinder Singh Rekhi
[Managing Director]
Place : NOIDA
Date : February 12, 2009

O'Neil Nalavadi
[Director Finance & CFO]
Place : EDH, CA, USA
Date : February 12, 2009

Lt. Gen. Baldev Singh (Retd)
[President & Senior Executive Director]
Place : NOIDA
Date : February 12, 2009

Nand Sardana
[Company Secretary]
Place : NOIDA
Date : February 12, 2009

Consolidated Financial Statement in accordance with Indian GAAP

AUDITORS' REPORT

on Consolidated Financial Statements

To,

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

1. We have audited the attached Consolidated Balance Sheet of R Systems International Limited ("the Company") and its subsidiaries (as per the list appearing at Note 2 under Schedule 19 to the consolidated financial statements) as at December 31, 2008, and also the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year ended on that date annexed thereto, prepared in accordance with accounting principles generally accepted in India. These financial statements are the responsibility of the R Systems International Limited's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. These financial statements of Company's subsidiaries have been prepared in accordance with accounting policies generally accepted in their respective countries and have been audited by other auditors prepared under generally accepted auditing standards of their respective countries. The management has converted these audited financial statements of the Company's subsidiaries to accounting principles generally accepted in India. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. We did not audit the financial statements of certain subsidiaries, whose financial statements reflect:

   (i) in relation to R Systems, Inc., USA subsidiary, total assets (net) of Rs.180,950,293 (US$ 3,639,533) as at December 31, 2008, the total revenues of Rs.684,781,420 (US$ 15,629,283) and cash flows (negative) amounting to Rs 15,264,359 (US$ 348,390) for the year then ended.

   (ii) in relation to Indus Software, Inc., USA subsidiary, total Liability (net) of Rs.21,290,857 (US$ 428,232) as at December 31, 2008, the total revenues of Rs.42,272,316 (US$ 964,813) and cash flows amounting to Rs.464,472 (US$ 10,601) for the year then ended.

   (iii) in relation to R Systems Solutions, Inc. (formerly known as Webconverse Inc.), USA subsidiary, total assets (net) of Rs.135,131,724 (US$ 2,717,964) as at December 31, 2008, the total revenues of Rs.166,405,439 (US$ 3,797,997) and cash flows (negative) amounting to Rs.8,306,740 (US$ 189,591) for the year then ended.

   (iv) in relation to ECNet Limited, Singapore subsidiary, total liabilities (net) of Rs.108,599,642 (Sing $ 3,149,550) as at December 31,2008, the total revenues of Rs.217,784,080 (Sing $ 7,040,737) and cash flows (negative) amounting to Rs.1,267,810 (Sing $ 40,987) for the year then ended.

   (v) in relation to the R System (Singapore) Pte Ltd., Singapore subsidiary, total assets (net) of Rs.123,299,066 (Sing $ 3,575,855) as at December 31, 2008, the total revenues of Rs.15,875,714 (Sing $ 513,246) and cash flows (negative) amounting to Rs.819,327 (Sing $ 26,488) for the year then ended.

   (vi) in relation to R Systems S.A.S, (Formerly known as Sento S.A.S.), France subsidiary, total assets (net) of Rs.42,217,991 (Euro 602,348) as at December 31, 2008 the total revenues of Rs.130,034,477 (Euro 2,015,195) and cash flows (negative) amounting to Rs. 5,434,270 (Euro 84,217) for the year then ended.

   (vii) in relation to R Systems Europe B.V., (formerly known as Sento B.V.), Netherlands subsidiary, total assets (net) of Rs.19,963,032 (Euro 284,824) as at December 31, 2008 the total revenues of Rs.616,655,561 (Euro 9,556,551) and cash flows (negative) amounting to Rs.7,327,751 (Euro 113,561) for the year then ended.

   (viii) in relation to R Systems, NV, Belgium subsidiary, total assets (net) of Rs.3,200,864 (Euro 45,669) as at December 31, 2008 the total revenues of Rs. Nil (Euro Nil) and cash flows (negative) amounting to Rs.1,037,960 (Euro 16,186) for the year then ended.

4. The financial statements of these subsidiaries have been prepared in accordance with accounting policies generally accepted in their respective countries and have been audited by other auditors who have submitted their audit opinions, prepared under generally accepted auditing standards of their respective countries, to the shareholders of the respective

AUDITORS' REPORT

on Consolidated Financial Statements

companies, copies of which have been provided to us by the Company. The management has converted these audited financial statements of the Company's subsidiaries to accounting principles generally accepted in India. Our opinion thus, insofar it relates to amounts included in respect of these subsidiaries, is based solely on the reports of the other auditors under the accounting policies generally accepted in respective countries and our review of the conversion process followed by management.

5. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of R Systems International Limited and its subsidiaries included in the consolidated financial statements.

6. Based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components and to the best of our information and according to the explanations given to us, we are of the opinion that the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Consolidated Balance Sheet, of the state of affairs of R Systems International Limited and its subsidiaries as at December 31, 2008;

(b) in the case of the Consolidated Profit and Loss Account, of the consolidated results of operations of R Systems International Limited and its subsidiaries for the year then ended; and

(c) in the case of the Consolidated Cash Flow Statement, of the consolidated cash flows of R Systems International Limited and its subsidiaries for the year ended on that date.

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Sanjay Vij
Partner
Membership No. 95169

Place : NOIDA
Date : February 12, 2009

CONSOLIDATED BALANCE SHEET

(All amounts are in Rupees unless otherwise stated)

	Schedule No.	As at December 31, 2008	As at December 31, 2007
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	**133,624,620**	135,088,080
Reserve and surplus	2	**1,582,900,944**	1,290,582,814
		1,716,525,564	1,425,670,894
Minority interest	3	**-**	-
Loan funds			
Secured loans	4	**32,564,922**	6,314,471
		32,564,922	6,314,471
Deferred payments liability (refer note 10(c) under Schedule 19)		**-**	10,630,002
Deferred tax liability (net)	5	**16,877,430**	24,429,549
TOTAL		**1,765,967,916**	1,467,044,916
APPLICATION OF FUNDS			
Fixed assets			
Gross block	6	**1,217,551,358**	804,077,599
Less : Accumulated depreciation / amortisation		**474,171,437**	243,467,096
Net block		**743,379,921**	560,610,503
Capital work-in-progress including capital advances		**3,213,404**	49,758,326
		746,593,325	610,368,829
Investments	7	**25,000**	12,035,915
Current assets, loans and advances			
Sundry debtors	8	**790,220,878**	613,515,362
Cash and bank balances	9	**636,438,263**	512,313,724
Other current assets	10	**145,892,575**	83,733,812
Loans and advances	11	**98,139,268**	73,794,569
(A)		**1,670,690,984**	1,283,357,467
Less : Current liabilities and provisions			
Current liabilities	12	**452,407,268**	309,224,053
Provisions	13	**198,934,125**	129,493,242
(B)		**651,341,393**	438,717,295
Net current assets (A-B)		**1,019,349,591**	844,640,172
TOTAL		**1,765,967,916**	1,467,044,916
Notes to accounts	19		

The schedules referred to above and the notes to accounts form an integral part of the Balance Sheet.

As per our report of even date.

For S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

per Sanjay Vij
Partner
Membership No. 95169

Place : NOIDA
Date : February 12, 2009

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

Satinder Singh Rekhi	O'Neil Nalavadi	Lt. Gen. Baldev Singh (Retd)	Nand Sardana
[Managing Director]	[Director Finance & CFO]	[President & Senior Executive Director]	[Company Secretary]
Place : NOIDA	Place : EDH, CA, USA	Place : NOIDA	Place : NOIDA
Date : February 12, 2009	Date : February 12, 2009	Date : February 12, 2009	Date : February 12, 2009

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(All amounts are in Rupees unless otherwise stated)

	Schedule No.	For the year ended December 31, 2008	For the year ended December 31, 2007
INCOME			
Sale of software products and rendering software development services		**3,593,922,986**	2,470,575,007
Deferred payment compensation to erstwhile shareholders of ECnet Limited written back (refer note 10(a) under schedule 19)		**-**	14,452,222
Other income	14	**54,942,824**	57,084,320
TOTAL		**3,648,865,810**	2,542,111,549
EXPENDITURE			
Personnel expenses	15	**2,164,503,133**	1,525,172,402
Operating and other expenses	16	**1,056,195,410**	710,387,946
Depreciation /amortisation	6	**115,690,057**	70,410,977
Financial expenses	17	**12,301,113**	6,010,034
TOTAL		**3,348,689,713**	2,311,981,359
Profit before tax and prior period items		**300,176,097**	230,130,190
Prior period expenses/ (income)	18	**-**	(884,829)
Profit for the year before tax and after prior period items		**300,176,097**	231,015,019
Current tax [Including tax/ (excess provision written back) related to earlier year (Rs.718,550) (Previous year Rs.759,520 (net of excess provision written back Rs.329,812))]		**31,787,205**	32,811,331
MAT credit entitlement [Including credit entitlement relating to earlier year Rs.4,493,844, (Previous year Rs. Nil)]		**(11,703,591)**	(4,980,214)
Deferred tax		**(7,552,119)**	6,791,168
Fringe benefit tax		**7,980,375**	6,678,667
Total tax expense		**20,511,870**	41,300,952
Profit available for appropriation		**279,664,227**	189,714,067
Appropriations			
Proposed final dividend		**31,693,018**	24,448,871
Tax on proposed final dividend		**5,386,229**	4,155,087
Transfer to General Reserve		**23,647,603**	18,128,529
Surplus carried to Balance Sheet		**218,937,377**	142,981,580
Earnings per share (refer note 12 under Schedule 19)			
Basic [Nominal value of shares Rs.10 (Previous year: Rs.10)]		**20.61**	13.97
Diluted [Nominal value of shares Rs.10 (Previous year: Rs.10)]		**20.36**	13.78
Notes to accounts	19		

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

As per our report of even date.

For S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

per Sanjay Vij
Partner
Membership No. 95169

Place : NOIDA
Date : February 12, 2009

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

Satinder Singh Rekhi	O'Neil Nalavadi	Lt. Gen. Baldev Singh (Retd)	Nand Sardana
[Managing Director]	[Director Finance & CFO]	[President & Senior Executive Director]	[Company Secretary]
Place : NOIDA	Place : EDH, CA, USA	Place : NOIDA	Place : NOIDA
Date : February 12, 2009	Date : February 12, 2009	Date : February 12, 2009	Date : February 12, 2009

CONSOLIDATED CASH FLOW STATEMENT

(All amounts are in Rupees unless otherwise stated)

	For the year ended December 31, 2008	For the year ended December 31, 2007
A. Cash flow from operating activities		
Net profit before taxation	**300,176,097**	231,015,019
Adjustments for:		
Depreciation / amortisation	**115,690,057**	70,410,977
Provision for impairment in value of investment	**13,344,649**	-
Debts and advances provided / written off	**39,636,307**	29,679,843
Loss on sale / discard of fixed assets	**6,034,659**	2,551,999
Unrealised foreign exchange loss / (gain)	**10,346,296**	(8,579,616)
Interest income	**(36,639,483)**	(37,288,028)
Write back of provision for doubtful debts	**(10,703,381)**	(4,307,325)
Deferred payment compensation to erstwhile shareholders of ECnet Limited written back (refer note 10(a) under schedule 19)	**-**	(14,452,222)
Other excess provisions written back	**(411,763)**	(438,285)
Interest expense	**5,328,914**	3,440,690
Operating profit before working capital changes	**442,802,352**	272,033,052
Movements in working capital :		
(Increase) in sundry debtors	**(63,135,941)**	(179,743,764)
Decrease / (Increase) in other current assets	**(12,969,574)**	48,470,663
Decrease in loans and advances	**22,242,568**	5,672,239
(Increase) in margin money deposit	**(45,312,652)**	(63,547,205)
Increase in provisions	**47,299,356**	1,480,834
Increase / (Decrease) in current liabilities	**(58,584,724)**	24,695,272
Cash generated from operations	**332,341,385**	109,061,091
Direct taxes paid, net of refunds	**(38,989,045)**	(22,129,761)
Interest on income-tax refund	-	86,830
Cash flow before extraordinary items	**293,352,340**	87,018,160
Extraordinary item	-	-
Net cash from operating activities (A)	**293,352,340**	87,018,160
B. Cash flows used in investing activities		
Purchase of fixed assets	**(104,236,047)**	(121,651,309)
Proceeds from sale of fixed assets	**1,537,727**	3,847,388
Investment in R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V., Netherlands)	**(27,745,486)**	-
Investment in R Systems, S.A.S. France (formerly known as Sento S.A.S., France)	**(27,102,640)**	-
Acquisition of subsidiary (net of deferred compensation to the erstwhile shareholders of R Systems Solutions, Inc. USA) (also refer note 10(c) under Schedule 19)	**(23,468,978)**	(38,698,900)
Settlement of deferred payment compensation to erstwhile shareholders of ECnet Limited (refer note 10(a) under Schedule 19)	-	(5,466,240)
Interest received	**31,053,707**	32,789,048
Investment in long term fixed deposits with scheduled banks	**(468,766,926)**	(403,951,206)
Proceeds from long term fixed deposits with scheduled banks	**432,579,210**	490,100,000
Net cash used in investing activities (B)	**(186,149,433)**	(43,031,219)
C. Cash flows used in financing activities		
Proceeds from borrowings	**1,647,300**	2,501,868
Repayment of borrowings	**(51,307,039)**	(19,805,514)
Buyback of equity shares	**(7,030,950)**	-
Interest paid	**(5,328,914)**	(3,440,690)
Dividends paid	**(24,288,716)**	(16,201,135)
Tax on dividend paid	**(4,155,087)**	(2,770,057)
Net cash used in financing activities (C)	**(90,463,406)**	(39,715,528)
Net increase in cash and cash equivalents (A + B + C)	**16,739,501**	4,271,413
Cash and cash equivalents at the beginning of the year	**187,649,327**	183,377,914
Cash and cash equivalents at the end of the year	**204,388,827**	187,649,327

CONSOLIDATED CASH FLOW STATEMENT

(All amounts are in Rupees unless otherwise stated)

Components of cash and cash equivalents as at

	December 31, 2008	December 31,2007
Cash and cheques on hand	**348,826**	351,421
Balances with scheduled banks		
On current accounts	**12,957,803**	13,477,220
On cash credit accounts	**7,644,368**	9,260,471
On EEFC accounts	**25,388,722**	24,362,527
On deposit accounts	**472,053,763**	355,242,097
On unclaimed dividend/IPO refund accounts	**333,517**	167,112
Balances with other banks		
On current accounts	**112,666,834**	109,255,701
On deposit accounts	**5,044,430**	197,175
	636,438,263	512,313,724
Less: Margin money deposit	**(120,063,875)**	(74,751,223)
Less : Long term deposits	**(290,589,888)**	(254,402,172)
Less : Unclaimed dividend/IPO refund accounts	**(333,517)**	(167,112)
Less: Unrealised loss/ (gain) on foreign currency cash and cash equivalents	**(21,062,156)**	4,656,110
Net cash and cash equivalents	**204,388,827**	187,649,327

As per our report of even date.

For S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

per Sanjay Vij
Partner
Membership No. 95169

Place : NOIDA
Date : February 12, 2009

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

Satinder Singh Rekhi
[Managing Director]
Place : NOIDA
Date : February 12, 2009

O'Neil Nalavadi
[Director Finance & CFO]
Place : EDH, CA, USA
Date : February 12, 2009

Lt. Gen. Baldev Singh (Retd)
[President & Senior Executive Director]
Place : NOIDA
Date : February 12, 2009

Nand Sardana
[Company Secretary]
Place : NOIDA
Date : February 12, 2009

CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	As at December 31, 2008	As at December 31, 2007
Schedule 1: Share capital		
Authorised		
20,000,000 (Previous year 20,000,000) equity shares of Rs.10 each	**200,000,000**	200,000,000
Issued, subscribed and paid up		
13,782,206 (Previous year 13,782,206) equity shares of Rs.10 each fully paid-up	**137,822,060**	137,822,060
Less: Equity shares buy-back		
997,500 (Previous year 997,500) equity shares of Rs.2 each fully paid-up (equivalent to 199,500 (Previous year 199,500) equity shares of Rs.10 each) (refer note 9(a) under Schedule 19)	**1,995,000**	1,995,000
13,582,706 (Previous year 13,582,706) equity shares of Rs.10 each fully paid-up (refer note 9(a) and 9(b) under Schedule 19)	**135,827,060**	135,827,060
Less: Equity shares buy-back (refer note 9(b) under Schedule 19) 132,670 (Previous year Nil) equity shares of Rs.10 each fully paid-up	**1,326,700**	-
	134,500,360	135,827,060
Less: 13,676 (Previous year Nil) equity shares of Rs.10 each fully paid-up lying in Share Suspense Account (refer note 9(b) under Schedule 19)	**136,760**	-
	134,363,600	135,827,060
Less: Advance to Indus Software Employees Welfare Trust (refer note 11(b) under Schedule 19)	**738,980**	738,980
	133,624,620	135,088,080

Note:
Also refer note 11 under Schedule 19 for details of options in respect of equity shares.

	As at December 31, 2008	As at December 31, 2007
Schedule 2: Reserve and surplus		
Capital Redemption Reserve		
Balance as per last account	-	-
Add: Transferred from General Reserve (refer note 9(b) under Schedule 19)	**1,463,460**	-
	1,463,460	-
Securties Premium Account		
Balance as per last account	**981,687,568**	981,687,568
Less: Utilised for buy back of equity shares (refer note 9(b) under Schedule 19)	**5,567,490**	-
	976,120,078	981,687,568
Less: Advance to Indus Software Employees Welfare Trust (also refer note 11(b) under Schedule 19)	**2,282,728**	2,282,728
	973,837,350	979,404,840
Capital Reserve	**31,726**	31,726
General Reserve		
Balance as per last account	**20,640,719**	2,512,190
Add: Transferred from current year Profit and Loss Account	**23,647,603**	18,128,529
Less: Transfer to Capital Redemption Reserve (refer note 9(b) under Schedule 19)	**1,463,460**	-
	42,824,862	20,640,719
Profit and Loss Account		
Balance as per last account	**317,221,755**	174,240,175
Add: Adjustment in accordance with transitional provisions of AS-30 (refer note 1(c) under Schedule 19)	**2,261,781**	-
Add: Transferred from current year Profit and Loss Account	**218,937,377**	142,981,580
	538,420,913	317,221,755
Foreign curreny translation reserve		
Balance as per last account	**(26,716,226)**	(8,934,276)
Less: Current year translation differences	**53,038,859**	(17,781,950)
	26,322,633	(26,716,226)
Total	**1,582,900,944**	1,290,582,814

CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	As at December 31 , 2008	As at December 31, 2007
Schedule 3: Minority interest		
Minority interest in ECnet Limited at the time of acquisition	**149,585**	149,585
Less: Minority interest in post acquisition losses to the extent allocable	**149,585**	149,585
	-	-
Schedule 4: Secured loans		
- **From banks**		
Cash credit facilities for R Systems Europe B.V., Netherlands (Secured by pledge of account receivables that have been created or will be created in ordinary course of business)	**10,603,014**	-
For motor vehicles (refer note 1 below) (Secured by hypothecation of underlying motor vehicles)	**3,574,873**	6,083,942
- **From other**		
For motor vehicles (refer note 2 below) (Secured by hypothecation of underlying motor vehicles)	**541,666**	-
Finance lease obligation (refer note 3 below) (Secured by respective assets taken on lease (refer note 5(b) under Schedule 19)	**17,845,369**	230,529
	32,564,922	6,314,471

Note:

(1) In case of motor vehicle loans from bank, amount repayable within one year is Rs.1,930,564 (Previous year Rs.3,363,465)

(2) In case of motor vehicle loans from others, amount repayable within one year is Rs.193,438 (Previous year Rs.Nil)

(3) In case of finance lease obligation, amount repayable within one year is Rs.10,839,848 (Previous year Rs.186,528)

Schedule 5: Deferred tax liability (net)		
Deferred tax liability		
Differences in depreciation/amortisation and other differences in block of fixed assets as per tax books and financial books	**40,650,154**	37,366,217
Gross deferred tax liability	**40,650,154**	37,366,217
Deferred tax assets		
Provision for gratuity	**14,351,012**	6,995,694
Provision for leave encashment	**9,421,712**	5,940,974
Gross deferred tax assets	**23,772,724**	12,936,668
Deferred tax liability (net)	**16,877,430**	24,429,549

CONSOLIDATED SCHEDULES

Schedule 6: Fixed assets

(All amounts are in Rupees unless otherwise stated)

	Land - freehold	Land- leasehold	Building- freehold	Building- leasehold (1) & (2)	Computers (2)	Office and electrical equipment (2)	Furniture and fittings (2)	Vehicle (3) & (4)	Software (2)	Prduct development cost	Right to provide services	Goodwill (6)	Total	Previous Year
Gross block														
As at January 1, 2008	4,765,674	10,005,968	30,991,162	90,165,634	256,489,055	89,351,591	83,668,104	30,295,839	63,285,521	4,057,182	5,018,301	135,983,568	804,077,599	820,762,913
Acquisiton of R Systems Europe B.V. (formerly known as Sento Europe B.V.) (Refer note 10(f) and 10(g) under Schedule 19)	-	-	-	31,369,037	14,482,088	26,166,658	30,691,656	-	36,944,459	-	-	74,665,770	214,319,668	-
Acquisiton of R Systems S.A.S. (formerly known as Sento S.A.S.) (Refer note 10(i) and 10(j) under Schedule 19)	-	-	-	-	-	7,037,734	6,910,041	-	6,001,012	-	-	2,035,570	21,984,357	-
Additions	-	-	207,136	7,236,616	90,126,539	10,882,470	11,868,174	10,534,116	16,619,700	15,510,771	-	-	162,985,522	95,602,259
Deletions/adjustments	-	-	-	(8,116,084)	1,644,857	(4,310,614)	(8,481,759)	885,530	2,237,601	-	(1,308,563)	3,264,820	(14,184,212)	112,287,573
At December 31, 2008	**4,765,674**	**10,005,968**	**31,198,298**	**136,887,371**	**359,452,825**	**137,749,067**	**141,619,734**	**39,944,425**	**120,613,091**	**19,567,953**	**6,326,864**	**209,420,088**	**1,217,551,358**	**804,077,599**
Depreciation/ amortisation														
As at January 1, 2008	-	609,846	3,169,995	7,235,857	125,915,421	20,920,440	24,794,293	8,331,280	44,006,150	3,465,513	5,018,301	-	243,467,096	276,525,303
Acquisiton of R Systems Europe B.V. (formerly known as Sento Europe B.V.) (Refer note 10(f) and 10(g) under Schedule 19)	-	-	-	12,606,433	9,099,580	11,785,657	16,997,121	-	35,335,722	-	-	-	85,824,513	-
Acquisiton of R Systems S.A.S. (formerly known as Sento S.A.S) (Refer note 10(i) and 10(j) under Schedule 19)	-	-	-	-	-	6,168,116	6,146,717	-	6,001,012	-	-	-	18,315,845	-
For the year	-	163,544	510,253	9,086,432	59,462,081	13,178,656	11,298,839	4,045,511	13,475,389	4,469,352	-	-	115,690,057	70,410,977
Deletions/adjustments	-	-	-	(4,051,572)	1,091,089	(3,257,241)	(6,081,682)	(111,032)	2,845,075	-	(1,308,563)	-	(10,873,926)	103,469,184
At December 31, 2008	**-**	**773,390**	**3,680,248**	**32,980,294**	**193,385,993**	**55,310,110**	**65,318,652**	**12,487,823**	**95,973,198**	**7,934,865**	**6,326,864**	**-**	**474,171,437**	**243,467,096**
Depreciation / amortisation for previous year	-	163,097	509,756	2,318,292	41,302,159	6,046,368	6,001,696	3,371,594	9,683,715	1,014,300	-	-	70,410,977	59,123,941
Net block														
At December 31, 2008	**4,765,674**	**9,232,578**	**27,518,050**	**103,907,077**	**166,066,832**	**82,438,957**	**76,301,082**	**27,456,602**	**24,639,893**	**11,633,088**	**-**	**209,420,088**	**743,379,921**	**560,610,503**
At December 31, 2007	4,765,674	9,396,122	27,821,167	82,929,777	130,573,634	68,431,151	58,873,811	21,964,559	19,279,371	591,669	-	135,983,568		
Capital work in progress (including capital advances of Rs.1,785,639 (Previous year Rs.5,431,645)) (refer note 5 below)													**3,213,404**	49,758,326
													746,593,325	610,368,829

Notes:

(1) Includes Rs.21,155,390 (Previous Year Rs.21,155,390) paid towards land and building under a composite lease for which no separate values are assignable.

(2) Refer note 5(b) for assets obtained on finance lease included in gross book value and net book value.

(3) Vehicles amounting to Rs.12,519,362 (Previous year Rs.16,863,326) are hypothecated against terms loans for vehicle finance from banks.

(4) Vehicles amounting to Rs.712,306 (Previous year Rs. Nil) are hypothecated against terms loans for vehicle finance from others.

(5) Capital work in progess include product development cost in progress amounting to Rs. Nil (Previous year Rs.15,510,771)

(6) The goodwill arising on acquisition of ECnet Limited has been written off during the year ended December 31, 2005 against Securities Premium Account (also refer note 10 (b) under Schedule 19)

CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	As at December 31, 2008	As at December 31, 2007
Schedule 7: Investments		
Long term investments (at cost)		
Other than trade, unquoted		
Equity Shares		
2,500 (Previous year 2,500) equity shares of Rs.10 each in The Saraswat Co-operative Bank Limited	**25,000**	25,000
Current investment (at lower of cost and market value)		
Non trade, unquoted (also refer note 10(d) under Schedule 19)		
30,000* (Previous year 30,000) shares of common stock of "no par" value in Caranything.com, Inc., USA	**-**	40,224
34,000** (Previous year 34,000) shares of common stock of "no par" value in N Techra, Inc., USA	**-**	1,373,639
268,722*** (Previous year 268,722) shares of common stock of US$ 1each in ANY COMM, Inc., USA	**-**	10,597,052
	25,000	12,035,915
Aggregate amount of unquoted investments	**25,000**	12,035,915
Aggregate amount of quoted investments	**-**	-

* represent shares issued by Caranything.com, Inc. to settle the amount owed by it to a USA subsidiary, R Systems, Inc.

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

*** represent shares issued by ANY COMM, Inc. to settle the amount owed by it to a USA subsidiary, R Systems, Inc.

Schedule 8: Sundry debtors		
Debts outstanding for a period more than six months		
Unsecured, considered good	**35,938,315**	57,160,410
Considered doubtful	**115,315,808**	61,399,610
Other debts		
Unsecured, considered good	**754,282,563**	556,354,952
Considered doubtful	**19,251,120**	22,584,717
	924,787,806	697,499,689
Less : Provision for doubtful debts	**134,566,928**	83,984,327
	790,220,878	613,515,362

Schedule 9: Cash and bank balances		
Cash on hand	**348,826**	351,421
Balances with scheduled banks		
On current accounts	**12,957,803**	13,477,220
On cash credit accounts	**7,644,368**	9,260,471
On EEFC accounts	**25,388,722**	24,362,527
On deposit accounts	**472,053,763**	355,242,097
On unclaimed dividend/IPO refund accounts	**333,517**	167,112
Balances with other banks		
On current accounts	**12,666,834**	109,255,701
On deposit accounts	**5,044,430**	197,175
	636,438,263	512,313,724

Notes:

1) Balances with scheduled banks - on deposit accounts include receipts lien marked with banks against guarantees issued in favour of various Government departments Rs.120,063,875 (Previous year Rs.74,751,223).
2) Refer note 17 (c) under Schedule 19 for investment of balance funds from IPO proceeds pending its utilisation.
3) Also refer note 18 under Schedule 19 for details of cash and bank balances.

CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

		As at December 31, 2008		As at December 31, 2007
Schedule 10: Other current assets				
Interest accrued on deposits		**4,152,431**		7,013,033
Interest accrued on staff advance		**39,495**		28,173
Unbilled revenue	**141,700,649**		85,098,008	
Less: Anticipated cost to complete contracts	**-**	**141,700,649**	8,405,402	76,692,606
		145,892,575		83,733,812
Schedule 11: Loans and advances				
(Unsecured, considered good, except where otherwise stated)				
Advances recoverable in cash or in kind or for value to be received		**59,528,752**		56,929,481
(including Rs.9,142,953 considered doubtful, Previous year Rs.7,442,566)				
MAT credit receivables		**16,683,805**		4,980,214
Deposits - others		**31,069,664**		19,327,440
		107,282,221		81,237,135
Less: Provision for doubtful loans and advances		**9,142,953**		7,442,566
		98,139,268		73,794,569
Schedule 12: Current liabilities				
Sundry creditors		**284,775,225**		204,356,742
Mark-to-market on forward contracts		**46,759,066**		-
Unamortised income on forward cover contracts		-		2,998,572
Deferred payment compensation to the erstwhile shareholders of ECnet Limited (refer note 10(a) under schedule 19)		**9,285,242**		7,345,396
Deferred payment compensation to the erstwhile shareholders of R Systems Solutions, Inc. (refer note 10(c) under schedule 19)		**9,782,911**		20,922,415
Book overdraft		**1,122,609**		1,293,555
Deferred revenue		**47,785,442**		51,139,268
Investor education and protection fund (not due)				
(a) Unclaimed dividend		**258,267**		98,112
(b) Unclaimed application money received for allotment of equity shares and due for refund		**75,250**		69,000
Security deposits		**2,087,590**		1,973,613
Other liabilities		**50,475,666**		19,027,380
		452,407,268		309,224,053
Schedule 13: Provisions				
Employee bonus		**20,774,350**		15,733,333
Income tax (net of advance taxes amounting to Rs.79,110,112 (Previous year Rs.42,425,367))		**5,684,898**		11,251,267
Fringe benefit tax (net of advance taxes amounting to Rs.18,384,772 (Previous year Rs.14,558,895))		**264,270**		307,690
Proposed final dividend		**31,693,018**		24,448,871
Tax on proposed final dividend		**5,386,229**		4,155,087
Gratuity (refer note 13 under Schedule 19)		**46,466,537**		23,306,788
Long term compensated absences		**88,664,823**		50,290,206
		198,934,125		129,493,242

CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

		For the year ended December 31, 2008		For the year ended December 31, 2007
Schedule 14: Other income				
Interest on :				
-Bank deposits (Gross of tax deducted at source Rs.8,437,338 (Previous year Rs.9,096,324))		**36,639,483**		37,201,198
-Income tax refund		**-**		86,830
Foreign exchange fluctuation (net)		**-**		9,812,199
Provision for doubtful debts and advances written back		**10,703,381**		4,307,325
Other excess provisions written back, as no longer required		**411,763**		438,285
Miscellaneous income		**7,188,197**		5,238,483
		54,942,824		57,084,320
Schedule 15: Personnel expenses				
Salaries, wages and bonus		**1,989,807,205**		1,426,250,279
Contribution to provident fund and other payments		**139,404,548**		75,619,795
Staff welfare expenses		**35,291,380**		23,302,328
		2,164,503,133		1,525,172,402
Schedule 16: Operating and other expenses				
Recruitment and training expenses		**27,889,282**		14,026,012
Travelling and conveyance		**233,432,306**		215,835,929
Insurance		**13,658,309**		8,311,522
Commission others		**5,185,607**		4,516,965
Repair and maintenance		**52,044,212**		27,261,382
Provision for doubtful debts and advances		**39,477,670**		29,535,568
Bad debts and advances written off		**158,637**		144,275
Rent - premises		**79,177,803**		43,680,778
Rent - equipment		**12,365,911**		6,496,859
Power and fuel		**35,877,997**		28,913,539
Communication costs		**70,609,382**		69,313,349
Printing and stationery		**9,385,484**		8,092,379
Advertising and sales promotion		**9,467,688**		4,124,611
Legal and professional fees		**344,737,394**		225,362,195
Auditor's remuneration				
- Statutory audit fee	**1,350,000**		1,573,040	
- Quarterly audit fee	**1,874,160**		1,348,440	
- Other services	**1,043,540**		336,960	
- Out of pocket expenses	**164,948**	**4,432,648**	106,652	3,365,092
Directors' sitting fee		**210,000**		330,000
Loss on sale/discard of fixed assets (net)		**6,034,659**		2,551,999
Loss on impairment of investment		**13,344,649**		-
Rates and taxes		**6,220,524**		4,087,297
Loss on exchange fluctuation (net)		**74,500,175**		-
Watch and ward expenses		**4,897,514**		4,153,590
Membership and subscription		**4,259,777**		3,687,208
Miscellaneous expenses		**8,827,782**		6,597,397
		1,056,195,410		710,387,946

CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

	For the year ended December 31, 2008	For the year ended December 31, 2007
Schedule 17: Financial expenses		
Interest on loan	**5,328,914**	3,440,690
Bank charges	**6,972,199**	2,569,344
	12,301,113	6,010,034
Schedule 18: Prior period expenses/(income)		
Salaries, wages and bonus	-	(2,289,329)
Legal and professional fees	-	1,404,500
	-	(884,829)

CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

Schedule 19: Notes to Accounts

1. Statement of Significant Accounting Policies

(a) Basis of preparation

The consolidated financial statements of R Systems International Limited (the 'Company') and its subsidiaries (collectively referred to as 'R Systems Group' or the 'Group') have been prepared to comply in all material respects with notified accounting standards by Companies Accounting Standards Rules, 2006 and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual and going concern basis, except for derivative financial instruments that have been measured at fair value. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

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

All figures are in Rupees except where expressly stated.

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

Certain subsidiaries of the Company have significant losses at the year- end. Subsidiaries are meeting their short term funding requirement through parent and fellow subsidiaries loans. The management will extend its continual financial support during the financial year 2009 to enable the subsidiaries to meet its working capital and other financing requirements and considers it appropriate to prepare these accounts on going concern basis.

As per Accounting Standard Interpretation (ASI)-15 on Notes to the Consolidated Financial Statements, only the notes involving items which are material need to be disclosed. Materiality for this purpose is assessed in relation to the information contained in the consolidated financial statements.

Further, additional statutory information disclosed in separate financial statements of the subsidiary and/or a parent having no bearing on the true and fair view of the consolidated financial statements need not be disclosed in the consolidated financial statements. Therefore, based upon ASI-15, certain disclosures have not been made such as:

- Earnings in foreign exchange classified under the following heads, namely,:

  (a) Exports at F.O.B. Value;

  (b) Interest and dividend;

  (c) Other income, indicating the nature thereof.
- Expenditure in foreign currency during the financial year on account of royalty, know how, professional and consultation fees, interest and other matters.
- Value of imports calculated on CIF basis by the group entities during the financial year in respect of:

  (a) raw material;

  (b) capital goods
- Remittance in foreign currency on account of dividend.
- Disclosure of directors' remuneration and computation of net profit under section 349 of the Companies Act, 1956 for calculation of managerial remuneration under section 198.

(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) Changes in accounting policies

Accounting for derivatives

Pursuant to The Institute of Chartered Accountants of India's (ICAI) Announcement "Accounting for Derivatives", the Company had early adopted AS 30 "Financial Instruments: Recognition and Measurement" w.e.f. April 1, 2008, to the extent that the adoption was not in conflict with existing mandatory accounting standards and other authoritative pronouncements, Companies Act, 1956 and other regulatory requirements. The Company uses foreign exchange forward contracts (derivative financial instrument) to hedge its exposure to movements in foreign exchange rates. Such derivative financial instruments

CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the Profit and Loss Account.

During the quarter ended March 31, 2008, with respect to derivative contracts, other than those covered under Accounting Standard 11, the Company was following policy of mark to market on a portfolio basis of the aforementioned derivative contracts and recognising the net losses after considering the offsetting effect on the underlying hedge item in the income statement, net gains were ignored. Had the same policy been followed, the profit after tax for the year ended December 31, 2008 would have been higher by Rs. 2,261,781.

In the previous year with respect to derivative contracts, other than those covered under Accounting Standard 11, the Company was following the policy of mark to market on a portfolio basis of the aforementioned derivative contracts and recognizing the net gains/losses after considering the offsetting effect on the underlying hedge item in the Profit and Loss Account. Had the previous year policy been followed, the profit after tax for the year ended December 31, 2008 would have been higher by Rs. Nil.

(d) 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.

(e) Depreciation

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

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

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

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

(f) Intangibles

Product development costs

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

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

Computer software

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

(g) Expenditure on new projects

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

(h) Goodwill / capital reserve

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

(i) Impairment

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

CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

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

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

(j) 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.

(k) Investments

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

(l) Revenue recognition

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

Sale of software products

Revenue from the sale of software license is recognised when the sale has been completed with the transfer of title.

Rendering of services

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

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

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

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.

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

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

Interest

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

(m) Foreign currency translation

Foreign currency transactions

(i) Initial recognition

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

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(All amounts are in Rupees unless otherwise stated)

(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 expenses in the year in which they arise except those arising from investments in non-integral operations. Exchange differences arising in respect of fixed assets acquired by the Company from outside India on or before accounting period commencing after December 7, 2006 are capitalized as a part of fixed asset.

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

The premium or discount arising at the inception of forward exchange contracts (except outstanding against firm commitments and highly probable forecast transaction) is amortised as expense or income over the life of the contract. Exchange differences on such contracts are recognised in the statement of profit and loss in the year in which the exchange rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognised as income or as expense for the year.

(v) Translation of non-integral foreign operations

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

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2008, the rates used were US $ 1=Rs.43.81, Euro 1= Rs.64.13 [except for R System Europe B.V. (formerly known as Sento Europe B.V.) and R Systems S.A.S. (formerly known as Sento S.A.S.) at Euro 1= Rs.64.53] and Singapore $ 1 = Rs.30.93. For translating assets and liabilities at the year-end, the rates used were US $ 1= Rs.49.72, Euro 1= Rs.70.09 and Singapore $ 1= Rs.34.48.

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

(vi) Translation of Integral foreign operation

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

(n) Employee benefits

(i) 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.

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

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

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

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

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(All amounts are in Rupees unless otherwise stated)

(o) Income taxes

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

Current income tax expense comprises of taxes on income from operations in India and in foreign jurisdictions. Income tax payable in India is determined in accordance with the provisions of the Income Tax Act, 1961. Tax expense relating to overseas operations is determined in accordance with tax laws applicable in countries where such operations are domiciled.

Deferred income tax reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities across various countries of operation are not set off against each other as the Group does not have a legal right to do so. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

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

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

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

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

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

(p) Cash and cash equivalents

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

(q) Government grants and subsidies

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

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

(r) Provisions

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

(s) Earnings per share

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

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

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(All amounts are in Rupees unless otherwise stated)

(t) Segment reporting policies

Identification of segments :

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

Inter segment transfers :

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

Allocation of common costs :

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

Unallocated items :

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

Segment Policies :

The Group prepares its segment information in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group as a whole.

(u) Employee stock compensation cost

Measurement and disclosure of the employee share-based payment plans is done in accordance with SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the Guidance Note on Accounting for Employee Share-based Payments, issued by the Institute of Chartered Accountants of India. The Company measures compensation cost relating to employee stock options using the intrinsic value method. Compensation expense is amortized over the vesting period of the option on a straight line basis.

(v) Accounting for derivatives

The Company uses foreign exchange forward contracts (derivative financial instrument) to hedge its exposure to movements in foreign exchange rates. The use of these foreign exchange forward contracts reduces the risk or cost to the Company and the Company does not use the foreign exchange forward contracts or options for trading or speculation purpos es.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the Profit and Loss Account.

The fair value of foreign exchange forward contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the Profit and Loss Account. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a

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(All amounts are in Rupees unless otherwise stated)

part of the carrying value of the hedged item and is also recognised in the Profit and Loss Account

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the Profit and Loss Account. Amounts taken to equity are transferred to the Profit and Loss Account when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the Profit and Loss Account. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

The Company uses forward exchange contracts as hedges of its exposure to foreign currency risk in forecasted transactions and firm commitments. (refer note 14(b) for more details).

2. Description of the Group

R Systems International Limited (the 'Company') and its subsidiaries (collectively referred to as 'R Systems Group' or the 'Group') is a leading global provider of IT solutions and Business Process Outsourcing ("BPO") services. R Systems Group' primary focus is to provide full service IT solutions, software engineering, technical support, customer care and other IT enabled services to the high technology sector, independent software vendors (ISV's), banks, financial services companies and the health care sector. R Systems Group' develops and markets a suite of applications under the brand name "Indus" for the retail lending sector and undertakes turnkey software projects in the banking and financial services segment. R Systems Group' through its subsidiary ECnet Ltd develops and markets its proprietary supply chain solution under the brand name "ECnet", primarily to the high technology sector. R Systems Group' services are provided out of its eight global development and service centres in India, USA, Europe and Singapore.

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

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Subsidiary	Holding	Country of incorporation and other particulars
R Systems, Inc. , USA	100%	A company registered under the laws of California, USA in 1993 and subsidiary of the Company since January 2, 2001. R Systems Inc. has a division in Japan.
R Systems (Singapore) Pte Limited, Singapore	100%	A company registered under the laws of Singapore in 1997 and subsidiary of the Company since September 19, 2000.
Indus Software, Inc., USA	100%	A company registered under the laws of Delaware, USA in 1996 and subsidiary of the Company since April 1, 2002.
R Systems Solution, Inc., USA	100%	A company registered under the laws of California, USA in 2000 and subsidiary of the Company since August 24, 2006.
R Systems N.V., Belgium	100%	A company registered under the laws of Belgium in 2007 and subsidiary of the Company since August 28, 2007.
R. Systems Europe B.V., Netherlands (Formerly known as Sento Europe B.V., Netherlands)	100%	A company registered under the laws of Netherlands in 1999 and subsidiary of the Company since January 23, 2008.
R. Systems S.A.S, France (Formerly known as Sento S.A.S, France)	100%	A company registered under the laws of France in 2000 and subsidiary of the Company since January 23, 2008.
ECnet Limited, Singapore	98.59%	A company registered under the laws of Singapore in 1996. The Company has acquired majority share on January 8, 2004. ECnet Limited, Singapore has subsidiaries in Malaysia, Thailand, China, Hong Kong, USA and Japan.

ECnet Limited, Singapore has following wholly owned subsidiaries:

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

3. Segment information

Business Segments :

R Systems Group is a leading global provider of IT solutions and Business Process Outsourcing (BPO) services. The Group considers business segment as the basis for primary segmental reporting. The Group is organised into two business segments – software development and customisation services and BPO services. Costs and expenses which cannot be allocated to any business segment are reflected in the column 'corporate and others'. Segments have been identified and reported based on the nature of the services, the risks and returns, the organization structure and the internal financial reporting system.

Geographical Segments :

The Group reports secondary segmentation information on the basis of the geographical location of the customers. Although the Group's major operating divisions are managed on a worldwide basis, they operate in five principal geographical areas of the world which are: India, United States of America, South East Asian countries, Europe and Other areas.

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The following table provides required information for the primary segments for the year ended December 31, 2008 and year ended December 31, 2007:

Particulars	Software development & customisation services		Business process outsourcing services		Eliminations		Corporate and others		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
REVENUE										
External sales	**2,565,621,144**	2,115,279,389	**1,028,301,842**	355,295,618	-	-	**-**	-	**3,593,922,986**	2,470,575,007
Inter-segment sales	**5,509,214**	-	-	-	**5,509,214**	-	**-**	-	-	-
Total revenue	**2,571,130,358**	2,115,279,389	**1,028,301,842**	355,295,618	**5,509,214**	-	**-**	-	**3,593,922,986**	2,470,575,007
RESULT										
Segment result	**249,476,190**	214,973,160	**75,536,545**	6,761,386	-	-	**-**	-	**325,012,735**	221,734,546
Unallocated corporate expenses							**63,747,167**	44,609,025	**63,747,167**	44,609,025
Operating profit									**261,265,568**	177,125,521
Interest expenses							**(5,328,914)**	(3,440,690)	**(5,328,914)**	(3,440,690)
Interest income							**36,639,483**	37,288,028	**36,639,483**	37,288,028
Other income							**7,599,960**	20,042,160	**7,599,960**	20,042,160
Income taxes							**(20,511,870)**	(41,300,952)	**(20,511,870)**	(41,300,952)
Net profit									**279,664,227**	189,714,067

(All amounts are in Rupees unless otherwise stated)

Particulars	Software development & customisation services		Business process outsourcing services		Eliminations		Corporate and others		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
OTHER INFORMATION										
Segment assets	**1,502,396,511**	1,304,623,228	**322,232,799**	135,193,458	**27,142,907**	21,199,823	-	-	**1,797,486,403**	1,418,616,863
Unallocated corporate assets	-	-	-	-	-	-	**619,822,906**	487,145,348	**619,822,906**	487,145,348
Total assets	**1,502,396,511**	1,304,623,228	**322,232,799**	135,193,458	**27,142,907**	21,199,823	**619,822,906**	487,145,348	**2,417,309,309**	1,905,762,211
Segment liabilities	**439,109,638**	295,956,204	**205,392,960**	84,963,603	**27,142,907**	21,199,823	-	-	**617,359,691**	359,719,984
Unallocated corporate liabilities							**55,211,227**	80,227,740	**55,211,227**	80,227,740
Income tax liabilities							**28,212,827**	40,143,593	**28,212,827**	40,143,593
Total liabilities	**439,109,638**	295,956,204	**205,392,960**	84,963,603	**27,142,907**	21,199,823	**83,424,054**	120,371,333	**700,783,745**	480,091,317
Capital expenditures	**89,183,109**	99,379,640	**27,257,491**	35,367,821	**-**	-	**-**	-	**116,440,600**	134,747,461
Depreciation and amortization	**71,511,217**	57,657,936	**44,178,840**	12,753,041	**-**	-	**-**	-	**115,690,057**	70,410,977
Other non-cash expenses	**43,094,673**	25,037,733	**15,920,942**	7,194,109	**-**	-	**-**	-	**59,015,615**	32,231,842

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(All amounts are in Rupees unless otherwise stated)

Geographical segments:

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

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

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

	For the year ended December 31, 2008	For the year ended December 31, 2007
India	**136,160,587**	127,700,176
USA	**2,067,163,555**	1,742,518,524
South East Asia	**271,655,670**	191,848,366
Europe	**943,205,533**	277,480,106
Others	**175,733,641**	131,027,835
Total	**3,593,922,986**	2,470,575,007

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

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

	Carrying amount of assets For the year ended December 31, 2008	Carrying amount of assets For the year ended December 31, 2007	**Addition to fixed assets and intangible assets For the year ended December 31, 2008**	Addition to fixed assets and intangible assets For the year ended December 31, 2007
India	**1,103,355,186**	987,049,119	**72,271,390**	91,043,395
USA	**733,439,023**	768,542,994	**32,139,568**	39,688,165
South East Asia	**115,940,409**	66,651,805	**4,161,791**	3,928,814
Europe	**402,328,382**	21,695,358	**7,827,722**	-
Others	**62,246,309**	61,822,935	**40,129**	87,087
Total	**2,417,309,309**	1,905,762,211	**116,440,600**	134,747,461

4. Related party disclosure

(i) Names of related parties (Also refer note 2 for 'R Systems Group')

Key management personnel

Sl. No.	Name of Person	Designation	Company
1	Satinder Singh Rekhi	Chairman and Managing Director	R Systems International Limited
		Director	R Systems, Inc., USA
		Director	R Systems (Singapore) Pte Ltd, Singapore
		Director	Indus Software, Inc., USA
		Director	R Systems Solution, Inc, USA
		Director	R Systems, NV, Belgium
		Director	R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.)
2	O'Neil Nalavadi	Director Finance & Chief Financial Officer	R Systems International Limited
		Director	R Systems, NV, Belgium
3	Lt. Gen. Baldev Singh (Retd)	President and Senior Executive Director	R Systems International Limited
4	Raj Swaminathan	Director and Chief Operating Officer	R Systems International Limited
5	Mrs. Harpreet Rekhi	Director	R Systems (Singapore) Pte Ltd., Singapore
		Director	Indus Software, Inc, USA
		Director	R Systems, Inc, USA
6	Lu Kok Wah (Resigned in 2008)	Director	ECnet Ltd, Singapore
7	Tan Cant Wee	Director	ECnet Ltd, Singapore
		Director	R Systems (Singapore) Pte Ltd, Singapore
8	Tarun Shankar Mathur	Director	ECnet Ltd, Singapore
		Director	R Systems (Singapore) Pte Ltd, Singapore
9	Peter Newel (Resigned in 2007)	Director	R Systems Solution, Inc, USA
10	Nikhil Khosla (Resigned in 2007)	Director	R Systems Solution, Inc, USA
11	Sartaj Singh Rekhi	Director	R Systems Solution, Inc, USA
		Director	R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.)
		Manager	R Systems, Inc, USA
12	Bart V Eunen	Director	R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.)
		Director	R Systems S.A.S ,France (formerly known as Sento S.A.S)

(ii) Details of transactions with related parties for the year ended December 31, 2008 and December 31, 2007:-

Key management personnel	For the year ended December 31, 2008	For the year ended December 31, 2007
Remuneration		
Satinder Singh Rekhi	**15,455,824**	12,093,063
O'Neil Nalavadi	**10,290,948**	8,776,462
Lt. Gen. Baldev Singh (Retd.)	**6,583,334**	6,183,333
Raj Swaminathan	**5,601,494**	5,434,548
Tarun Shankar Mathur	**8,220,402**	7,691,710
Lu Kok Wah	**-**	2,153,936

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Key management personnel	For the year ended December 31, 2008	For the year ended December 31, 2007
Tan Cant Wee	185,592	2,225,756
Peter Newel	-	2,467,938
Nikhil Khosla	-	3,493,069
Sartaj Singh Rekhi	2,618,126	1,654,274
Bart V Eunen	7,833,805	-
Rent		
Satinder Singh Rekhi	5,783,448	4,714,697
Total	62,572,973	56,888,786

5. Leases - In case of assets taken on lease

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

	Year ended December 31, 2008	Year ended December 31, 2007
Minimum Lease Payments:		
Not later than one year	85,566,687	24,993,987
Later than one year but not later than five years	89,639,531	45,504,077
Later than five years	Nil	459,102

(b) The Group 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 Group 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,	
	2008	2007	2008	2007
Furniture and fixture	5,568,010	-	2,252,433	-
Computer hardware	7,019,755	-	1,837,683	-
Computer software	3,065,032	-	827,661	-
Office and electrical equipment	27,082,623	807,392	11,471,636	444,787
Building leasehold (leasehold improvements)	13,957,622	-	6,379,535	-
Total	56,693,042	807,392	22,768,948	444,787

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

	Year ended December 31,2008	Year ended December 31,2007
Total minimum lease payments during the year	14,735,584	657,531
Less : Amount representing finance charges	1,445,666	83,703
Present value of minimum lease payments	13,289,918	573,828

	Year ended December 31, 2008	Year ended December 31, 2007
Minimum Lease Payments:		
Not later than one year [For finance lease: Present value Rs.10,839,848 as on December 31, 2008 (Rs.186,528 as on December 31, 2007)]	11,446,131	194,533
Later than one year but not later than five years [For finance lease: Present value Rs.7,005,520 as on December 31, 2008 (Rs.Nil as on December 31, 2007)]	7,200,581	Nil
Later than five years [For finance lease : Present value Rs. Nil as on December 31, 2008 (Rs. Nil as on December 31, 2007)]	Nil	Nil

6. Capital Commitments

	Year ended December 31, 2008	Year ended December 31, 2007
Commitments for acquisition of fixed assets	832,504	18,318,527
	832,504	18,318,527

7. Contingent liabilities not provided for:

	Year ended December 31, 2008	Year ended December 31, 2007
Performance guarantees given to Department of telecommunication for Domestic & International 'Other Service Provider' licenses	102,000,000	51,000,000
Guarantees given on behalf of wholly owned subsidiary		
R Systems, Inc., USA	114,351,400	90,700,500
R Systems Europe B.V., Netherlands	94,620,150	-
Total	310,971,550	141,700,500

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

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Details of dues to Micro, Small and Medium Enterprises as per MSMED Act, 2006	As at December 31, 2008	As at December 31, 2007
the principal amount and the interest due thereon remaining unpaid to any supplier as at the end of each accounting year	Nil	Nil
the amount of interest paid by the buyer in terms of section 16 of the Micro Small and Medium Enterprise Development Act, 2006 along with the amounts of the payment made to the supplier beyond the appointed day during each accounting year	Nil	Nil
the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under Micro Small and Medium Enterprise Development Act, 2006.	Nil	Nil
the amount of interest accrued and remaining unpaid at the end of each accounting year; and	Nil	Nil
the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise for the purpose of disallowance as a deductible expenditure under section 23 of the Micro Small and Medium Enterprise Development Act, 2006	Nil	Nil

9 (a) The Issued, subscribed and paid up capital of the Company as on December 31, 2008, includes the following:

- 67,000 equity shares of Rs. 10 each, allotted at a premium of Rs.10,838 (approx) per equity share pursuant to a contract for share swap with existing shareholders of R Systems, Inc., USA after obtaining necessary regulatory approvals on January 2, 2001.
- 3,600,000 equity shares of Rs.10 each, allotted as fully paid up bonus shares by way of capitalisation of accumulated profits on January 5, 2001.

  The Company had sub divided each of its equity shares of Rs.10 each into 5 equity shares of Rs.2 each and accordingly all the afore-mentioned shares had been sub divided on January 5, 2001.
- 3,596,869 equity shares of Rs.2 each, allotted on March 4, 2002 at a premium of Rs.113.42 per equity share pursuant to a "Shareholders Agreement" resulting in share swap with specific shareholders of Indus Software Private Limited (or 'Indus') after obtaining necessary regulatory approvals.
- 1,281,364 equity shares of Rs.2 each, allotted on December 28, 2002 at a premium of Rs.113.42 per equity share to the remaining shareholders of Indus, pursuant to the approval of "Scheme of Amalgamation" relating to the amalgamation of Indus with the Company by the High Courts of Delhi and Mumbai.
- The Company had earlier advanced Rs.115,131,450 to R Systems Employee Stock Option Trust, and allotted 997,500 equity shares at the rate of Rs.115.42. During the year ended December 31, 2004, the Company bought back these shares at the rate of Rs.115.42 per equity share.
- 495,667 equity shares of Rs.2 each issued in January 2006 upon conversion of warrants under the Shareholders Agreement dated February 16, 2002.

  The Company had consolidated each of its five equity shares of Rs.2 each into one equity share of Rs.10 each and accordingly the afore-mentioned shares had been consolidated on January 30, 2006.
- 5,355,255 equity shares of Rs.10 each had been allotted on January 30, 2006 as fully paid up bonus shares by utilisation of Securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956.

(b) The Board of Directors of the Company at its meeting held on September 7, 2008, had approved the Buy-back of the equity shares of Rs.10 each, not exceeding 1,306,941 number of equity shares from the existing owners, at a maximum price of Rs.150 per equity share, for an aggregate amount not exceeding Rs.80,000,000, from the open market through stock exchange(s) in terms of the SEBI (Buy Back of Securities) Regulations, 1998 pursuant to the first proviso to clause (b) of sub-section (2) of Section 77A of the Companies Act, 1956. Consequently, the Company made a public announcement dated October 15, 2008 regarding Buy-back of equity shares.

As of December 31, 2008, the Company has bought back 146,346 equity shares of Rs.10 each at an average price of Rs.48.04 per share, utilising a sum of Rs.7,030,950 (inclusive of brokerage and applicable taxes of Rs.25,671). Out of this, 132,670 equity shares of Rs.10 each have been extinguished

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(All amounts are in Rupees unless otherwise stated)

till the year end and 13,676 shares, lying in Share Suspense Account as at the year end, have been extinguished subsequent to the balance sheet date. The amount of Rs.5,567,490 paid towards buy back of shares, in excess of the face value, has been charged to Securities Premium Account. The Company has also transferred Rs.1,463,460 from free reserves to Capital Redemption Reserve Account, which represents the nominal value of shares bought back during the year.

10.(a) During earlier years, the Company had acquired 98.59% shares in ECnet Limited, a Company incorporated in Singapore at total consideration of Rs.34,938,958. During the year ended December 31, 2007 the Company had settled the liabilities towards certain erstwhile shareholders. As a result thereof, the deferred payment compensation of Rs.14,452,222 was released, as considered appropriate by the management. The reassessed amount payable Rs.9,285,242 (Previous year Rs.7,345,396) is shown under 'current liabilities'.

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

(c) During the year ended December 31, 2006 the Company had completed the acquisition and integration of R Systems Solutions, Inc., a technical support company based in the USA. The company had acquired 8,666,884 Series A convertible preferred stock of "no par" value and 10,335,833 common stock of no par value from the erstwhile shareholders of R Systems Solutions, Inc. The maximum purchase consideration for the above acquisition is US$ 10.34 million i.e. Rs.505,370,852 (Previous year Rs.428,312,517), including consideration determined as contingent of future earn-outs and offshore activities amounting to US$7.49 million i.e. Rs.372,574,764 (Previous year Rs.295,516,429). The Company had recognised the investment at value of US$ 2.85 million i.e. Rs.132,796,088 which represents the consideration assessed as probable to be paid. The goodwill arising on acquisition of Rs.135,983,568 had been recorded in the books.

Out of such payables, Rs.54,803,268 had been paid at time of acquisition and Rs.62,167,878 had been paid from the date of acquisition till the year ended December 31, 2008. During the year ended December 31, 2008, the Company has reassessed the probable payment for purchase consideration and reversed Rs.3,264,820 against goodwill appearing in the books. The reassessed amount payable within one year Rs.9,782,911 (Previous year Rs.20,922,415) from the year-end is shown under 'current liabilities'. The balance amount payable after one year is Rs. Nil (Previous year Rs.10,630,002) and has been disclosed separately as 'deferred payments liability'.

(d) During the year, the Group has reassessed the market value of its current investments in certain USA companies as Nil after considering the financial position and operations of these companies and has accordingly recognised loss of Rs.13,344,649.

(e) During the year ended December 31, 2008, the Company has completed the acquisition of R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.) and R Systems S.A.S, France (formerly known as Sento S.A.S, France), two wholly owned subsidiaries based in Europe effective January 23, 2008. The purchase consideration for the acquisition of R Systems Europe B.V., Netherlands is Rs.42,053,275 and R Systems S.A.S., France is Rs.32,593,766.

(f) The details of assets acquired on acquisition of R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.) are as under:

Asset	Gross block	Accumulated depreciation
Building leasehold (leasehold improvements)	31,369,037	12,606,433
Computers	14,482,088	9,099,580
Software	36,944,459	35,335,722
Furniture and fittings	30,691,656	16,997,121
Office and electrical equipment	26,166,658	11,785,657
Total	**139,653,898**	**85,824,513**

(g) Breakup of assets and liabilities acquired on acquisition of the R Systems Europe B.V.,Netherlands (formerly known as Sento Europe B.V.) as noted in 10 (e) above:

Assets	
Cash and bank balances	14,307,789
Sundry debtors	67,801,553
Other current assets	34,605,151
Loans and advances	9,433,952

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Fixed assets	
Gross block	139,653,898
Less : Accumulated depreciation/amortisation	85,824,513
Net block	53,829,385
Total assets	**179,977,830**
Liabilities	
Secured loan	26,278,388
Current liability and provisions	186,311,937
Total liability	**212,590,325**
Net assets (A)	**(32,612,495)**
To be discharged by:	
Cash already paid	42,053,275
Total Consideration (B)	**42,053,275**
Goodwill arising on acquisition (B-A)	**74,665,770**

(h) All profits / losses relating to R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.) subsequent to the date of acquisition are included in these consolidated financial statements. Accordingly, profit for the period from January 23, 2008 to December 31, 2008 is incorporated in the Profit and Loss Account. Further, goodwill, as mentioned above, has been computed on the basis of accounts of the subsidiary as on January 23, 2008. For the purpose of above computation, the amounts in foreign currencies have been translated at the applicable rates on the acquisition date, i.e., Euro 1= Rs.57.46.

(i) The details of assets acquired on acquisition of R Systems S.A.S ,France (formerly known as Sento S.A.S) are as under:

Asset	Gross block	Accumulated depreciation
Software	6,001,012	6,001,012
Furniture and fittings	6,910,041	6,146,717
Office and electrical equipment	7,037,734	6,168,116
Total	**19,948,787**	**18,315,845**

(j) Breakup of assets and liabilities acquired on acquisition of the R Systems S.A.S ,France (formerly known as Sento S.A.S) as noted in 10 (e) above:

Assets	
Cash and bank balances	5,491,126
Sundry debtors	687,186
Other current assets	499,385
Loans and advances	46,844,249

Fixed assets	
Gross block	19,948,787
Less : Accumulated depreciation/amortisation	18,315,845
Net block	1,632,942
Total assets	**55,154,888**
Liabilities	
Current liability and provisions	24,596,692
Total liability	**24,596,692**
Net assets (A)	**30,558,196**
To be discharged by:	
Cash already paid	32,593,766
Total Consideration (B)	**32,593,766**
Goodwill arising on acquisition (B-A)	**2,035,570**

(k) All profits / losses relating to R Systems S.A.S, France (formerly known as Sento S.A.S) subsequent to the date of acquisition are included in these consolidated financial statements. Accordingly, profit for the period from January 23, 2008 to December 31, 2008 is incorporated into the Profit and Loss Account. Further, goodwill, as mentioned above, has been computed on the basis of accounts of the subsidiary as on January 23, 2008. For the purpose of above computation, the amounts in foreign currencies have been translated at the applicable rates on the acquisition date, i.e., Euro 1= Rs.57.46.

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

During the year 2004, the Company had instituted the plan for all eligible employees as specified in the rules in pursuance of the special resolution duly approved by the shareholders. The plan provides for the issuance of 997,500 options to eligible employees as recommended by the Compensation Committee constituted for this purpose.

The plan is administered by a Compensation Committee and exercise price is "1.60 times the Book Value of the Share as per the audited balance sheet as on December 31, 2003 i.e. Rs.42 per Share or 1.60 times of the book value as per immediate previous accounting year audited balance sheet rounded off to nearest rupee as on the date of exercise which ever is higher".

During the year ended December 31, 2006, the Company had consolidated each of its five equity shares of Rs.2 each into one equity share of Rs.10 each and then issued 1:1 bonus share to each of the then existing shareholder (excluding the option holders) by utilisation of Securities Premium Account in terms of the provisions of Section 78 of the Companies Act, 1956. Considering these changes in the capital structure, the management had adjusted the number of options vesting to its employees and exercise price to preserve the benefits intended to be made available under

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the plan i.e. instead of five options of Rs.2 per share, the employees' entitlement had been adjusted to one option of Rs.10 per share and instead of earlier exercise price of Rs.42 per share for each Rs.2 share, the exercise price had been accordingly adjusted to Rs.105 per equity share. During the year, the Company had obtained a legal opinion confirming that the adjustments undertaken to the number of options vesting to its employees and exercise price, pursuant to the consolidation and subsequent bonus issue during the year ended December 31, 2006, does not tantamount to modification and no additional benefit was offered to the existing optionholders.

The vesting period is 4 years (25% in each year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2008 and year ended December 31, 2007 is set out below:

	Year ended December 31, 2008 (Nos.)	Year ended December 31, 2007 (Nos.)
At the beginning		
- Grants outstanding under the plan (Rs.10 per share)	**94,480**	106,960
- Grants pending determination by the Compensation Committee (Rs.10 per share)	**50,185**	37,705
During the year		
- Options granted (Rs.10 per share)	**-**	-
- Options exercised (Rs.10 per share)	**-**	-
- Options lapsed or surrendered (Rs.10 per share)	**11,205**	12,480
At the end		
- Grants outstanding under the plan (Rs.10 per share)	**83,275**	94,480
- Grants pending determination by the Compensation Committee (Rs.10 per share)	**61,390**	50,185

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

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

As a result of the merger of Indus with the Company, all employees had surrendered their options in favour of the Indus Trust to enable them to obtain options for shares in R Systems International Limited after the merger. Also, the Company had issued 206,822 equity shares of Rs.2 each at a premium of Rs.113.42 per share to the Indus Trust in exchange of 21,967 equity shares of Indus, apropos to the agreed swap ratio.

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

The movement in the options (in equivalent number of shares of the Company) held by the Trust during the year ended December 31, 2008 and the year ended December 31, 2007 is set out below:

	Year ended December 31, 2008 (Nos.)	Year ended December 31, 2007 (Nos.)
At the beginning		
- Grants outstanding under the plan (Rs.10 per share)	-	-
- Grants pending determination by the Compensation Committee (Rs.10 per share)	**73,898**	73,898
During the year		
- Options granted (Rs.10 per share)	**-**	-
- Options exercised (Rs.10 per share)	**-**	-
- Options lapsed or surrendered (Rs.10 per share	**-**	-
At the end		
- Grants outstanding under the plan (Rs.10 per share)	**-**	-
- Grants pending determination by the Compensation Committee (Rs.10 per share)	**73,898**	73,898

(c) R Systems International Limited – Year 2004 Employees Stock Option Plan –ECnet (the plan)

The Company had instituted the plan for all eligible employees in pursuance of the special resolution duly approved by the shareholders. The plan provides for the issuance of 1,000,000 options to eligible employees as recommended by the Compensation Committee constituted for this purpose.

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The plan is administered by a Compensation Committee and exercise price is "Book Value of the Share as per the audited Balance Sheet as on 31st December 2003 i.e. Rs.26 or as on the date of Exercise, the book value as per immediate previous accounting year audited balance sheet rounded off to nearest rupee which ever is higher".

During the year ended December 31, 2006, the Company had consolidated each of its five equity shares of Rs.2 each into one equity share of Rs.10 each and then issued 1:1 bonus share to each of the then existing shareholder (excluding the option holders) by utilisation of Securities Premium Account in terms of the provisions of Section 78 of the Companies Act, 1956. Considering these changes in the capital structure, the management had adjusted the number of options vesting to its employees and exercise price to preserve the benefits intended to be made available under the plan i.e. instead of five options of Rs.2 per share, the employees' entitlement had been adjusted to one option of Rs.10 per share and instead of earlier exercise price of Rs.26 per share for each Rs.2 share, the exercise price had been accordingly adjusted to Rs.65 per equity share. During the year, the Company had obtained a legal opinion confirming that the adjustments undertaken to the number of options vesting to its employees and exercise price, pursuant to the consolidation and subsequent bonus issue during the year ended December 31, 2006, does not tantamount to modification and no additional benefit was offered to the existing optionholders.

The vesting period is 4 years (40% in 1st year & 20% in 2nd, 3rd & 4th year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2008 and year ended December 31, 2007 is set out below:

	Year ended December 31, 2008 (Nos.)	Year ended December 31, 2007 (Nos.)
At the beginning		
- Grants outstanding under the plan (Rs.10 per share)	**17,801**	46,801
- Grants pending determination by the Compensation Committee (Rs.10 per share)	**112,240**	83,240
During the year		
- Options granted (Rs.10 per share)	-	-
- Options exercised (Rs.10 per share)	-	-
- Options lapsed or surrendered (Rs.10 per share)	**11,001**	29,000
At the end		
- Grants outstanding under the plan (Rs.10 per share)	**6,800**	17,801
- Grants pending determination by the Compensation Committee (Rs.10 per share)	**123,241**	112,240

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

During the year 2007, the Company had instituted the plan for all eligible employees as specified in the rules in pursuance of the special resolution duly approved by the shareholders. The plan provides for the issuance of 650,000 options to eligible employees as recommended by the Compensation Committee constituted for this purpose.

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

The vesting period is 4 years (25% in each year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2008 and year ended December 31, 2007 is set out below:

	Year ended December 31, 2008 (Nos.)	Year ended December 31, 2007 (Nos.)
At the beginning		
- Grants outstanding under the plan (Rs.10 per share)	**610,500**	-
- Grants pending determination by the Compensation Committee (Rs.10 per share)	**39,500**	-
During the year		
- Options granted (Rs.10 per share)	-	632,500
- Options exercised (Rs.10 per share)	-	-
- Options lapsed or surrendered (Rs.10 per share)	**50,000**	22,000
At the end		
- Grants outstanding under the plan (Rs.10 per share)	**560,500**	610,500
- Grants pending determination by the Compensation Committee (Rs.10 per share)	**89,500**	39,500

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

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(All amounts are in Rupees unless otherwise stated)

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

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

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

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

*** : R Systems International Limited – Year 2004 Employees Stock Option Plan ECNet

Further, for the purpose of valuation of the options granted during the year 2005 under R Systems International Limited-Year 2004 Employee Stock Option Plan, the management obtained fair value of the options at the date of grant from a firm of Chartered Accountants (N Maini & Co.), to determine accounting impact, if any, of options granted. In the considered opinion of the valuer (mentioned above), the fair value of these option determined using 'Black Scholes Valuation Model' is "Nil" and thus no accounting thereof is required.

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

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

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

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

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

Assumptions	Unit	Scheme	Comments by the valuer
Strike price	Rs.	120.70	
Current share price	Rs.	118.50	Price on the date of grant by Board of Directors i.e. closing price on July 11, 2007
Expected option life	No of Years	4	Being the vesting period.
Volatility	%	44	On the basis of industry average.
Risk free return	%	7	Zero coupon rate estimated from trading government securities for a maturity corresponding to expected life of option - taken from sites of NSE.
Expected dividend Yield	%	0.86	Company has declared Dividends of 12% in the past. Assuming that it will continue declaring similar dividends in future.

In March 2005 the ICAI has issued a guidance note on "Accounting for Employees Share Based Payments" applicable to 'employee share based plan' the grant date in respect of which falls on or after April 1, 2005. The said guidance note requires the Proforma disclosures of the impact of the fair value

CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

method of accounting of employee stock compensation in the financial statements. Since the Company used the intrinsic value method the impact on the reported net profit and earnings per share by applying the fair value based method is as follows:

Particulars	Year ended December 31, 2008	Year ended December 31, 2007
Net Income as reported	**279,664,227**	189,714,067
Less:- Fair Value Compensation Cost	**10,790,693**	7,689,451
Adjusted Pro-forma Net Income	**268,873,534**	182,024,616
Earning Per Share		
Basic		
- As reported	**20.61**	13.97
- Proforma	**19.81**	13.40
Diluted		
- As reported	**20.36**	13.78
- Proforma	**19.57**	13.23

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

12. Earnings per share*

	Year ended December 31, 2008	Year ended December 31, 2007
Basic [nominal value of share Rs.10 (previous year Rs.10)] (in Rs.)	**20.61**	13.97
Diluted [nominal value of share Rs.10 (previous year Rs.10)] (in Rs.)	**20.36**	13.78
Net profit after tax (in Rs.)	**279,664,227**	189,714,067
Weighted average number of equity shares for calculating Basic EPS	**13,572,178**	13,582,706
Add : Equity shares for no consideration arising on grant of stock options under ESOP.	**165,862**	180,658
Weighted average number of equity shares for calculating Diluted EPS	**13,738,040**	13,763,364

* Also for note no. 11(f) above

13. Post employment benefits

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

The following table summaries the components of net benefit expense recognised in the Profit and Loss Account.

Net employee benefit expense recognised under Salary, wages and bonus

Particulars	Year ended December 31, 2008	Year ended December 31, 2007
Current service cost	**9,318,275**	7,055,846
Interest cost on benefit obligation	**2,490,799**	1,263,865
Expected return on plan assets	**-**	-
Net actuarial(gain) / loss recognised in the year	**12,677,424**	(87,429)
Past service cost	**-**	-
Net benefit expense	**24,486,498**	8,232,282

Details of defined benefit gratuity plan

Particulars	Year ended December 31, 2008	Year ended December 31, 2007
Defined benefit obligation	**46,466,537**	23,306,788
Fair value of plan assets	**-**	-
Present value of unfunded obligations	**46,466,537**	23,306,788
	46,466,537	23,306,788
Less: Unrecognised past service cost	**-**	-
Plan liability/ (asset)	**46,466,537**	23,306,788

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

Particulars	Year ended December 31, 2008	Year ended December 31, 2007
Opening defined benefit obligation	**23,306,788**	16,885,862
Interest cost	**2,490,799**	1,263,865
Current service cost	**9,318,275**	7,055,846
Benefits paid	**(1,326,749)**	(1,811,356)
Actuarial (gains) / losses on obligation	**12,677,424**	(87,429)
Closing defined benefit obligation	**46,466,537**	23,306,788

CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

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

Particulars	Year ended December 31, 2008 %	Year ended December 31, 2007 %
Discount rate	**5.35% p.a.**	7.85% p.a.
Expected rate of return on plan assets	**Not applicable**	Not applicable
Salary Escalation Rate	**10.0% p.a. for first 2 years and 7% p.a. thereafter**	10.0% p.a. for first 3 years and 7% p.a. thereafter
Attrition rate:	**As per table below**	As per table below

Attrition rate used for the year ended December 31, 2008 and year ended December 31, 2007 are as per the table below:

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

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

Amounts for the current and previous four years are as follows:

	Gratuity				
	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004
Defined benefit obligation	**46,466,537**	23,306,788	16,885,862	13,230,425	-
Plan assets	**-**	-	-	-	-
Surplus/ (deficit)	**(46,466,537)**	(23,306,788)	(16,885,862)	(13,230,425)	-
Experience adjustments on plan liabilities	**116,082**	461,423	231,590	-	-
Experience adjustments on plan assets	**-**	-	-	-	-

CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

14. (a) Derivative instruments and un hedged foreign currency exposure

Particulars of derivatives	Purpose
Forward contract outstanding (including outstanding against highly probable forecast transaction)	
Sell US $ 7,300,000 (Previous years US $9,900,000)	
Sell EURO 600,000 (Previous years Nil)	Hedge of debtors

Particulars of unhedged foreign currency exposure as at December 31, 2008 and at December 31, 2007

	Currency	Foreign Currency amount		Closing foreign exchange rate		Amount (Rs.)	
Liabilities		**December 31, 2008**	December 31, 2007	**December 31, 2008**	December 31, 2007	**December 31, 2008**	December 31, 2007
Deferred compensation							
	SGD	**269,285**	269,285	**34.48**	27.28	**9,285,242**	7,345,396
	USD	**196,768**	800,112	**49.72**	39.44	**9,782,911**	31,552,417
Creditors							
	USD	**53,204**	54,191	**49.72**	39.44	**2,645,137**	2,137,029
Deferred revenue							
	USD	**46,326**	17,656	**49.72**	39.44	**2,303,258**	696,264
Assets							
Debtors							
	USD	**8,375,188**	11,250,671	**49.72**	39.44	**416,397,176**	443,670,235
	GBP	**225,077**	774	**71.99**	78.76	**16,202,607**	60,924
	AUD	**25,000**	13,972	**34.34**	34.57	**858,500**	483,065
	EURO	**1,677,194**	203,507	**70.09**	58.08	**117,552,870**	11,820,025
Bank balances	USD	**846,581**	1,027,432	**49.72**	39.44	**42,090,281**	40,516,779
	GBP	**853**	856	**71.99**	78.76	**61,405**	67,412
	EURO	**23,507**	-	**70.09**	-	**1,647,596**	-
Loans and advances							
	USD	**-**	29,620	**-**	39.44	**-**	1,168,045
Unbilled revenue							
	USD	**625,086**	404,975	**49.72**	39.44	**31,078,018**	15,970,181

(b) As of December 31, 2008 the Company had derivative financial instruments to sell USD 7,000,000 and EURO 600,000 that are designated as ineffective cash flow hedges relating to highly probable forecasted transactions. The Company has recognised mark-to-market losses of Rs.46,406,233 relating to such derivative financial instruments in the Profit and loss account for the year ended December 31, 2008.

CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

15. During the financial year ended December 31, 2007, the Company had received non-refundable license fees of Rs.39,435,000 from one of its customer against sale of eighteen modules (licenses). As at the year-end, the Company is carrying Rs.19,717,500 as deferred revenue against unconsumed modules (licenses). The remaining license fees shall be accounted as revenue when customer consumes the licenses, or when the contract terminates or when the Company estimates that no significant obligations to the customer remain in respect of the contract.

16. As of December 31, 2008, there is uncertainty regarding ultimate realisation relating to some customers due to their current financial position therefore revenue aggregating Rs.8,858,213 has been deferred till the time the realisability becomes reasonably certain.

17 During the year ended December 31, 2006:

(a) The Company had made Initial Public Offering (IPO) of 4,408,361 equity shares of Rs. 10 each for cash at premium of Rs.240 per share comprising of fresh issue of 2,825,006 equity shares by the Company and 1,583,355 equity shares offered for sale by the selling shareholders.

(b) Expenses of Rs.101,895,339 net of recovery from certain selling shareholders Rs.2,795,944 incurred in connection with the public issue of the Company had been adjusted against Securities Premium Account in terms of Section 78 of the Companies Act, 1956.

(c) Pursuant to initial public offer the Company gathered Rs.706,250,000 (net of selling shareholders' proceeds), details of utilisation of IPO proceeds are as follows:

Object	Total Estimated Project Cost*	Amount incurred till December 31, 2008	Amount incurred till December31, 2007
Upgrading and expansion of existing infrastructure*	229,993,200	**229,993,200**	214,311,302
Repayment of outstanding loans	36,550,000	**36,550,000**	36,550,000
Financing general working capital requirements	179,510,000	**174,624,290**	86,324,290
General corporate purposes*	159,059,625	**58,619,823**	58,619,823
Meeting offer expenses *	101,137,175	**101,137,175**	101,137,175
Total	**706,250,000**	**600,924,488**	**496,942,590**

* The Company has obtained approval from its shareholders at the annual general meeting held on May 2, 2008 for reallocation in the estimated project cost among above mentioned heads.

Pending utilisation, balance funds as at December 31, 2008 have been invested in fixed deposit with nationalized banks. The same has been lien marked for expansion of business against performance guarantees issued by the Bank in favour of Department of telecommunication for licenses as domestic & International 'Other Service Provider'. The lien has been removed subsequent to the Balance sheet date.

CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

18. Cash and bank balances

Details of balances as on balance sheet dates:

Sl. No.	Particulars	As at December 31, 2008	As at December 31, 2007
	Cash on hand (A)	**348,826**	351,421
	Balance with scheduled banks		
	On current accounts		
1	ICICI Bank Limited	**5,959,079**	6,248,726
2	HDFC Bank Limited	**751,053**	599,661
3	Oriental Bank of Commerce	**199,838**	76,767
4	Vijaya Bank	**70,752**	10,832
5	State Bank of India	**3,607,140**	4,354,784
6	Canara Bank	**199,954**	368,065
7	Axis Bank Limited	**479,690**	584,269
8	Citibank N.A.	**130,813**	129,368
9	State Bank of Bikaner & Jaipur	**62,000**	-
10	ABN Amro Bank N. V.	**1,497,484**	1,104,748
	Total (B)	**12,957,803**	13,477,220
1	On cash credit accounts of State Bank of India	**7,644,368**	9,260,471
	Total (C)	**7,644,368**	9,260,471
	On EEFC accounts		
1	ICICI Bank Limited - USD	**13,488,300**	13,850
2	HDFC Bank Limited - USD	**6,472**	-
3	State Bank of India - USD	**11,539,776**	24,259,819
4	State Bank of India - EURO	**350,445**	-
5	ABN Amro Bank N. V. - USD	**-**	7,030
6	Citibank, N.A. – USD	**3,729**	81,828
	Total (D)	**25,388,722**	24,362,527
	On deposit accounts		
1	Oriental Bank of Commerce	**197,508,147**	161,174,490
2	Punjab National Bank	**58,930,306**	-
3	Vijaya Bank	**2,739,763**	32,300,000
4	State Bank of India	**22,486,267**	21,220,345
5	ICICI Bank Limited	**92,316,147**	106,946,393
6	State Bank of Bikaner & Jaipur	**92,999,065**	30,000,000
7	HDFC Bank Limited	**5,000,000**	-
8	Canara Bank	**74,068**	74,068
9	Citibank N.A.	**-**	3,526,801
	Total (E)	**472,053,763**	355,242,097

CONSOLIDATED SCHEDULES

(All amounts are in Rupees unless otherwise stated)

Sl. No.	Particulars	As at December 31, 2008	As at December 31, 2007
	On unclaimed dividend/IPO refund accounts		
1	HDFC Bank Limited	**258,267**	98,112
2	ICICI Bank Limited	**75,250**	69,000
	Total (F)	**333,517**	167,112
	Balance with other banks		
	On current accounts		
1	California Bank Trust, USA	**79,192,612**	89,116,520
2	Citibank Singapore Ltd, Singapore	**8,774,015**	8,906,781
3	DBS Bank Ltd, Singapore	**1,878,263**	1,056,344
4	Malayan Banking Berhad, Malaysia	**3,303,406**	1,371,777
5	Hang Seng Bank Limited, Hong Kong	**205,445**	139,729
6	Citibank NA, Thailand	**816,946**	763,203
7	Bank of China, China	**7,292,319**	3,084,939
8	Industrial and Commercial Bank of China Ltd, China	**995,084**	305,379
9	Sumitomo Mitsui Banking Corporation, Japan	**469,158**	673,505
10	Mizuho Bank Ltd, Japan	**81,091**	387,800
11	The Bank of Tokyo-Mitsubishi UFJ, Ltd., Japan	**50,062**	301,862
12	Citibank N.A., USA	**110,860**	187,635
13	ING Belgium NV, Belgium	**2,437,729**	2,960,227
14	Fortis Bank (Netherland) N.V., Netherlands	**3,227,378**	-
15	ABN AMRO Bank, Netherlands	**3,054,648**	-
16	ABN AMRO Bank, France	**777,818**	-
	Total (G)	**112,666,834**	109,255,701
	On deposit accounts		
1	California Bank Trust, USA	**248,590**	197,175
2	ABN AMRO Bank, Netherland	**4,795,840**	-
	Total (H)	**5,044,430**	197,175
	Total as per Balance sheet	**636,438,263**	512,313,724

19 (a) Previous year's figures have been regrouped where necessary to conform to this year's classification.

(b) Figures pertaining to Subsidiaries companies have been reclassified wherever considered necessary to bring them in line with the holding company's financial statements. Further, as indicated in note 2 above, certain changes had taken place in the group structure. Accordingly, the current year figures are not strictly comparable with previous year figures.

For S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

per Sanjay Vij
Partner
Membership No. 95169

Place : NOIDA
Date : February 12, 2009

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

Satinder Singh Rekhi [Managing Director]	O'Neil Nalavadi [Director Finance & CFO]	Lt. Gen. Baldev Singh (Retd) [President & Senior Executive Director]	Nand Sardana [Company Secretary]
Place : NOIDA Date : February 12, 2009	Place : EDH, CA, USA Date : February 12, 2009	Place : NOIDA Date : February 12, 2009	Place : NOIDA Date : February 12, 2009

CONSOLIDATED SCHEDULES

Information of Subsidary Companies disclosed as per the terms of exemption under Section 212(8) of the Companies Act,1956 granted by the Central Government

(Rs. in Lakhs)

	Name of the Subsidiary	R Systems (Singapore) Pte Limited, Singapore	R Systems, Inc., USA	Indus Software, Inc., USA	R Systems Solutions, Inc., USA	R Systems NV, Belgium	R Systems Europe B.V, Netherlands (1)	R Systems S.A.S, France (1)	ECnet Limited, Singapore	ECnet (M) SDN. BHD, Malaysia	ECnet, Inc., USA	ECnet (Hong Kong) Limited., HongKong	ECnet Systems (Thailand) Co. Limited, Thailand	ECnet Kabushiki Kaisha, Japan	ECnet (Shanghai) Co. Limited., China
1	The financial year of the subsidiary ended on	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008	December 31, 2008
2	Holding company's Interest	100%	100%	100%	100%	100%	100%	100%	98.59%	98.59%	98.59%	98.59%	98.59%	98.59%	98.59%
3	Shares held by the holding company in the subsidiary (including its nominees in the subsidiary)	100% of 4,070,000 ordinary shares of no par value	100% of 2,000 common shares of no par value	100% of 243,750 common shares of no par value	100% of 11,335,833 common shares of no par value and 8,666,884 series A preferred stock of no par value	100% of 200 common shares of Euro 310 each	100 % of 3,170 ordinary shares of Euro 100 each	100% of 10,000 ordinary shares of Euro 15.24 each	98.59% of 17,904,335 ordinary shares of no par value	98.59% of 200,000 ordinary shares of RM 1 each	98.59% of 1,000 shares of US$ 2 each	98.59% of 2 ordinary shares of HK $ 1 each	98.59% of 400.000 ordinary shares of 5 THB each	98.59% of 200 shares of 50,000 Yen each	98.59% of shares of no par value
4	Capital	1,403.36	333.54	121.19	1,655.60	43.46	222.18	106.85	27,304.75	28.60	0.99	0.00	28.98	55.02	120.73
5	Reserves	(170.38)	1,475.95	(334.09)	(304.29)	(11.45)	(22.55)	315.33	(28,369.50)	(111.81)	(1,576.40)	(9.47)	89.75	(324.77)	(248.96)
6	Total assets	1,332.42	3,179.31	197.21	1,852.30	32.43	2,014.32	681.37	923.19	112.84	11.83	10.19	157.45	24.41	131.97
7	Total liabilities	99.44	1,369.82	410.11	500.99	0.42	1,814.69	259.18	1,987.94	196.04	1,587.23	19.66	38.72	294.15	260.20
8	Details of investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Turnover	231.56	7,778.69	479.68	1,888.53	0.06	6,698.10	1,412.47	1,651.52	373.89	12.42	44.22	174.38	278.83	262.33
10	Profit/(Loss) before taxation	53.31	8.52	12.74	(110.87)	(4.49)	390.12	54.04	(904.52)	52.84	12.22	41.66	6.78	142.81	86.62
11	Provisions for taxation/(benefit)	4.84	12.04	4.12	(10.01)	-	72.06	19.32	9.55	12.58	-	-	6.13	-	-
12	Profit/(loss) after taxation	48.47	(3.52)	8.62	(100.85)	(4.49)	318.06	34.72	(914.08)	40.26	12.22	41.66	0.66	142.81	86.62
13	Proposed dividend	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
14	Material change between the end of the financial year of the subsidiary company and the Company's financial year ended December 31, 2008														
a	Fixed assets	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
b	Investments	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
c	Money lent	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
d	Money borrowed other than those for meeting current liabilities	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes:

1 During the year ended December 31, 2008, the Company has completed the acquisition of R Systems Europe B.V., Netherlands (formerly known as Sento Europe B.V.) and R Systems S.A.S, France (formerly known as Sento S.A.S, France), two wholly owned subsidiaries based in Europe effective January 23, 2008.

2 Rupees equivalents have been given on the basis of conversion of foreign currency into rupee using closing rate as on 31 December, 2008.

1 SGD = Rs.	34.48
1 USD = Rs.	49.72
1 EURO = Rs.	70.09
1 RM = Rs.	14.30
1 HKD = Rs.	6.42
1 THB = Rs.	1.45
1 YEN = Rs.	0.55
1 CNY = Rs.	7.29

Disclaimer: We have translated the foreign currency amounts in the financial data derived from our subsidiaries' financial statements at the closing rate as on December 31,2008.The translation should not be considered as a representation that such foreign currency amounts have been, could have been or could be converted into rupees, at any particular rate, rates states above, or at all.

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

Satinder Singh Rekhi [Managing Director]	O'Neil Nalavadi [Director Finance & CFO]	Lt. Gen. Baldev Singh (Retd) [President & Senior Executive Director]	Nand Sardana [Company Secretary]
Place : NOIDA Date : February 12, 2009	Place : EDH, CA, USA Date : February 12, 2009	Place : NOIDA Date : February 12, 2009	Place : NOIDA Date : February 12, 2009

NOTICE

R SYSTEMS INTERNATIONAL LIMITED

NOTICE OF FIFTEENTH ANNUAL GENERAL MEETING

(Regd. Office: B - 104A, Greater Kailash - I, New Delhi - 110 048)
Website: www.rsystems.com; Email: investors@india.rsystems.com

Notice is hereby given that the Fifteenth Annual General Meeting of the shareholders of R SYSTEMS INTERNATIONAL LIMITED (the "Company" / "R Systems") will be held on Monday, April 27, 2009 at 09.00 A.M. at MPCU Shah Auditorium, Shree Delhi Gujarati Samaj Marg, 2, Raj Niwas Marg, Civil Lines, Delhi - 110 054 for transacting the following business:

AS ORDINARY BUSINESS

1. To receive, consider and adopt the audited balance sheet as at December 31, 2008 and the profit and loss account for the year ended on that date together with the reports of auditors and directors thereon.
2. To declare dividend on equity shares for the year ended December 31, 2008.
3. To appoint a director in place of Mr. O'Neil Nalavadi, who retires by rotation and being eligible offers himself for reappointment.
4. To appoint a director in place of Mr. Suresh Paruthi, who retires by rotation and being eligible offers himself for reappointment.
5. To appoint a director in place of Mr. Raj Swaminathan, who retires by rotation and being eligible offers himself for reappointment.
6. To appoint Auditors of the Company to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration. M/s. S. R. Batliboi & Associates, the retiring Auditors are eligible for reappointment.

AS SPECIAL BUSINESS

7. To consider and if thought fit to pass with or without modification(s), the following resolution as a **Special Resolution**

   "RESOLVED THAT pursuant to the provisions of Section 198, 269 read with Schedule XIII, 309 and 311 of the Companies Act, 1956 read with Article 165 and 167 of the Articles of Association of the Company and other applicable provisions, if any, and subject to the approval of the Central Government, Reserve Bank of India and other authorities, if required, consent of the members of the Company be and is hereby accorded for the reappointment of and payment of remuneration to Mr. O'Neil Nalavadi as Director Finance and Chief Financial Officer of the Company, for a period of three years i.e. w.e.f. January 01, 2009 to January 01, 2012 as per the detailed appointment letter, on the following terms and conditions:

1. Compensation: Basic salary at the rate of US$ 149,000 per annum (USD one hundred forty nine thousand only) w.e.f. January 01, 2009 payable semi-monthly on the 15th and the last day of each month and an annual ex-gratia compensation of US$ 30,000 (USD thirty thousand only). Applicable taxes will be deducted from his gross earnings.

2. Automobile: The Company will furnish him with an automobile including maintenance and fuel expenses, comparable to his position, while employed with the Company subject to a maximum maintenance and fuel expenses of US$ 7,000 per annum (USD seven thousand only).

3. Health Insurance: He and his qualified dependents will be eligible to receive health insurance coverage through the Company or its subsidiaries insurance carriers. The terms, conditions, and eligibility requirements for such insurance coverage are set forth in the summary plan description(s) describing the coverage.

4. Other benefits: He will be eligible to participate in the Company's or R Systems Inc.'s retirement plans in accordance with the prevalent policies.

5. Bonus:

a.) He will be entitled to participate in incentive schemes as set up and approved by the Remuneration Committee from time to time.

b.) He will be entitled to a bonus for every successful acquisition completed by the Company or its subsidiary equal to 1% of the revenues of the previous twelve months of the target acquired subject to a maximum of US$ 25,000 (USD twenty five thousand only). In the event of the acquisition by issuance of shares by the Company the bonus will equal to 1.5% of the target's revenues for the previous twelve months subject to a maximum of US$ 37,500 (USD thirty seven thousand five hundred only).

6. Annual Increment: He will be entitled to a maximum annual increment of 15% of the immediate preceding year's basic salary at the discretion of the Board w.e.f January 01, 2010 and onwards, during the remaining tenure of his employment with the Company.

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"RESOLVED FURTHER THAT in the event of absence or inadequacy of profits in any financial year during the tenure of Mr. O'Neil Nalavadi as Director Finance and Chief Financial Officer of the Company, the Company shall pay him the remuneration as specified above as minimum remuneration.

"RESOLVED FURTHER THAT the board of directors be and is hereby authorised to do all such acts, deeds, matters and things as may be necessary, proper or expedient, to give effect to this resolution and the Board may, by a resolution delegate the aforementioned power to any committee of directors, the managing director, director or any other principal officer of the Company on such conditions as the Board may prescribe."

8. To consider and if thought fit to pass with or without modification(s), the following resolution as a **Special Resolution**

"RESOLVED THAT pursuant to the provisions of Section 198, 269 read with Schedule XIII, 309 and 311 of the Companies Act, 1956 read with Article 165 and 167 of the Articles of Association of the Company and other applicable provisions, if any, and subject to the approval of Central Government, if required, consent of the members of the Company be and is hereby accorded for the reappointment of and payment of remuneration to Lt. Gen. Baldev Singh (Retd.) as President and Senior Executive Director of the Company, for a period of three years i.e. w.e.f. April 01, 2009 to April 01, 2012 on the following terms and conditions:

1. Consolidated annual salary of Rs. 28.50 lakhs (Rupees twenty eight lakhs fifty thousand only).
2. Periodic bonus as per the incentive scheme of the Company subject to a maximum of Rs. 15 lakhs per annum (Rupees fifteen lakhs only).
3. A chauffeur driven car for official purpose only and reimbursement of fuel and maintenance expenses subject to a maximum of Rs. 150,000 per annum (Rupees one lakh fifty thousand only).
4. Reimbursement of telephone bills and internet bills for his residence subject to a maximum of Rs. 50,000 per annum (Rupees fifty thousand only).
5. That he will also be eligible for the reimbursement of Medical Expenses incurred, for himself and his family only on actual incurred basis.
6. Leave travel assistance amounting to one economy ticket to USA once in two years. This may be in the form of one US ticket for any person to either accompany him on a business trip or just independent of his business trip.
7. He will be entitled to participate in Company's stock options plan approved by the Board from time to time.
8. He will be entitled for payment of gratuity as per the policy of the Company.
9. He will be entitled to a maximum annual increment of 15% per annum on his Consolidated annual salary of the immediate preceding year at the discretion of the Board w.e.f January 01, 2010, January 01, 2011 and January 01, 2012.
10. The revised compensation plan replaces all existing compensation plans, benefits and perquisites.

"RESOLVED FURTHER THAT in the event of absence or inadequacy of profits in any financial year during the tenure of Lt. Gen. Baldev Singh (Retd.) as President and Senior Executive Director of the Company, the Company shall pay him the remuneration as specified above as minimum remuneration.

"RESOLVED FURTHER THAT Lt. Gen. Baldev Singh (Retd.) shall work under the superintendence and control of the board of directors (the "Board") and shall be responsible for the management of all Noida operations and is also empowered to do all such acts, deeds, matters and things as deemed necessary or expedient for carrying on the business of the Company, including power to appoint, suspend and dismiss any officer, staff or workman of the Company, to incur capital or revenue expenditure on behalf of the Company, to sell any old or used assets of the Company in compliance with the applicable internal checks and control systems, entering into contracts, taking suitable legal actions, operating of bank accounts, making investments and such other subjects as may be assigned to him by the Board.

"RESOLVED FURTHER THAT the Board be and is hereby authorised to do all such acts, deeds, matters and things as may be necessary, proper or expedient, to give effect to this resolution and the Board may, by a resolution delegate the aforementioned power to any committee of directors, the managing director, director or any other principal officer of the Company on such conditions as the Board may prescribe."

9. To consider and if thought fit to pass with or without modification(s), the following resolution as a **Special Resolution**

"RESOLVED THAT in accordance with the provisions of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999, as amended, and any other laws for the time being in force, consent of the members of the Company be and is hereby granted for amendment of R Systems International Ltd. - Year 2004 Employee Stock Option Plan by insertion of Clause 25A as given below after Clause 25 in R Systems International Ltd. - Year 2004 Employee Stock Option Plan.

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25A. TAX LIABILITY

(a) In the event of any tax liability, including any tax liability arising on account of change in the tax laws relating to Employees Stock Option Schemes, arising on account of the grant / issue of options and / or allotment of the shares to the Employee, the liability shall be that of the Employee alone and the Company shall be indemnified to the extent of applicable taxes, if any, levied at any point of time.

(b) The Company shall have the right to deduct from the salary, for any obligation towards tax deduction arising in connection with the Employee Stock Option or the Shares acquired upon the Exercise thereof. The Company shall have no obligation to deliver Shares or to release Shares in pursuance of the Award until the Company's tax deducting obligations, if any, have been satisfied by the Option Grantee.

(c) All tax liabilities arising on disposal of the shares after exercise would require to be handled by the Employee.

"RESOLVED FURTHER THAT the board of directors / compensation committee be and is hereby authorised to do all such acts, deeds, matters and things as may be necessary, proper or expedient, to give effect to this resolution and the board of directors / compensation committee may, by a resolution delegate the aforementioned power to any committee of directors, the managing director, director or any other principal officer of the Company on such conditions as they may prescribe."

10. To consider and if thought fit to pass with or without modification(s), the following resolution as a **Special Resolution**

"RESOLVED THAT in accordance with the provisions of Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999, as amended, and any other laws for the time being in force, consent of the members of the Company be and is hereby granted for amendment of R Systems International Ltd. - Year 2004 Employee Stock Option Plan - ECnet by insertion of Clause 25A as given below after Clause 25 in R Systems International Ltd. - Year 2004 Employee Stock Option Plan - ECnet

25A. TAX LIABILITY

(a) In the event of any tax liability, including any tax liability arising on account of change in the tax laws relating to Employees Stock Option Schemes, arising on account of the grant / issue of options and / or allotment of the shares to the Employee, the liability shall be that of the Employee alone and the Company shall be indemnified to the extent of applicable taxes, if any, levied at any point of time.

(b) The Company shall have the right to deduct from the salary, for any obligation towards tax deduction arising in connection with the Employee Stock Option or the Shares acquired upon the Exercise thereof. The Company shall have no obligation to deliver Shares or to release Shares in pursuance of the Award until the Company's tax deducting obligations, if any, have been satisfied by the Option Grantee.

(c) All tax liabilities arising on disposal of the shares after exercise would require to be handled by the Employee.

"RESOLVED FURTHER THAT the board of directors / compensation committee be and is hereby authorised to do all such acts, deeds, matters and things as may be necessary, proper or expedient, to give effect to this resolution and the board of directors / compensation committee may, by a resolution delegate the aforementioned power to any committee of directors, the managing director, director or any other principal officer of the Company on such conditions as they may prescribe."

11. To consider and if thought fit to pass with or without modification(s), the following resolution as a **Special Resolution**

"RESOLVED THAT pursuant to Section 31 and other applicable provisions, if any, of the Companies Act, 1956, (including any statutory modifications or re-enactments thereof, for the time being in force), consent of the members of the Company be and is hereby accorded for alteration of the Articles of Association of the Company in the following manner:

(i) substitute "Section 611" which is inadvertently written as "Section 601" in Clause (iv) of Article 5

(ii) substitute the following Clause for existing Clause (a) of Article 63

"(a) any shares issued to employees of the Company or its subsidiaries under the stock option plan / scheme shall be subject to the provisions as prescribed under Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme), Guidelines, 1999 as amended from time to time."

(iii) substitute the following Article for existing Article 210

"210. The remuneration of the Statutory Auditors of the Company shall be fixed by the Company in general meeting or in such manner as the Company in general meeting may determine."

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"RESOLVED FURTHER THAT the board of directors be and is hereby authorised to do all such acts, deeds, matters and things as may be necessary, proper or expedient, to give effect to this resolution and the Board may, by a resolution delegate the aforementioned power to any committee of directors, the managing director, director or any other principal officer of the Company on such conditions as the Board may prescribe."

12. To consider and if thought fit to pass with or without modification(s), the following resolution as a **Special Resolution**

"RESOLVED THAT pursuant to Sub Section (1B) of Section 314 of the Companies Act, 1956 and other applicable provisions, if any, read with the Articles of Association of the Company, consent of the members of the Company be and is hereby accorded for the reappointment of and payment of remuneration as detailed below to Ms. Amrita Kaur, daughter-in-law of Mr. Satinder Singh Rekhi, Chairman and Managing Director as Assistant Business Manager in R Systems International Limited with effect from May 01, 2009 on the following terms and conditions:

- Consolidated annual salary of Rs. 400,000 (Rupees four lakhs only).
- She will also be entitled to a maximum annual increment of 20% per annum on her consolidated annual salary of the immediate preceding year w.e.f. January 01 each year.

"RESOLVED FURTHER THAT the board of directors be and is hereby authorised to do all such acts, deeds, matters and things as may be necessary, proper or expedient, to give effect to this resolution and the Board may, by a resolution delegate the aforementioned power to any committee of directors, the managing director, director or any other principal officer of the Company on such conditions as the Board may prescribe."

By Order of the Board
For R Systems International Limited

Nand Sardana
(Company Secretary)

Place : NOIDA
Date : March 23, 2009

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(i) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY SO APPOINTED NEED NOT BE A MEMBER OF THE COMPANY. THE PROXIES IN ORDER TO BE EFFECTIVE SHOULD BE DULY COMPLETED, STAMPED AND SIGNED AND MUST BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE AFORESAID MEETING.

(ii) Corporate members intending to send their authorised representatives are requested to send a duly certified copy of the board or governing body resolution authorising the representatives to attend and vote at the Annual General Meeting.

(iii) Members / proxies attending the meeting are requested to

- bring their copies of annual report sent to the members as copies of the annual report shall not be distributed at the Annual General Meeting;
- note that no gift coupons shall be distributed at the Annual General Meeting and
- quote their Folio / Client ID and DP ID number in all correspondence.

(iv) The register of members and share transfer books of the Company shall remain closed from April 18, 2009 to April 27, 2009 (both days inclusive).

(v) The dividend of 24% for the year ended December 31, 2008 as recommended by the Board, if declared at the Annual General Meeting, will be payable to those members whose names appear

- as beneficial owners as per list to be furnished by the depositories in respect of the shares held in demat form and
- as members on the register of members of the Company as at opening business hours on April 18, 2009 after giving effect to all valid share transfers in physical form which would be received by the Company's registrar and share transfer agent M/s Link Intime India Private Limited (formerly M/s Intime Spectrum Registry Limited) up to the end of business hours on April 17, 2009.

(vi) Payment of dividend through ECS :

- Members holding shares in physical form are advised to submit particulars of their bank account, viz. name and address of the branch of the bank, 9 digit MICR code of the branch, type of account and account number to the Company's registrar and share transfer agent M/s Link Intime India Private Limited, A - 40, 2nd Floor, Naraina Industrial Area, Phase - II, Near Batra Banquet Hall, New Delhi - 110 028
- Members holding shares in demat form are advised to inform the particulars of their bank account to their respective depository participants.

(vii) Shareholders holding shares in electronic form may kindly note that their bank account details as furnished by their depositories to the Company will be printed on their dividend warrants as per applicable regulations of the depositories and the Company will not entertain any direct request from such shareholders for deletion of / change in such bank details. Further instructions, if any, already given by them in respect of shares held in physical form will not be automatically applicable to shares held in electronic mode. Members holding shares in electronic form are advised to notify the changes, if any, in their address / bank details / mandate to their respective depository participants.

(viii) Any query proposed to be raised at the Annual General Meeting may be sent to the Company at its registered office at least seven days prior to the date of Meeting to enable the management to compile the relevant information to respond to the query in the meeting. The envelope may please be superscribed "Attention: Mr. Nand Sardana, Company Secretary".

(ix) Members holding shares in physical form, may write to the Company or to the registrar and share transfer agent M/s Link Intime India Private Limited for any change in their addresses and bank mandate. Members holding shares in electronic form may write to their depository participants for immediate updation so as to enable the Company to dispatch the dividend warrants to the correct addresses.

(x) The statutory register maintained under Section 307 of the Companies Act, 1956 and the certificate of the auditors of the Company certifying the implementation of the Company's stock option plans / schemes in accordance with the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the resolutions passed by the members in the general meeting, will be available at the venue of the Annual General Meeting for inspection by members.

(xi) All documents referred to in the Notice and accompanying explanatory statements as well as the annual accounts of the subsidiaries etc., are open for inspection at the registered office of the Company on all working days between 11.00 A.M. and 02.00 P.M. up to the date of the Annual General Meeting.

(xii) Members / proxies are requested to bring the attendance slips duly filled in and signed for attending the Meeting.

(xiii) Pursuant to the provisions of Section 109A of the Companies Act, 1956, shareholders are entitled to make nomination in respect of shares held by them in physical form. Shareholders desirous of making nominations are requested to send their requests in Form 2B (which will be made available on request) to the registrar and share transfer agent M/s Link Intime India Private Limited or can be downloaded from the following URL http://www.linkintime.co.in/site/downloads.asp

(xiv) Pursuant to provisions of Section 205A (5) of the Companies Act, 1956, dividend which remains unpaid or unclaimed for a period of seven years from the date of its transfer to unpaid dividend account, is required to be transferred by the Company to the Investor Education and Protection Fund ('IEPF'), established by the Central Government under the provisions of Section 205C of the Companies Act, 1956. Shareholders are advised to claim the unclaimed dividend lying in the unpaid dividend account from the Company's registrar and share transfer agent M/s Link Intime India Private Limited or directly from the Company. It may be noted that once the unclaimed divided is transferred to the IEPF of the Central Government as above, no claim shall lie in respect thereof against the Company or IEPF.

(xv) Additional information, pursuant to Clause 49 of the Listing Agreement entered into with stock exchanges, in respect of directors recommended for approval of appointment / reappointment / remuneration at the Annual General Meeting and Explanatory Statement as required under Section 173(2) of the Companies Act, 1956, in respect of special business under item numbers 7 to 12 of the Notice is appended hereto and forms part of this Notice. Further, disclosures required to be made in terms of Section II Clause C of Part II of Schedule XIII with respect to the proposed resolutions for the reappointment of and payment of remuneration to Mr. O'Neil Nalavadi, Director Finance and Chief Financial Officer under item number 7 and for reappointment of and payment of remuneration to Lt. Gen. Baldev Singh (Retd.), President and Senior Executive Director of the Company under item number 8 are also given in the said Explanatory Statement and form part of this Notice of the Annual General Meeting.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956

ITEM NO. 7

REAPPOINTMENT OF AND PAYMENT OF REMUNERATION TO MR. O'NEIL NALAVADI AS DIRECTOR FINANCE AND CHIEF FINANCIAL OFFICER OF THE COMPANY

Mr. O'Neil Nalavadi aged about 49 years has over 23 years of experience in financial, accounting, mergers and acquisitions with both public and private companies. Prior to joining R Systems, Mr. Nalavadi was Senior Vice President, CFO and director of UBICS, Inc., a public company listed on NASDAQ. He also served in various management capacities for companies in the UB Group in the United Kingdom and India from 1984 to 1997, including public companies listed on London Stock Exchange. Mr. Nalavadi has successfully completed several mergers and acquisitions worldwide and has extensive experience in successfully integrating back office operations to deliver measurable benefits and enhance return on investment. Mr. Nalavadi is a Chartered Accountant and was awarded the Bachelors of Commerce and Economics degree with First Class Honors from the University of Bombay.

Mr. O'Neil Nalavadi joined R Systems Group as CFO in January 2000. He joined the Board as Director of the Company on January 06, 2001 and was thereafter promoted as Director Finance and Chief Financial Officer w.e.f. January 01, 2006. Since then he is continuously providing his guidance and support

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on the Board. Presently Mr. Nalavadi is heading the overall financial functions of the Company and his presence is crucial for the effective and efficient operations of the Company. Mr. O'Neil Nalavadi was appointed as Director Finance and Chief Financial Officer of the Company for a term of three years i.e. up to January 01, 2009. The said term of his appointment was completed and considering Company's need for global financial management, the Board on the recommendation of the Remuneration Committee and subject to the approval of the Shareholders, Central Government, Reserve Bank of India and other authorities, if applicable, has reappointed him for a further period of three years i.e. w.e.f. January 01, 2009 to January 01, 2012.

As on the date of this notice, Mr. O'Neil Nalavadi holds 240,000 equity shares of Rs. 10 each being 1.84% of the total paid up equity share capital in R Systems. Apart from the employment benefits as Director Finance and Chief Financial Officer of R Systems, he does not have any pecuniary or other relationship with the Company.

Further he does not hold any office of director / member in other company's board / committee except the office of director on the board of R Systems NV, Belgium (a wholly owned subsidiary of R Systems International Limited).

The Board recommends that the shareholders approve the said reappointment and remuneration by way of a special resolution.

None of the Directors except Mr. O'Neil Nalavadi so far as it relates to his own reappointment and remuneration, is concerned or interested in the proposed resolution.

Statement containing the prescribed information as required in terms of Section II Clause C of Part II of Schedule XIII of the Companies Act, 1956

I. GENERAL INFORMATION

(1) Nature of Industry:

The Company is engaged in the business of providing software engineering, information technology related services, business process outsourcing services, developing and selling software products for the retail-lending sector and in supply chain execution.

(2) Date or expected date of commencement of commercial production:

The Company is already in existence and is in operation since May 14, 1993.

(3) In case of new companies, expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus:

Not Applicable.

(4) Financial performance based on given indicators:

Financial performance of the Company for last 3 years is as follows:

Particulars	Financial Year ended (Rs. in Lakhs)		
	31.12.2008	31.12.2007	31.12.2006
Total income	21,013.01	16,467.65	12,247.29
Profit before depreciation and tax	3,183.87	3,360.47	1,710.87
Less : Depreciation	663.17	534.49	453.12
Profit before tax	***2,520.70***	***2,825.98***	***1,257.75***
Less : Current tax	268.69	315.88	144.38
Less : MAT credit entitlement	(117.03)	(49.81)	-
Less : Fringe benefit tax	79.80	66.79	54.26
Less : Deferred tax	(75.52)	75.98	54.24
Profit after tax (available for appropriation)	***2,364.76***	***2,417.14***	***1,004.87***
Proposed final dividend	316.93	244.49	162.99
Corporate dividend tax on final dividend	53.86	41.55	27.70
Transfer to general reserve	236.48	181.29	25.12
Balance carried forward to Balance Sheet	**1,757.49**	**1,949.81**	**789.06**

(5) Export performance and net foreign exchange collaborations:

R Systems has investments from non residents and foreign bodies corporate. Foreign exchange earnings and outgo of the Company for last 3 years is as follows:

Particulars		Financial Year ended (Rs. in Lakhs)		
		31.12.2008	31.12.2007	31.12.2006
(a)	Earnings (Accrual Basis)	19,772.75	14,881.89	11,517.59
(b)	Expenditure (Accrual Basis)*	3,447.24	2,496.00	1,857.04
(c)	CIF value of imports	397.72	348.29	816.02

* excluding share issue expenses incurred in foreign currency of Rs. Nil in the year 2008, Rs. Nil in the year 2007 and Rs. 41.30 lakhs in the year 2006.

(6) Foreign investments or collaborators, if any:

R Systems has investments from non residents and foreign bodies corporate and R Systems has made investments outside India. As on date R Systems has 8 subsidiaries, all incorporated and based outside India. One of its subsidiaries, ECnet Limited, based in Singapore has six subsidiaries. Therefore in terms of the provisions of the Companies Act, 1956 R Systems has in aggregate fourteen subsidiaries all incorporated and based outside India.

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II. INFORMATION ABOUT THE APPOINTEE

(1) Background details:

Mr. O'Neil Nalavadi aged about 49 years has over 23 years of experience in financial, accounting, mergers and acquisitions with both public and private companies. Prior to joining R Systems, Mr. Nalavadi was Senior Vice President, CFO and director of UBICS, Inc., a public company listed on NASDAQ. He also served in various management capacities for companies in the UB Group in the United Kingdom and India from 1984 to 1997, including public companies listed on London Stock Exchange. Mr. Nalavadi has successfully completed several mergers and acquisitions worldwide and has extensive experience in successfully integrating back office operations to deliver measurable benefits and enhance return on investment. Mr. Nalavadi is a Chartered Accountant and was awarded the Bachelors of Commerce and Economics degree with First Class Honors from the University of Bombay.

Mr. O'Neil Nalavadi joined R Systems Group as CFO in January 2000. He joined the Board as Director of the Company on January 06, 2001 and was thereafter promoted as Director Finance and Chief Financial Officer w.e.f. January 01, 2006. Since then he is continuously providing his guidance and support on the Board. Presently Mr. Nalavadi is heading the overall financial functions of the Company and his presence is crucial for the effective and efficient operations of the Company.

(2) Past remuneration:

Income during the last 3 years

	Total Cost to the Company (in Rs.)	Rs. Per Month
For the year ended December 31, 2006	8,415,060	701,255
For the year ended December 31, 2007	8,776,462*	731,372
For the year ended December 31, 2008	10,290,948**	857,579

*Includes an amount of Rs. 1,335,000 which was approved by the Central Government for the year 2006.

**Includes an amount of Rs. 445,000 which was approved by the Central Government for the year 2006.

(3) Recognition or awards:

Mr. O'Neil Nalavadi is a member of the Institute of Chartered Accountants of India and was awarded the Bachelors of Commerce and Economics degree with First Class Honors from the University of Bombay.

(4) Job profile and his suitability:

Mr. O'Neil Nalavadi as Director Finance and Chief Financial Officer of the Company is entrusted with the responsibility for overall financial functions of R Systems. He joined R Systems Group as Chief Financial Officer in January 2000 and was appointed as a Director of R Systems International Limited on January 06, 2001.

(5) Remuneration proposed:

Mr. O'Neil Nalavadi is proposed to be reappointed on the following remuneration:

1. Compensation: Basic salary at the rate of US$ 149,000 per annum (USD one hundred forty nine thousand only) w.e.f. January 01, 2009 payable semi-monthly on the 15th and the last day of each month and an annual ex-gratia compensation of US$ 30,000 (USD thirty thousand only). Applicable taxes will be deducted from his gross earnings.
2. Automobile: The Company will furnish him with an automobile including maintenance and fuel expenses, comparable to his position, while employed with the Company subject to a maximum maintenance and fuel expenses of US$ 7,000 per annum (USD seven thousand only).
3. Health Insurance: He and his qualified dependents will be eligible to receive health insurance coverage through the Company or its subsidiaries insurance carriers. The terms, conditions, and eligibility requirements for such insurance coverage are set forth in the summary plan description(s) describing the coverage.
4. Other benefits: He will be eligible to participate in the Company's or R Systems Inc.'s retirement plans in accordance with the prevalent policies.
5. Bonus:

a.) He will be entitled to participate in incentive schemes as set up and approved by the Remuneration Committee from time to time.

b.) He will be entitled to a bonus for every successful acquisition completed by the Company or its subsidiary equal to 1% of the revenues of the previous twelve months of the target acquired subject to a maximum of US$ 25,000 (USD twenty five thousand only). In the event of the acquisition by issuance of shares by the Company the bonus will equal to 1.5% of the target's revenues for the previous twelve months subject to a maximum of US$ 37,500 (USD thirty seven thousand five hundred only).

6. Annual Increment: He will be entitled to a maximum annual increment of 15% of the immediate preceding year's basic salary at the discretion of the Board w.e.f January 01, 2010 and onwards, during the remaining tenure of his employment with the Company.

(6) Comparative remuneration profile with respect to industry, size of the company, profile of the position and person (in case of expatriates the relevant details would be w.r.t. the country of his origin):

The proposed remuneration is reasonably justified in comparison with the general market trends and remuneration package of

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top-level managerial persons having comparable qualification and experience in U.S.A.

(7) Pecuniary relationship directly or indirectly with the company, or relationship with the managerial personnel, if any:

As on the date of this notice, Mr. O'Neil Nalavadi holds 240,000 equity shares of Rs. 10 each being 1.84% of the total paid up share capital in R Systems. Except the proposed remuneration as stated above Mr. O'Neil Nalavadi does not have any pecuniary or other relationship with the Company or with any of the managerial personnel.

III. OTHER INFORMATION

(1) Profitability of R Systems:

Reasons for inadequate profits: The Company has made a reasonable profit during the last financial year ended December 31, 2008. R Systems total income increased to Rs. 21,013.01 lakhs as against Rs. 16,467.65 lakhs during the same period in the previous year, a growth of 27.60%. Profit after tax for the year ended December 31, 2008 was Rs. 2,364.76 lakhs as against Rs. 2,417.14 lakhs during the same period in the previous year, a decline of 2.17%.

(2) Strategy for performance enhancement:

Steps taken or proposed to be taken for improvement: R Systems management process involves taking continuous steps to improve performance through growth in revenues, managing costs and improving productivity. The financial strategy involves maintaining a secure financial position, managing risks and ensuring accurate and timely reporting of performance.

(3) Expected increase in productivity and profits in measurable terms:

Barring unforeseen circumstances, R Systems expects to close the current financial year with improved sales and profitability.

IV. DISCLOSURES

(1) The Members are being informed of the remuneration package by way of explanatory statement as given above.

(2) The details of remuneration etc. of other directors are included in the Directors' report under the heading Corporate Governance.

ITEM NO. 8

REAPPOINTMENT OF AND PAYMENT OF REMUNERATION TO LT. GEN. BALDEV SINGH (RETD.) AS PRESIDENT AND SENIOR EXECUTIVE DIRECTOR OF THE COMPANY

Lt. Gen. Baldev Singh (Retd.) aged about 68 years has more than 42 years of experience, including handling top managerial, diplomatic and human resource development related assignments. Mr. Singh has a Masters in Military Sciences from the prestigious Madras University in India and attended two short courses at University of California at Berkeley, in Strategic Account Management and Marketing.

Lt. Gen. Baldev Singh (Retd.) joined the Board of R Systems on September 01, 1997. Since then he is continuously providing his guidance and support on the Board. Presently Mr. Singh is heading the entire Noida IT and BPO Operations and his presence is crucial for the effective and efficient operations of the business. Lt. Gen. Baldev Singh (Retd.) was reappointed as President and Senior Executive Director of the Company for a term of one year and three months i.e. up to April 01, 2009. The present term of his appointment is about to be completed and considering continued need of his services for the success of the Company, the Board on the recommendation of the Remuneration Committee and subject to the approval of the Shareholders, Central Government and other authorities, if applicable has reappointed him for a further period of three years i.e. w.e.f. April 01, 2009 to April 01, 2012.

As on the date of this notice, Lt. Gen. Baldev Singh (Retd.) holds 78,808 equity shares of Rs. 10 each being 0.60% of the total paid up share capital in R Systems. Apart from the employment benefits as President and Senior Executive Director of R Systems, he does not have any pecuniary or other relationship with the Company except that 2,770 stock options of Rs. 10 each out of the total options granted to him under R Systems International Ltd. - Year 2004 Employees Stock Options Plan are in force.

Further he does not hold any office of director / member in other company's board / committee.

The board of directors recommends that the shareholders approve the said reappointment and remuneration by way of a special resolution.

None of the directors except Lt. Gen. Baldev Singh (Retd.) and Mr. Satinder Singh Rekhi being the relative of Lt. Gen. Baldev Singh (Retd.) is concerned or interested in the proposed resolution.

Statement containing the prescribed information as required in terms of Section II Clause C of Part II of Schedule XIII of the Companies Act, 1956

I. GENERAL INFORMATION

(1) Nature of Industry:

The Company is engaged in the business of providing software engineering, information technology related services, business process outsourcing services, developing and selling software products for the retail-lending sector and in supply chain execution.

(2) Date or expected date of commencement of commercial production:

The Company is already in existence and is in operation since May 14, 1993.

(3) In case of new companies, expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus:

Not Applicable.

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(4) Financial performance based on given indicators:

Financial performance of the Company for last 3 years is as follows:

Particulars	Financial Year ended (Rs. in Lakhs)		
	31.12.2008	31.12.2007	31.12.2006
Total income	21,013.01	16,467.65	12,247.29
Profit before depreciation and tax	3,183.87	3,360.47	1,710.87
Less : Depreciation	663.17	534.49	453.12
Profit before tax	***2,520.70***	***2,825.98***	***1,257.75***
Less : Current tax	268.69	315.88	144.38
Less : MAT credit entitlement	(117.03)	(49.81)	-
Less : Fringe benefit tax	79.80	66.79	54.26
Less : Deferred tax	(75.52)	75.98	54.24
Profit after tax (available for appropriation)	***2,364.76***	***2,417.14***	***1,004.87***
Proposed final dividend	316.93	244.49	162.99
Corporate dividend tax on final dividend	53.86	41.55	27.70
Transfer to general reserve	236.48	181.29	25.12
Balance carried forward to Balance Sheet	**1,757.49**	**1,949.81**	**789.06**

(5) Export performance and net foreign exchange collaborations:

R Systems has investments from non residents and foreign bodies corporate. Foreign exchange earnings and outgo of the Company for last 3 years is as follows:

	Particulars	Financial Year ended (Rs. in Lakhs)		
		31.12.2008	31.12.2007	31.12.2006
(a)	Earnings (Accrual Basis)	19,772.75	14,881.89	11,517.59
(b)	Expenditure (Accrual Basis)*	3,447.24	2,496.00	1,857.04
(c)	CIF value of imports	397.72	348.29	816.02

* excluding share issue expenses incurred in foreign currency of Rs. Nil in the year 2008, Rs. Nil in the year 2007 and Rs. 41.30 lakhs in the year 2006.

(6) Foreign investments or collaborators, if any:

R Systems has investments from non residents and foreign bodies corporate and R Systems has made investments outside India. As on date R Systems has 8 subsidiaries, all incorporated and based outside India. One of its subsidiaries, ECnet Limited, based in Singapore has six subsidiaries. Therefore in terms of the provisions of the Companies Act, 1956 R Systems has in aggregate fourteen subsidiaries all incorporated and based outside India.

II. INFORMATION ABOUT THE APPOINTEE

(1) Background details:

Lt. Gen. Baldev Singh (Retd.) aged about 68 years has more than 42 years of experience, including handling top managerial, diplomatic and human resource development related assignments. Mr. Singh has a Masters in Military Sciences from the prestigious Madras University in India and attended two short courses at University of California at Berkeley, in Strategic Account Management and Marketing.

Lt. Gen. Baldev Singh (Retd.) joined the Board of R Systems on September 01, 1997. Since then he is continuously providing his guidance and support on the Board. Presently Mr. Singh is heading the entire Noida IT and BPO Operations and his presence is crucial for the effective and efficient operations of the business. Lt. Gen. Baldev Singh (Retd.) is related to Mr. Satinder Singh Rekhi.

(2) Past remuneration:

Income during the last 3 years

	Total Cost to the Company (in Rs.)	Rs. Per Month
For the year ended December 31, 2006	5,438,893	453,241
For the year ended December 31, 2007	6,183,333*	515,278
For the year ended December 31, 2008	6,583,334*	548,611

*Includes an amount of Rs. 2,233,334 in each year which was approved by the Central Government for the year 2006.

(3) Recognition or awards:

Lt. Gen. Baldev Singh (Retd.) has a Masters in Military Sciences from the prestigious Madras University in India and attended two short courses at University of California at Berkeley, in Strategic Account Management and Marketing.

(4) Job profile and his suitability:

Lt. Gen. Baldev Singh (Retd.), being the President and Senior Executive Director of R Systems is heading the entire Noida IT and BPO Operations. Lt. Gen. Baldev Singh (Retd.) aged about 68 years has more than 42 years of experience, including handling top managerial, diplomatic and human resource development related assignments. Mr. Singh has a Masters in Military Sciences from the prestigious Madras University in India and attended two short courses at University of California at Berkeley, in Strategic Account Management and Marketing. He had joined the Board of R Systems on September 01, 1997. Since then he is continuously providing his guidance and support on the Board and his presence is crucial for the effective and efficient operations of the business. R Systems will benefit from his capabilities and therefore the Board wishes to reappoint

NOTICE

him as the President and Senior Executive Director of the Company.

(5) Remuneration proposed:

Lt. Gen. Baldev Singh (Retd.) is proposed to be reappointed on the following remuneration:

1. Consolidated annual salary of Rs. 28.50 lakhs (Rupees twenty eight lakhs fifty thousand only).
2. Periodic bonus as per the incentive scheme of the Company subject to a maximum of Rs. 15 lakhs per annum (Rupees fifteen lakhs only).
3. A chauffeur driven car for official purpose only and reimbursement of fuel and maintenance expenses subject to a maximum of Rs. 150,000 per annum (Rupees one lakh fifty thousand only).
4. Reimbursement of telephone bills and internet bills for his residence subject to a maximum of Rs. 50,000 per annum (Rupees fifty thousand only).
5. That he will also be eligible for the reimbursement of Medical Expenses incurred, for himself and his family only on actual incurred basis.
6. Leave travel assistance amounting to one economy ticket to USA once in two years. This may be in the form of one US ticket for any person to either accompany him on a business trip or just independent of his business trip.
7. He will be entitled to participate in Company's stock options plan approved by the Board from time to time.
8. He will be entitled for payment of gratuity as per the policy of the Company.
9. He will be entitled to a maximum annual increment of 15% per annum on his Consolidated annual salary of the immediate preceding year at the discretion of the Board w.e.f January 01, 2010, January 01, 2011 and January 01, 2012.
10. The revised compensation plan replaces all existing compensation plans, benefits and perquisites.

(6) Comparative remuneration profile with respect to industry, size of the company, profile of the position and person (in case of expatriates the relevant details would be w.r.t. the country of his origin):

The proposed remuneration is reasonably justified in comparison with the general market trends and remuneration package of top-level managerial persons having comparable qualification and experience.

(7) Pecuniary relationship directly or indirectly with the company, or relationship with the managerial personnel, if any:

As on the date of this notice, Lt. Gen. Baldev Singh (Retd.) holds 78,808 equity shares of Rs. 10 each being 0.60% of the total paid up share capital in R Systems. Apart from the employment benefits as President and Senior Executive Director of R Systems, he does not have any pecuniary or other relationship with the Company except that 2,770 stock options of Rs. 10 each out of the total options granted to him under R Systems International Ltd. - Year 2004 Employees Stock Options Plan are in force. Lt. Gen. Baldev Singh (Retd.) is related to Mr. Satinder Singh Rekhi, Chairman and Managing Director of the Company.

III. OTHER INFORMATION

(1) Profitability of R Systems:

Reasons for inadequate profits: The Company has made a reasonable profit during the last financial year ended December 31, 2008. R Systems total income increased to Rs. 21,013.01 lakhs as against Rs. 16,467.65 lakhs during the same period in the previous year, a growth of 27.60%. Profit after tax for the year ended December 31, 2008 was Rs. 2,364.76 lakhs as against Rs. 2,417.14 lakhs during the same period in the previous year, a decline of 2.17%.

(2) Strategy for performance enhancement:

Steps taken or proposed to be taken for improvement: R Systems management process involves taking continuous steps to improve performance through growth in revenues, managing costs and improving productivity. The financial strategy involves maintaining a secure financial position, managing risks and ensuring accurate and timely reporting of performance.

(3) Expected increase in productivity and profits in measurable terms:

Barring unforeseen circumstances, R Systems expects to close the current financial year with improved sales and profitability.

IV. DISCLOSURES

(1) The Members are being informed of the remuneration package by way of explanatory statement as given above.

(2) The details of remuneration etc. of other directors are included in the Directors' report under the heading Corporate Governance.

ITEM NO. 9

AMENDMENT OF R SYSTEMS INTERNATIONAL LTD. - YEAR 2004 EMPLOYEE STOCK OPTION PLAN

The Company had formulated R Systems International Ltd. - Year 2004 Employee Stock Option Plan for the employees of the Company and for the employees of its subsidiaries except ECnet Limited. The said plan was duly approved by the Board of directors and members of the Company.

In the budget announcement for the year 2007-08, Government of India has levied Fringe Benefit Tax ("FBT") on Employee Stock Options (ESOPs) under the Income Tax Act, 1961. Section 115WKA under chapter XII-H, of the Act provides that

NOTICE

FBT on ESOPs in respect of stock options which have been granted to or vested in or exercised by the eligible employees on or after April 01, 2007, is to be paid by the Company. However, Section 115WKA further provides that the amount so paid by the Company can be recovered from the employees by amending the ESOP Schemes to this effect.

Therefore to amend R Systems International Ltd. - Year 2004 Employee Stock Option Plan, it is proposed to obtain the approval of the shareholders by way of special resolution, to recover FBT or any other tax, if applicable from the employees in respect of any grant, vesting or exercise of stock options on or after April 01, 2007.

The Board recommends that the shareholders approve the aforesaid resolution as special resolution in the interest of the Company.

None of the directors is in any way concerned or interested in the resolution, except to the extent of the options granted to them and are in force under R Systems International Ltd. - Year 2004 Employee Stock Option Plan.

ITEM NO. 10

AMENDMENT OF R SYSTEMS INTERNATIONAL LTD. - YEAR 2004 EMPLOYEE STOCK OPTION PLAN - ECNET

The Company had formulated R Systems International Ltd. - Year 2004 Employee Stock Option Plan - ECnet for the employees of its subsidiary ECnet Limited. The said plan was duly approved by the Board of directors and members of the Company.

In the budget announcement for the year 2007-08, Government of India has levied Fringe Benefit Tax ("FBT") on Employee Stock Options (ESOPs) under the Income Tax Act, 1961. Section 115WKA under chapter XII-H, of the Act provides that FBT on ESOPs in respect of stock options which have been granted to or vested in or exercised by the eligible employees on or after April 01, 2007, is to be paid by the Company. However, Section 115WKA further provides that the amount so paid by the Company can be recovered from the employees by amending the ESOP Schemes to this effect.

Therefore to amend R Systems International Ltd. - Year 2004 Employee Stock Option Plan - ECnet, it is proposed to obtain the approval of the shareholders by way of special resolution, to recover FBT or any other tax, if applicable from the employees in respect of any grant, vesting or exercise of stock options on or after April 01, 2007.

The Board recommends that the shareholders approve the aforesaid resolution as special resolution in the interest of the Company.

None of the directors is in any way concerned or interested in the resolution, except to the extent of the options granted to them and are in force under R Systems International Ltd. - Year 2004 Employee Stock Option Plan - ECnet.

ITEM NO. 11

AMENDMENT OF THE ARTICLES OF ASSOCIATION OF R SYSTEMS INTERNATIONAL LIMITED

The amendments are proposed by the Board to make the articles in compliance with the amendments made in the Companies Act, 1956 and applicable guidelines issued by the Securities and Exchange Board of India and other statutory authorities.

In terms of Section 31 of the Companies Act, 1956 any amendment to the Articles of Association requires approval of the members by way of special resolution. Accordingly Board recommends that the shareholders approve the aforesaid resolution as special resolution in the interest of the Company.

None of the directors is in any way concerned or interested in the resolution.

ITEM NO. 12

REAPPOINTMENT OF AND PAYMENT OF REMUNERATION TO MS. AMRITA KAUR, DAUGHTER-IN-LAW OF MR. SATINDER SINGH REKHI, CHAIRMAN AND MANAGING DIRECTOR OF THE COMPANY AS ASSISTANT BUSINESS MANAGER IN R SYSTEMS INTERNATIONAL LIMITED.

Ms. Amrita Kaur, daughter-in-law of Mr. Satinder Singh Rekhi, Chairman and Managing Director of the Company is proposed to be reappointed as Assistant Business Manager in R Systems International Limited in terms of Sub Section (1B) of Section 314 of the Companies Act, 1956. As per the proposed terms of reappointment, Ms. Amrita Kaur is entitled for an annual salary of Rs. 400,000. Further she is also entitled for a maximum annual increment up to 20% on her annual salary, each year on January 01. Ms. Amrita Kaur holds a Bachelor degree in Computer Application from Guru Gobind Singh Indraprastha University and has also completed her Post Graduate Diploma in Management from Lal Bahadur Shastri Institute of Management.

The board of directors recommends that the shareholders approve the said reappointment and remuneration by way of a special resolution.

None of the directors except Mr. Satinder Singh Rekhi and Lt. Gen. Baldev Singh (Retd.) being related to Ms. Amrita Kaur is interested in the said reappointment and remuneration.

By Order of the Board
For R Systems International Limited

Nand Sardana
(Company Secretary)

Place : NOIDA
Date : March 23, 2009

NOTICE

PROFILE OF DIRECTORS SEEKING APPROVAL FOR REAPPOINTMENT OR REMUNERATION AT THE ANNUAL GENERAL MEETING PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT

Particulars	Mr. O'Neil Nalavadi	Mr. Suresh Paruthi	Mr. Raj Swaminathan	Lt. Gen. Baldev Singh (Retd.)
Date of Birth	January 10, 1960	November 01, 1950	May 23, 1959	September 21, 1940
Qualification	Bachelors of Commerce & Economics from the University of Bombay and Chartered Accountant from the Institute of Chartered Accountants of India	Bachelor of Technology (Hons.) from IIT, Kharagpur	Bachelor of Engineering from Bangalore University and MBA from Xavier Labour Relations Institute.	Masters in Military Sciences
Expertise and experience in specific functional areas	Mr. O'Neil Nalavadi has over 23 years of experience in financial, accounting, mergers and acquisitions with both public and private companies. Prior to joining R Systems, Mr. Nalavadi was Senior Vice President, CFO and director of UBICS, Inc., a public company listed on NASDAQ. He also served in various management capacities for companies in the UB Group in the United Kingdom and India from 1984 to 1997, including public companies listed on London Stock Exchange. He has successfully completed several mergers and acquisitions worldwide and has extensive experience in successfully integrating back office operations to deliver measurable benefits and enhance return on investment.	Mr. Paruthi had completed his Bachelor of Technology (Hons.) from IIT, Kharagpur in 1972. He has also completed a certificate course in export marketing from the Indian Institute of Foreign Trade, New Delhi. He is having a wide experience of efficiently serving various multinationals; some of them are Siemens Limited, Bhartia Cutler Hammer Ltd. & Omron Asia Pacific Pte. Ltd.	Mr. Raj Swaminathan has over 24 years of experience in IT and Financial Services Industry. Prior to joining R Systems, Raj has had a distinguished 11 year career at GE where he was Vice President and CIO at GE-Countrywide, India and part of the senior Global Consumer Finance corporate IT team. Earlier in his career, Raj also headed the IT function at Standard Chartered Bank for the consumer, corporate banking and treasury businesses.	Lt. Gen. Baldev Singh (Retd.) has more than 42 years of experience, including handling top managerial, diplomatic and human resource development related assignments. Mr. Singh has a Masters in Military Sciences from the prestigious Madras University in India and attended two short courses at University of California at Berkeley, in Strategic Account Management and Marketing.
Directorship / Membership in other board / committees / bodies corporate	R Systems NV, Belgium, Director	Nil	Nil	Nil
Shareholding in the Company	As on the date of this notice, he holds 240,000 equity shares of Rs. 10 each being 1.84% of the total paid up share capital in R Systems.	Nil	Nil. Further he holds 60,000 stock options under R Systems International Limited Employees Stock Option Scheme 2007. As on the date of this notice, out of aforementioned options, 15,000 options are already vested but not exercised.	As on the date of this notice, he holds 78,808 equity shares of Rs. 10 each being 0.60% of the total paid up share capital in R Systems. Further as on date 2,770 stock options of Rs. 10 each out of the total options granted to Lt. Gen. Baldev Singh (Retd.) under R Systems International Ltd. - Year 2004 Employees Stock Options Plan are in force.

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R SYSTEMS INTERNATIONAL LIMITED

Registered Office: B - 104A, Greater Kailash - I, New Delhi - 110 048
Corporate Office: C - 40, Sector - 59, Noida (U.P.) - 201 307
Fifteenth Annual General Meeting to be held on Monday, April 27, 2009 at 09.00 A.M. at
MPCU Shah Auditorium, Shree Delhi Gujarati Samaj Marg,
2, Raj Niwas Marg, Civil Lines, Delhi - 110 054

PROXY FORM

I / We...of...being a member(s) of R Systems International Limited hereby appoint.. of...or failing him / her .... of..as my / our proxy to attend and vote for me / us on my / our behalf at the Fifteenth Annual General Meeting of the Company to be held on Monday, April 27, 2009 at 09.00 A.M. at MPCU Shah Auditorium, Shree Delhi Gujarati Samaj Marg, 2, Raj Niwas Marg, Civil Lines, Delhi - 110 054 and any adjournment thereof.

In witness whereof

I / We have signed on this.........................day of............................2009

Registered Folio No..(or)

Demat Account No..D.P. ID. No...................

Affix a
Revenue
Stamp

Notes:

1. The Proxy form should be signed by the member across the stamp.
2. A member intending to appoint a Proxy should complete the Proxy form and deposit it at the Company's Registered Office at least 48 hours before the meeting.
3. Those who hold shares in Demat form to quote their Demat Account No. and Depository Participant (D.P.) ID. No.

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CUT HERE

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2, Raj Niwas Marg, Civil Lines, Delhi - 110 054

ATTENDANCE SLIP

Registered Folio No.. (or)

Demat Account No..D.P. ID. No...................

Name of shareholder(s)..

I / We certify that I am / we are Member(s) / Proxy of the Member(s) of the Company holding................................. shares.

I hereby record my presence at the Fifteenth Annual General Meeting of the Company to be held on Monday, April 27, 2009 at 09.00 A.M. at MPCU Shah Auditorium, Shree Delhi Gujarati Samaj Marg, 2, Raj Niwas Marg, Civil Lines, Delhi - 110 054.

....
Signature of Member / Proxy

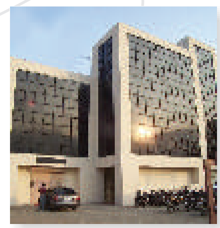
- A member or his duly appointed Proxy wishing to attend the meeting must complete this Admission Slip and hand it over at the entrance.
- Name of the Proxy in Block letters...
  (in case the Proxy attends the meeting)
- Those who hold shares in Demat form to quote their Demat Account No. and Depository Participant (D.P.) ID. No.

Our global presence

Noida, India

Pune, India

Chennai, India



Enschede, The Netherlands

Metz, France

El Dorado Hills, CA, USA

Salt Lake City, UT, USA

Singapore

R Systems International Limited

Registered Office: B - 104A, Greater Kailash - I, New Delhi - 110 048 (INDIA)
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www.rsystems.com