Products Foremost

Changing the Outsourcing Paradigm

R Systems International Limited

ANNUAL REPORT 2006

sky is the limit...

CONTENTS

Safe Harbor:

Certain Statements in this report concerning our future growth prospects are forward-looking statements, which involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding fluctuations in earnings, our ability to manage growth, intense competition in IT Services including those factors which may affect our cost advantage, wage increases in India, our ability to attract and retain highly skilled professionals, time and cost overruns on fixed-price contracts, clients concentration, restrictions on immigration, our ability to manage our international marketing and sales operations, reduced demand for technology in our key focus areas, disruptions in telecommunication networks, liability for damages on our service contracts and product warranty, the success of the companies in which the Company has made strategic investments, withdrawal of governmental fiscal incentives, political instability, legal restrictions on 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 our reports to stakeholders. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company


not for us...

Dear Fellow Stakeholders,

I believe that great products and services make successful companies. Software products have changed our lives in the way we work, live and prosper. Robust, scalable and transformational software products have cut through national barriers and have created successful corporations, such as, Microsoft, Google, Oracle, Apple and Ebay. At R Systems, we are inspired by our customer's innovative ideas and products. We partner with our customers to provide end-to-end services to enable them to gain a competitive advantage to win and become successful.

Our primary offering, the iPLM Services, is designed to cater to every need that a software product development company has, ranging from new product development to product testing, support and maintenance. These services are delivered seamlessly through our global delivery model using R Systems proprietary framework, and provide significant value to our customers. We are proud that R Systems positively impacted over 100 products during 2006 for a very broad spectrum of customers from IPTV and Internet security to enterprise solutions.

Our Indus retail banking products and ECnet supply chain solutions have benefited customers to efficiently manage millions of transactions in loan originations, collections and purchases of materials. Our success in our traditional market segments for these products inspired us to reach out for new opportunities. We successfully opened new segments for our products.

What makes R Systems different is the enthusiasm to pursue new endeavors. We believe nothing is impossible as our customers challenge us in developing new products, next generation processes, or provide support services better than their highest internal standards. This is what makes R Systems DNA - listening to our customers, connecting with them, sharing their enthusiasm and making things happen seamlessly across the world with high agility. Our business provides an exciting environment for our associates to prove themselves and flourish, unleashing the power and commitment of R Systems.

While creativity, innovation, taking on challenges and agility can mean chaos and risks, we realize that consistency and predictability are important, which is why we continue to invest in quality models, proprietary frameworks, tools, best practices and security standards which ensures that our clients interests are never compromised

The year 2006 was an important one for R Systems in our journey to create a great corporation. We completed our IPO in April, raced past our target to cross Rs. 200 crores in revenues, completed an acquisition to strengthen our customer care and technical support capability, and ended the year with three world leaders in their space as our top three customers. However, we had our share of challenges as we faltered in Q4 to hit our profit targets. To our shareholders I want to commit on behalf of R Systems employees that we have learnt from our mistakes, and will execute skillfully as we go forward. We have a strong financial position and a great team to outperform.

I am extremely thankful to all stakeholders who have enabled R Systems to reach this stage. Though it is not possible to list all our supporters, I am placing on record my very sincere gratitude to our customers, shareholders, bankers, market makers, The National Stock Exchange, The Bombay Stock Exchange, Securities and Exchange Board of India, the Software Technology Parks of India, and various government organizations for helping us.

To my colleagues worldwide at R Systems, I am equally thankful. While we all have different jobs and responsibilities, it is our mission to serve our customers and perform for our stakeholders. Let us pursue our worthy dream to become a category leader in our chosen market.

Sincerely,

Satinder Singh Rekhi
Chairman and Managing Director

Board of Directors
As on April 05, 2007

Mr. Satinder Singh Rekhi
Chairman & Managing Director

Mr. Raj Kumar Gogia
Non Executive Independent Director

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

Mr. David Richard Sanchez
Non Executive Independent Director

Mr. O'Neil Nalavadi
Director Finance & CFO

Mr. Gurbax Singh Bhasin
Non Executive Independent Director

Mr. Raj Swaminathan
Director & Chief Operating Officer

Mr. Suresh Paruthi
Non Executive Independent Director

Committees of the Board Members

Audit Committee

1. Mr. Raj Kumar Gogia	Non Executive Independent Director
2. Mr. David Richard Sanchez	Non Executive Independent Director
3. Mr. Gurbax Singh Bhasin	Non Executive Independent Director
4. Mr. O'Neil Nalavadi	Director Finance & CFO
5. Mr. Suresh Paruthi	Non Executive Independent Director

Shareholders/Investors Grievance Committee

1. Mr. Raj Kumar Gogia	Chairman (Non Executive Independent Director)
2. Mr. Suresh Paruthi	Non Executive Independent Director
3. Mr. Satinder Singh Rekhi	Managing Director
4. Lt. Gen. Baldev Singh (Retd.)	Senior Executive Director

Remuneration Committee

1. Mr. Raj Kumar Gogia	Chairman (Non Executive Independent Director)
2. Mr. David Richard Sanchez	Non Executive Independent Director
3. Mr. Gurbax Singh Bhasin	Non Executive Independent Director
4. Mr. Suresh Paruthi	Non Executive Independent Director

Compensation Committee

1. Mr. Raj Kumar Gogia	Non Executive Independent Director
2. Mr. David Richard Sanchez	Non Executive Independent Director
3. Lt. Gen. Baldev Singh (Retd.)	Senior Executive Director

Company Secretary and Vice President (Finance)
Mr. Nand Sardana

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

Corporate Office
C – 40, Sector – 59, Noida – 201 307

Statutory Auditors

S R Batliboi & Associates
Chartered Accountants

Registrar & Share Transfer Agent

M/s Intime Spectrum Registry Limited
A-31, 3rd Floor, Phase-1,
Naraina Industrial Area,
New Delhi - 110 028

Bankers to the Company
1. State Bank of India
2. ICICI Bank Limited
3. HDFC Bank Limited
4. UTI Bank
5. Oriental Bank of Commerce
6. Syndicate Bank
7. Canara Bank
8. ABN Amro Bank
9. Citibank NA
10. California Bank & Trust, USA

Listed At

National Stock Exchange of India Limited &
Bombay Stock Exchange Limited

Subsidiaries of R Systems International Limited

1. R Systems (Singapore) Pte Limited
2. R Systems, Inc.
3. Indus Software, Inc.
4. ECnet Limited
5. R Systems Solutions, Inc.

Subsidiaries of ECnet Limited

6. ECnet (M) SDN. BHD
7. ECnet, Inc.
8. ECnet (Hong Kong) Limited
9. ECnet Systems (Thailand) Co. Ltd.
10. ECnet Kabushiki Kaisha
11. ECnet (Shanghai) Co. Ltd.

SYSTEMS

About R Systems

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

progress@rsystems

Our Offerings

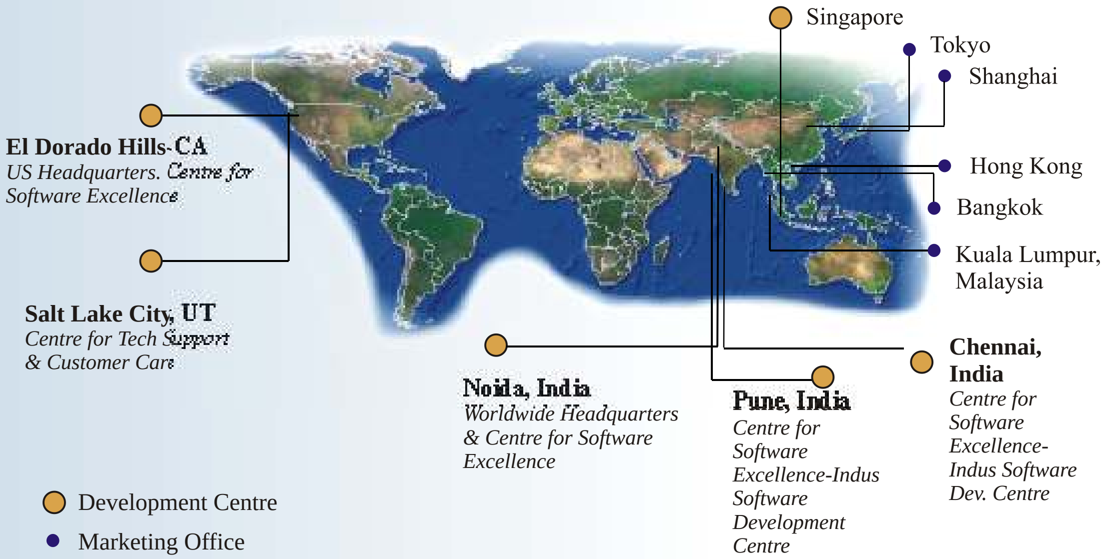
iPLM Services

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

Schematic:

R Systems' iPLM suite of Services and its pSuite execution methodology have been designed to meet the specific needs of outsourced software product development companies. Our customers benefit by using our iPLM services by a) getting products to market faster thereby generating additional revenues; b) providing a competitive advantage and greater flexibility in resource deployment; c) lowering costs; d) improved quality.

Starting in 1999, we have served over 200 customers and in the year 2006 we made a positive impact on over 100 products for our customers. Among our customers is a leading telecom company that is spearheading the launch of Triple and Quad Play services in both developed and developing world and an ISV focused on serving member centric organizations who has been with us since the launch of our offshore services in 1999.



Customer Profile and Engagement Model:

Company A, which is a division of a Fortune 1000 multinational, offers software and hardware components for delivering television signals over Internet protocol (IP) networks. The company's products also allow network operators to offer video-on demand and other personalized services. The company offers a proven IPTV solution that is built on a truly open standards solution architecture, allowing interoperability of core components such as set-top boxes, but also on applications and services that television viewers want. It provides the features subscribers want and the performance operators demand in a simple and intuitive user interface creating an exciting, family friendly experience. With one universal remote control, subscribers can watch Digital TV, rent movies, listen to digital music, check the weather, surf the Web and much more. It is simple, personalized and interactive television, just like what viewers have always wanted.

Our association with Company A started in May 2004 with a 4-member team as a maintenance and bug fixing offshore development center for one Company A's products. We started providing enhancement features, customization, testing and maintenance support for all the end clients of Company A, including Fortune 1000 and mid sized companies. By using our proprietary pSuite framework we exceeded the expectations of our customer leading to a deeper and deeper relationship. This has lead to Company A increasing their own revenues and in turn our dedicated team for Company A has grown. We currently serve our customer through a multi-year master services agreement.

BPO Services

Our BPO service offerings are either an integral part of our iPLM service offerings or leverage our domain competencies. As part of the iPLM suite we offer customer care and technical support services to the high technology sector. Our services are offered through a seamlessly integrated global hybrid delivery model concurrently using our Salt Lake City, Utah and Noida delivery centers. Our hybrid delivery model helps our clients mitigate perceived risks such as lack of proximity to customers or disaster planning, offers a choice to clients who prefer to use onshore services for strategic reasons, and gives a significant cost advantage.

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

We have over 20 customers who currently use our services. Among our customers are: a leading federally qualified health care service provider and a Fortune 500 manufacturer of telephone handsets and telecom equipment.

Customer Profile and Engagement Model:

Our Client is a leader in the enterprise mobile messaging solutions space. The business has evolved over the last 5+ years from an early start-up to an organization supporting more than 400,000 subscibers today. Its services are delivered to end users globally in tie-ups with leading wireless companies like Cingular, Sprint, Verizon, Bell Canada, Telstra amongst others. Its solution is supported by most popular mobile phones like from Palm, Nokia, Motorola, HP, Samsung to name a few. Given its leading position in the space it was last year acquired by a Fortune 100 telecommunications giant.

R Systems is the sole end customer care and technical support provider. Our client relies on R Systems global hybrid delivery model for level 1 and 2 technical support including end-customer care and NOC monitoring. These services are provided under a multi-year master services agreement.

Enterprise Application Services

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

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

R Systems' Products Group

Indus® Lending Solutions - Product Description

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

1. Indus Loan Originations

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

2. Indus Loan Servicing

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

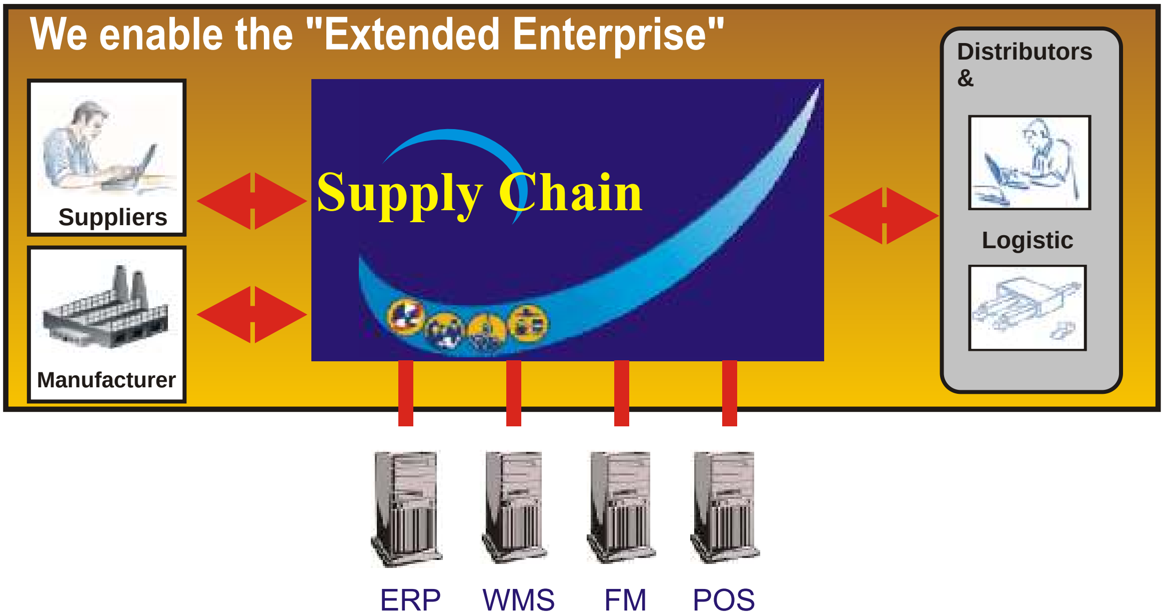
3. Indus Collections

The Indus Collections is the third module of Lending Solutions from Indus. It is a result of our extensive research on industry best practices. Indus Collections is a fully internationalized web-based product that provides a highly configurable and scalable solution for managing delinquencies across multiple portfolios. The module supports pre-emptive follow-up through early collections to late and legal collections. This workflow driven module can handle all the business processes of collections, be it automated dunning letter generation at user-defined triggers or rule-based queuing and allocation of cases to different profiles of collectors. At the same time, it's flexible enough to plug-in additional customer or country-specific functionality. Critical business objectives of "End-user Productivity" and "Better Control on Processes" have been the guiding force in the design of this product. Some of the most exciting product features include the ability to action multiple cases in a single user-action, view the inventory of cases in list mode, apply user-definable filters to view specific cases, re-allocation based on runtime parameters, parallel follow-up with co-allocation and portfolio-specific overview screens. Additionally, the product has ancillary modules that include modules for temporary receipt management, commission and incentive calculations, repossession workflow and collateral & document tracking.

R Systems has over 25 customers for its Indus Lending Solutions Products. These customers are large banking and financial services organizations and the R Systems engagement model involves a license sale of the product, services for customization and a maintenance support service for the software.

ECnet® – Supply Chain Execution

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



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

Customer and Business Focus
Quality Orientation
Respect for Individual
Honesty and Integrity
Fairness
Team Effort
Continuous Improvement & Innovation
Security Consciousness

R Systems People Practices

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

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

Core Values

At R Systems, we recognize that our core values drive our organizational behaviour. Our core values are:

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

"Business Strategy Reinforces People Strategy" (The Virtuous Cycle)

Our core business strategy of being the engine room for global software product development across a number of our chosen verticals works well for us in our ability to attract, retain, nurture and excite the brightest minds in the Indian IT industry. Our competent engineers, domains experts, technical and solution architects work with and alongside their global client counterparts as we 'follow-the-sun' in bringing rapidly some very exciting, next-generation products to the market place, these include products in the sunrise industries of internet media and security, mature product segments as in ERP and retail banking and newer practices as in health care & process outsourcing. Our talented people are therefore able to meet one of the biggest aspirations of an IT professional-the challenge and opportunity of working on a wide variety of contemporary product developments and participating in its evolution and life-cycle with some very exciting clients.

HR Practices

R Systems is fortifying its strong HR practices with implementation of People CMM practices which has been initiated. The companywide PCMM initiative will focus on the following:-

- Reinforcement of strong people management systems.
- Increase campus hiring to increase talent pool.
- Aligning with best and next practices in the industry.
- Create a learning organization through a consistent focus on training, self learning and other development activities to create enlightened and empowered teams.
- Competency-based people management including development of competencies at organization, team and individual level.
- Create a participatory and performance based workplace.
- Reward and recognition for individual and team performance.

Leading Innovation through motivation of people with an urge to create.

Training and Development

- Comprehensive induction program for new hires.
- Training on Quality Standards, Information Security Management Systems, and People Management Systems.
- Developing Organizational Competencies like leadership, team building, mentoring, creativity and innovation etc.
- Training on cutting edge technologies like Java, MS, ERP, embedded software etc.
- Cultivating employee engagement through training on cross functional skills.

Meeting Employee Aspirations

- Competitive Compensation - competency based compensation management with internal and external parity in mind.
- Timely and Continuous performance management system.
- Fast track career growth for high performers.
- Periodic and 360 degree employee feed back mechanisms-open houses, periodical HR meeting, skip level meetings, suggestion box etc.
- Welfare measures that compare with industry standards.

Financial Highlights

(On the basis of Consolidated Financial Statements) (Rs. in lacs)

Particulars	2006	2005	2004	2003	2002
Operating Revenue	**20,395**	15,779	13,235	12,247	13,957
Other Income	**402**	43	40	23	170
Total Revenue	**20,797**	15,822	13,274	12,269	14,127
EBITDA	**2,179**	2,002	657	314	809
EBT	**1,391**	1,442	69	(337)	501
EAT	**782**	1,248	23	(367)	365
Share Capital	**1,355**	514	514	514	514
Reserve and Surplus	**11,469**	5,602	4,586	4,699	5,213
Secured Loans	**243**	1,013	1,259	597	25
Fixed Assets (net)	**5,549**	2,821	2,821	2,109	2,086
Investment	**135**	16	16	17	1
Current Assets (net)	**7,728**	4,087	3,433	3,295	3,121

Key Ratios

(On the basis of Consolidated Financial Statements)

Particulars	2006	2005	2004	2003	2002
Debt -equity ratio	**0.03**	0.17	0.29	0.11	0.00
Days Sales Outstanding	**82**	88	82	83	69
Current ratio	**2.68**	2.79	2.71	2.69	2.29
Cash and cash equivalent/ Total assets (%)	**29.5%**	12.2%	11.3%	15.7%	19.5%
Cash and cash equivalent/ Total revenue(%)	**25.6%**	7.3%	7.3%	9.9%	11.3%
EBIDTA / Total Revenue (%)	**10.5%**	12.7%	4.9%	2.6%	5.7%
EBT / Total Revenue (%)	**6.7%**	9.1%	0.5%	-2.7%	3.5%
EAT / Total Revenue (%)	**3.8%**	7.9%	0.2%	-3.0%	2.6%
Return on Avg. Equity (%)	**8.3%**	22.2%	0.4%	-6.1%	4.3%
Return on Avg. Capital Employed (%)	**14.0%**	22.0%	2.7%	-5.1%	5.9%
Earning Per Share (Rs.)					
- Basic	**6.17**	11.65	0.21	-3.39	3.50
- Diluted	**6.17**	11.65	0.21	-3.39	3.50
Dividend Per Share (Rs.)	**1.2**	-	-	-	-
Book Value Per Share (Rs.)	**94.93**	59.66	49.64	50.32	67.00

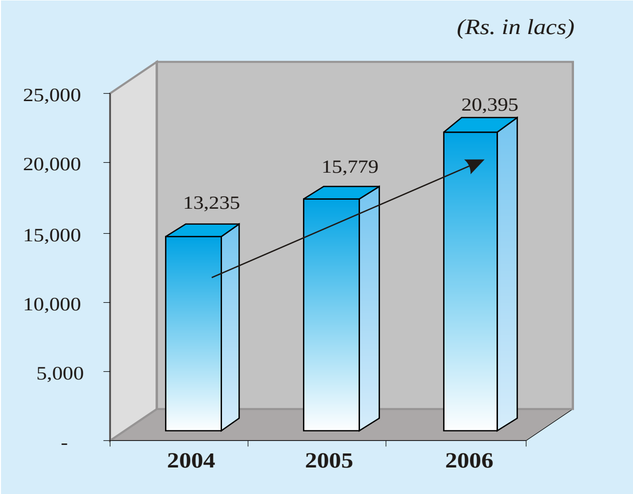
* Previous years figures has been reworked due to consolidation of five equity shares of Rs. 2 each into one equity share of Rs.10 each and then issue of 1:1 bonus share for each share held.

Note :-

EBITDA - Earnings before interest, tax, depreciation, amortisation and prior period expenses.
EBT- Earnings Before Tax
EAT - Earnings After Tax
Debt Equity ratio = Long Term Debt/ Equity
Days Sales Outstanding =Average Trade Receivables/ Net Credit Sales*360
Current Ratio = Current Assets/ Current Liabilities
Return on Avg, Equity (%) = Net Profit after tax / Average Equity
Return on Avg. Capital Employed (%) = EBIT / Average Capital Employed

Growth in Consolidated Operating Revenues

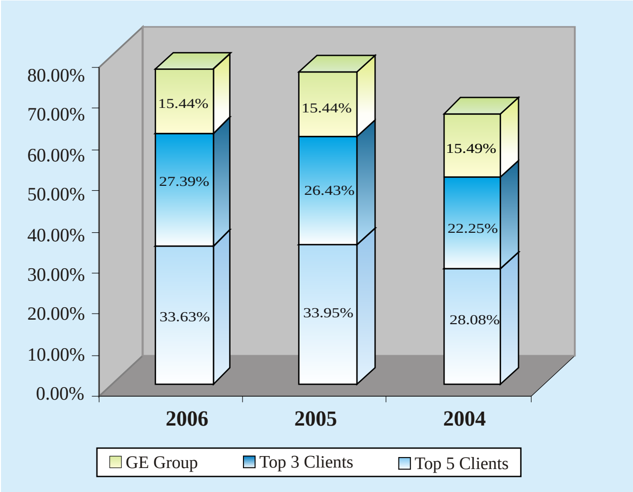
Our consolidated operating revenues surpassed the milestone of Rs. 200 crores with an annual growth of 29.25% and CAGR of 24% for last three years.



Client Concentration

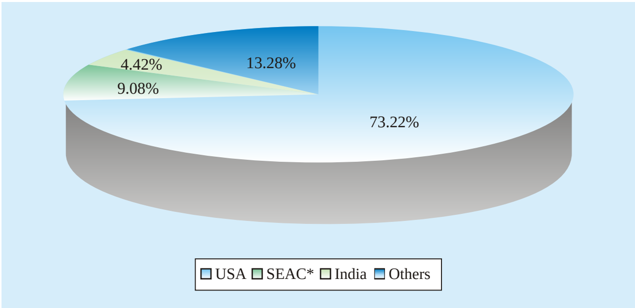
Three of our top 10 clients are global leaders in their space.

(On the basis of consolidated revenues)



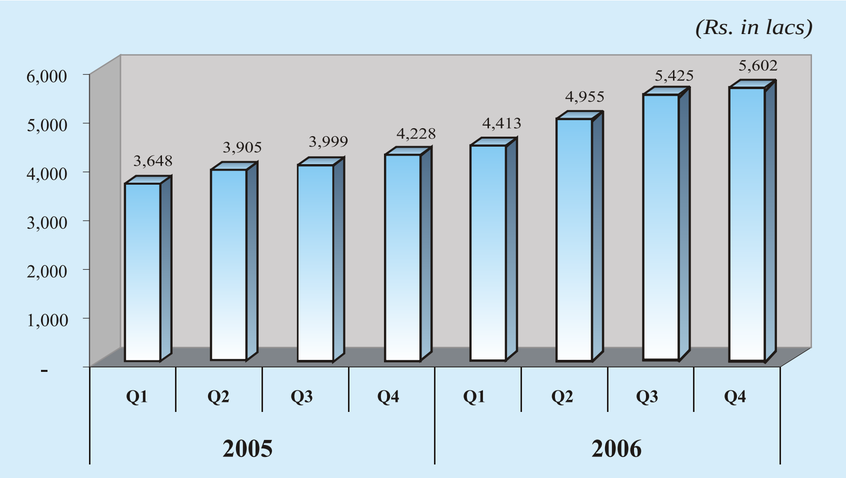
Revenues by Geography

R Systems earns income from four principal geographic territories, namely the United States of America, South East Asian countries ("SEAC"), India and others countries. A significant proportion of our consolidated revenues 73.22% in fiscal year 2006 as against 75.15% in fiscal year 2005 are derived from clients located in the United States of America.

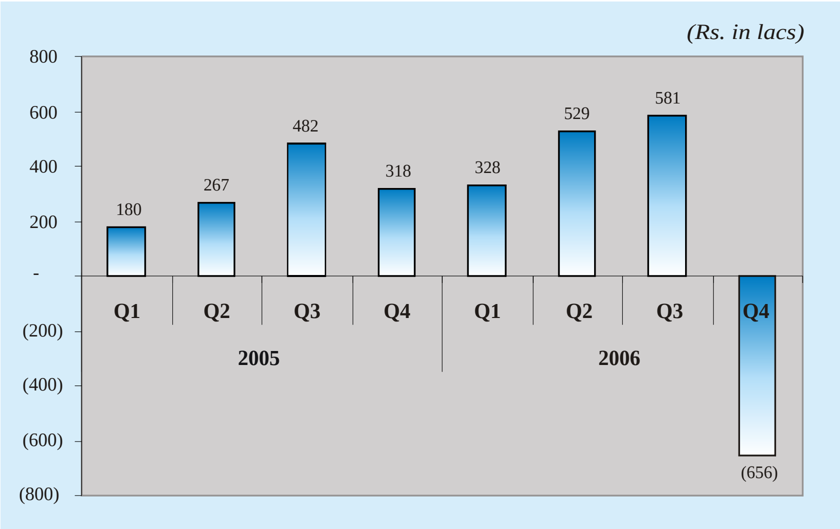


Q-Q Growth in Consolidated Operating Revenues

The CAGR in consolidated operating revenues during the last eight quarters was 6.30%.



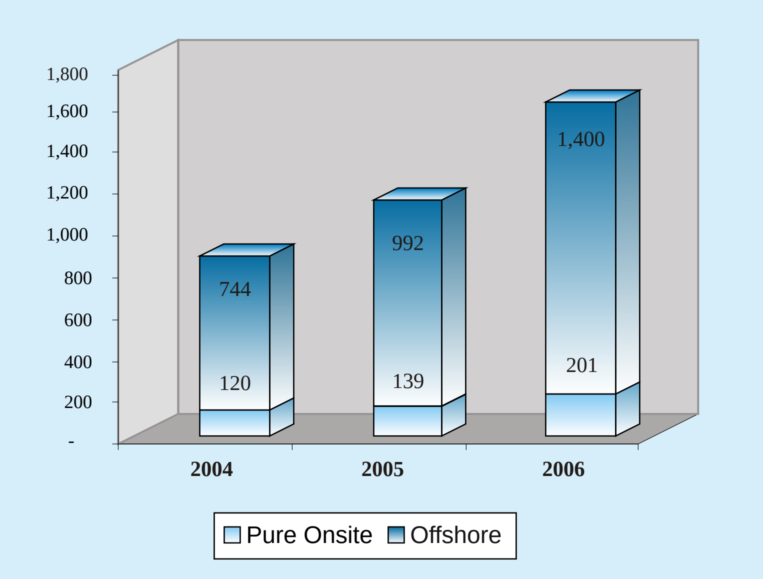
Q - Q Consolidated Profits/ (Loss) After Taxes



Q4 2006 earnings were impacted by non-recurring items as explained under management discussion and analysis report.

Break-down of Global Technical Head-Count

The total technical counts as on December 31, 2006 was 1,601 as against 1,131 as on December 31, 2005 and 864 as on December 31, 2004. The CAGR for last three years was 36%.



Our Capacity

Location	As on Dec 31, 2006	
	Covered areas in sq ft.	No. of seats
India		
Noida	73,150	1,188
Pune	32,940	534
Chennai	16,276	253
	122,366	1,975
USA	29,003	235
Singapore	11,500	52
Total	162,869	2,262

Dear Shareholders,

Your directors have great pleasure in presenting the Thirteenth Annual Report on the business and operations of R Systems together with the audited statements of accounts for the year ended December 31, 2006.

1. Financial Results

a. Stand-alone financial results of R Systems International Limited

Particulars	***Financial Year ended (Rs. in lacs)***	
	31.12.2006	***31.12.2005***
Gross revenues	12,247.29	8,162.59
Profit before depreciation & tax	1,710.87	1,713.46
Less: Depreciation	453.12	317.41
Profit before tax	***1,257.75***	***1,396.05***
Less: Current tax (net of excess provision of earlier years)	144.38	61.20
Less: Fringe benefit tax	54.26	26.41
Less: Deferred tax (net of prior period items)	54.24	34.68
Profit after tax (available for appropriation)	***1,004.87***	***1,273.76***
Proposed final dividend	162.99	-
Corporate dividend tax on final dividend	27.70	-
Transfer to general reserve	25.12	-
Balance carried forward to Balance Sheet	**789.06**	**1273.76**

b. Consolidated financial results of R Systems International Limited and its subsidiaries.

Particulars	***Financial Year ended (Rs. in lacs)***	
	31.12.2006	***31.12.2005***
Gross revenues	20,796.66	15,822.34
Profit before depreciation & tax	1,982.07	1,931.12
Less: Depreciation	591.24	489.24
Profit before tax	**1,390.83**	**1,441.88**
Less: Current tax (net of excess provision of earlier years)	155.23	73.97
Less: Fringe benefit tax	54.26	26.41
Less: Deferred tax (net of prior period items)	398.91	93.80
Profit after tax (available for appropriation)	**782.43**	**1247.70**
Proposed final dividend	162.99	-
Corporate dividend tax on final dividend	27.70	-
Transfer to general reserve	25.12	-
Balance carried forward to Balance Sheet	**566.61**	**1247.70**

2. Results of Operations

Standalone Accounts

During the year ended December 31, 2006 the gross revenues increased to Rs. 12,247.29 lacs as against Rs. 8,162.59 lacs during the same period in the previous year, a growth of 50.04%. Profit after tax has decreased to Rs. 1,004.88 lacs in fiscal year 2006 from Rs.1,273.76 lacs in fiscal year 2005. The decline in profit after tax was mainly on account of nonrecurring items as categorised below:-

Accounting policy related:

* Increase in personnel expenses by Rs.77.04 lacs resulting from change in accounting policy on adoption of AS-15 (Revised) on employee benefits issued by The Institute of Chartered Accountants of India.
* Prior period expense of Rs.153.32 lacs resulting from change in assumptions for actuarial valuation of gratuity and leave encashment after the adoption of AS-15 (Revised).
* Increase in operating expense by Rs. 38.16 lacs due to changes in method of accounting for transaction expenses relating to acquisition of WebConverse, Inc. of Rs. 38.16 lacs resulting from recent opinion by Expert Advisory Committee of The Institute of Chartered Accountants of India.

Depreciation

* Depreciation charge of Rs. 72.88 lacs for the assets costing Rs. 5,000 or less per item which were written off completely in period of acquisition on account of expansion of capacity at Noida.

Provision against account receivables, advances and investment in subsidiaries

* Provisions for doubtful debts Rs 449.82 lacs.
* Provision against doubtful advances Rs. 339.48 lacs.
* Provision against investment in subsidiary net of write back of earlier provision Rs. 24.52 lacs.

Consolidated Accounts

During the year ended December 31, 2006 the gross consolidated revenues increased to Rs. 20,796.66 lacs as against Rs. 15,822.34 lacs during the same period in the previous year, a growth of 31.43%. Profit after tax has decreased to Rs. 782.43 lacs in 2006 from 1,247.70 lacs in 2005. The decline in profit after tax was mainly on account of nonrecurring items as categorised below:-

Accounting policy related:

* Increase in personnel expenses by Rs.77.04 lacs resulting from change in accounting policy on adoption of AS-15 (Revised) on employee benefits issued by The Institute of Chartered Accountants of India.
* Prior period expense of Rs.153.32 lacs resulting from change in assumptions for actuarial valuation of gratuity and leave encashment after the adoption of AS-15 (Revised).
* Increase in operating expenses by Rs. 38.16 lacs due to changes in method of accounting for transaction expenses relating to acquisition of WebConverse, Inc. of Rs. 38.16 lacs resulting from recent opinion by Expert Advisory Committee of The Institute of Chartered Accountants of India.

Provision against deferred tax assets and depreciation

* Provision against deferred tax assets of Rs.244.90 lacs in the USA subsidiary net of deferred tax assets recognised.
* Depreciation charge of Rs. 72.88 lacs for the assets costing Rs. 5,000 or less per item which were written off completely in period of acquisition on account of expansion of capacity at Noida.

Provision against Account Receivables

* Provisions for doubtful debts of Rs. 434.57 lacs including Rs. 288.54 lacs attributable to provision of debts recoverable from two customers.

3. **Appropriations and Reserves:**

Dividend

Taking into consideration the profits for 2006 and positive outlook for future, the Board is pleased to recommend a maiden dividend of Rs. 1.20 per equity share (being 12% on the par value of Rs. 10/- per share), to be appropriated from the profits of the company for the financial year 2006 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 on April 24, 2007 and to those whose names appear as beneficial owners in the records of the National Securities Depository Limited and Central Depository Services (India) Limited as on the said date.

The register of members and share transfer books will remain closed from April 24, 2007 to May 01, 2007, both days inclusive.

Transfer to Reserves

It is proposed to transfer a sum of Rs. 2,512,190/- (Rupees twenty five lacs twelve thousand one hundred ninety only) to the general reserves being 2.5% of the current years profit in accordance with the Companies (Transfer of Profits to Reserves) Rules, 1975.

4. Business

Services Group

R Systems has become one of the leading providers of outsourced product development and customer support services out of India. 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 capability to provide end-to-end needs of the software product and service companies gives us a terrific competitive edge in the high tech market segment. 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 support their customers for products and services using our global delivery model.

Products Group

In its products group R Systems has its own suite products - Indus® Loan Origination and Collections Product and ECnet® Supply Chain addressing the needs of banking, financial services, manufacturing and logistic industries.

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 group maintains six 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.

(Visit of a delegation from Siemens-Myrio to our Noida Centre)

5. Initial Public Issue ("IPO") of R Systems

During the previous year ended December 31, 2006, R Systems completed its IPO of 4,408,361 equity shares of Rs. 10 each for cash at a premium of Rs. 240 per equity share aggregating to Rs. 1102.09 million. The IPO comprised of a fresh issue of 2,825,006 equity shares and an offer for sale of 1,583,355 equity shares by some of the selling shareholders. Upon successful completion of the initial public offer R Systems became a listed public company with effect from April 26, 2006. R System is listed on National Stock Exchange of India Limited & Bombay Stock Exchange Limited.

6. 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 Integrated Capability Maturity Model (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 quality standards for the development and service centres in India on time-scale are given below:

Noida Development Centre
CMMi Level-5 & ISO 27001:2005
Appraised

2006: ISO SEI - CMMI LEVEL 5 & ISO 27001:2005

2004: SIX SIGMA DEPLOYED

2003: SEM - CMM LEVEL 5

2002: ISO SEI - CMM LEVEL 4

2002: ISO 9001:2000

1998: ISO 9001:1994

Trained more than 100 professionals on Six Sigma DMAIC Methodology.

Initiated more than 23 different Six-Sigma Projects.

In November 2006 R Systems Noida IT & BPO Centre was awarded ISO 27001 : 2005 Certification by Intertek Quality Registrar commonly known as BS 7799. With the said certification R Systems joins a select group of service companies worldwide to have achieved the ISO 27001 standards. This process maturity help R Systems in creating value for our customers by consistently delivering high quality services through very integrated and secure processes, technologies and techniques. It also enables R Systems to meet the stringent information security and statutory compliance requirements of the clients. This certification process provides the necessary tools for monitoring and controlling the effectiveness of the control measures, and ensures that information security practices fulfill all business and legal requirements on a continuing basis.

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

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

(Visit of a delegation from Aisel, Japan to our Noida Centre)

7. Acquisitions and Strategic Alliances

In August 2006 R Systems acquired the entire shareholdings of WebConverse, Inc. (renamed as R Systems Solutions, Inc.) a technical support company with operations in Salt Lake City, US serving the high technology sector. WebConverse Inc., was founded in 2000 and specializes in delivering outsourced technical support for mobile applications, enterprise software, hardware, and hosted applications. WebConverse's turnkey solutions include inbound and outbound telephone support, email response and real-time Web-chat. The combination gives R Systems a matchless competitive edge to meet the end-to-end needs of software product companies from development and testing to customer care and technical support.

In December 2006 R Systems announced plans for a strategic alliance with Aisel Co. Ltd., ("Aisel") an independent systems development and business solutions provider, in Tokyo, Japan. The proposed agreement provides for taking stakes in each other companies subject to the applicable pricing guidelines. It involves both parties collaborating for delivery of certain services to each others customers. R Systems would serve Aisel for all its offshore software development needs and Aisel would serve R Systems with onsite project management and coordination needs. The said strategic agreement is subject to regulatory and other corporate approvals.

8. Directors

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

Mr. Satinder Singh Rekhi was appointed as the Chairman and Managing Director of R Systems w.e.f January 01, 2006 for a period of five years.

Mr. O'Neil Nalavadi was appointed as Director Finance of R Systems w.e.f January 01, 2006 for a period of three years.

Lt. Gen. Baldev Singh (Retd) was re designated as Senior Executive Director of R Systems w.e.f January 01, 2006 for a period of two years.

Mr. Avirag Jain was appointed as alternate Director to Mr. O'Neil Nalavadi on January 18, 2006. He resigned on January 31, 2006 due to the return of the original director. He was again appointed on February 15, 2006 as the alternate Director to Mr. O'Neil Nalavadi and he resigned on March 12, 2006 due to the return of the original director.

Mr. Raj Kumar Gogia and Mr. David Richard Sanchez were reappointed as the Directors of the Company at the previous annual general meeting of R Systems.

Mr. Gurbax Singh Bhasin was regularized as Director of R Systems at the previous annual general meeting of the Company.

At the ensuing annual general meeting Mr. Raj Kumar Gogia and Lt. Gen. Baldev Singh (Retd.) Directors of the Company are liable to retire by rotation in accordance with the provisions of Section 255 of the Companies Act, 1956, and being eligible, both of them offers themselves for reappointment as the director of R Systems.

Mr. Suresh Paruthi & Mr. Raj Swaminathan were appointed as the Additional Directors of the Company with effect from September 29, 2006, and being eligible, both of them are proposed to be appointed as a regular director pursuant to Section 257 of the Companies Act, 1956.

9. Employees stock options plans

The industry in which R Systems operates is people intensive and we believe that human resources play a pivotal role in the sustainability and growth of the Company. R Systems International Limited has always believed in rewarding its employees with competitive compensation packages for their dedication, hard work, loyalty and contribution to the 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 employee stock option plans from time to time for its employees and for the employees of its subsidiary companies. As on the date of this report the prevailing stock options plans of R Systems were as follows:

(i) R Systems International Limited - Year 2004 Employee Stock Option Plan – For the employees of R Systems and its subsidiaries other than ECnet Limited

(ii) R Systems International Limited - Year 2004 Employee Stock Option Plan –ECnet. For the employees of the ECnet Limited, subsidiary company of R Systems.

(iii) 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 is continued as per the scheme of amalgamation approved by the Hon'ble High Court of Delhi & Mumbai. As on the date of this report no stock options are in force under this plan.

The aforementioned employees stock option plans were implemented prior to the IPO of R Systems and in terms of the SEBI (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 R Systems cannot grant any new options under these plans without the previous approval of members in a general meeting. To facilitate the issue of new options R Systems proposes to formulate a new employees' stock option plan. The new plan will be in accordance with the listing regulations and will be in the best interest of the Company and its employees.

Details relating to the options approved, granted, vested, exercised, lapsed, in force etc. under the prevailing employees stock option plans during the year ended December 31, 2006 after making the required adjustments for consolidation of each of the 5 Equity Shares of Rs. 2 each into 1 Equity Share of Rs. 10 each are as follows:

A. R Systems International Ltd. Year 2004 Employees Stock Option Plan

a.	Total number of shares covered under the plan as approved by the shareholders	199,500
b.	Pricing Formula	Prevailing Price once the Company 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 Shares are not listed.
c.	Options granted during the year	NIL
d.	Options vested during the year	40,285
e.	Options exercised during the year	47,225
f.	The total number of shares arising as a result of exercise of option during the year	47,225
g.	Options lapsed during the year	18,430
h.	Variation of terms of options during the year	NIL
i.	Money realized by exercise of options during the year (Rs.)	7,356,258
j.	Total number of options in force at the end of the year	106,960
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 option amounting to 5% or more of option granted during that year.	NIL
	(iii) identified employees who were granted option, 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 option (Rs.)	7.92

No options were granted under the plan during the year.

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

a.	Total number of shares covered under the plan as approved by the shareholders	200,000
b.	Pricing Formula	Prevailing Price once the Company 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 Shares are not listed.
c.	Options granted during the year	NIL
d.	Options vested during the year	15,960
e.	Options exercised during the year	69,959
f.	The total number of shares arising as a result of exercise of option during the year	69,959

g.	Options lapsed during the year	200
h.	Variation of terms of options during the year	NIL
i.	Money realized by exercise of options during the year (Rs.)	7,612,722
j.	Total number of options in force at the end of the year	46,801
k.	Employee wise details of options granted to (during the year)	
	(i) Senior managerial personnel	NIL
	(ii) Any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year.	NIL
	(iii) identified employees who were granted option, 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 option (Rs.)	7.92

No options were granted under the plan during the year.

C. Indus Software Employees Stock Option Plan – Year 2001

a.	Total number of shares covered under the plan as approved by the shareholders	41,364
b.	Pricing Formula	As approved under the "Scheme of Amalgamation" of Indus Software Private Ltd. with the Company by the Hon'ble High Courts of Delhi and Mumbai.
c.	Options granted during the year	NIL
d.	Options vested during the year	NIL
e.	Options exercised during the year	2,380
f.	The total number of shares arising as a result of exercise of option	2,380
g.	Options lapsed during the year	NIL
h.	Variation of terms of options during the year	NIL
i.	Money realised by exercise of options during the year (Rs.)	194,712
j.	Total number of options in force;	NIL
k.	Employee wise details of options granted to (during the year)	
	(i) Senior managerial personnel;	NIL
	(ii) Any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year.	NIL
	(iii) identified employees who were granted option, 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 option (Rs.)	7.92

All the options granted under Indus Software Employees Stock Option Plan – Year 2001 are either vested and exercised or lapsed.

During the year ended December 31, 2006 R Systems has not granted any options under any of the aforementioned plans. For options granted in the previous years R Systems has used the fair value of the stock options for calculating the employees compensation cost.

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

The assumptions used 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 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 amalgmation of Indus Software Private Limited into & R Systems, R Systems had issued 206,822 equity share of Rs. 2/- each pursuant to the swap ratio approved by Hon'ble High Court of Delhi & Mumbai.

***: R Systems International Limited – Year 2004 Employees Stock Option Plan ECnet under which the price was based on Rs. 2/- per share.

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/- each & 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 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, to determine accounting impact, if any, of options granted. In the considered opinion of the valuer, the fair value of these option determined using 'Black Scholes Valuation Model' is "Nil" and thus no accounting thereof is required.

The assumptions used 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/- each & allotment of bonus shares in the ratio of 1 : 1.

10. Liquidity and Borrowings

The consolidated cash balance as on December 31, 2006 was Rs. 5,317.41 lacs as against Rs. 1,152.78 lacs as on December 31, 2005. The cash-in-hand per share was Rs. 39.15 as on December 31, 2006.

The consolidated cash generated from operating activities was Rs.1,270.55 lacs during 2006 as against Rs. 1,079.66 lacs in 2005 which is a growth of 17.68% over the previous year.

During the year, R Systems consolidated operations invested Rs. 2,400.54 lacs in the growth of the business including Rs 1,880.31 lacs in fixed assets mainly for expansion of development centres in India and Rs. 535.31 lacs towards part payment for the acquisition of R Systems Solution, Inc (formerly known as WebConverse, Inc)

During the year R Systems consolidated operations generated cash of Rs. 5356.08 lacs from financing activities. This was primarily attributable to cash generated from the IPO in April 2006 net of repayment of term loan and working capital loans as stated in the offer document.

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

R Systems India has lines of credits from State Bank of India amounting to Rs 1,000 lacs and R Systems, Inc. has lines of credit of US$ 2.2 million (Rs. 970.64 lacs) from California Bank & Trust, USA. The total borrowings outstanding under these lines of credit as of December 31, 2006 was Rs. 154.79 Lacs. R Systems primary bankers in India are State Bank of India, ICICI Bank Limited, HDFC Bank Limited and UTI Bank Limited and in USA, California Bank & Trust

11. Changes in the Capital Structure

The following changes took place in the capital structure during the year under review

(i) Allotment of shares under R Systems International Limited - Year 2004 Employees Stock Option Plan

R Systems allotted 152,224 Equity Shares of Rs. 2/- per shares to eligible employees of the Company & its subsidiaries pursuant to the exercise of stock options granted under R Systems International Limited Year 2004 Employees Stock Option Plan on January 25, 2006.

(ii) Allotment of Shares under R Systems International Limited - Year 2004 Employees Stock Option Plan – ECnet

R Systems allotted 235,797 Equity Shares of Rs. 2/- per shares to eligible employees of its subsidiary company ECnet Limited pursuant to the exercise of stock options granted under R Systems International Limited Year 2004 Employees Stock Option Plan – ECnet on January 25, 2006.

(iii) Allotment of Shares to Intel Capital (Mauritius), Ltd.

Pursuant to the approval granted by the shareholders at the extra ordinary general meeting held on January 25, 2006, R Systems allotted 50,667 equity shares of Rs. 2/- per shares to Intel Capital (Mauritius), Ltd on conversion of the equivalent number of warrants held by them on January 25, 2006.

(iv) Allotment of Shares to GE Strategic Investment India

Pursuant to the approval granted by the shareholders at the extra ordinary general meeting held on January 25, 2006, R Systems allotted 445,000 equity shares of Rs. 2/- per shares to GE Strategic Investment India on conversion of the equivalent number of warrants held by them on January 30, 2006.

(v) Increase in the Authorised Share Capital

Pursuant to the approval granted by the shareholders at the extra ordinary general meeting held on January 25, 2006, the authorised share capital of R Systems was increased from Rs. 10 Crores to Rs. 20 Crores on January 30, 2006.

(vi) Consolidation of Equity Shares

Pursuant to the approval granted by the shareholders at the extra ordinary general meeting held on January 25, 2006, each of the 5 equity shares of Rs. 2/- per shares were consolidated into 1 equity shares of Rs. 10/- per share on January 30, 2006.

(vii) Bonus Issue in the ratio of 1 : 1

Pursuant to the approval granted by the shareholders at the extra ordinary general meeting held on January 25, 2006, R Systems allotted 5,355,255 bonus shares of Rs. 10/- per share in the ratio of 1 : 1 to each of the shareholders whose name appeared in the register of members as on January 30, 2006.

(viii) Allotment of 2,825,006 Equity Shares of Rs. 10/- per share at a premium of Rs. 240 per share in the IPO

In April 2006 R Systems completed its initial public offer ("IPO") of 4,408,361 equity shares of Rs. 10 each for cash at a premium of Rs. 240 per equity share aggregating to Rs. 1102.09 million. The IPO comprised of a fresh issue of 2,825,006 equity shares and an offer for sale of 1,583,355 equity shares by some of the selling shareholders. Upon successful completion of the initial public offer of R Systems and obtaining relevant approvals, R Systems allotted 2,825,006 fresh equity shares of Rs. 10/- each on April 20, 2006.

(ix) Allotment of Shares under R Systems International Limited Year 2004 Employees Stock Option Plan

R Systems allotted 24,390 equity shares of Rs. 10/- per shares to the eligible employees of the Company & its subsidiaries except ECnet Limited pursuant to the exercise of stock options granted under R Systems International Limited Year 2004 Employees Stock Option Plan on December 27, 2006.

(x) Allotment of Shares under R Systems International Limited Year 2004 Employees Stock Option Plan – ECnet

R Systems allotted 22,800 equity shares of Rs. 10/- per shares to the eligible employees of its subsidiary company ECnet Limited pursuant to the exercise of stock options granted under R Systems International Limited Year 2004 Employees Stock Option Plan – ECnet on December 27, 2006.

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

R Systems securities are traded on the following stock exchanges

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

Bombay Stock Exchange Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400 001

The annual listing fee for the year 2006 – 07 was paid at the time of listing with National Stock Exchange of India Limited and Bombay Stock Exchange Limited. The annual Listing fee for the year 2007 – 08 has fallen due on March 31, 2007 and will be paid before April 30, 2007 as prescribed under the listing agreement.

13. Material changes affecting the financial position of the Company

As on the date of this report there were no significant events after the end of the financial year 2006 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 the Board of Directors) Rules, 1988 for the year ended December 31, 2006 is as follows

(a) Conservation of Energy

R Systems operations are not energy intensive. However, significant measures are taken to reduce energy consumption by using energy efficient computers and purchasing energy efficient equipments. 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 consumptions of fluorescent tubes. The air is conditioned with energy efficient compressors for central air conditioning and with split air conditioning for localized areas. We being in a software industry, energy costs constitute a very small portion of our total cost and the financial impact of these measures is not material.

Form A is not applicable for the software industry.

(b) Research & Development

R Systems is predominantly a service provider and therefore has not set up a formal research & development unit. However, R Systems has developed proprietary software products, frame works and methodologies and makes continuous investments in them.

(c) Technology Absorption

R Systems has not imported any technology during the year under review.

(d) 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 & Chennai are registered with the Software Technology Park of India in their respective areas as 100 % Export Oriented Undertakings.

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

Particulars		Financial Year ended (Rs. in lacs)	
		31.12.2006	31.12.2005
(a)	Earning (Accrual Basis)	11,477.12	7,989.37
(b)	Outgo (Accrual Basis)*	1,857.04	1,188.04

*Excluding share issue expenses incurred in foreign currency of Rs. 41.30 in year 2006 and Rs. 38.54 in year 2005.

15. Subsidiary Companies

On August 24, 2006 R Systems acquired all outstanding shares of WebConverse, Inc. (subsequently renamed as R Systems Solutions, Inc.). R Systems Solutions, Inc. is a technical support company with operations in Salt Lake City, USA.

After the aforesaid acquisition R Systems had eleven subsidiary companies as on December 31, 2006. The names & country of incorporation of those subsidiaries are as follows:

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

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

All the aforementioned eleven subsidiary companies are incorporated & based outside India. In addition to providing services to various international clients these subsidiaries also helped to generate revenues for R Systems. The Board of Directors of R Systems regularly review the affairs of the subsidiary companies.

R Systems has been exempted by the Ministry of Company Affairs vide its letter No. 47/354/2006-CL-III dated February 08, 2007 from attaching the balance sheet, profit & loss account, directors' report, auditor's report etc. in respect the subsidiary companies. 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 Company 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 subsidiaries has been disclosed in a brief abstract forming part of the balance sheet.

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

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 as 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, 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures, wherever applicable;

(ii) The directors have selected such accounting policies and applied them consistently and made judgments and estimates that were 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) That the directors have 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) That the directors have prepared the annual accounts for the financial year ended December 31, 2006 on a going concern basis.

18. Auditors

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

The statutory auditors in their audit report for the year ended December 31, 2006 have mentioned that the Company has not obtained any valuations of its shares to determine the additional benefit, if any, being offered to the existing option holders consequent to changes in the existing stock option plans. The Board hereby submits that subsequent to the year-ended December 31, 2005, the Company has converted certain warrants into equity shares and has allotted certain equity shares to employees on exercise of options by them. Subsequently the Company has also consolidated five equity shares of Rs.2 each into one equity share of Rs.10 each and then issued a bonus share for each existing share in the ratio of 1 : 1 by way of utilisation of securities premium account. The aforesaid statement made by the statutory auditors is resultant of the adjustment in exercise pricing formula in accordance with the terms and conditions of the employees stock option plans to give effect to the aforementioned consolidation and subsequent bonus issue. Further in relation to the transactions entered into with the related parties as commented by the auditors, the management is of the view that the transactions with the related parties have been entered into at arms length price.

19. Audit committee

The audit committee of R Systems consists of the following directors Mr. Raj Kumar Gogia as the Chairman and the following four directors as the members, Mr. David Richard Sanchez, Mr. Gurbax Singh Bhasin, Mr. Suresh Paruthi and Mr. O'Neil Nalavadi. The audit committee is constituted in accordance with the provisions of the Companies Act, 1956 & in accordance with the listing agreement with 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. Corporate Governance

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

1.	Name of the Director	Mr. Satinder Singh Rekhi
	Elements of Remuneration Package paid during the year 2006	
	(a) Annual Salary (fixed) in Rs.	12,412,119
	(b) Retention bonus (fixed) in Rs.	4,450,000 (Not yet paid)
	(c) Annual Perquisites (fixed) in Rs.	NIL
	(d) Stock Option Granted	NIL
	(e) Pension	As per the applicable policy for employees
	Service Contract	Five Years
	Notice Period	Thirty Six Months
	Severance Fees	Salary in lieu of the notice period
	Shareholdings in R Systems as on the date of this report	90,600 equity shares of Rs. 10 per share

2.	Name of the Director	Lt. Gen. Baldev Singh (Retd.)
	Elements of Remuneration Package paid during the year 2006	
	(a) Annual Salary (fixed) in Rs.	1,871,504
	(b) Retention bonus (fixed) in Rs.	6,700,000 (Paid Rs. 5,019,375)
	(c) Annual Perquisites (fixed) in Rs.	587,500
	(d) Provident Fund	141,000
	(e) Stock Option Granted	As detailed below *
	(f) Pension	As per the applicable policy for employees
	Service Contract	Two Years
	Notice Period	Three Months
	Severance Fees	Compensation in lieu of the notice period
	Shareholdings in R Systems as on the date of this report	78,808 equity shares of Rs. 10 per share

* 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 Limited - Year 2004 Employee Stock Option Plan. The said options were granted to him at the same exercise price as applicable to other employees covered under the plan. The granted options shall vest over a period of four years from the date of grant & the vested options can be exercised over a period of 10 years from the date of grant. Accordingly 6,925 options are vested on September 01, 2005. The vested options are exercised & 6,925 equity shares of Rs. 2/- each were allotted to him on January 25, 2006. Subsequent to that R Systems had consolidated each of its 5 equity shares of Rs. 2/- each in to 1 equity share of Rs. 10/- each & accordingly the balance 20,775 unvested options becomes 4,155 options of Rs. 10/- each. After second vesting of 1,385 shares he had exercised the vested options & 1,385 shares were issued to him. Balance 2,770 unvested options stands in his name.

3.	Name of the Director	Mr. O'Neil Nalavadi
	Elements of Remuneration Package paid during the year 2006	
	(a) Annual Salary (fixed) in Rs.	6,392,060
	(b) Retention bonus (fixed) in Rs.	2,670,000 (Not yet paid)
	(c) Annual Perquisites (performance linked) in Rs.	1,133,000 #
	(d) Stock Option Granted	NIL
	(e) Pension	As per the applicable policy for employees
	Service Contract	Three Years
	Notice Period	Twelve Months

	Severance Fees	Compensation in lieu of the notice period
	Shareholdings in R Systems as on the date of this report	240,000 equity shares of Rs. 10 per share

Mr. O'Neil Nalavadi is entitled to a bonus for every acquisition completed by the Company or its subsidiary equal to 1% of the revenues of the target acquired subject to a maximum of $25,000 (US$ Twenty Five Thousand) per transaction accordingly he was paid Rs. 1,133,000 (US$ 25,000 @ Rs. 45.32) for acquisition of WebConverse, Inc. (Renamed as R Systems Solutions, Inc.)

4.	Name of the Director	Mr. Raj Swaminathan*
	Elements of Remuneration Package paid during the year 2006	
	(a) Salary (fixed) in Rs.	776,900
	(b) Incentive (fixed) in Rs.	306,107
	(c) Allowance & Perquisites (fixed) in Rs.	217,120
	(d) Provident Fund	2,392
	(e) Stock Option Granted	NIL
	(f) Pension	As per the applicable policy for employees
	Service Contract	Three Years
	Notice Period	Two Months
	Severance Fees	Salary in lieu of the notice period
	Shareholdings in R Systems as on the date of this report	NIL

* Mr. Raj Swaminathan is appointed as additional director w.e.f September 29, 2006. The aforesaid salary details are in relation to his tenure as the director of R Systems.

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

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

Details of the sitting fee paid to the non-executive directors during the year ended December 31, 2006 is as follows

S. No	Name of the Director	Sitting fee paid (Rs.)
1.	Mr. Raj Kumar Gogia	75,000
2.	Mr. David Richard Sanchez	15,000
3.	Mr. Gurbax Singh Bhasin	15,000
4.	Mr. Suresh Paruthi	45,000
	Total	**150,000**

21. 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.

22. Customer and employee relations

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

R Systems is inspired by its customers and our 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.

23. Management discussion and analysis report

In terms of Clause 49 of the listing agreement entered in to with the stock exchanges, management discussion and analysis report forms annexure to this report elsewhere.

24. Acknowledgment

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

On behalf of the Board

For R Systems International Limited

Satinder Singh Rekhi
Chairman & Managing Director

Place : Singapore
Date : April 05, 2007

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, 2006
Employee for full financial year.

Sl. No.	Name	Designation	Qualification	Age (Years)	Date of Joining	Experience (Years)	Gross remuneration (Rs.)	Previous employment and designation
1.	Satinder Singh Rekhi	Chairman & Managing Director	Bachelor of Technology from IIT; MBA from California State University, Sacramento; Senior management programs from University of Berkeley and Harvard Business School	56	January 1, 2006*	20	13,005,452	Digital Information Systems Corporation Sr. Management personnel
2.	O'Neil Nalavadi	Director Finance & CFO	Chartered Accountant with Honor Rolls; Bachelors of Commerce and Economics degree with First Class Honors from the University of Bombay	47	January 1, 2006*	20	8,415,060	UBICS, Inc Sr. VP, CFO and Director
3.	Lt. Gen Baldev Singh (Retd.)	President & Senior Executive Director	Masters in Military Sciences Madras University.	66	Sep. 1, 1997	41	5,438,893	Indian Army, Ministry of Defence Lt. General
4.	Avirag Jain	Executive Vice President-IT	BSc, MBA specialization in Finance and International Marketing	41	October 1, 1997	19	2,465,337	Modi Olivitti Ltd. Project Manager
5.	Shankar Seetharaman	Vice President - Finance	B. Com, Chartered Accountant	45	May 2, 2000	21	2,515,154	Skycell Communications Ltd.-Chennai GM- Revenue Assurance & Collections
6.	Mukesh Bindal	Vice President – IT	BE in Computer Science	41	October 18, 2002	18	2,539,615	Newtron IT Labs Vice President
7.	Ashok Bhatia	Sales Director- Govt. Solutions	BE, PGDM from IIM Calcutta	40	January 1, 2006*	16	10,782,068	ACT Inc.,Pittsburgh, PA Vice President - Marketing
8.	Rajiv Donde	Client Services-Director	Bachelors and a Masters degree in Economics, MBA with major in Finance and MIS	52	January 1, 2006*	15	4,955,203	VantageMed Corp CIO, Corporate HIPAA Oficer & Executive Team Manager.
9.	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	45	January 1, 2006*	15	3,399,064	HCL Delux Pvt. Ltd. Head- EPS Line of Business.
10.	Debraj Ganguly	Market Research Analyst	MBA – IIM Calcutta, B Tech – IIT Kharagpur,	34	February 3, 2005	11	3,974,459	iHealthcare Services India Ltd. Vice President – Business Development,

Sl. No.	Name	Designation	Qualification	Age (Years)	Date of Joining	Experience (Years)	Gross remuneration (Rs.)	Previous employment and designation
11.	Supriyo Sanyal	Market Research Analyst	IIT, Kharagpur	41	August 8, 2005	19	4,344,623	ICICI OneSource USA Vice President Marketing & Business Development
12.	Chaitanya Kumta	Market Research Analyst	B. Pharm, SCS College, Gulbarga	44	April 19, 2001	21	3,007,084	Xerox India Limited Sales Manager - Channels

Employed for part of the year

Sl. No.	Name	Designation	Qualification	Age (Years)	Date of joining	Experience (Years)	Gross remuneration (Rs.)	Previous employment and designation
1.	Raj Swaminathan	Director & Chief Operating Officer	MBA - XLRI	47	May 1, 2006	23	3,357,665	GE - Capital; Vice-President (Technology)
2.	Srikanth Itikala	Sales Director	BA(International Business), Bachelors in Chemical Engg.	37	July 13, 2005	14	3,006,721	Satyam Computer Services Limited, Hyderabad Engagement Manager
3.	Mr. Barath Doraiswamy	Vice President & Head, Chennai operations (Indus Lending Solution Business)	BE, PGDM from IIM Calcutta	44	October 17, 2005	17	1,540,216	I Flex Solutions Vice President Systems Integration

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

Name	Date of Joining
Satinder Singh Rekhi	April 1, 1993
O'Neil Nalavadi	January 17, 2000
Ashok Bhatia	December 11, 2000
Rajiv Donde	March 31, 2005
Thiru Dorai	May 17, 2000

Note :

1. The remuneration includes basic salary, allowances and taxable value of perquisites.
2. Mr. Satinder Singh Rekhi and Lt. Gen. Baldev Singh (Retd.) 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, 2006.
4. Nature of employment is contractual in all the above cases.

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

Satinder Singh Rekhi [Managing Director]	O'Neil Nalavadi [Director Finance & CFO]	Lt. Gen. Baldev Singh (Retd) [Senior Executive Director]	Nand Sardana [Vice President (Finance) & Company Secretary]
Place : EDH, CA, USA Date : March 3, 2007	Place : EDH, CA, USA Date : March 3, 2007	Place : NOIDA Date : March 3, 2007	Place : NOIDA Date : March 3, 2007

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 will use its best endeavor to constantly comply with these aspects in letter and spirit in addition to the statutory compliance 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 R Systems comprised of the following eight directors, the Executive Chairman, three executive directors & four non-executive independent directors. Independent directors are not less than 50% of the total strength on the board at all the times during the year. None of the directors of R Systems is a director or a committee member or a chairperson of any other company in India. The names and categories of the directors on the Board and their attendance at board meetings held during the year are as follows.

Name of Director	Category of Director	Designation	No. of Board Meetings held during the year	No. of Board Meetings attended	Attendance at the last Annual General Meeting	No. of Directorship in other companies outside India
Mr. Satinder Singh Rekhi	Promoter & Executive Director	Chairman & Managing Director	15	13 + 2*	Yes	7
Lt. Gen. Baldev Singh (Retd.)	Executive Director	Senior Executive Director	15	13 + 1*	Yes	Nil
Mr. O'Neil Nalavadi @	Executive Director	Director Finance & CFO	15	4 + 8*+ 2**	No	Nil
Mr. Raj Swaminathan #	Executive Director	Director & Chief Operating Officer	3 # #	1 + 2*	N.A. Appointed after AGM	Nil
Mr. Raj Kumar Gogia	Non Executive Independent Director	Director	15	13 + 1*	Yes	Nil
Mr. David Richard Sanchez	Non Executive Independent Director	Director	15	3 + 11*	No	2
Mr. Gurbax Singh Bhasin	Non Executive Independent Director	Director	15	3 + 11*	No	5
Mr. Suresh Paruthi #	Non Executive Independent Director	Director	3 # #	3	N.A. Appointed after AGM	Nil

@ Mr. Avirag Jain was an alternate director to Mr. O'Neil Nalavadi from January 18, 2006 to January 31, 2006 & from February 15, 2006 to March 12, 2006 during the year.
\# Appointed as additional director w.e.f September 29, 2006.
\# # Details provided relates to the tenure of the respective directors.
* Attendance by teleconference
** Attended by alternate director
Independent directors has the meaning as defined under clause 49 of the Listing Agreement

Details with respect to the directors whose appointment or re-appointment is proposed at the ensuing annual general meeting are as follows :

1. **Mr. Raj Kumar Gogia (Non Executive Independent Director)**

Mr. Raj Kumar Gogia completed his B.Tech Honors. (First Class First) in Electrical Engineering from IIT, Kharagpur in 1961. He has a rich and vast experience of 44 years serving various Indian, multi national and foreign concerns. He joined R Systems as an additional director on July 09, 2002 thereafter he is continuingly providing his guidance and advice on the Board of R Systems International Limited.

As on the date of this report

* Mr. Raj Kumar Gogia is not a director on the board of any other Company.
* No Stock options have been granted to him under the prevailing stock option plans of the Company.
* He doesn't hold any shares in R Systems

2. **Lt. Gen. Baldev Singh (Retd.) (Senior Executive Director)**

Lt. Gen. Baldev Singh (Retd.) has more than 40 years of international 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 Berkley, in Strategic Account Management and Marketing. Lt. Gen. Baldev Singh (Retd.) was earlier the Managing Director of the Company and has been re-designated as a Senior Executive Director of R Systems with effect from January 1, 2006. He is related to Mr. Satinder Singh Rekhi.

As on the date of this report

* Lt. Gen. Baldev Singh (Retd.) is not a director on the board of any other Company.
* He was awarded with 27,700 stock options of Rs. 2/- per share on September 01, 2004 under R Systems International Limited - Year 2004 Employee Stock Option Plan. The said options were granted to him at the same exercise price as applicable to other employees covered under the plan. The granted options shall vest over a period of four years from the date of grant & the vested options can be exercised over a period of 10 years from the date of grant. Accordingly 6,925 options are vested on September 01, 2005. The vested options are exercised & 6,925 equity shares of Rs. 2/- each were allotted to him on January 25, 2006. Subsequent to that R Systems had consolidation each of its 5 equity shares of Rs. 2/- each into 1 equity share of Rs. 10/- each & accordingly the balance 20,775 unvested options becomes 4,155 options of Rs. 10/- each. After second vesting of 1,385 shares he had exercised the vested options & 1,385 shares were issued to him. Balance 2,770 unvested options stands in his name.
* He hold 78,808 equity shares of Rs. 10/- each in R Systems

3. **Mr. Suresh Paruthi (Non Executive Independent Director)**

Mr. Suresh 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. Mr. Paruthi has wide experience of working with various multinationals, including Siemens Limited, Bhartia Cutler Hammer Ltd & Omron Asia Pacific Pte.

As on the date of this report

* Mr. Suresh Paruthi is not a director on the board of any other Company.
* No Stock options have been granted to him under the prevailing stock option plans of the Company.
* He doesn't hold any shares in R Systems

4. **Mr. Raj Swaminathan (Whole Time Director)**

Mr. Raj Swaminathan has over 22 years experience in IT & Financial Services Industry. He has done his MBA from Xavier Labour Relations Institute, Jamshedpur after his Bachelors of Engineering from Bangalore University. Prior to joining R Systems, Raj has 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.

As on the date of this report

* Mr. Raj Swaminathan is not a director on the board of any other Company.
* No Stock options have been granted to him under the prevailing stock option plans of the Company.
* He doesn't hold any shares in R Systems

(ii) As per the Listing Agreement, the board of directors 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 2006, the Board of Directors of R Systems met fifteen times on the following dates.

S. No.	Date of the Meeting
1.	January 18, 2006
2.	January 25, 2006
3.	January 30, 2006
4.	February 1, 2006
5.	February 15, 2006
6.	March 10, 2006

S. No.	Date of the Meeting
7.	March 14, 2006
8.	April 3, 2006
9.	April 20, 2006
10.	June 26, 2006
11.	July 28, 2006
12.	August 21, 2006
13.	September 29, 2006
14.	October 28, 2006
15.	December 27, 2006

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

R Systems 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 of conduct from all its board members and senior management personnel for the current year. 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 Committee 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 members of the Committee.

The terms of the 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 and has reviewed the mandatory applicable informations.

Composition Of The Audit Committee As On December 31, 2006, Its Meetings & Attendance During The Year

Composition of the Audit Committee	Category of Director	Chairman/ Member	Total meetings during the year	Attendance at the meetings
Mr. Raj Kumar Gogia	Non Executive Independent Director	Chairman	5	4 + 1*
Mr. David Richard Sanchez	Non Executive Independent Director	Member	5	2 + 3*
Mr. Gurbax Singh Bhasin#	Non Executive Independent Director	Member	2 @	1 + 1*
Mr. O'Neil Nalavadi	Director Finance & CFO	Member	5	2 + 2* + 1**
Mr. Suresh Paruthi # #	Non Executive Independent Director	Member	1 @	1

introduced as the member of the Audit Committee w.e.f July 20, 2006

appointed as director & introduced as the member of the Audit Committee w.e.f September 29, 2006

@ Details provided relates to the tenure of the respective directors.

*Attendance by teleconference

**Attended by alternate director

R Systems Audit Committee invites such of the executives, as it considers appropriate to be present at its meetings. The Chief Financial Officer and Director Finance is a member of the Audit Committee. The statutory auditors and internal auditors are invited to these meetings. The R Systems Company Secretary 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 statement are correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
    a. Matters required to be included in the Directors' Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956
    b. Changes, if any, in accounting policies and practices and reasons for the same
    c. Major accounting entries involving estimates based on the exercise of 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, performance of statutory and internal auditors, adequacy of the internal control systems.
7. 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.
8. Discussion with internal auditors any significant findings and follow up there on.
9. 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.
10. 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.
11. 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.
12. To review the functioning of the whistle blower mechanism.
13. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

4. Remuneration Committee

Brief Description & Terms Of Reference

The Remuneration Committee presently consists of only non executive independent directors. Under the terms of reference of the Committee, it evaluates and finalises among other things, compensation and benefits of R Systems Executive Directors. The Committee recommends 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, remuneration drawn by the proposed appointee and the compensation package of the proposed appointee with a view to provide a package which is appropriate for the responsibilities involved.

Composition Of The Remuneration Committee As On December 31, 2006, Its Meetings & 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	5	3 + 2*
Mr. David Richard Sanchez	Non Executive Independent Director	Member	5	2 + 2*
Mr. Gurbax Singh Bhasin	Non Executive Independent Director	Member	5	2 + 3*
Mr. Suresh Paruthi #	Non Executive Independent Director	Member	1 @	1

appointed as director & introduced as the member of the Remuneration Committee w.e.f September 29, 2006
@ Details provided relates to the tenure of the respective directors.
*Attendance by teleconference

Note: Mr. O'Neil Nalavadi discontinued from the membership of the Remuneration Committee w.e.f January 25, 2006 & Mr. Satinder Singh Rekhi & Lt. Gen. Baldev Singh (Retd.) discontinued from the membership of the Remuneration Committee w.e.f February 16, 2006

Remuneration Policy

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

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

Details Of Remuneration Paid To The Directors During The Year Ended December 31, 2006

(In Rs. Lacs)

Particulars	Mr. Satinder Singh Rekhi	Lt. Gen. Baldev Singh (Retd.)	Mr. O'Neil Nalavadi	Mr. Raj Swaminathan *	Mr. Avirag Jain #	Total
Salary	124.12	18.71	75.25	7.77	1.45	227.30
Incentive	5.93	28.39	8.90	3.06	-	46.28
Provident Fund	-	1.41	-	0.02	0.11	1.54
Allowances & Perks	-	5.88	-	2.18	0.45	8.51
Total	**130.05**	**54.39**	**84.15**	**13.03**	**2.01**	**283.63**

* Mr. Raj Swaminathan is appointed as additional director w.e.f September 29, 2006. The aforesaid salary details are in relation to his tenure as the director of R Systems

Mr. Avirag Jain was an alternate director to Mr. O'Neil Nalavadi from January 18, 2006 to January 31, 2006 & from February 15, 2006 to March 12, 2006 during the year. The aforesaid salary details are in relation to his tenure as the alternate director of R Systems.

The aforementioned remuneration has been approved by the Remuneration Committee, the Board of Directors, the shareholders in the general meeting, (except for Mr. Raj Swaminathan which is placed before the shareholders for their approval in the ensuing annual general meeting) and by the Central Government, wherever applicable, as required under the provisions of the Companies Act, 1956

Employees Stock Options

During the year ended December 31, 2006, no stock options were granted to any of the directors or senior management personnel.

Sitting Fee Paid To The Non-Executive Directors

The sitting fee paid to the non-executive directors during the year ended December 31, 2006 is as follows

S.No	Name of the Director	Sitting fee paid (Rs.)
1.	Mr. Raj Kumar Gogia	75,000
2.	Mr. David Richard Sanchez	15,000
3.	Mr. Gurbax Singh Bhasin	15,000
4.	Mr. Suresh Paruthi	45,000
	Total	**150,000**

5. Compensation Committee

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

Composition Of The Compensation Committee As On December 31, 2006, Its Meetings & Attendance During The Year

Composition of the Compensation Committee	Category of Director	Total meetings during the year	Attendance at the meetings
Mr. Raj Kumar Gogia	Non Executive Independent Director	2	2
Mr. David Richard Sanchez	Non Executive Independent Director	2	Attended both the meetings through teleconference
Lt. Gen. Baldev Singh (Retd.)	Senior Executive Director	2	2

6. Shareholders/ Investors Grievance Committee

The Shareholders/ Investors Grievance Committee of R Systems was constituted on January 18, 2006 with the following four directors as its members

1.	Mr. Raj Kumar Gogia	Chairman (Non Executive Independent Director)
2.	Mr. Satinder Singh Rekhi	Managing Director
3.	Lt. Gen. Baldev Singh (Retd.)	Senior Executive Director
4.	Mr. O'Neil Nalavadi	Director Finance

On September 29, 2006 the Shareholders/ Investors Grievance Committee was reconstituted by the Board of Directors by merger of the Share Transfer Committee with the Shareholders/Investors Grievance Committee. Following the reconstitution, the Shareholders/ Investors Grievance Committee consists of four directors with a non-executive independent director as the Chairman and three other directors as the members of the committee as listed below

1.	Mr. Raj Kumar Gogia	Chairman (Non Executive Independent Director)
2.	Mr. Suresh Paruthi	Non Executive Independent Director
3.	Mr. Satinder Singh Rekhi	Managing Director
4.	Lt. Gen. Baldev Singh (Retd.)	Senior Executive Director

Further all the powers available with the Share Transfer Committee were delegated to the Shareholders/Investors Grievance Committee and it is empowered to discuss, consider and approve all matters relating to transfer, transmission, rematerialisation and dematerialization of shares, resolution of shareholders grievances and to consider other shareholders and investors related matters.

(i)	Name and designation of compliance officer	Mr. Nand Sardana Company Secretary & Compliance Officer
(ii)	Number of shareholders' complaints received so far	275
(iii)	Number of complaints not solved 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 Board conducts the Shareholders/ Investors Grievance Committee meetings more frequently which is generally once in a week.

General Body Meetings

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

1. The tenth AGM for the financial year 2003 was held on Friday June 25, 2004 at 10.00 A.M at the Registered Office of the Company at B – 104A, Greater Kailash – I, New Delhi – 110 048. Following special resolutions were passed at the said meeting

* Approval for implementation of employees stock option plans

2. The eleventh AGM for the financial year 2004 was held on Friday June 24, 2005 at 11.30 A.M at the Registered Office of the Company at B – 104A, Greater Kailash – I, New Delhi – 110 048. Following special resolutions were passed at the said meeting

* Approval for alteration in the Articles of Association of the Company.

* Approval for reappointment and remuneration of Lt. Gen. Baldev Singh (Retd.) as the Managing Director of the Company.

* Approval for the appointment and remuneration of Mr. Avirag Jain as alternate director to Mr. O'Neil Nalavadi.

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

* Approval for the appointment of Mr. Avirag Jain as the alternate director to Mr. O'Neil Nalavadi.

* Approval for the appointment and remuneration of Mr. Satinder Singh Rekhi as Chairman & Managing Director of the Company.

* Approval for the appointment and remuneration of Mr. O'Neil Nalavadi as Director Finance of the Company.

* Approval for the appointment and remuneration of Lt. Gen. Baldev Singh (Retd.) as President & Senior Executive Director of the Company.

II. Details Of The Last Three Extra Ordinary General Meetings ("EGM")

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

* Approval for increase in annual bonus limits of Lt. Gen. Baldev Singh (Retd.) as the Managing Director of the Company

* Approval for the appointment of Mr. Satinder Singh Rekhi as the Chairman and Managing Director of the Company

* Approval for the appointment of Mr. O'Neil Nalavadi as the Director Finance of the Company

* Approval for the appointment of Lt. Gen. Baldev Singh (Retd.) as President and Senior Executive Director of the Company

* Approval for the appointment of Mr. Avirag Jain as alternate director to Mr. O'Neil Nalavadi

* Approval for the conversion of warrants held by of Intel and GE into equity shares of the Company

* Approval for increase in the authorised share capital from Rs. 10 Crores to Rs. 20 Crores & thereafter consolidation of 5 equity shares of Rs. 2/- each into 1 equity share of Rs. 10/- each of R Systems.

* Approval for issue of bonus shares in the ratio of 1:1

* Approval for alteration in the Articles of Association of the Company.

* Approval for making an initial public offer by the Company.

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

· Approval for reduction in the security premium account

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

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

IV. No special resolution is proposed to be conducted through postal ballot.

V. A procedure for postal ballot has been laid down.

8. Disclosures

Related Party Transactions

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

Details on materially significant related party transactions are shown in note no. 4 of Schedule 19 in the standalone financial results and Schedule 20 in the consolidated financial results for the financial year ended December 31, 2006.

Statutory Compliance, Penalties & 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 by the whistle blower to the Chairman of the Audit Committee. We affirm that during the financial year ended December 31, 2006, no employee has been denied access to the Audit Committee.

Compliance With Mandatory Requirements And Adoption Of Non Mandatory Requirements Of Clause 49 Of The Listing Agreement

Clause 49 of the Listing Agreement mandates to obtain a certificate either from the auditors or practicing company secretaries regarding compliance of the conditions of corporate governance as stipulated in part VII of Clause 49 and annex the certificate with the Directors' Report, which is sent annually to all shareholders. The Company has complied with the mandatory requirements of the Clause 49 of the Listing Agreement including CEO/CFO certification. As required under Clause 49, a certificate signed by CEO & CFO of the Company has been placed before the Board of Directors 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 Company. Accordingly, the adoption of non mandatory requirements is given below:-

Remuneration Committee

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

Whistle Blower Policy

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

Risk Management Policy

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

Means Of Communication

Quarterly Results

a) The unaudited quarterly, half-yearly and full year audited results are published in The Financial Express and Jansatta.

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 the institutional investors, or to the industry analysts is also put on the website of the Company.

General Shareholder Information

i) Annual General Meeting

Date & Time	:	May 01, 2007, at 09.30 A.M
Venue	:	Air Force Auditorium, Subroto Park, New Delhi – 110 010

ii) Financial Year

R Systems follows January 01 to December 31 as its financial year. The results for every quarter are declared since listing in the month following the quarter.

iii) Date Of Book Closure

April 24, 2007 to May 01, 2007 (both days inclusive)

iv) Dividend Payment Date

Within 30 days from the date of Annual General Meeting

v) Listing On Stock Exchanges

At present the equity shares of the Company are listed on the following Stock Exchanges

Name of Stock Exchanges	Stock / Scrip Code	ISIN With NSDL & CDSL
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 2006 – 07 was paid at the time of listing with NSE & BSE. The annual listing fee for the year 2007 – 08 has fallen due on March 31, 2007 and will be paid before April 30, 2007 as prescribed under the provisions of the listing agreement.

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

The securities of R Systems got listed with National Stock Exchange of India Limited ("NSE") & Bombay Stock Exchange Limited ("BSE") w.e.f April 26, 2006. The monthly high and low quotations of shares traded on NSE & BSE during each month since listing in last financial year in comparison with BSE indices and Nifty indices are as follows:

Month	NSE				BSE			
	Price		Index		Price		Index	
	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)
April	350.00	197.05	3,598.95	3,290.35	325.00	211.10	12,102.00	11,008.43
May	238.60	114.35	3,774.15	2,896.40	240.00	135.10	12,671.11	9,826.91
June	182.40	116.10	3,181.95	2,595.65	182.05	112.05	10,626.84	8,799.01
July	162.00	108.15	3,208.85	2,878.25	163.00	107.65	10,940.45	9,875.35
August	190.95	146.20	3,452.30	3,113.60	190.50	146.20	11,794.43	10,645.99
September	189.45	149.05	3,603.70	3,328.45	190.05	160.10	12,485.17	11,444.18
October	177.50	159.20	3,782.85	3,508.65	178.85	158.60	13,075.85	12,178.83
November	213.70	155.05	3,976.80	3,737.00	213.80	156.00	13,799.08	12,937.30
December	221.00	150.25	4,046.85	3,657.65	221.50	158.10	14,035.30	12,801.65

vii) Registrar And Share Transfer Agent

M/s Intime Spectrum Registry Limited
A-31, 3rd Floor, Phase-1
Naraina Industrial Area,
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 agents of the Company - M/s Intime Spectrum Registry Limited. They attend to share transfer formalities at least once in a week and forward the same to us for the Shareholders/ Investors Grievance Committee approval. In order to expedite the process for approval of share transfers in physical mode the committee meetings are generally held once a week.

Shares held in the dematerialized form are electronically traded in the depository and the registrar and share transfer agents of R Systems periodically receive from the depository the beneficiary holdings so as to enable them to update their 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 depository participants under advice to the shareholders.

ix) Distribution Of Shareholdings As On December 31, 2006

Shareholding of nominal value of (Rs.)	No. of Shareholders	% to Total Nos	Share Capital Amount (Rs.)	% to Total Amount
1 - 5,000	24,861	97.580	16,733,100	12.320
5,001 - 10,000	302	1.185	2,338,220	1.721
10,001 - 20,000	141	0.553	2,096,720	1.544
20,001 - 30,000	40	0.157	963,480	0.709
30,001 - 40,000	24	0.094	875,780	0.645
40,001 - 50,000	17	0.067	776,200	0.571
50,001 - 1,00,000	33	0.129	2,436,570	1.794
Above 1,00,000	60	0.235	109,606,990	80.696
TOTAL	**25,478**	**100.000**	**135,827,060**	**100.000**

x) Shareholding By Category As On December 31, 2006

Category	Category of Shareholder	No. of shares	Percentage
(A)	**Promoters & Promoter Group**		
1	Indian	1,972,678	14.52
2	Foreign	3,498,849	25.76
	Sub Total (A)	**5,471,527**	**40.28**
(B)	**Public shareholding**		
1	**Institutions**		
(a)	Mutual Funds/ UTI	1,200,000	8.83
(b)	Financial Institutions / Banks	15,310	0.11
(c)	Foreign Institutional Investors	115,935	0.85
(d)	Foreign Venture Capital Investors	20,266	0.15
	Sub Total (B) (1)	**1,351,511**	**9.95**
2	**Non-institutions**		
(a)	Bodies Corporate	2,559,349	18.84
(b)	Individual shareholders holding nominal share capital up to Rs 1 lakh	2,193,706	16.15
(c)	Individual shareholders holding nominal share capital in excess of Rs. 1 lakh.	1,931,406	14.22
(d)	Any Other **(Trust)**	75,207	0.55
	Sub-Total (B) (2)	**6,759,668**	**49.77**
	Grand Total	**13,582,706**	**100.00**

xi) Dematerialization Of Shares And Liquidity

About 48.59% of the shares are in dematerialized form as on December 31, 2006. The equity shares of the Company are traded on the National Stock Exchange of India Limited and the Bombay Stock Exchange Limited.

xii) 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, 2006.

xiii) Development Centers

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

2. Pune Offices

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

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

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

Development centers at the offices of our subsidiary companies

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

5. R Systems Solutions, Inc.
2144 Highland Drive, Suite 200
Salt Lake City, UT 84106

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

Other Offices of R Systems and its subsidiary companies

7. U.K. Branch Office
75, Westow hill
London, SE 19 1 TX, UK

8. Indus Software, Inc.
5000, Windplay Drive, Suite 5
EL Dorado Hills, CA 95762, USA

9. R Systems Solutions, Inc.
155 Bovet Road, Suite 300,
San Mateo, CA 94402, USA

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

11. ECnet (M) SDN. BHD
No. 1-2B, Block C, Jalan PJU 1/3B,
SunwayMas Commercial Centre,
47301 Petaling Jaya,
Selangor Darul Ehsan. Malaysia

12. ECnet Systems (Thailand) Co. Ltd.
2/3 Moo 14, Bangna Tower - A,
17th Floor, Room No. 1708 Bangna-Trad K.M.
6.5 Bangkaew, Bangplee, Samutprakarn – 10540, Thailand

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

14. ECnet, Inc.
Corporation Trust Center 1209 Orange Street,
Wilmington, New Castle, DE 19801, USA

15. ECnet (Hong Kong) Limited
Room 608, 6/F Hang Seng Building, 77 Des Voeux
Road Central, Hong Kong

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

xiv) 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 & Share Transfer Agent
M/s Intime Spectrum Registry Limited
A-31, 3rd Floor, Phase - 1
Naraina Industrial Area,
New Delhi - 110 028
Tele : 011 – 41410592 – 94
Fax : 011 – 41410591

For general correspondence:

R Systems International Limited
Corporate Office
C – 40, Sector – 59,
Noida (U.P) - 201 307
E-mail : investors@india.rsystems.com
Tele : 0120 – 4303500
Fax : 0120 – 2587123

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, 2006.

Place : EDH, CA, USA
Date : March 03, 2007

Satinder Singh Rekhi
(Chief Executive Officer)

CERTIFICATE ON CORPORATE GOVERNANCE COMPLIANCE

To

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

1. We have reviewed the implementation of Corporate Governance procedures by **M/s R Systems International Limited** during the period ended December 31, 2006, with the relevant records and documents maintained by the Company, furnished to us for our review and the report on Corporate Governance as approved by the Board of Directors.

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

3. 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.

4. In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has in all material respect complied with the conditions of Corporate Governance as stipulated in Clause 49 (as amended) of the listing agreement with the stock exchange and that no investor grievance is pending for a period exceeding 21 days against the Company as per the records maintained by the Shareholders / Investors Grievance Committee.

For Sameet Gambhir & Associates
Company Secretaries

(Sameet Gambhir)
M.No.: 4658, C.P No.:5072

Place : New Delhi
Date : 01.03.2007

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

We, Satinder Singh Rekhi, Managing Director & Chief Executive Officer and O'Neil Nalavadi, Director Finance & 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, 2006 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 been 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) all 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.

Satinder Singh Rekhi
(Chief Executive Officer)

O'Neil Nalavadi
(Chief Financial Officer)

Place : EDH, CA, USA
Date : March 03, 2007

Management's Discussion and Analysis On the Consolidated Financial Performance and Position of R Systems International Ltd. ("R Systems" or the "Company") For the Calendar Year 2006.

Investors are cautioned that this discussion contains forward-looking statements that involve risks and uncertainties. When used in this discussion, the words "anticipate", "believe", "estimate", "intend", "will" and "expect" and other similar expressions as they relate to the Company or its business are intended to identify such forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether because of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of their dates. The following discussion and analysis should be read in conjunction with the Company's financial statements included in this report and the notes thereto. Investors are also requested to note that this discussion is based on the consolidated results of the Company. Investors may also note that this analysis compares the performance of the current year with that of the previous year only, which might be regrouped / reclassified.

Overview

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

Industry Structure and Developments

Worldwide Information Technology ("IT") Services Industry

In the global market for technology services, offshore outsourcing has been a key driver of growth. Availability of reliable telecom and data networks across the world has made remote delivery of software services possible. Increasingly, technology services are delivered from locations that are best suited in terms of cost and quality. According to the NASSCOM-McKinsey Report 2005, the addressable market for global off shoring exceeds US$300 billion. Of this, the addressable global market for offshore IT Services is estimated to be approximately US$150 billion to US$180 billion whereas the addressable market for global business process outsourcing ("BPO") industry is estimated to be approximately US$120 billion to US$150 billion. The global offshore IT industry, including IT Services and BPO, grew from US$8.5 billion in 2001 to US$18.4 billion in 2005, increasing at about 20% per annum. By 2010, it is estimated that approximately US$55.0 billion will be offshore globally in both IT Services and BPO industries respectively. Engineering and R&D and software products are some of the areas that are expected to grow substantially in the near future. As per NASSCOM Strategic Review 2006, the total value of product engineering services outsourced globally is currently estimated at over US$27 billion and is projected to nearly double over the next four to five years.

Indian IT industry

IT services industry size: According to NASSCOM, the Indian IT software services industry (including IT Services, engineering and R&D services, and BPO) grew from approximately US$16.7 billion in fiscal year 2004 to an estimated US$29.5 billion in fiscal year 2006, registering a CAGR of 33.0%. Of this, exports during 2006 contributed US$23.4 billion (or approximately 80%) while domestic accounted for US$6.0 billion (NASSCOM-McKinsey Report 2005 estimated that India had a 65.0% share of the global offshore IT Services industry and a 46.0% share of the global offshore BPO industry in fiscal year 2005, indicating India's strong position as a destination of choice for offshoring IT Services. Further, the NASSCOM-McKinsey Report 2005 suggests that with the right initiatives, the export revenues are likely to reach US$60.0 billion in 2010, implying a CAGR of approximately 27.0% over the next four years.

Exports market: According to NASSCOM, the export revenues for the Indian IT services grew from approximately US$7.3 billion in fiscal year 2004 to an estimated US$13.2 billion in fiscal year 2006, registering a CAGR of approximately 35.0%. During the same period, the total value of engineering and R&D Services exported from India is estimated to have grown from US$2.5 billion in fiscal year 2004 to an estimated US$3.9 billion in fiscal year 2006, registering a CAGR of approximately 25.0%.

Domestic market: According to NASSCOM, the domestic revenues for the Indian IT services grew from approximately US$3.5 billion in fiscal year 2004 to an estimated US$5.2 billion in fiscal year 2006, registering a CAGR of approximately 22.0%. According to DATAQUEST, the industry segments that lead in domestic IT spending include banking and financial services ("BFSI"), IT/Telecommunications, manufacturing and government.

Geographical distribution of exports: According to DATAQUEST, the United States continues to be the largest market for the Indian IT services industry, accounting for approximately 65.0% of the revenues in fiscal year 2006. Europe accounted for approximately 24.0%, while Japan accounted for approximately 3.0% of Indian IT services revenues in fiscal year 2006. Singapore, Australia and the Middle East are the other significant markets for the Indian IT services industry.

Opportunities and Threats

R Systems is one of the leading providers of outsourced and offshore product development services. These are offered as iPLM services supported by our proprietary **pSuite Framework.** R Systems focus is on the special needs of organizations that build scaleable, configurable, secure products for businesses, consumers and Internet services. R Systems sees strong opportunities in its key vertical segments - banking and finance; high technology; telecommunication and Internet services; manufacturing and public sector.

Our customers include Fortune 1000 companies as well as rapidly growing mid-market companies whose products and services serve a wide range of businesses and consumers. Our top three clients on run rate basis are well known and respected global corporations who hold leadership positions in their relevant markets.

We are a global company with six delivery centres in three countries- India, USA and Singapore and above 1,600 technical associates. Our services are seamlessly delivered from these centres using a mix of on-site and offshore based services. Using the service mix, our proprietary **pSuite Framework** and competency, we optimize the cost structure of our clients while simultaneously improving the speed to market for new software products and services.

R Systems business is subject to risks and uncertainties which we attempt to manage proactively through risk management. At R Systems risk management is a dynamic process which should constantly be able to identify all the emerging risks and propose solutions to manage these. This is explained in detail in Risk Management Report.

Segment-wise Performance

Detailed information about segment wise performance has been given in Consolidated Financial Statements. See Consolidated Financial Statements – Schedule 20 : Notes to accounts.

Outlook

R Systems' consolidated revenues have grown at 29.25 % in year 2006 to surpass the milestone of Rs. 200 crores. With our comprehensive range of offerings to provide end-to-end services to software product companies; continual investment in processes; people; training, information systems; quality standards, frameworks, tools and methodologies; our global delivery system above 1,600 technical associates; and strong global marketing team of over 60 associates, we are committed for achieving strong growth in our revenues.

Further, we have also initiated measures to improve our operating performance through improving utilization, price realization and managing credit risks. While R Systems primary focus is to grow through organic route, we will evaluate and pursue acquisitions and alliance that will improve our competitive position and have potential to create superior shareholder value. R Systems' management is of the opinion at the time of making this report that it will enhance both revenues and earnings in calendar year 2007.

Internal Control Systems and Their Adequacy

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

Further, R Systems has taken the initiative to have critical non financial areas such as security infrastructure, quality models, development processes and delivery models reviewed and certified by independent organizations. R Systems makes continual investments in organization behavior and management processes to ensure that these certified industry standards are continually adhered to. During the year, R Systems Noida development centre was certified to achieve ISO 27001 standard reinforcing our commitment to the highest standards of service and information security practices.

Discussion and Analysis on the Financial Position of R Systems as On December 31, 2006

1. Share Capital

R Systems has only one class of shares – equity shares of par value of Rs. 10 each. R Systems authorized share capital is Rs. 20 crores, divided into 2 crores equity shares of Rs. 10 each.

During the current year, R Systems consolidated five equity shares of Rs. 2 each into one equity share of Rs.10 each and subsequently issued bonus shares in the ratio of one share for each share. The bonus shares were issued by capitalizing the amount in securities premium account in accordance with the provisions of Section 78 of the Companies Act, 1956.

Further, during the year R Systems made an 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 a fresh issue of 2,825,006 equity shares by the Company, and an offer for sale by some shareholders of 1,583,355 equity shares.

	2006		2005	
	Equity Shares	Paid up capital (Rs. in lacs)	Equity Shares	Paid up capital (Rs. in lacs)
Balance at the beginning of the year	**25,892,587**	**517.85**	**25,892,587**	517.85
Pre- IPO Allotment of shares pursuant to the exercise of stock options granted to the employees (of Rs. 2 per share)	388,021	7.77	-	-
Pre-IPO Allotment of shares pursuant to conversion of Warrant (of Rs. 2 per share)	495,667	9.91	-	
Total	**26,776,275**	**535.53**	-	-
Consolidation of each of the 5 equity share of Rs 2 each into 1 equity share of Rs 10 each (of Rs. 10 per share)	5,355,255	535.53	-	-
Bonus Issue to the existing shareholders in the ratio of 1:1 (of Rs. 10 per share)	5,355,255	535.53	-	-
Fresh allotment of shares under initial public offer of the Company (net of selling share-holders) (of Rs. 10 per share)	2,825,006	282.50	-	-
Allotment of shares pursuant to the exercise of stock options granted to the employees (of Rs. 10 per share)	47,190	4.71	-	-
Balance at the end of the year (of Rs. 2 per share)	-	-	25,892,587	517.85
Balance at the end of the year (of Rs. 10 per share) #	13,582,706	1,358.27	-	-

The share capital balance as on December 31, 2006 was Rs. 1,354.58 lacs after adjusting Rs. 3.69 lacs advance to Indus Software Employee Welfare Trust in compliance with guidance note issued by the Institute of Chartered Accountant of India as against Rs. 513.92 lacs as on December 31, 2005.

2. Reserves and Surplus

a. Securities Premium Account.

The securities premium account consists of amount collected by R Systems from issuance of its shares at a price in excess of the par value of the shares net of utilization of the amounts for issuance of bonus shares and other purposes as permitted by the Companies Act 1956. The statement showing the movement in the securities premium account is given below:

	(Rs. in lacs)	
	2006	2005
Opening balance for the year	**4,355.36**	**4,683.11**
Add: - Fresh issue of shares to public and exercise of ESOP.	6,933.21	-
Less:-Utilisation for writing off goodwill raised on acquisition of subsidiary	-	244.96
Less:- Utilisation for bonus issue	535.53	-
Less:- Utilisation for share issue expenses	936.16	82.79
Balance at the end of the year #	**9,816.88**	**4,355.36**

The security premium balance as on December 31, 2006 was Rs. 9,790.35 lacs after adjusting Rs. 26.52 lacs advance to Indus Software Employee Welfare Trust in compliance with guidance note issued by the Institute of Chartered Accountant of India as against Rs. 4,326.99 lacs as on December 31, 2005.

b. Capital Reserve

There was no change in capital reserve of R Systems during the year and the balance as on December 31, 2006 was Rs. 0.32 lacs.

c. General Reserve

The general reserve as on December 31, 2006 stood at Rs. 25.12 lacs which was created during the year in compliance with Companies (Transfer of Profit to Reserves) Rules, 1975 for distributing the proposed dividend of Rs. 1.20 per equity share (being 12% on the par value of Rs. 10 per share) by appropriating from the profits of the Company for the financial year 2006. The aforementioned dividend recommended by the R Systems' Board of Directors is subject to the approval of the shareholders in the forthcoming annual general meeting.

d. Profit and Loss Account

Profit and loss account shows the total amount of profit or loss made by R Systems during the year and the cumulative balance of profit and loss for prior years. The balance retained in the profit and loss account as on December 31, 2006 was Rs 1,742.40 lacs in comparison to Rs 1,271.39 lacs as on December 31, 2005.

In the current year, R Systems opted for early adoption of the Accounting Standard 15 (Revised 2005) on employee benefits which was mandatory from accounting periods starting from December 7, 2006. Accordingly R Systems provided for gratuity and leave encashment based on actuarial valuation done in accordance with projected unit credit method. Further in accordance with the transitional provision in the revised accounting standard, Rs. 95.60 lacs has been adjusted to the reserve and surplus.

e. Foreign Currency Translation Reserve

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 were translated at the closing rate; income and expense items of the non- integral foreign operations were translated at yearly average exchange rates; and all resulting exchange differences were accumulated in a foreign currency translation reserve until the disposal of net investment.

As on December 31, 2006 foreign currency translation reserve had a negative balance of Rs. 89.34 lacs as against reserve of Rs. 3.06 lacs as on December 31, 2005.

f. Shareholder Funds

The total shareholder funds of R Systems increased to Rs. 12,823.43 lacs as on December 31, 2006 from Rs. 6,131.65 lacs as at the end of December 31, 2005.

The book value per share of R Systems increased to Rs 94.93 per share as on December 31, 2006 compared to Rs. 59.66 as on December 31, 2005.

3. Secured Loan

Secured loans represent the total borrowings of R Systems that are secured by certain assets. The break down of outstanding secured loans as on December 31 was as follows:-

As on December 31,	(Rs. in lacs)	
	2006	**2005**
Loan from Banks		
Cash credit facilities and working capital loan	154.79	616.14
Loan for motor vehicles	79.09	63.37
Loan for equipment	8.70	-
Term loan	-	333.79
Total	**242.58**	**1,013.30**

The total amount of secured loans decreased from Rs.1,013.30 lacs on December 31, 2005 to Rs. 242.58 lacs as on December 31, 2006. The decrease was mainly due to re-payment of term loans and working capital loan out of the proceeds of IPO made during April 2006.

4. Deferred Payment Liability

Deferred payment liability represents liabilities of R Systems that are likely to fall due after 12 months from December 31, 2006. The deferred payment liability of Rs. 168.32 lacs represents amount payable to selling share holders of WebConverse, Inc. (subsequently renamed R Systems Solutions, Inc.), a company that R Systems acquired in August 2006.

During the year, R Systems completed the acquisition of WebConverse, Inc. a technical support company based in the US. Under the terms of the transaction the maximum purchase consideration payable is US$ 10.34 million, including consideration determined as contingent based on future revenues amounting to US$ 7.49 million. R Systems recognized the investment at a value of US$ 2.85 million i.e. Rs.1,327.96 lacs which represents the consideration assessed as probable to be paid. Of the above consideration, Rs.548.03 lacs were paid at the time of completion of acquisition. Out of the remaining amount payable, the sum payable within one year from the year-end is shown under 'current liabilities' and balance amount payable after one year is shown under 'deferred payment liabilities'.

5. Deferred Tax Liability (net)

The deferred tax liability (net) represents the timing difference in the financials and tax books arising from the depreciation on fixed assets net off deferred tax assets recognised over post retirement benefits such as gratuity and leave encashment. R Systems recorded deferred tax liability (net) of Rs 176.94 lacs as on December 31, 2006 as compared to deferred tax assets (net) of Rs 220.37 lacs as on December 31, 2005.

During the year, R Systems made a provision against deferred tax assets in respect of the carry forward losses and other timing differences of R Systems, Inc., the US subsidiary, amounting to Rs. 339.89 lacs (US$ 750,000). The provision was made on account of prudent account policy of the company to carry forward deferred tax assets based on "virtual certainty" rather than management's judgment of benefit to be realized based on future performance. It was partly off-set by deferred tax assets of Rs. 94.99 lacs recognized in India for timing differences over the accrued post retirement benefits.

The unrecognised deferred tax assets will be re-assessed and recognised to the extent it becomes reasonably certain that future taxable income will be available against which such benefit can be realized.

6. Fixed Assets

Fixed assets represent the cost less accumulated depreciation and impairment losses, if any. Cost comprises the purchase price and any costs attributable to bring the asset to its working condition for its intended use.

The statement of changes in fixed assets of R Systems during the fiscal year 2006 is as follows :

(Rs. in lacs)

	As on December 31,		Growth %
	2006	**2005**	
Gross Block Value			
Land			
Freehold	47.66	47.66	-
Leasehold	100.06	100.06	-
Buildings			
Freehold	316.65	316.15	0.16
Leasehold	986.50	487.69	102.28
Computers	2,626.42	1,847.29	42.18
Office Equipment	818.34	403.66	102.73
Furniture & Fittings	811.20	354.05	129.12
Vehicle	299.78	234.50	27.84
Intangibles			
Goodwill	1,359.84	-	
Software	744.47	738.07	0.87
Others	96.71	98.08	-1.39
Total	**8,207.63**	**4,627.21**	**77.38**
Less :-			
Accumulated depreciation and amortisation	2,765.25	2,351.56	17.59
Net Block	**5,442.38**	**2,275.65**	**139.16**
Add:- Capital work in Progress	106.13	545.17	-80.53
Net Fixed Assets	**5,548.51**	**2,820.82**	**96.70**
Depreciation as % of Revenues	2.90%	3.10%	
Depreciation as % of Avg. Gross Block *	9.28%	10.96%	
Accumulated depreciation as % of Gross Block *	33.89%	51.35%	

* excluding free hold land

Additions to Gross Block

During the year the total value of gross block increased from Rs 4,627.21 lacs as on December 31, 2005 to Rs 8,207.63 lacs as on December 31, 2006 resulting in a net increase of Rs 3,580.42 lacs. The increase includes Rs 1,546.78 lacs (including goodwill of Rs. 1,359.84 lacs) attributable to the acquisition of WebConverse, Inc. (subsequently renamed R Systems Solutions Inc.). The balance is mainly on account of the expansion of development and service centers in India.

Capital Commitment

Capital commitments are capital expenditures committed by R Systems for which cash disbursal has not been made at the year end. R Systems had capital expenditure commitment of Rs 88.43 lacs as on December 31, 2006, principally on account of computer hardware & software, office equipment and furniture to be acquired for development and service centres in India, as compared to Rs. 259.79 lacs as on December 31, 2005.

7. Investments

Investments are amounts invested by R Systems in securities of other companies. These investments are shown at lesser of cost or realizable value at the end of each year. The total value of investments in various companies as on December 31, 2006 was Rs. 134.63 lacs as against Rs. 16.45 lacs as on December 31, 2005.

8. Sundry Debtors

Sundry debtors are trade receivables from customers for the services provided. Sundry debtors are net of any provisions for doubtful debts according to the risk perceived by the management.

R Systems had total sundry debtors of Rs. 4,833.71 lacs as on December 31, 2006 as compared to Rs. 4,199.03 lacs as on December 31, 2005. The increase in sundry debtors was attributable mainly to increase in revenues of R Systems. The days-sales-outstanding as on December 31, 2006 was 82 days as against 88 days as on December 31, 2005.

9. Cash and Cash Equivalents

The cash and cash equivalents are cash and bank balances of R Systems and include investments in financial instruments such as fixed deposits that can be readily liquidated for cash. The cash and bank balances increased from Rs 1,152.78 lacs as on December 31, 2005 to Rs 5,317.41 lacs as on December 31, 2006 of which Rs 4,313.08 lacs was in the form of fixed deposits with banks. The treasury policy of R Systems is to invest surplus funds with highly rated banking institutions for short term and medium maturities depending on future requirement of funds.

The statement depicting the cash and bank balances is given below:

As on December 31,	**(Rs. in lacs)**	
	2006	**2005**
Cash on hand	3.79	1.49
Balances with scheduled banks		
On current accounts	121.58	79.05
On cash credit account	39.86	-
On EEFC account	147.60	49.59
On deposit accounts	4,313.08	160.12
Balances with other banks		
On current accounts	691.50	323.28
On deposit accounts	-	539.25
Total	**5,317.41**	**1,152.78**
Cash and Cash equivalents /total assets	29.5%	12.2%
Cash and Cash equivalents /total revenues	25.6%	7.3%

10. Other Current Assets

The other current assets include trade assets that are realizable in cash within a period of twelve months. The other current assets as on December 31, 2006 were Rs 1,415.67 lacs in comparison to Rs. 666.62 lacs as on December 31, 2005. The break down of other current assets was as follows:-

As on December 31,	**(Rs. in lacs)**	
	2006	**2005**
Interest accrued on deposits	109.61	1.42
Interest accrued on staff advance	0.38	0.46
Unbilled revenue net off anticipated cost to complete the contracts	1305.68	658.00
Fixed assets held for disposal	-	6.75
Total	**1415.67**	**666.63**

The most significant component of other current assets of R Systems is unbilled receivables. 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

11. Loans and Advances

Loans and advances are short term loans advanced during the course of business recoverable in cash or kind. The total loans and advances as on December 31, 2006 was Rs 753.51 lacs in comparison to Rs 352.57 lacs as on December 31, 2005 net of provisions for unrecoverable advances. Advances are primarily toward amount paid in advance for value or services to be received in future. The break down of loans and advances was as follows:-

(Rs. in lacs)

As on December 31,	2006	2005
Advances recoverable in cash or in kind or for value to be received	498.86	315.17
Foreign currency receivable on forward contracts	86.70	-
Deposits - others	238.88	125.02
Less:- Provision for doubtful advance	70.93	87.62
Total	**753.51**	**352.57**

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, 2006 were Rs. 3,428.21 lacs as compared to Rs. 1,861.05 lacs as on December 31, 2005. The increase in current liabilities was mainly on account of increase in sundry creditors attributable to capital expenditures, inclusion of sundry creditors of WebConverse, Inc. and as a result of increase in the level of operations. Further, the increase in current liability was also due to deferred consideration of Rs. 571.68 lacs payable to the selling shareholders of WebConverse, Inc. a technical support company acquired by R Systems in August 2006. The break down of current liabilities was as follows:-

(Rs. in lacs)

As on December 31,	2006	2005
Sundry creditors	2,305.33	1,362.78
Deferred compensation to erstwhile ECnet shareholders	279.53	263.69
Deferred compensation to erstwhile shareholders of WebConverse, Inc *	571.68	-
Unamortised income on forward cover contracts	12.13	9.09
Book overdraft	20.57	-
Deferred revenue	72.11	34.97
Advance from customers	22.46	50.37
Security deposits	19.58	12.48
Other liabilities	124.82	127.67
Total	**3,428.21**	**1,861.05**

* Please refer point 4 above also.

13. Provisions

Provisions are estimated amount of various liabilities that R Systems may have to pay in the near term based on management's assessment of those liabilities. These provisions primarily include provisions for taxation, retirement benefits, leave encashment and dividends. Provision for taxation represents estimated income tax, wealth tax and fringe benefit liabilities, both in India and overseas as applicable. The provision for gratuity and leave encashment is the estimated amount payable on that account in accordance with actuarial valuation for Indian operations and on actual payment basis for the international subsidiaries as applicable. Proposed dividend represents the final dividend recommended by the Board of Directors for the year ended December 31, 2006 subject to the approval of shareholders. Provision for tax on dividend represents corporate dividend taxes payable on dividend declared for the year ended 2006. The break down of provisions was as follows:-

(Rs. in lacs)

As on December 31,	2006	2005
Provision for employee bonus	156.90	90.00
Provision for taxation - income tax	73.94	12.77
Provision for fringe benefit tax	12.80	11.93
Provision for gratuity	168.86	89.14
Provision for leave encashment	560.78	218.80
Proposed final dividend	162.99	-
Tax on proposed dividend	27.70	-
Total	**1,163.97**	**422.64**

14. Liquidity

The cash balance as on December 31, 2006 was Rs. 5,317.41 lacs as against Rs. 1,152.78 lacs as on December 31, 2005. The cash and bank balance per share was Rs. 39.15 as on December 31, 2006.

The cash generated from operating activities during 2006 was Rs.1,270.55 lacs as against Rs. 1,079.66 lacs in 2005, a growth of 17.68%.

During the year, R Systems had used cash of Rs. 2,400.54 lacs in the growth of the business including investment of Rs 1,880.31 lacs in fixed assets mainly for expansion of development centers in India and Rs. 535.31 lacs towards part payment for the acquisition of WebConverse, Inc. (subsequently renamed R Systems Solutions, Inc.).

During the year, R Systems generated net cash of Rs. 5,356.08 lacs from financing activities. This was primarily attributable to cash generated from the IPO in April 2006 net of repayment of term loan and working capital loans as stated in the offer document.

Further, the Company had used the IPO funds against the objectives as stated in the offer document. The unspent amount of IPO funds will be used in accordance with the pending objectives after the revision as stated below:-

(Rs. In lacs)

Objects	Original estimated project cost	Revised estimated project cost	Amount incurred till Dec. 31, 2006
Up gradation and expansion of existing infrastructure	3,150.00	3,265.43	1,748.79
Repayment of outstanding loans	365.50	365.50	365.50
Financing working capital requirements	1,795.10	1,795.10	863.24
General corporate purpose	621.90	617.52	570.87
Issue expenses	1,130.00	1,018.95	985.62
Total	**7,062.50**	**7,062.50**	**4,534.02**

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

Managements' Analysis and Discussions of Operating Performance for the Year Ended December 31, 2006

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

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

(Rs. in lacs)

	Year ended December 31, 2006	% of total income	Year ended December 31, 2005	% of total income
Income				
Operating income	20,394.58	98.07	15,779.34	99.73
Other income	402.08	1.93	43.00	0.27
Total income	**20,796.66**	**100.00**	**15,822.34**	**100.00**
Expenditure				
Personnel expenses	12,702.99	61.08	9,509.49	60.10
Operating and other expenses	5,895.77	28.36	4,292.12	27.14
Depreciation/amortisation	591.24	2.84	489.24	3.09
Finance expenses	56.94	0.27	84.23	0.53
Prior period expenses	158.89	0.76	5.38	0.03
Total expenditure	**19,405.83**	**93.31**	**14,380.46**	**90.89**
Net Profit before tax				
Provision for tax	**1,390.83**	**6.69**	**1,441.88**	**9.11**
Current tax	155.23	0.75	73.97	0.47
Deferred tax	398.91	1.92	93.80	0.59
Fringe benefit tax	54.26	0.26	26.41	0.17
Total Tax	**608.40**	**2.93**	**194.18**	**1.23**
Net Profit after tax	**782.43**	**3.76**	**1,247.70**	**7.89**
Appropriations				
Proposed final dividend	162.99		-	
Tax on proposed dividend	27.70		-	
Transfer to general reserve	25.12		-	
Surplus carried to balance sheet	**566.61**		**1,247.70**	

1. Income

There are two components of total income :-

a. **Operating Income**

b. **Other Income**

a. Operating Income

We derive our operating income principally from software development and customization services and to a lesser extent from the business process outsourcing services. Operating income is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The key sources of operating income are:

Income from services

Revenues from software development services and business process outsourcing services comprise income from time-and-material and fixed-price contracts.

Revenues associated with software development, customization of products and business process outsourcing services that are rendered on time and materials basis are recognised as the services are provided and billed to the clients in accordance with the terms of the specific contracts.

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

Sale of software products

Revenue from the sale of software products is recognized when the sale has been completed with the passing of title.

Revenue from subscription services

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

b. Other Income

Other income consists primarily of interest income, write back of doubtful debts, excess provisions written back, exchange fluctuation (net) and other miscellaneous income.

The following table sets out the contribution of each of these components of income to our total income for the fiscal year 2006 and fiscal year 2005.

Year ended December 31,	**2006**		**2005**	
	Rs. in lacs	**In %**	**Rs. in lacs**	**In %**
Software development and customization services	18,226.25	87.64	14,966.40	94.59
Business process outsourcing services	2,168.33	10.43	812.94	5.14
Operating Income	**20,394.58**	**98.07**	**15,779.34**	**99.73**
Other Income	402.08	1.93	43.00	0.27
Total Income	**20,796.66**	**100.00**	**15,822.34**	**100.00**

R Systems recorded consolidated global operating income of Rs. 20,394.58 lacs in 2006 as compared to Rs. 15,779.34 lacs in 2005, a year-on-year growth of 29.25 %. The growth in revenues from sale of software and software development and customization services was 21.78 % and the growth in revenues from BPO was 166.73%.

Geographic breakdown of operating income

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

Revenues by geographies	Year Ended	
	Dec 31, 06	Dec 31, 05
USA	73.22%	75.15%
SEAC (South East Asia)	9.08%	9.74%
India	4.42%	3.16%
Others	13.28%	11.95%
Total	100.00%	100.00%

Revnues from top ten clients

The break down of our revenues from top 10 clients was as follows:-

	Year Ended	
	Dec 31, 06	Dec 31, 05
Top 10 Clients	45.28%	46.52%
Top 5 Clients	33.63%	33.95%
Top 3 Clients	27.39%	26.43%
The Largest Client	15.44%	15.44%

Other Income

The share of other income in total income has increased from 0.27% for the year ended December 31, 05 to 1.93 % for the year ended December 31, 2006. The increase was mainly attributable to interest earned on the fixed deposits of cash balances with banks. The break down of other income was as follows:-

Year ended December 31,	2006		2005	
	(Rs. in lacs)	In%	(Rs. in lacs)	In%
Interest Income	236.02	58.70	14.17	39.50
Foreign exchange fluctuation (net)	65.95	16.40	-	-
Provision for doubtful debts written back	84.67	21.06	4.49	12.52
Excess provisions written back, as no longer required	0.03	0.01	16.24	45.25
Miscellaneous income	15.41	3.83	0.98	2.73
Total	**402.08**	**100.00**	**35.88**	**100.00**

2. Expenditures

Our total expenditures have four components:

- Personnel expenses;
- Operating and other expenses;
- Finance expenses; and
- Depreciation/amortisation.

The following table sets out the contribution of each of these components of total expenditures expressed as a percentage of our total expenditure for fiscal years 2006 and 2005.

Year ended December 31,	2006		2005	
	(Rs. in lacs)	In%	(Rs. in lacs)	In%
Personnel expenses	12,702.99	66.00	9,509.49	66.15
Operating & other expenses	5,895.77	30.63	4,292.12	29.86
Finance expenses	56.94	0.30	84.23	0.59
Depreciation/ amortization	591.24	3.07	489.24	3.40
Total	**19,246.94**	**100.00**	**14,375.08**	**100.00**

A) Personnel Expenses

Personnel expenses consist primarily of salaries, wages, bonus and perquisites paid to employees. Other components include contributions to provident and other funds and staff welfare expenses. Personnel expenses primarily relate to employees who are involved in the provision of services to our customers and to a lesser extent expenses relate to selling and administrative functions.

The below mentioned table shows the break up of head counts between onsite & offshore as well as technical and support.

(Nos.)

As on December 31,	2006	2005
Technical	**1,601**	**1,131**
Software services		
Onsite	120	139
Offshore	1,062	791
Trainees at offshore	86	57
BPO		
Offshore	252	144
Onsite	81	-
Sales and support	**242**	**170**
Total count	**1,843**	**1,301**

Personnel cost increased from Rs.9,509.49 lacs in 2005 to Rs. 12,702.99 lacs in 2006, an increase of 33.58%. As a percentage of total income personnel cost has increased to 61.08 % for the year 2006 from 60.10% in 2005. The break down of personnel cost was as follows:-

Year ended December 31,	2006		2005	
	(Rs. in lacs)	In%	(Rs. in lacs)	In%
Salaries, wages and bonus	11,904.59	93.71	8,966.56	94.29
Contribution to provident fund and other funds	606.29	4.78	427.69	4.50
Staff welfare expenses	192.11	1.51	115.23	1.21
Total	**12,702.99**	**100.00**	**9,509.49**	**100.00**

The increase in personnel cost was primarily on account of growth in the number of employees, inclusion of the personnel expenses of Web Converse, Inc after the completion of the acquisition in August 2006 and increases in salaries, bonuses and benefits during the year 2006.

R Systems used to provide for employee retirement benefits (namely gratuity and leave encashment) in accordance with the Accounting Standard 15 on Retirement Benefits. In the current year R Systems opted for early adoption of the Accounting Standard 15 (Revised 2005) which has revised the basis for provision of these liabilities on a more conservative basis and which is mandatory from accounting periods starting from December 7, 2006. Accordingly R Systems recomputed the accruals for gratuity and leave encashment based on actuarial valuation as per projected unit credit method. Had the Company followed the earlier policy, the expense of the year would have been lower by Rs.71.04 lacs.

B) Operating and Other Expenses

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

A significant part of the expenses incurred on sub-contractors cost, traveling, conveyance and communication relate to cost of providing services to our clients and the other operating expenses primarily relate to sales, marketing and administration costs including cost of operating the development centres. The break down of operating expenses was as follows:-

Year ended December 31,	2006		2005	
	(Rs. in lacs)	In %	(Rs. in lacs)	In %
Legal and professional expenses	1,968.78	33.39	1,530.98	35.67
Traveling and conveyance	1,586.68	26.91	1,037.15	24.16
Communication costs	496.98	8.43	401.76	9.36
Provision for doubtful debts and advances	434.57	7.37	197.78	4.61
Rent-premises	307.84	5.22	165.89	3.86
Power and fuel	256.03	4.34	177.05	4.13
Repair & maintenance	224.72	3.82	148.33	3.46
Recruitment and training expenses	157.63	2.67	106.58	2.48
Others	462.54	7.85	526.60	12.27
Total	**5,895.77**	**100.00**	**4,292.12**	**100.00**

Operating expenses increased by Rs 1,603.65 lacs or 37.36% to Rs.5,895.77 lacs in 2006 from Rs.4,292.12 lacs in 2005. As a percentage of total income, operating and other expenses increased marginally to 28.36% for the year 2006 from 27.13% in 2005.

This increase in operating expenses was mainly as a result of the following:-

- Rs. 434.57 lacs provided as doubtful debts out of which Rs. 288.54 lacs was attributable to provision of debts recoverable from two customers.

- Acquisition expenses of Rs. 38.16 lacs attributable to acquisition of WebConverse, Inc. (subsequently renamed R Systems Solutions, Inc.)

- Inclusion of the operating expenses of Web Converse, Inc. of Rs. 123.86 lacs after the completion of the acquisition in August 2006.

- Increase in operating expenses of ECnet Limited by Rs.168.73 lacs.

- The increase in the other expenses such as legal and professional fees including sub contractor costs, recruitment and training, traveling and conveyance, communication, rent of premises and insurance premium was mainly on accounts of increase in volume of the business.

C) Finance Expenses

Finance expenses are comprised principally of interest expenses on our working capital and term loans from the banks and other bank charges. The financial expenses decreased by Rs.27.29 lacs or 32.40% from Rs.84.23 lacs in year 2005 to Rs. 56.94 lacs in year 2006 on account of lesser reliance on loans after the IPO during 2006. The break down of finance expenses was as follows:-

Year ended December 31,	2006		2005	
	(Rs. in lacs)	In %	(Rs. in lacs)	In %
Interest on loan from banks	38.53	67.66	65.97	78.33
Bank charges	18.41	32.34	18.26	21.67
Total	**56.94**	**100.00**	**84.23**	**100.00**

D) Depreciation/Amortisation

Depreciation is provided for the wear and tear of fixed assets used in the operation of our business. We calculate depreciation on straight line method over the remaining estimated useful lives of the fixed assets which is estimated by R Systems management giving due consideration to environment in respective countries.

The depreciation provided for the year 2006 was Rs 591.24 lacs in comparison to Rs. 489.24 lacs for 2005 representing 2.84% and 3.09% of total revenues for the year 2006 and 2005 respectively. The increase of Rs. 102.00 lacs or 20.85% was primarily on account of expansion of development and service centres in India, including impact of Rs. 72.88 lacs for assets costing Rs. 5,000 or less per item purchased in Noida development centre which were written off completely in period of acquisition.

E) Prior Period Expenses

Prior period expenses during 2006 were Rs.158.89 lacs as against Rs. 5.38 lacs for 2005. The prior period expenses in 2006 include Rs. 153.32 lacs due to change in the earlier assumptions after the adoption of Accounting Standard 15 (Revised 2005) used for actuarial valuation of retirement benefits to match with the current trend in the industry and professional fees of Rs. 5.57 lacs related to prior years.

F) Net Profit Before Taxation

Net profit before taxation has decreased to Rs. 1,390.83 lacs or 6.69% of total income in 2006 from Rs.1,441.88 lacs or 9.11% of total income in 2005. The decline in the net profit before tax was mainly due to non recurring items as explained later in paragraph H.

G) Provision for Tax

Current Tax

R Systems is liable for tax liabilities both in India and overseas and the rates vary in accordance with the laws in each country. R Systems software and services operations in India enjoy tax holidays under Section 10A of Income Tax Act, 1961. The profits attributable to operations under the Software Technology Park (STP) scheme enjoy tax holidays for a period of 10 years from the financial year in which the business unit commences operations or March 31, 2009, whichever is earlier.

Our tax provisions are not proportionate to our profits as our group companies are located in different tax jurisdictions. The companies in the group are subject to tax legislation as applicable in the respective country of incorporation. Tax provisions for each of our group company are computed and made in accordance with tax laws of relevant jurisdiction.

Provisions for current taxes increased to Rs.155.23 lacs in 2006 from Rs. 73.97 lacs in 2005 mainly on account of increase in the interest income earned on cash balances and increase in the domestic revenues of the Company. As profits from these operations do not enjoy tax holidays.

Deferred Tax

Deferred income taxes reflect the impact of current year timing differences between taxable income and accounting income and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities across various countries of operation are not set off against each other as the company does not have a legal right to do so. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. If the company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits.

Deferred tax expense for the year 2006 was Rs. 398.91 lacs as against Rs. 93.79 lacs for 2005. The increase in provision for deferred taxes was mainly due to provision against the deferred tax assets amounting to Rs. 339.89 lacs (US$ 750,000) for our USA subsidiary on account of the application of virtual certainty criteria as explained earlier, which was partly off-set by deferred tax assets of Rs. 94.99 lacs recognized in India for timing differences over the accrued post retirement benefits.

Unrecognised deferred tax assets will be re-assessed and recognised to the extent that it will become reasonably certain that future taxable income will be available against which such deferred tax assets can be realized.

Fringe Benefit Tax

Fringe benefit tax for 2006 was Rs. 54.26 lacs as against Rs. 26.41 lacs for 2005. Increase in fringe benefit tax was mainly due to increase in traveling, conveyance and staff welfare costs in 2006. Further in 2005 fringe benefit tax was applicable only from April 2005 but for 2006 it was applicable for the entire year.

H) Profit After Tax

Profit after tax has decreased to Rs. 782.43 lacs or 3.76% of revenue in 2006 from 1,247.70 lacs or 7.89% of revenue in 2005. The decline is mainly on account of nonrecurring items as categorised below:-

Accounting policy related:

- Increase in personnel expenses by Rs.77.04 lacs resulting from change in accounting policies on adoption of AS-15 (Revised) on employee benefits issued by The Institute of Chartered Accountants of India.
- Prior period expense of Rs.153.32 lacs resulting from change in assumptions for actuarial valuation of gratuity and leave encashment after the adoption of AS-15 (Revised).
- Increase in operating expenses by Rs. 38.16 lacs due to changes in method of accounting for transaction expenses relating to acquisition of WebConverse, Inc. of Rs. 38.16 lacs resulting from recent opinion by Expert Advisory Committee of The Institute of Chartered Accountants of India.

Provision against deferred tax assets and depreciation

- Provision against deferred tax assets of Rs.244.90 lacs in the USA subsidiary net of deferred tax assets recognised as explained at point G.
- Depreciation charge of Rs. 72.88 lacs for the assets costing Rs. 5,000 or less per item which were written off completely in period of acquisition on account of expansion of capacity at Noida.

Provision against Account Receivables

- Provisions for doubtful debts of Rs. 434.57 lacs including Rs. 288.54 lacs attributable to provision of debts recoverable from two customers.

I) Dividend

The Board of Directors have recommended a dividend of Rs. 1.20 per equity share (being 12% on the par value of Rs. 10 per share) to be appropriated from the profits of the Company for the financial year 2006 subject to the approval of the shareholders at the forthcoming annual general meeting. The total payout will be of Rs 162.99 lacs and corporate dividend tax attributable to such dividend will be Rs. 27.70 lacs which has been provided in the accounts.

Management' Discussion and Analysis of Operating Performance on Standalone Financials of R Systems International Ltd. ("R Systems" or the "Company") for the Calendar Year 2006.

Investors are cautioned that this discussion contains forward-looking statements that involve risks and uncertainties. When used in this discussion, the words "anticipate", "believe", "estimate", "intend", "will" and "expect" and other similar expressions as they relate to the Company or its business are intended to identify such forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether because of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of their dates. The following discussion and analysis should be read in conjunction with the Company's financial statements included in this report and the notes thereto. Investors are also requested to note that this discussion is based on the standalone results of the Company. Investors may also note that this analysis compares the performance of the current year with that of the previous year only, which may be regrouped / reclassified.

The following section discusses in detail the composition of different items that affect the result of operations of the company. The discussion is based on the standalone financials of R Systems International Ltd.

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

(Rs. in lacs)

	Year ended December 31, 2006	% of total income	Year ended December 31, 2005	% of total income
Income				
Operating income	11,754.13	95.97	8,127.30	99.57
Other income	493.16	4.03	35.29	0.43
Total income	**12,247.29**	**100.00**	**8,162.59**	**100.00**
Expenditure				
Personnel expenses	6,649.79	54.30	4,025.95	49.32
Operating and other expenses	3,568.98	29.14	2,332.99	28.58
Depreciation/amortisation	453.12	3.70	317.41	3.89
Finance expenses	54.33	0.44	84.81	1.04
Provision for diminution in value of investment	104.43	0.85	-	-
Prior period expenses	158.89	1.30	5.38	0.07
Total expenditure	**10,989.54**	**89.73**	**6,766.54**	**82.90**
Net Profit before tax	**1,257.75**	**10.27**	**1,396.05**	**17.10**
Provision for tax				
Current tax	144.38	1.18	61.20	0.75
Deferred tax	54.24	0.44	34.68	0.42
Fringe benefit tax	54.26	0.44	26.41	0.32

(Rs. in lacs)

	Year ended December 31, 2006	% of total Income	Year ended December 31, 2005	% of total Income
Total Tax	252.88	2.06	122.29	1.50
Net Profit after tax	1,004.88	8.21	1,273.76	15.60
Appropriations				
Proposed final dividend	162.99		-	
Tax on proposed dividend	27.70		-	
Transfer to general reserve	25.12		-	
Surplus carried to balance sheet	789.06		1,273.76	

1. Income

There are two components of Total Income

Operating Income

The following table sets out the contribution of each of these components of income to our operating income for the fiscal year 2006 and fiscal year 2005.

Year ended December 31,	2006		2005	
	(Rs. in lacs)	In %	(Rs. in lacs)	In %
Software development and customization services	10,252.58	87.23	7,314.36	90.00
Business process outsourcing services	1,501.55	12.77	812.94	10.00
Total Operating Income	11,754.13	100.00	8,127.30	100.00

R Systems recorded an operating income of Rs. 11,754.13 lacs in fiscal year 2006 as compared to Rs. 8,127.30 lacs in fiscal year 2005, a year-on-year growth of 44.63 %. The growth of income on year-on-year basis from software development and customization services and business process outsourcing was 40.17 % and 84.71% respectively. Further, the contribution from business process outsourcing services to the total operating income has increased to 12.77% in the fiscal year 2006 as against 10.00% in the fiscal year 2005.

Geographic breakdown of operating income

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

Revenues by geographies	Year Ended	
	Dec 31, 06	Dec 31, 05
USA	69.55%	70.67%
SEAC (South East Asia)	4.97%	5.49%
India	7.67%	6.13%
Others	17.81%	17.71%
Total	100.00%	100.00%

Other Income

The share of other income in total income has increased from 0.43% in the fiscal year 2005 to 4.03 % in the fiscal year 2006. The increase was mainly attributable to interest earned on the deposits of cash balances with banks, gain on exchange fluctuation and write back of provision for diminution in the value of investment.

2. Expenditures

The following table sets out the major components of the total expenditure and their contribution in the total expenditure, expressed as a percentage of total expenditure for the fiscal years 2006 and 2005.

Year ended December 31,	2006		2005	
	(Rs. in lacs)	In %	(Rs. in lacs)	In %
Personnel expenses	6,649.79	61.40	4,025.95	59.55
Operating & other expenses	3,568.98	32.95	2,332.99	34.51
Finance expenses	54.33	0.50	84.81	1.25
Depreciation/amortization	453.12	4.18	317.41	4.69
Provision for diminution in value of long term investment	104.43	0.97	-	-
Total	**10,830.65**	**100.00**	**6,761.16**	**100.00**

A) Personnel Expenses

Personnel costs have increased from Rs.4,025.95 lacs in 2005 to Rs. 6,649.79 lacs in 2006. As a percentage of total income personnel costs have increased to 54.30% in the year 2006 from 49.32% in 2005 mainly due to increase in the total number of employees, increases in salaries, bonuses and other benefits during the year 2006 and the accounting impact of early adoption of the Accounting Standard 15 on employee benefits (Revised 2005).

B) Operating and Other Expenses

Operating expenses increased to Rs. 3,568.98 lacs in fiscal year 2006 as against Rs. 2,332.99 lacs in the fiscal year 2005. The increase in operating expenses is mainly due to increase in business volume; provisions for doubtful debts of Rs 449.82 lacs; provision for doubtful advances of Rs. 339.48 lacs and transaction expenses of Rs. 38.16 lacs pertaining to acquisition of Web Converse, Inc.

The following table sets out the major components of operating and other expenses as a percentage of total operating expenses in the fiscal year 2006 and 2005.

Year ended December 31,	2006		2005	
	(Rs. in lacs)	In %	(Rs. in lacs)	In %
Traveling and conveyance	1,223.28	34.28	659.09	28.25
Provision for doubtful debts	449.82	12.60	76.59	3.28
Provision for doubtful advances	339.48	9.51	-	-
Communication costs	327.46	9.18	271.90	11.65
Legal and professional fees	237.32	6.65	147.19	6.31
Power and fuel	236.68	6.63	161.54	6.92
Repair and maintenance	170.75	4.78	104.71	4.49
Rent-premises	130.72	3.66	63.26	2.71
Others	453.47	12.71	848.71	36.37
Total	**3,568.98**	**100.00**	**2,332.99**	**100.00**

C) Finance Expenses

The financial expenses decreased to Rs 54.33 lacs in 2006 as against Rs. 84.33 lacs in 2005. The decrease in financial expenses is mainly on account of less reliance on borrowed funds after R Systems IPO during April 2006.

D) Depreciation/Amortisation

The depreciation provided for the fiscal year 2006 was Rs. 453.12 lacs as against Rs. 317.41 lacs in the fiscal year 2005. The increase in depreciation was mainly on account of expansion of development and service centres at Noida, Pune and Chennai including impact of Rs. 72.88 lacs for assets costing Rs. 5,000 or less per item purchased in Noida development centre which were written off completely in period of acquisition.

E) Provision for Diminution in Value of Long Term Investment

The Company accrued for a cost of Rs. 104.43 lacs against investment value of ECnet Limited, the Singapore subsidiary of the Company, during the fiscal year 2006 on account of losses incurred by the subsidiary.

F) Prior Period Expenses

Prior period expenses during fiscal year 2006 were Rs.158.89 lacs as against Rs. 5.38 lacs for fiscal year 2005. The prior period expenses in fiscal year 2006 include Rs. 153.32 lacs due to change in the earlier assumptions after the adoption of Accounting Standard 15 on employee benefits (Revised 2005) used for actuarial valuation of retirement benefits to match with the current trend in the industry and professional fees of Rs. 5.57 lacs related to prior years.

G) Net Profit Before Taxation

Net profit before taxation has decreased to Rs. 1,257.75 lacs in fiscal year 2006 from Rs.1,396.05 lacs in fiscal year 2005. This represents 10.27% and 17.10% of total income for the fiscal year 2006 and 2005 respectively. The decline in the net profit before tax was mainly due to non recurring items as explained later in paragraph I.

H) Provision for Tax

R Systems software and services operations in India enjoy tax holidays under Section 10A of Income Tax Act, 1961. The profits attributable to operations under the Software Technology Park (STP) scheme enjoy tax holidays for a period of 10 years from the financial year in which the business unit commences operations or March 31, 2009, whichever is earlier.

The provision for current tax increased to Rs. 144.38 lacs in fiscal year 2006 as against Rs. 61.20 lacs in fiscal year 2005 mainly on account of increase in the interest income and increase in the domestic revenues of the Company. As profits from these operations do not enjoy tax holidays.

The provision for deferred income tax was Rs 54.24 lacs in 2006 compared to Rs, 34.68 lacs in 2005. The increase in deferred income tax was primarily on account of additional timing differences between accounting calculations and tax calculations over the depreciation on capital expenditure for expansion of development and service centres in India net of timing differences recognised as deferred tax assets over the post retirement benefits to employee.

Fringe benefit tax for the fiscal year 2006 was Rs. 54.26 lacs as against Rs. 26.41 lacs for the fiscal year 2005. Increase in fringe benefit tax was mainly due to increase in traveling, conveyance and staff welfare costs in fiscal year 2006 and applicability of fringe benefit tax from April 2005 in fiscal 2005 as against full year in 2006.

The effective tax rate for fiscal year 2006 was 20.11% as against 8.76% for 2005 because of reasons as explained above.

I) Profit After Tax

Profit after tax has decreased to Rs. 1,004.88 lacs in fiscal year 2006 from Rs.1,273.76 lacs in fiscal year 2005 i.e. to 8.21% of total income in 2006 from 15.60% of total income in 2005. The decline is mainly on account of nonrecurring items as categorised below:-

Accounting policy related:

- Increase in personnel expenses by Rs.77.04 lacs resulting from change in accounting policy on adoption of AS-15 (Revised) on employee benefits issued by The Institute of Chartered Accountants of India.
- Prior period expense of Rs.153.32 lacs resulting from change in assumptions for actuarial valuation of gratuity and leave encashment after the adoption of AS-15 (Revised).
- Increase in operating expenses by Rs. 38.16 lacs due to changes in method of accounting for transaction expenses relating to acquisition of WebConverse, Inc. of Rs. 38.16 lacs resulting from recent opinion by Expert Advisory Committee of The Institute of Chartered Accountants of India.

Depreciation

- Depreciation charge of Rs. 72.88 lacs for the assets costing Rs. 5,000 or less per item which were written off completely in period of acquisition on account of expansion of capacity at Noida.

Provision against account receivables, advances and investment in subsidiaries

- Provisions for doubtful debts Rs 449.82 lacs.
- Provision against doubtful advances Rs. 339.48 lacs.
- Provision against investment in subsidiary net of write back of earlier provision Rs. 24.52 lacs.

J) Dividend

The Board of Directors have recommended a dividend of Rs. 1.20 per equity share (being 12% on the par value of Rs. 10 per share) to be appropriated from the profits of the Company for the financial year 2006 subject to the approval of the shareholders at the forthcoming annual general meeting. The total payout will be of Rs 162.99 lacs and corporate dividend tax attributable to such dividend will be Rs. 27.70 lacs which has been provided in the books.

Risk Management is a dynamic process which should constantly be able to identify all the emerging risks and propose solutions to manage these. The risk perception also constantly varies depending on the size of the business, business segment, location, scale of business. The essence of risk management strategy at R Systems lies in maximizing areas of control over outcome and minimizing areas where the Company has no control over outcome. R Systems recognises 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 mitigates and manage the risks. At R Systems we remain cautious in risk appetite while reminding ourselves that without risks there are no rewards. The R Systems management process involves translating the designated risk limits into operational behavior through policies, procedures, internal controls and regular assessment of those controls. Compliance with all applicable laws, rules and regulations, as well as internal 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 suggests 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 proactive management of the risks.

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

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

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

1. **Business**
   - Client Concentration
   - Geographical Concentration
   - Client Risks
   - Competition
   - Acquisitions

2. **Delivery**
   - Execution
   - Disaster Prevention and Recovery
   - Technological Obsolescence
   - Fixed Price Contracts
   - Talent Acquisition & Retention

3. **Financial**
   - Foreign Currency Rate Fluctuations
   - Inflation and Cost Structure

4. **Legal and Statutory**
   - Contractual Liabilities
   - Statutory Compliance
   - Directors' & Officers' Liability Risks

5. **Political**
   - Change in Government Policy
   - Visa Regulations/Restrictions

1. Business Risks

Client Concentration

R Systems revenues are dependent to a considerable extent upon relationships with a limited number of customers and retaining those customers. The percentage of total consolidated revenues during fiscal 2004, 2005 and 2006 that R Systems derived from contracts with our top 5 customers is as follows:

Fiscal year	Percentage of total revenue
2004	28.08%
2005	33.95%
2006	**33.63%**

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

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

Geographical Concentration

R Systems has traditionally derived most of its revenues from the US, given the technology focus and specialized product engineering services offered by it. During the current year, 73.33% of R Systems consolidated revenues were from clients located in the US as against 75.15% in

2005. In order to mitigate the risk of geographical concentration, R Systems has stepped up its business activities in other geographic areas like Europe and South East Asia. However, since most of the potential clients for software product engineering and support services are located in US, dependence on US markets may not significantly reduce.

Revenues by Geographies	Year Ended		
	Dec 31, 06	Dec 31, 05	Dec 31, 04
USA	73.22%	75.15%	75.41%
SEAC (South East Asia)	9.08%	9.74%	9.22%
India	4.42%	3.16%	3.22%
Others	13.28%	11.95%	12.15%
Total	**100.00%**	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 an R Systems' client and become 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 numbers of clients and building a strong relationship with each client so that we can anticipate risks and take appropriate preemptive steps to minimize the risks and their consequences.

Competition

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

R Systems offers end-to-end high technology solutions and services to independent software vendors and technology service providers. R Systems with its unique and proprietary iPLM & iSuite frame work with best practices, tools and methodologies for flawless execution and consistent delivery of high quality software offers services along the entire software lifecycle that includes technology consulting, architecture, design & development, professional services, testing, maintenance, customer care and technical support. R Systems expects that its technology focus, by investing in processes, talent, and methodologies will enable it to distinguish itself from the competitor as it seeks to provide services to technology/product companies. R Systems has a reputation for excellence in delivery among product engineering companies and it proposes to leverage on this to grow its business. R Systems however expects competition to continue to be very intense in the future which could adversely impact its ability to win new customers and retain and grow existing customers.

Acquisitions

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

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

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 Integrated Capability Maturity Model (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. During the year, R Systems Noida development center was certified to achieve ISO 27001 standard reinforcing our commitment to the highest standards of service and information security practices.

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 over runs our profitability will be adversely affected. R Systems experienced a major overrun on a fixed priced project with a state government contract in the United States as the rigidity of government contract prevented R Systems from pass on the cost escalation to the client.

We have our internal processes to ensure accuracy in the estimation of the time required to execute fixed price projects, and processes to implement and monitor the progress of such projects. Further the experience gained from such projects is used for new projects. Currently the Company derives a small portion of its revenues from fixed price contracts. However given the very nature of the fixed price projects, cost over runs 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 professional 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 recruiting teams in the markets that we operate to continuously recruit skilled personnel at various levels in the organization. In addition R Systems operates 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 benefits 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 our clients by using our proprietary **pSuite Framework,** that allows our project teams to seamlessly share knowledge and collaborate on projects.

3. Financial

Foreign Currency Rate Fluctuations

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 2006 we saw a relatively volatile Rupee, with the conversion rates from USD to Rupee varying from Rs. 45.20 on January 1, 2006 to a high of Rs. 46.94 and a low of Rs. 43.84 and closing at Rs. 44.12 per USD on December 31, 2006 with an average rate of Rs. 45.32 for the year 2006 as against Rs. 44.12 for the year 2005.

R Systems attempts to minimize currency fluctuation risks on export earnings by taking forward covers on Rupee – US$ exchange rate based on anticipated revenues and debtors at periodic intervals. These hedging strategies have provided some protection against currency fluctuation risks in the past, however there can be no assurance that they will mitigate the risks in the future. Forward cover contracts could also prove to be detrimental to R Systems profitability if the actual currency conversion rates move in the direction opposite to those anticipated by R Systems.

Inflation and Cost Structure

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

R Systems major costs are wage and benefit cost that it incurs on employees. These costs may have a tendency to escalate faster than the rate of inflation because of the demand for skilled and experienced professionals. R Systems attempts to mitigate the risks associated with wage inflation by obtaining prices increases 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 on quality, time deadlines, output per hour, protection of confidential information, protection of intellectual property rights, patents, and copyrights. R Systems has a rigorous process to evaluate the legal risks involved in a contract, ascertains its legal responsibilities under the applicable law of the contract and tries to restrict its liabilities to the maximum extent possible. As a policy R Systems attempts to protect itself with “no consequential losses” and “maximum liability” clauses. R Systems also ensures that risks are protected through various insurances like professional liability, workers compensation, directors’ and officers’ liability insurance. The company’s past record in this regard has been good and there has been no significant damages awarded against the company that has resulted in material adverse impact on our financial position. R Systems also has an escalation process to immediately involve senior management personnel in case R Systems’ customers or contractors make any assertion of breach of contract.

Statutory Compliance

R Systems operates in several countries and it has to ensure compliance of the various applicable rules and regulations in these countries. R Systems is exposed to penalties and other liabilities related to non-compliance or inadequate compliance in these countries.

R Systems uses independent legal counsel to advise the Company on compliance issues with respect to the laws of various jurisdictions 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 Officer’s Liability Risks

The directors and officers of R Systems are required to take material decisions in the best interest of the Company. Such decision might results 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 advise when required and have taken various insurance policies outlined earlier including professional liability and directors’ and officers’ liability insurance.

Although the Company attempts to limit its contractual liability for damages arising from negligent acts, errors, mistakes or omissions by directors and officer’s 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 amounts 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.

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 change 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 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 of USA immigrations laws which is validated by periodic independent audit.

To The Members of R Systems International Limited

1. We have audited the attached Balance Sheet of R Systems International Limited as at December 31, 2006 and also the Profit and Loss Account and Cash Flow Statement of the Company for the year ended on that date annexed thereto. These Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003 (as amended) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. *The Company has not obtained any valuations of its shares to determine the additional benefit, if any, being offered to the existing option holders consequent to changes in the existing stock option plans as explained in note 12(a) and 12(c) of Schedule 19. Considering this, we are unable to assess the benefit if any, not accounted for and the consequent impact on these financial statements.*

5. Further to our comments in the Annexure referred to above, we report that:

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

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

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

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

   v. On the basis of the written representations received from the Directors, as on December 31, 2006, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on December 31, 2006 from being appointed as a Director in terms of clause (g) of Sub Section (1) of Section 274 of the Companies Act, 1956;

   vi. Subject to our comments in para 4 above, relating to additional benefit, if any, being offered to the existing option holders consequent to changes in existing stock options, consequential impact of which is not determinable, in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;

      a) in the case of the balance sheet, of the state of affairs of the Company as at December 31, 2006,

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

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

For S. R. Batliboi & Associates
Chartered Accountants

per Pankaj Chadha
Partner
Membership No. 91813

Place : Gurgaon
Date : March 3, 2007

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	Maximum Amount Rs.	Year end Balance Rs.
1.	EC Net Ltd	Subsidiary	54,639,764	36,824,704

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

(c) In respect of loans granted, repayment of the principal amount is as stipulated and payment of interest have been regular.

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

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

Sl. No.	Name of Party	Relationship with Company	Maximum Amount Rs.	Year end Balance Rs.
1.	R Systems (Singapore) Pte Ltd.	Subsidiary	15,781,984	15,000,800

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

(g) In respect of loans taken, the repayment is due on June 30, 2008.

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

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

(b) In respect of transactions with parties with whom transactions exceeding value of Rupees five lakhs have been entered into during the financial year, *the prevailing prices are not ascertainable considering the uniqueness of transactions and accordingly, we do not comment as to whether these transactions are entered at the prevailing market prices at the relevant time,* except for sale of vehicle to a director which has been undertaken at prevailing market price.

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

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

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

(ix) (a) Undisputed statutory dues including provident fund, employees' state insurance, income-tax, wealth-tax, service tax, sales tax, customs duty have generally been regularly deposited with the appropriate authorities *though there has been a slight delay in one* *month for the payment of professional tax.* As explained to us, this clause is not applicable to the investor education and protection fund, excise duty and cess which are not applicable to the Company.

(b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, employees' state insurance, income-tax, service tax, sales tax,customs duty and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable. As explained to us, this clause is not applicable to investor education and protection fund, excise duty and cess which are not applicable to the Company.

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

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

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

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

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

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

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

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

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

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

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

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

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

For S. R. Batliboi & Associates
Chartered Accountants

per Pankaj Chadha
Partner
Membership No. 91813

Place : Gurgaon
Date : March 3, 2007

Balance Sheet

(All amounts are in Rupees, unless otherwise stated)

	Schedules	As at December 31, 2006	As at December 31, 2005
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	135,457,570	51,391,886
Share application money pending allotment		-	1,598,100
Reserve and surplus	2	1,265,268,579	647,087,971
		1,400,726,149	700,077,957
Loan funds			
Secured loans	3	23,387,588	83,631,775
Unsecured loan	4	15,000,800	15,366,300
		38,388,388	98,998,075
Deferred payments liability (refer note 11(c) under schedule 19)		22,335,309	-
Deferred tax liability (net)	5	16,831,920	11,407,449
TOTAL		1,478,281,766	810,483,481
APPLICATION OF FUNDS			
Fixed assets	6		
Gross block		508,436,909	315,767,880
Less : Accumulated depreciation / amortisation		132,628,589	114,134,022
Net block		375,808,320	201,633,858
Capital work-in-progress including capital advances		10,613,123	54,517,277
		386,421,443	256,151,135
Investments	7	440,415,190	310,071,569
Current assets, loans and advances			
Sundry debtors	8	320,446,629	279,259,211
Cash and bank balances	9	471,470,775	39,079,839
Other current assets	10	99,920,798	48,052,939
Loans and advances	11	77,869,846	75,492,860
(A)		969,708,048	441,884,849
Less : Current liabilities and provisions			
Current liabilities	12	218,011,511	168,292,613
Provisions	13	100,251,404	29,331,459
(B)		318,262,915	197,624,072
Net current assets (A-B)		651,445,133	244,260,777
TOTAL		1,478,281,766	810,483,481
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 Pankaj Chadha
Partner
Membership No. 91813

Place : Gurgaon
Date : March 3, 2007

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

Satinder Singh Rekhi
[Managing Director]
Place : EDH, CA, USA
Date : March 3, 2007

O'Neil Nalavadi
[Director Finance & CFO]
Place : EDH, CA, USA
Date : March 3, 2007

Lt. Gen. Baldev Singh (Retd)
[Senior Executive Director]
Place : NOIDA
Date : March 3, 2007

Nand Sardana
[Vice President (Finance)
& Company Secretary]
Place : NOIDA
Date : March 3, 2007

Profit and Loss Account

(All amounts are in Rupees, unless otherwise stated)

	Schedules	For the year ended December 31, 2006	For the year ended December 31, 2005
INCOME			
Sale of software products and rendering software development services		1,175,412,966	812,729,835
Provision for diminution in value of long term investments written back (refer note 11(d) under Schedule 19)		7,989,770	-
Other income	14	41,326,127	3,528,947
TOTAL		1,224,728,863	816,258,782
EXPENDITURE			
Personnel expenses	15	664,978,983	402,594,005
Operating and other expenses	16	356,897,750	233,298,986
Depreciation / amortisation	6	45,312,442	31,741,364
Financial expenses	17	5,432,837	8,481,056
Provision for diminution in value of long term investments (refer note 11(b) under Schedule 19)		10,442,237	-
TOTAL		1,083,064,249	**676,115,411**
Profit before tax and prior period expenses		141,664,614	140,143,371
Prior period expenses	18	15,889,350	538,160
Profit for the year before tax and after prior period expenses		125,775,264	139,605,211
Current tax (net of excess provision of Rs. Nil, Previous year Rs.181,145)		14,437,676	6,120,290
Fringe benefit tax		5,425,536	2,641,190
Deferred tax (net of prior period item of Rs.Nil Previous year Rs. 2,380,094)		5,424,471	3,468,081
Total tax expense		25,287,683	12,229,561
Profit available for appropriation		100,487,581	127,375,650
Appropriations			
Proposed final dividend		16,299,247	-
Tax on proposed final dividend		2,770,057	-
Transfer to general reserve		2,512,190	-
Surplus carried to Balance Sheet		78,906,087	127,375,650
Earnings per share (also refer note 13 under Schedule 19)			
Basic [Nominal value of shares Rs. 10 (Previous year: Rs. 10)]		7.92	11.89
Diluted [Nominal value of shares Rs. 10 (Previous year: Rs. 10)		7.92	11.89
Notes to accounts	19		

The schedules referred to above and the notes to accounts form an integral part of the Profit and Loss Acount.

As per our report of even date.

For S. R. Batliboi & Associates
Chartered Accountants

per Pankaj Chadha
Partner
Membership No. 91813

Place : Gurgaon
Date : March 3, 2007

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]	[Senior Executive Director]	[Vice President (Finance) & Company Secretary]
Place : EDH, CA, USA	Place : EDH, CA, USA	Place : NOIDA	Place : NOIDA
Date : March 3, 2007	Date : March 3, 2007	Date : March 3, 2007	Date : March 3, 2007

	For the year ended December 31, 2006	For the year ended December 31, 2005
A Cash flow from operating activities		
Net profit before taxation	125,775,264	139,605,211
Adjustments for:		
Depreciation /amortisation	45,312,442	31,741,364
Provision for doubtful debts	11,034,571	7,658,583
Provision for advances	33,947,774	-
Bad debts and advances written off	271,392	3,345,418
Provision for diminution in value of investment	10,442,237	-
Loss on sale / discard of fixed assets(net)	1,030,898	654,517
Unrealised foreign exchange loss / (gain)	(9,097,141)	1,170,030
Interest income	(26,295,057)	(2,328,082)
Write back of provision for doubtful debts	(3,354,899)	(449,256)
Excess provisions written back	(3,121)	(212,429)
Provision for diminution in value of long term investments written back	(7,989,770)	-
Interest expense	4,269,559	7,305,198
Operating profit before working capital changes	185,344,149	188,490,553
Movements in working capital :		
Decrease / (Increase) in sundry debtors	(48,521,811)	(41,843,564)
Decrease / (Increase) in other current assets	(41,056,891)	(12,730,323)
Decrease / (Increase) loans and advances	(33,754,800)	(23,342,521)
Increase / (Decrease) in provisions	36,124,285	14,453,365
Increase / (Decrease) in current liabilities	(8,004,546)	(4,081,531)
Cash generated from operations	90,130,386	120,945,978
Direct taxes paid (net of refunds)	(13,323,799)	(4,868,518)
Interest on income-tax refund	57,638	107,664
Net cash from operating activities	76,864,225	116,185,124
B. Cash flows used in investing activities		
Purchase of fixed assets	(174,824,535)	(56,579,728)
Proceeds from sale of fixed assets	1,025,587	791,946
Acquisition of subsidiary (net of deferred compensation to the erstwhile shareholders of R Systems Solutions, Inc. (formerly known as Webconverse, Inc.)) (also refer note 11 (c) under Schedule 19)	(54,803,268)	-
Interest received	15,426,451	2,301,388
Net cash used in investing activities	(213,175,765)	(53,486,394)
C. Cash flows from / (used in) financing activities		
Proceeds from borrowings	4,703,770	6,136,257
Repayment of borrowings	(64,947,959)	(45,645,835)
Proceeds from issue of equity shares	722,211,814	1,764,574
Share issue expenses	(92,030,667)	(2,390,943)
Interest paid	(4,269,559)	(7,305,198)
Net cash from / (used in) financing activities	565,667,399	(47,441,144)
Net increase in cash and cash equivalents (A + B + C)	429,355,859	15,257,586
Cash and cash equivalents at the beginning of the year	40,109,371	24,851,785
Cash and cash equivalents at the end of the year	469,465,230	40,109,371

Components of cash and cash equivalents as at	December 31, 2006	December 31, 2005
Cash on hand	214,107	38,483
Balances with scheduled banks		
On current accounts	12,158,091	7,904,760
On cash credit account	3,986,468	-
On EEFC accounts	14,759,683	4,959,507
On deposit accounts	431,307,934	16,011,748
Balance with other bank		
On current account	9,044,492	10,165,341
	471,470,775	39,079,839
Unrealised loss/(gain) on foreign currency cash and cash equivalents	(2,005,545)	1,029,532
Net cash and cash equivalents	469,465,230	40,109,371

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
Chartered Accountants

per Pankaj Chadha
Partner
Membership No. 91813

Place : Gurgaon
Date : March 3, 2007

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]	[Senior Executive Director]	[Vice President (Finance) & Company Secretary]
Place : EDH, CA, USA	Place : EDH, CA, USA	Place : NOIDA	Place : NOIDA
Date : March 3, 2007	Date : March 3, 2007	Date : March 3, 2007	Date : March 3, 2007

	As at December 31, 2006	As at December 31, 2005
Schedule 1: Share capital		
Authorised		
20,000,000 (Previous year 50,000,000 equity shares of Rs. 2 each) equity shares of Rs. 10 each	200,000,000	100,000,000
Issued, subscribed and paid up		
13,782,206 (Previous year 26,890,087 of Rs. 2 each fully paid-up) equity shares of Rs. 10 each fully paid-up (also refer note 10 under Schedule 19)	137,822,060	53,780,174
Less: Equity shares buy-back 997,500 (Previous Year 997,500 equity shares of Rs. 2 each) equity shares of Rs. 2 each fully paid-up (Refer Note 2 below)	1,995,000	1,995,000
Less: Advance to Indus Software Employees Welfare Trust (also refer note 12 (b) under Schedule 19)	369,490	393,288
	135,457,570	51,391,886

Notes:

1) Pursuant to the shareholders' agreement dated February 16, 2002, the Company had agreed to issue warrants to its two strategic shareholders. The number of warrants to be issued were to be determined based on the proportionate new revenues to the Group by these shareholders over an agreed period, subject to the maximum of 7.5% of equity stake each in the Company's then diluted share capital (including shares issued / to be issued under an ESOP or any instruments convertible into equity shares). Such warrants, were to be issued, at zero cost and consideration for exercise of warrants, to the extent eligible, was to be paid at the time of exercise of the warrants at the par value of Company's shares, subject to the minimum pricing guidelines of the Reserve Bank of India prevailing on the exercise date. These warrants were converted into 495,667 equity shares of the Company on January 25, 2006 upon exercise of option by these shareholders.

2) The Company had earlier advanced Rs.115,131,450 to R Systems Employee Stock Option Trust, and allotted 997,500 equity shares at the rate of Rs.115.42. During the year ended December 31, 2004, the Company bought back these shares at the rate of Rs 115.42 per equity share.

3) Also refer note 12 under Schedule 19

	As at December 31, 2006	As at December 31, 2005
Schedule 2: Reserves and surplus		
Securities premium account		
Balance as per last account	435,536,007	468,310,600
Less: Utilised for write off of investment in ECnet Limited (also refer note 11 (b) under Schedule 19)	-	24,495,721
Add : Amount received on issue of equity shares	693,320,578	-
Less: Utilised for issue of bonus shares	53,552,550	-
Less: Utilised for share issue expenses *	93,616,467	8,278,872
	981,687,568	435,536,007
Less: Advance to Indus Software Employees Welfare Trust (also refer note 12 (b) under Schedule 19)	2,652,218	2,823,030
	979,035,350	432,712,977
General Reserve		
Balance as per last account	-	-
Add: Transferred from Profit and Loss Account	2,512,190	-
	2,512,190	-

	As at December 31, 2006	As at December 31, 2005
Profit and Loss Account		
Balance as per last account	214,374,994	86,999,344
Less: Increased liability in accordance with 'AS-15 (Revised) Employee benefits'	9,560,042	-
Add: Transferred from Profit and Loss Account	78,906,087	127,375,650
	283,721,039	214,374,994
	1,265,268,579	647,087,971

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

Schedule 3: Secured loans

Loans from banks		
Cash credit facilities (Secured by first charge over current assets and collateral charge over the immovable property and fixed assets)	15,478,841	43,915,477
Term loan facilities (Secured by first charge over the immovable property, fixed assets and current assets)	-	33,379,359
For motor vehicles (Secured by hypothecation of underlying motor vehicles)	7,908,747	6,336,939
	23,387,588	83,631,775

Note:

In case of term loan facilities- the amount repayable within one year is Rs. Nil (Previous year Rs 14,974,382).
In case of motor vehicle loans, amount repayable within one year is Rs. 3,434,298 (Previous year Rs.2,225,354)

Schedule 4: Unsecured loans

Loan from a subsidiary company	15,000,800	15,366,300
	15,000,800	15,366,300

Note:

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

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	26,331,661	11,407,449
Gross deferred tax liability	26,331,661	11,407,449
Deferred tax assets		
Provision for gratuity	4,646,339	-
Provision for leave encashment	4,853,402	-
Gross deferred tax assets	9,499,741	-
Net deferred tax liability	16,831,920	11,407,449

Schedule 6: Fixed assets

	Land freehold	Land-leasehold	Building-freehold	Building-leasehold (1)	Leasehold improvements	Computers	Office and electrical equipment	Furniture and fittings	Vehicle	Softwares	Product development costs	Total	Previous year
Gross block													
As at January 1, 2006	4,765,674	10,005,968	30,991,162	33,760,851	-	119,819,525	33,192,837	23,959,290	14,653,901	40,561,490	4,057,182	**315,767,880**	286,552,877
Additions	-	-	-	48,550,518	336,731	74,714,098	38,602,993	44,985,190	7,334,802	7,019,057	-	**221,543,389**	31,975,639
Deductions	-	-	-	-	-	15,886,989	1,089,336	198,867	2,126,228	9,572,940	-	**28,874,360**	2,760,636
At December 31, 2006	**4,765,674**	**10,005,968**	**30,991,162**	**82,311,369**	**336,731**	**178,646,634**	**70,706,494**	**68,745,613**	**19,862,475**	**38,007,607**	**4,057,182**	**508,436,909**	315,767,880
Depreciation / amortisation													
As at January 1, 2006	-	283,651	2,150,482	2,224,212	-	54,493,687	8,721,634	7,323,855	4,347,707	33,151,871	1,436,923	**114,134,022**	83,042,787
For the year	-	163,098	509,757	822,324	41,669	23,306,617	3,350,154	7,149,402	1,734,345	7,220,776	1,014,300	**45,312,442**	31,741,364
Deletions / adjustments	-	-	-	-	-	15,419,845	308,510	168,874	1,347,706	9,572,940	-	**26,817,875**	650,129
At December 31, 2006	**-**	**446,749**	**2,660,239**	**3,046,536**	**41,669**	**62,380,459**	**11,763,278**	**14,304,383**	**4,734,346**	**30,799,707**	**2,451,223**	**132,628,589**	114,134,022
Depreciation / amortisation for previous year	-	163,097	509,757	547,185	-	17,163,954	2,422,320	2,022,757	1,416,272	6,481,722	1,014,300	**31,741,364**	28,688,137
Net block													
At December 31, 2006	**4,765,674**	**9,559,219**	**28,330,923**	**79,264,833**	**295,062**	**116,266,175**	**58,943,216**	**54,441,230**	**15,128,129**	**7,207,900**	**1,605,959**	**375,808,320**	201,633,858
At December 31, 2005	4,765,674	9,722,317	28,840,680	31,536,639	-	65,325,838	24,471,203	16,635,435	10,306,194	7,409,619	2,620,259		
Capital work in progress (including capital advances of Rs. 5,564,580 (Previous year Rs.6,618,354)												**10,613,123**	54,517,277
												386,421,443	256,151,135

Notes :

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

(2) Vehicles amounting to Rs. 16,373,713 (Previous year Rs. 10,746,455) are hypothecated against term loans for vehicle finance from banks.

(3) The exchange difference included in the assets capitalized is Rs. 94,111 (Previous year Rs. 31,340)

(4) Capital work in progess include Product development cost in progress amounting to Rs. 4,534,053 (Previous year Rs. Nil)

		As at December 31, 2006		As at December 31, 2005
Schedule 7: Investments				
Long term investments (at cost)				
A. Other than trade				
Equity shares				
2,500 (Previous year 2,500) equity shares of Rs.10 each in The Saraswat Co-operative Bank Limited		25,000		25,000
B. In subsidiary companies:				
Unquoted, fully paid up				
1,000 (Previous year 10,000,000) shares of "no par" value in R Systems, Inc., USA		203,418,532		203,418,532
4,070,000 (Previous year 4,070,000) ordinary shares of "no par" value (Previous year Sing $1 each) in R Systems (Singapore) Pte. Ltd.	104,173,570		104,173,570	
Less: Provision for diminution in value (see note 11 (d) under Schedule 19)	-	104,173,570	7,989,770	96,183,800
243,750 (Previous year 243,750) common stock of US$1 each fully paid up in Indus Software Inc., USA	10,785,738		10,785,738	
Less: Provision for diminution in value	10,784,738	1,000	10,784,738	1,000
17,651,705 (Previous year 17,651,705) ordinary shares of "no par" value (Previous year Sing $ 0.06 each) in ECnet Limited, Singapore) (also refer note 11(a) and 11 (b) under Schedule 19)	34,938,958		34,938,958	
Less: Provision for diminution in value	10,442,237		-	
Less : Adjustment with securties premium as per order of High Court	24,495,721	1,000	24,495,721	10,443,237
Investment in R Systems Solutions, Inc (formerly known as WebConverse, Inc) (also refer note 11(c) under Schedule 19)		132,796,088		-
8,666,884 (Previous year Nil) Series A convertible preferred stock of "no par" value				
10,335,833 (Previous year Nil) common stock of US$ 0.0002 each fully paid up				
		440,415,190		310,071,569
Aggregate amount of unquoted investments		440,415,190		310,071,569

	As at December 31, 2006	As at December 31, 2005
Schedule 8: Sundry debtors		
Debts outstanding for a period more than six months		
Unsecured, considered good	20,063,785	8,624,154
Considered doubtful	36,486,569	9,230,762
Other debts		
Unsecured, considered good	300,382,845	270,635,057
Considered doubtful	17,592,774	3,187,939
	374,525,973	291,677,912
Less : Provision for doubtful debts	54,079,344	12,418,701
	320,446,629	279,259,211
Included in Sundry debtors are:		
Dues from the subsidiary companies:		
R Systems, Inc.	63,200,086	26,526,887
EC net Ltd.	15,426,235	8,427,498
R Systems (Singapore) Pte. Ltd.	147,414	2,048,979
R Systems Solutions, Inc (formerly known as WebConverse, Inc)	5,747,680	-
Schedule 9: Cash and bank balances		
Cash on hand	214,107	38,483
Balances with scheduled banks		
On current accounts	12,158,091	7,904,760
On cash credit account	3,986,468	-
On EEFC accounts	14,759,683	4,959,507
On deposit accounts	431,307,934	16,011,748
Balance with other banks		
On current account with California Bank & Trust (Maximum balance during the year Rs.43,894,909, (Previous year Rs. 38,103,385))	9,044,492	10,165,341
	471,470,775	39,079,839

Notes:

1) Balances with scheduled banks - on deposit accounts include receipts pledged with Banks and various Government departments Rs. 11,204,018 (Previous year Rs. 16,011,748).

2) Also refer note 17 of Schedule 19.

Schedule 10: Other current assets

		As at December 31, 2006		As at December 31, 2005
Interest accrued on deposits		10,961,473		142,397
Interest accrued on staff advance		37,691		45,799
Unbilled revenue	95,561,419		50,279,000	
Less: Anticipated cost to complete contracts	6,639,785	88,921,634	3,088,802	47,190,198
Fixed assets held for disposal (at net book value or estimated net realisable value, whichever is lower)		-		674,545
		99,920,798		48,052,939

	As at December 31, 2006	As at December 31, 2005
Schedule 11: Loans and advances		
(Unsecured, considered good, except where otherwise stated)		
Advances recoverable in cash or in kind or for value to be received (including Rs.5,015,226 considered doubtful, Previous year Rs. 5,145,226)	44,799,456	22,736,139
Advance to R System, Inc.	13,881,228	381,896
Advance recoverable from ECnet Limited (a subsidiary company)	-	482,020
Advance recoverable from R Systems Solutions, Inc (formerly known as WebConverse, Inc) (a wholly owned subsidiary company)	189,143	-
Loan to ECnet Limited (a subsidiary company)	36,824,704	45,593,184
[including Rs.33,947,774 considered doubtful, (Previous year Rs. Nil)]		
Advance to R Systems (Singapore) Pte Ltd (a wholly owned subsidiary)	667,213	871,538
Deposits - others	20,471,102	10,200,210
Advance income taxes (net of provisions amounting to Rs. Nil, (Previous year Rs.7,848,252))	-	373,099
	116,832,846	80,638,086
Less : Provision for doubtful loans and advances	38,963,000	5,145,226
	77,869,846	75,492,860
Schedule 12: Current liabilities		
Sundry creditors	110,598,932	53,981,230
Unamortised income on forward contracts	1,213,010	909,484
Payable to subsidiary companies	6,768,458	72,013,777
Deferred payment compensation to the shareholders of R Systems Solutions, Inc (refer note 11 (c) under Schedule 19)	51,664,498	-
Deferred payment compensation to the shareholders of ECnet Limited (refer note 11 (b) under Schedule 19)	27,953,223	26,368,974
Deferred revenue	6,991,749	3,264,817
Advance from customers	2,245,688	5,037,356
Security deposits	1,958,025	1,247,834
Other liabilities	8,617,928	5,469,141
	218,011,511	168,292,613
Schedule 13: Provisions		
Provision for employee bonus (refer note 1 below)	15,690,148	9,000,000
Provision for income tax (net of advance taxes amounting to Rs.16,215,014 (Previous year Rs.Nil))	6,079,703	-
Provision for fringe benefit tax (net of advance taxes amounting to Rs.6,908,195 (Previous year Rs.1,448,078))	1,279,723	1,193,112
Proposed final dividend	16,299,247	-
Tax on proposed final dividend	2,770,057	-
Provision for gratuity	16,885,862	8,913,558
Provision for leave encashment	41,246,664	10,224,789
	100,251,404	29,331,459
Note 1: Provision for employee bonus		
Opening provision	9,000,000	5,650,000
Provision made during the year	15,154,500	8,800,000
Amount used during the year	8,464,352	5,450,000
Closing provision	15,690,148	9,000,000

		For the year ended December 31, 2006		For the year ended December 31, 2005
Schedule 14: Other income				
Interest on:				
Bank deposits (Gross of tax deducted at source Rs. 2,667,457 (Previous year Rs. 35,805))		22,887,675		284,629
Income-tax refund		57,638		107,664
Others (interest on loan to ECnet Ltd)		3,349,744		1,935,789
Provision for doubtful debts and advances written back		3,354,899		449,256
Excess provisions written back, as no longer required		3,121		212,429
Foreign exchange fluctuation (net)		6,169,666		-
Miscellaneous income		5,503,384		539,180
		41,326,127		3,528,947
Schedule 15: Personnel expenses				
Salaries, wages and bonus		626,920,314		376,293,636
Contribution to provident fund and other payments		22,385,630		14,828,688
Staff welfare expenses		15,673,039		11,471,681
		664,978,983		402,594,005
Schedule 16: Operating and other expenses				
Power and fuel		23,667,572		16,154,277
Rent - premises		13,071,785		6,325,674
Rent - equipments		6,551,559		5,774,836
Rates and taxes		2,464,230		386,485
Insurance		3,195,345		2,186,169
Repair and maintenance				
- Buildings		1,634,438		199,364
- Others		15,440,788		10,272,009
Advertising and sales promotion		2,844,322		1,024,796
Commission-others		4,207,003		38,345,823
Travelling and conveyance		122,328,156		65,909,251
Communication costs		32,745,754		27,190,304
Printing and stationery		2,936,073		1,208,527
Consumption of stores		671,914		413,650
Legal and professional fees		23,731,630		14,718,801
Directors' sitting fee		145,000		35,000
Auditor's remuneration				
- Audit fee	1,346,880		1,322,400	
- Limited reviews	561,200		-	
- Other services	448,960		330,600	
- Out of pocket expenses	48,254	2,405,294	65,000	1,718,000
Foreign exchange fluctuation (net)		-		8,323,179
Provision for doubtful debts		44,982,345		7,658,583
Provision for doubtful advances		33,947,774		-
Bad debts and advances written off		271,392		3,345,418
Loss on sale / discard of fixed assets (net)		1,030,898		654,517
Recruitment and training expenses		11,202,532		6,274,974
Management fees		-		10,067,244
Watch and ward expenses		2,841,140		1,950,362
Membership and subscription		2,131,145		1,432,145
Miscellaneous expenses		2,449,661		1,729,598
		356,897,750		233,298,986

	For the year ended December 31, 2006	For the year ended December 31, 2005
Schedule 17: Financial expenses		
Interest		
on ECB (on loan from R Systems (Singapore) Pte Ltd.)	998,538	772,361
on loans from banks	3,271,021	6,532,837
Bank charges	1,163,278	1,175,858
	5,432,837	8,481,056
Schedule 18: Prior period expenses		
Foreign exchange fluctuation (net)	-	538,160
Salaries, wages and bonus	15,332,452	-
Legal and professional fees	556,898	-
	15,889,350	538,160

Schedule 19: Notes to accounts

1. Nature of operations

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

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

2. Statement of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual and going concern basis. The accounting policies have been consistently applied by the Company as those used in the previous year except for the changes in accounting policy as discussed below.

All figures are in Rupees except where expressly stated.

(b) Changes in accounting policies

Adoption of Accounting Standard AS15 (Revised 2005) Employee Benefits

Till December 31, 2005, the Company had been providing employee retirement benefits (namely gratuity and leave encashment) in accordance with the Accounting Standard 15 on Retirement Benefits. In the current year, the Company has gone for early adoption of the Accounting Standard 15 (Revised 2005) which is mandatory from accounting periods starting from December 7, 2006. Accordingly the company has provided for gratuity and leave encashment based on actuarial valuation done as per projected unit credit method. Further in accordance with the transitional provision in the revised accounting standard, Rs. 9,560,042 has been adjusted to the Reserve and Surplus.

Had the Company followed the earlier policy, the expense of the year would have been lower by Rs. 7,104,491, profit for the year would have been higher by Rs. 7,104,491 and year-end Reserves and Surplus would have been higher by Rs. 1,664,533.

(c) Fixed assets

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

(d) Depreciation

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

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

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, ii) stand alone air conditioners and iii) telephone instruments, other than meridian phones.	20 years
UPS systems	12 years
Stand alone air conditioners and telephone instruments other than meridian phones.	6 years
Computer hardware and network installations	6 years
Furniture and fittings	15 years
Vehicles	10 years

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

	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.

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

(e) Intangibles

Product development costs

Product development cost represents direct cost incurred by the Company for developing new product. Research costs are expensed as incurred. Development expenditure incurred on an individual 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.

(f) 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.

(g) 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

(h) Leases

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

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

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

(i) Investments

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

(j) Revenue recognition

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

Sale of software products

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

Rendering of services

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

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

Fixed-price contracts vary in duration depending on the terms of the work being performed and historically have ranged in length from two months to six months. Revenue from fixed price contracts (including maintenance and support contracts) is recognised using the percentage of completion method, when reasonable progress has been made on the milestones achieved as specified in the contracts. In terms of contracts excess/shortfall of revenue over the billed as at the year-end is carried in financial statement as unbilled revenue/deferred revenue separately. The stage of completion of project is determined by the proportion that contract efforts incurred for work performed up to the balance sheet date bear to the estimated total contract effort. Changes in contract performance, estimated profitability and final contract settlements may result in revisions to costs and revenues and are recognised in the year in which the revisions are determined. If a loss is projected on any contracts in process, the entire projected loss is recognised currently.

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

(k) Foreign currency translation

Foreign currency transactions

(i) Initial recognition

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

(ii) Conversion

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

(iii) Exchange differences

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

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

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

(v) Translation of Integral foreign operation

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

(l) Employee benefits

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

(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. The gratuity plan is not funded.

(iii) Long term compensation absences are provided for based on actuarial valuation made at the end of each financial year.

(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.

(m) Income taxes

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

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

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

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

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

(n) Earnings per share

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

(o) Provision

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

(p) Segment reporting policies

Identification of segments :

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

Intersegment transfers :

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

Allocation of common costs :

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

Unallocated items :

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

(q) Derivative instruments

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

(r) Cash and cash equivalents

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

3. Segment information

Business segments :

The Company considers business segment as the basis for primary segmental reporting. The Company is organized into two business segments – software development and customization services and BPO services. All other costs and expenses are reflected in the corporate segment. Segments have been identified and reported based on the nature of the services, the risks and returns, the organization structure and the internal financial reporting system.

Geographical segments :

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

The following table provides required information for the primary segments for the year ended December 31, 2006 and year ended December 31, 2005:

Particulars	Software development & customisation services		Business process outsourcing servicing		Eliminations		Corporate and others		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
REVENUE										
External sales	1,025,258,252	731,435,800	150,154,714	81,294,035	-	-	-	-	1,175,412,966	812,729,835
Total revenue	1,025,258,252	731,435,800	150,154,714	81,294,035	-	-	-	-	1,175,412,966	812,729,835
RESULT										
Segment result	106,194,632	144,190,543	19,111,403	11,418,671					125,306,035	155,609,214
Unallocated corporate expenses							41,219,089	11,778,496	41,219,089	11,778,496
Operating profit									84,086,946	143,830,718
Interest expenses							(4,269,559)	(7,305,198)	(4,269,559)	(7,305,198)
Interest income							26,295,057	2,328,082	26,295,057	2,328,082
Other income							19,662,820	751,609	19,662,820	751,609
Income taxes							(25,287,683)	(12,229,561)	(25,287,683)	(12,229,561)
Net profit									100,487,581	127,375,650
OTHER INFORMATION										
Segment assets	792,466,776	536,178,286	88,282,607	60,091,686	38,214,214	49,933,067			842,535,169	546,336,905
Unallocated corporate assets							954,009,512	461,397,550	954,009,512	461,397,550
Income tax assets							-	373,099	-	373,099
Total assets	792,466,776	536,178,286	88,282,607	60,091,686	38,214,214	49,933,067	954,009,512	461,770,649	1,796,544,681	1,008,107,554
Segment liabilities	172,720,429	161,140,943	74,906,245	64,281,566	38,214,214	49,933,067			209,412,460	175,489,442
Unallocated corporate liabilities							149,944,928	119,939,594	149,944,928	119,939,594
Income tax liabilities							36,461,144	12,600,561	36,461,144	12,600,561
Total liabilities	172,720,429	161,140,943	74,906,245	64,281,566	38,214,214	49,933,067	186,406,072	132,540,155	395,818,532	308,029,597
Capital expenditures	169,502,965	56,601,786	8,136,270	3,746,200					177,639,235	60,347,986
Depreciation and amortization	39,078,101	26,538,229	6,234,341	5,203,135					45,312,442	31,741,364
Other non-cash expenses	78,309,974	10,004,097	1,922,435	1,654,421					80,232,409	11,658,518

Geographical segments:

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

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

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

	Year ended December, 31, 2006	Year ended December, 31, 2005
India	90,148,207	49,854,451
USA	817,477,689	574,353,139
South East Asia	58,456,298	44,624,034
Others	209,330,772	143,898,211
Total	1,175,412,966	812,729,835

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	Carrying amount of assets	Addition to fixed assets and intangible assets	Addition to fixed assets and intangible assets
	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005
India	1,016,342,383	388,099,632	177,639,235	57,783,090
USA	601,324,195	393,101,178	-	2,564,896
South East Asia	134,039,417	173,758,964	-	-
Others	44,838,686	53,147,780	-	-
Total	1,796,544,681	1,008,107,554	177,639,235	60,347,986

4. Related party disclosure

(i) Names of related parties

Subsidiaries	R Systems, Inc., USA R Systems (Singapore) Pte Ltd, Singapore Indus Software, Inc., USA ECnet Ltd, Singapore R Systems Solutions, Inc., (formely known as Web Converse Inc,), USA
Key management personnel (Directors)	Satinder Singh Rekhi, Managing Director Lt. Gen. Baldve Singh (Retd), (Managing Director till January 18, 2006 appointed Senior Executive Director as per Board of Directors' resolution dated January 18, 2006) O'Neil Nalavadi, Director Fianace & CFO Avirag Jain, Alternate Director Raj Swaminathan, Director (Chief Operating Officer, appointed Executive Director as per Board of Directors' resolution dated September 29, 2006)

(ii) Details of transactions with related parties for the year ended December 31, 2006 and year ended December 31, 2005

	Year ended December 31, 2006	Year ended December 31, 2005
Sales to		
ECnet Ltd, Singapore	22,469,031	13,636,984
R Systems, Inc., USA	81,795,426	69,228,869
R Systems (Singapore) Pte Ltd, Singapore	2,296,927	2,033,091
R Systems, Solutions, Inc., USA	685,978	-
Total	107,247,362	84,898,944
Other income		
R Systems Inc., USA	4,046,024	488,750
Management fee, commission on sales and other expenses paid to		
ECnet Ltd, Singapore	-	334,913
R Systems, Inc., USA	7,312,581	51,382,389
R Systems (Singapore) Pte Ltd, Singapore	171,589	162,648
Total	7,484,170	51,879,950
Interest received from		
ECnet Ltd., Singapore	3,349,744	1,935,789
Interest paid to		
R Systems (Singapore) Pte Ltd, Singapore	998,538	772,361
Travel and other expenses reimbursed to		
ECnet Ltd, Singapore	1,875,886	917,297
R Systems, Inc., USA	58,259,701	19,982,249
Indus Software, Inc, USA	-	189,819
R Systems (Singapore) Pte Ltd, Singapore	80,118	104,526
Total	60,215,705	21,193,891
Travel and other expenses paid by company on behalf of		
ECnet Ltd, Singapore	646,245	1,049,889
R Systems, Inc., USA	11,517,218	8,236,189
R Systems Solutions, Inc., USA	1,383,737	-
Total	13,547,200	9,286,078
Reimbursement for purchase of assets		
R Systems, Inc., USA	590,413	3,855,410
Assets obtained on loan from		
R Systems, Inc., USA	5,780,261	2,117,255
Guarantee given to		
R Systems, Inc., USA	-	99,429,000
Loan given to		
ECnet Ltd. Singapore	5,508,000	18,390,600
Remuneration to key management personnel		
-Satinder Singh Rekhi	13,005,452	-
-O'Neil Nalavadi	8,415,060	-
-Lt. Gen. Baldev Singh (Retd.)	5,438,893	1,337,363
-Raj Swaminathan	3,357,665	-
-Avirag Jain	2,465,337	1,195,100
Total	32,682,407	2,532,463

	Year ended December 31, 2006	Year ended December 31, 2005
Balance outstanding as at the year end		
Receivable-trade		
ECnet Ltd, Singapore	15,426,235	8,427,498
R Systems, Inc., USA	35,184,318	26,526,887
R Systems (Singapore) Pte Ltd, Singapore	147,414	2,048,979
R Systems Solutions, Inc., USA	5,747,680	-
Total	56,505,647	37,003,364
Receivable-others		
ECnet Ltd, Singapore	-	482,020
R Systems, Inc., USA	11,814,628	381,896
R Systems (Singapore) Pte Ltd, Singapore	667,214	871,538
R Systems Solutions, Inc., USA	189,143	-
Total	12,670,985	1,735,454
Payable		
ECnet Ltd, Singapore	184,959	1,265,447
R Systems, Inc., USA	2,752,856	69,155,361
Indus Software, Inc., USA	1,766,855	1,592,969
Total	4,704,670	72,013,777
Assets obtained on loan		
R Systems, Inc., USA	14,075,546	8,295,285
R Systems (Singapore) Pte Ltd, Singapore	157,573	157,573
Total	14,233,118	8,452,858
Guarantee given		
R Systems, Inc., USA	-	99,429,000
Loan given		
ECnet Ltd, Singapore	36,824,704	45,593,184
Loan Taken		
R Systems (Singapore) Pte Ltd, Singapore	15,000,800	15,366,300

5. Leases

In case of assets taken on lease

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

	Year ended December 31, 2006	Year ended December 31, 2005
Lease payments for the year	9,374,269	3,842,184
Minimum lease payments:		
Not later than one year	14,628,430	3,843,251
Later than one year but not later than five years	6,286,745	4,222,130
Later than five years	-	-

6. Capital commitments

Commitments for acquisition of fixed assets	8,842,917	25,979,161

7. Contingent liabilities not provided for:

(i) Guarantee given on behalf of wholly owned subsidiary	-	**99,429,000**

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

(iii) Also refer note 11 (c) below.

8. Supplementary statutory information

8.1 Directors' remuneration

	Year ended December 31, 2006	Year ended December 31, 2005
Salaries, wages and bonus	28,018,532	1,286,963
Contribution to provident fund	143,392	50,400
	28,161,924	1,337,363
Alternate directors' remuneration		
Salaries	190,411	807,964
Contribution to Provident fund	10,703	44,547
	201,114	852,511

Note:

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

(ii) The above remuneration includes Rs. 1,302,519 (Previous Year Rs. Nil) pending approval of Central Government.

8.2 Earnings in foreign currency (on accrual basis)

	Year ended December 31, 2006	Year ended December 31, 2005
Exports at F.O.B. Value	1,098,125,098	762,875,384
Interest	3,349,744	1,935,789
Reimbursement of Travel / Communication costs	46,237,657	34,126,264
	1,147,712,499	798,937,437

8.3 Expenditure in foreign currency (on accrual basis)

Traveling and conveyance*	103,745,842	55,751,738
Commission-others	4,131,810	38,050,461
Management fees	-	10,067,240
Interest	998,538	772,361
Salaries, wages and bonus	59,701,092	-
Consultancy and other miscellaneous expenses**	17,126,821	14,162,620
	185,704,103	118,804,420

* excluding share issue expenses incurred in foreign currency of Rs. 3,753,171 (Previous year Rs. 1,920,667)

** excluding share issue expenses incurred in foreign currency of Rs. 376,575 (Previous year Rs. 1,933,303)

8.4 Value of imports calculated on CIF basis

Capital goods	75,822,035	30,593,481
	75,822,035	30,593,481

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

9. Sundry creditors do not include any amounts payable to small scale and ancillary industrial undertakings; to the extent such parties have been identified by the management from available documents/information.

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

- 18,000,000 equity shares of Rs.2 each, allotted as fully paid up bonus shares by way of capitalisation of accumulated profits.-
- 335,000 equity shares of Rs.2 each, allotted at a premium of Rs.2,167.55 per equity share pursuant to a contract for share swap with existing shareholders of R Systems Inc., USA after obtaining necessary regulatory approvals.

- 3,596,869 equity shares of Rs. 2 each, allotted at a premium of Rs. 113.42 per equity share pursuant to a "Shareholders Agreement" resulting in share swap with specific shareholders of Indus Software Private Limited (or 'Indus') after obtaining necessary regulatory approvals.
- 1,281,364 equity shares of Rs. 2 each, allotted at a premium of Rs. 113.42 per equity share to the remaining shareholders of Indus, pursuant to the approval of "Scheme of Amalgamation" relating to the amalgamation of Indus with the Company by the High Courts of Delhi and Mumbai.

During the year,

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

11. (a) During the year ended December 31, 2004, the Company had acquired 98.59% shares in ECnet Limited, a Company incorporated in Singapore at total consideration of Rs. 34,938,958. As at December 31, 2004, the Company had to pay balance amount of Rs. 25,952,338 to the erstwhile shareholders of ECnet Limited, out of which Rs. 4,579,824 was payable on January 8, 2005 and the balance Rs. 21,372,514 was payable on January 8, 2006. Rs. 27,953,223 (Previous year Rs. 26,368,974), being the amount payable within a year has been shown under 'current liabilities'.

Considering that cash flows from the investment are currently negative, Rs. 27,953,223 payable to the erstwhile shareholders of ECnet Limited has not been paid. One of the erstwhile shareholder has filed a case against the Company to recover its dues of Rs. 11,446,124. The management has filed its submission and believes that the erstwhile shareholders have no legal recourse to recover this amount other than instructing the Company to dispose of such number of shares in the subsidiary which shall permit Company to pay these liabilities, net of expenses incurred on such disposal. Management has no plans of disposal of shares of subsidiary and has neither received from the said erstwhile shareholder, any instructions to dispose any shares and believes that this liability shall be settled once the subsidiary's financial position improves.

(b) As referred in note 11(a) above, the Company had invested Rs.34,938,958 towards acquisition of 98.59% shareholding in ECnet Limited, Singapore**.** During the previous year, 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.

The investee company continues to be in losses and the net worth is fully eroded. During the current year, based upon future projections and budgets based on current year actual performance being lower than budgeted, a provision of Rs. 10,442,237 has been made towards decline in the value of the Company's investment in ECnet Limited, Singapore which has been considered as other than temporary by the management.

(c) During the year the Company has completed the acquisition and integration of R Systems Solutions, Inc. (formerly known as WebConverse Inc), a technical support company based in the USA The company has acquired 8,666,884 Series A convertible preferred stock of "no par" value and 10,335,833 common stock of US$ 0.0002 each fully paid up from the erstwhile shareholders of R Systems Solutions, Inc. (formerly known as WebConverse, Inc). The maximum purchase consideration for the above acquisition is US$ 10.34 million i.e. Rs. 463,420,783, including consideration determined as contingent of future earn-outs and offshore activities amounting to US$7.49 million i.e. Rs. 330,624,695. The Company has recognized the investment at value of US$ 2.85 million i.e. Rs. 132,796,088 which represents the consideration assessed as probable to be paid. Out of such payables, Rs. 54,803,268 has been paid at time of acquisition and remaining payable within one year from the year-end is shown under 'current liabilities' and balance amount is payable after one year which has been disclosed separately as 'deferred payment liabilities'.

(d) During the earlier years, a provision of Rs. 7,989,770 had been made towards decline, in the value of the Company's investment in one of its wholly owned subsidiaries, R Systems (Singapore) Pte Ltd, which was considered as other than temporary by the management. During the year, the management has re-assessed its overall business strategy and now plans to pursue this Company more rigorously. Accordingly, the management is of the view that there is no need to carry such provision. Accordingly, the provision of Rs. 7,989,770 has been written back during the year.

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, the Company has consolidated five equity shares of Rs. 2 each in to one equity share of Rs.10 each and then issued 1:1 bonus share to each existing shareholder (excluding the option holders) by utilization of Securities Premium account in terms of the provisions of Section 78 of the Companies Act, 1956. Considering these changes in the capital structure, the management has 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 has been adjusted to one option of Rs. 10 per share and instead of earlier exercise price of Rs. 42 per share for each Rs. 2 share, the exercise price had been accordingly adjusted to Rs. 105 per equity share. The management believes that by these adjustments the Company is being fair to the employees and does not result in any additional benefit being offered to the employees.

The vesting period is 4 years (25% in each year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2006 and year ended December 31, 2005 is set out below:

	Year ended December 31, 2006 (Nos.)	Year ended December 31, 2005 (Nos.)
At the beginning of the years		
- Grants outstanding under the plan (Rs. 2 per share)	**863,075**	887,200
- Grants pending determination by the compensation committee (Rs. 2 per share)	**96,375**	110,300
Option issued to the employee during the year (Rs. 2 per share)	**-**	185,100
Option exercised (Rs. 2 per share)	**114,174**	38,050
Before reverse share split (consolidation of shares from Rs. 2 to Rs. 10)		
- Grants outstanding under the plan (Rs. 2 per share)	**748,901**	-
- Grants pending determination by the compensation committee (Rs. 2 per share)	**96,375**	-
After reverse share split(consolidation of shares from Rs. 2 to Rs. 10)		
- Grants outstanding under the plan (Rs. 10 per share)	**149,780**	-
- Grants pending determination by the compensation committee (Rs. 10 per share)	**19,275**	-
Option exercised (Rs. 10 per share)	**24,390**	-
Option lapsed or surrendered during the year (Rs. 10 per share)	**18,430**	-
Option lapsed or surrendered during the year (Rs. 2 per share)	**-**	171,175
At the end of the years		
- Grants outstanding under the plan (Rs. 10 per share)	**106,960**	-
- Grants outstanding under the plan (Rs. 2 per share)	**-**	863,075
- Grants pending determination by the compensation committee (Rs. 10 per share)	**37,705**	-
- Grants pending determination by the compensation committee (Rs. 2 per share)	**-**	96,375

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

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

As a result of the merger of Indus with the Company, all employees had surrendered their options in favour of the Indus Trust to enable them to obtain options for shares in R Systems International Limited after the merger. Also, the Company had issued 206,822 equity shares of Rs. 2 each at a premium of Rs. 113.42 per share to the Indus Trust in exchange of 21,967 equity shares of Indus, apropos to the agreed swap ratio.

The company has consolidated 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 existing shareholder by utilization of Securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956, consequently total number of shares issued are now 82,729 equity shares of Rs. 10 each.

The movement in the options (in equivalent number of shares of the Company) held by the Trust over the years is set out below:

	Year ended December 31, 2006 (Nos.)	Year ended December 31, 2005 (Nos.)
At the beginning of the years		
- Grants outstanding under the plan (Rs. 2 per share)	11,901	25,308
- Grants pending determination by the compensation committee (Rs. 2 per share)	184,743	181,514
Option issued to the employee during the year	-	-
Option exercised (Rs. 2 per share)	11,901	10,178
Before reverse share split (consolidation of shares from Rs. 2 to Rs. 10)		
- Grants outstanding under the plan	-	-
- Grants pending determination by the compensation committee (Rs. 2 per share)	184,743	-
After reverse share split(consolidation of shares from Rs. 2 to Rs. 10)		
- Grants outstanding under the plan	-	-
- Grants pending determination by the compensation committee (Rs. 10 per share)	36,949	-
Option exercised (Rs. 10 per share)	-	-
Option lapsed or surrendered during the compensation committee (Rs. 2 per share)	-	3,229
At the end of the years		
- Grants outstanding under the plan (Rs. 2 per share)	-	11,901
- Grants pending determination by the compensation committee (Rs. 10 per share)	36,949	-
- Grants pending determination by the compensation committee (Rs. 2 per share)	-	184,743

(c) R Systems International Limited – Year 2004 Employees Stock Option Plan –ECnet (the plan)

The Company had instituted the plan for all eligible employees in pursuance of the special resolution duly approved by the shareholders. The plan provides for the issuance of 1,000,000 options to eligible employees as recommended by the Compensation Committee constituted for this purpose.

The plan is administered by a compensation committee and exercise price is "Book Value of the Share as per the audited Balance Sheet as on 31st December 2003 i.e. Rs. 26 or as on the date of Exercise, the book value as per immediate previous accounting year audited balance sheet rounded off to nearest rupee which ever is higher".

During the year, the Company has consolidated five equity shares of Rs.2 each in to one equity share of Rs.10 each and then issued 1:1 bonus share to each existing shareholder (excluding the option holders) by utilization of Securities Premium account in terms of the provisions of Section 78 of the Companies Act, 1956. Considering these changes in the capital structure, the management has 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 has been adjusted to one option of Rs. 10 per share and instead of earlier exercise price of Rs. 26 per share for each Rs.2 share, the exercise price had been accordingly adjusted to Rs. 65 per equity share. The management believes that by these adjustments the Company is being fair to the employees and does not result in any additional benefit being offered to the employees.

The vesting period is 4 years (40% in 1st year & 20% in 2nd, 3rd & 4th year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2006 and year ended December 31, 2005 is set out below:

	Year ended December 31, 2006 (Nos.)	Year ended December 31, 2005 (Nos.)
At the beginning of the years		
- Grants outstanding under the plan (Rs. 2 per share)	**584,800**	862,000
- Grants pending determination by the compensation committee (Rs. 2 per share)	**415,200**	138,000
Option issued to the employee during the year	**-**	-
Option exercised (Rs. 2 per share)	**235,797**	-
Before reverse share split(consolidation of shares from Rs. 2 to Rs. 10)		
- Grants outstanding under the plan (Rs. 2 per share)	**349,003**	-
- Grants pending determination by the compensation committee (Rs. 2 per share)	**415,200**	-
After reverse share split(consolidation of shares from Rs. 2 to Rs. 10)		
- Grants outstanding under the plan (Rs. 10 per share)	**69,801**	-
- Grants pending determination by the compensation committee (Rs. 10 per share)	**83,040**	-
Option exercised (Rs. 10 per share)	**22,800**	-
Option lapsed or surrendered during the year (Rs. 10 per share)	**200**	-
Option lapsed or surrendered during the year (Rs. 2 per share)	**-**	277,200
At the end of the years		
- Grants outstanding under the plan (Rs. 10 per share)	**46,801**	-
- Grants outstanding under the plan (Rs. 2 per share)	**-**	584,800
- Grants pending determination by the compensation committee (Rs. 10 per share)	**83,240**	-
- Grants pending determination by the compensation committee (Rs. 2 per share)	**-**	415,200

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

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

Assumptions	Unit	Scheme (a)*	Scheme (b)**	Scheme (c)***	Comments by the valuer
Strike price	Rs.	42	154	26	
Current share price	Rs.	16	140	16	Taken on the basis of NAV 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 or 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

13. Earning per share

During the current year, the Company has converted 495,667 warrants to equity shares of Rs. 2 each and has allotted 388,021 shares to employees on exercise of options by them. The Company has consolidated five equity shares of Rs. 2 each to one equity share of Rs.10 each and then issued 1:1 bonus share to each existing shareholder by utilization of Securities Premium account in terms of the provisions of Section 78 of the Companies Act, 1956. For the purpose of computation of earnings per share the number of shares has been accordingly adjusted.

Earnings per share	For the year ended December 31, 2006	For the year ended December 31, 2005
Basic [nominal value of share Rs.10 (previous year Rs10)]	7.92	11.89
Diluted [nominal value of share Rs.10 (previous year Rs10)]	7.92	11.89
Net profit after tax	100,487,581	127,375,650
Weighted average number of equity shares for calculating Basic and Diluted EPS	12,687,426	10,710,510

14. Post employment benefits

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

The following table summaries the components of net benefit expense recognized in the Profit and Loss Account.

Net employee benefit expense recognized under Salary, wages and bonus

Particulars	For year ended December 31, 2006
Current service cost	5,099,206
Interest cost on benefit obligation	916,465
Expected return on plan assets	-
Net actuarial(gain) / loss recognised in the year	(1,187,307)
Past service cost	-
Net benefit expense	4,828,364

Details of defined benefit gratuity plan

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

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

Particulars	For year ended December 31, 2006
Opening defined benefit obligation	13,230,425
Interest cost	916,465
Current service cost	5,099,206
Benefits paid	(1,172,927)
Actuarial (gains)/losses on obligation	(1,187,307)
Closing defined benefit obligation	16,885,862

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

Particulars	For year ended December 31, 2006
	%
Discount rate	7.80% p.a.
Expected rate of return on plan assets	-
Salary Escalation Rate	10.0% p.a. for first 4 years and 7% p.a. thereafter
Attrition rate:	As per table below

Attrition rate:

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.

In the current year, the Company has gone for early adoption of the Accounting Standard 15 (Revised 2005) which is mandatory from accounting periods starting from December 7, 2006. Accordingly the corresponding previous year figures have not been disclosed.

15. Derivative instruments and unhedged foreign currency exposure

Particulars of derivatives	Purpose
Forward contract outstanding as at Balance Sheet date Sell US $ 5,200,000	Hedge of debtors

Particulars of unhedged foreign currency exposure as at the Balance Sheet date

	Currency	Foreign Currency amount	Closing foreign exchange rate	Amount (Rs.)
Liabilities				
Unsecured loan from subsidiary company	USD	340,000	44.12	15,000,800
Deferred compensation				
	SGD	971,634	28.77	27,953,223
	USD	1,677,240	44.12	73,999,807
Foreign currency creditors				
	SGD	13,470	28.77	387,524
	USD	107,925	44.12	4,761,649
Advances from customers	USD	12,775	44.12	563,636
	GBP	680	86.44	58,777

	Currency	Foreign Currency amount	Closing foreign exchange rate	Amount (Rs.)
Assets				
Debtors	USD	7,110,269	44.12	314,066,861
	SGD	48,134	28.77	1,384,781
	CAD	93	37.86	3,511
	GBP	20,679	86.44	1,787,383
	AUD	36,000	34.83	1,253,707
	EURO	3,906	58.25	227,526
Loans and advances				
	SGD	23,192	28.77	667,213
	USD	241,465	44.12	10,653,418
Unbilled revenue	USD	1,704,061	44.12	75,183,159
	SGD	14,490	28.77	416,867
Loans to subsidiary company	SGD	1,280,000	28.77	36,824,704

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

Balance as at December 31, 2006 Rs. 36,824,704 (Previous year Rs. 45,593,184)
Maximum amount outstanding during the year Rs. 54,639,764 (Previous year : Rs. 45,593,184)
Loan is repayable on demand.

17. (a) During the year, the Company has 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 have been adjusted against Securities Premium Account in terms of Section 78 of the Companies Act, 1956.

(c) Pursuant to initial public offer the Company gathered Rs. 706,250,060 (net of selling shareholders' proceeds), details of utilisation of IPO proceeds are as follows:

Object	Estimated use of IPO proceeds	Amount incurred till December 31, 2006
Upgradation and expansion of existing infrastructure	315,000,000	174,879,074
Repayment of outstanding loans	36,550,000	36,550,000
Financing working capital requirements	179,510,000	86,324,290
General corporate purpose	62,190,000	57,086,651
Issue expenses	113,000,000	98,562,497
Total	**706,250,000**	**453,402,512**

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

- The total amount incurred for upgradation and expansion of existing infrastructure till December 31, 2006 was Rs. 174,879,074, out of which Rs. 107,264,923 were incurred from IPO proceeds and balance from internal accrual & loans funds.

- The total issue expenses paid by December 31, 2006 were Rs. 98,562,497 out of which Rs. 62,832,163 were paid from IPO proceeds and balance from internal accrual and loans fund.

- The total out flow for General corporate purpose by December 31, 2006 was Rs. 57,086,651, out of which Rs. 55,734,425 were paid from IPO proceeds and balance from internal accrual and loans fund.
- The total outflow for repayment of loans is Rs. 47,000,000, out of this Rs 36,550,000 was the repayment of term loan outstanding at the time of filing Draft Red Herring Prospectus. This balance was increased to Rs. 47,000,000 because of capital expenditure until the realization of issue proceeds . Balance amount of Rs. 10,450,000 has been utilized for upgradation and expansion of existing infrastructure.

18. Previous year figures have been regrouped where necessary to make them comparable to the current year's classification.

As per our report of even date.

For S. R. Batliboi & Associates
Chartered Accountants

per Pankaj Chadha
Partner
Membership No. 91813

Place : Gurgaon
Date : March 3, 2007

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

Satinder Singh Rekhi [Managing Director]	O'Neil Nalavadi [Director Finance & CFO]	Lt. Gen. Baldev Singh (Retd) [Senior Executive Director]	Nand Sardana [Vice President (Finance) & Company Secretary]
Place : EDH, CA, USA Date : March 3, 2007	Place : EDH, CA, USA Date : March 3, 2007	Place : NOIDA Date : March 3, 2007	Place : NOIDA Date : March 3, 2007

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details

Registration No. 0 5 3 5 7 9 State Code 5 5 (Refer Code List)

Balance Sheet Code 3 1 (Date) 1 2 (Month) 2 0 0 6 (Year)

II. Capital raised during the year (Amount in Rs. Thousands)

Public Issues	Right Issues
28250	NIL
Bonus Issues	Private Placements
53553	991
Share Issued on Exercise of Stock Options	
1248	

III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousand)

Total Liablities	Total Assests
1478282	1478282

SOURCES OF FUND

Paid-up Capital	Reserve & Surplus
135458	1265269
Secured Loans	Unsecured Loans*
23387	54168

APPLICATION OF FUNDS

Net Fixed Assets	Investments
386422	440415
Net Current Assests	Misc. Expenditures
651445	NIL
Accumulated Losses	
NIL	

IV. Performance of Company (Amount in Rs. Thousands)

Turnover	Total Expenditure
1224729	1098954
Profit/Loss before Tax	Profit/Loss after Tax
125775	100488

(Please tick Appropriate Box + for Profit - for Loss)

Earning Per Shares in Rs.	Dividend Rate %
7.92	12

V. Generic Names of Three Principal Products/Services Company (As per monetary terms)

Item Code No. (ITC Code)

Product Description: SOFTWARE DEVELOPMENT & IT RELATED SERVICES

*Includes 39,167 thousand for deferred tax liability (net) and deferred payments liability.

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

Satinder Singh Rekhi [Managing Director]	O'Neil Nalavadi [Director Finance & CFO]	Lt. Gen. Baldev Singh (Retd) [Senior Executive Director]	Nand Sardana [Vice President (Finance) & Company Secretary]
Place : EDH, CA, USA	Place : EDH, CA, USA	Place : NOIDA	Place : NOIDA
Date : March 3, 2007	Date : March 3, 2007	Date : March 3, 2007	Date : March 3, 2007

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

(Rs. in lacs)

1	Name of the Subsidiary	R Systems (Singapore) Pte Limited, Singapore	R Systems, Inc., USA	Indus Software, Inc., USA	R Systems Solutions, Inc., USA (1)	ECnet Limited, Singapore	ECnet (M) SDN. BHD, Malaysia	ECnet, Inc., USA	ECnet (Hong Kong) Limited, Hong Kong	ECnet Systems (Thailand) Co. Ltd., Thailand	ECnet Kabushiki Kaisha, Japan	ECnet (Shanghai) Co. Ltd., China
2	The financial year of the subsidiary ended on	December 31, 2006	December 31, 2006	December 31, 2006	December 31, 2006	December 31, 2006	December 31, 2006	December 31, 2006	December 31, 2006	December 31, 2006	December 31, 2006	December 31, 2006
3	Holding comapany's interest	100%	100%	100%	100%	98.59%	98.59%	98.59%	98.59%	98.59%	98.59%	98.59%
4	Shares held by the holding company in the subsidiary (including its nominees in the subsidiary)	100% of 4,070,000 ordinary shares of no par value	100% of 1,000 common shares of no par value	100% of 243,750 common shares of no par value	100% of 10,335,833 common shares of no par value and 8,666,884 Series A preferred stock of no par value	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 USD 2 each	98.59% of 2 ordinary shares of HKD 1 each	98.59% of 4,00,000 ordinary shares of THB 5 each	98.59% of 200 shares of Yen 50,000 each	98.59% of shares of no par value
5	Capital	1,170.91	75.39	107.54	1,248.60	22,782.11	24.98	0.88	0.00	24.54	37.07	93.67
6	Reserves	(156.19)	1,589.36	(302.12)	(48.64)	(22,647.96)	(201.41)	(1,404.62)	(47.83)	56.94	(322.75)	(200.11)
7	Total assets	1,064.02	3,466.78	124.23	1,694.53	1,354.23	97.60	307.43	18.31	148.98	21.91	97.23
8	Total liabilities	49.31	1,802.03	318.80	494.57	1,220.07	274.02	1,711.16	66.13	67.50	307.60	203.67
9	Details of investments	-	134.38	-	-	-	-	-	-	-	-	-
10	Turnover	190.20	7,268.78	455.14	649.85	894.00	329.91	-	24.50	129.93	14.13	93.69
11	Profit/(Loss) before taxation	18.34	(47.58)	(5.18)	(53.94)	(226.45)	(81.92)	(5.63)	(4.09)	(3.73)	1.73	(36.52)
12	Provisions for taxation/(benefit)	2.35	(13.63)	(2.20)	(5.29)	5.20	-	-	-	-	0.26	4.71
13	Profit/(loss) after taxation	15.99	(33.95)	(2.98)	(48.64)	(231.65)	(81.92)	(5.63)	(4.09)	(3.73)	1.47	(41.23)
14	Proposed dividend, if any	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
15	Material change between the end of the financial year of the subsidiary company and the Company's financial year ended December 31, 2006											
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
b	Investments	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
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

Note :

(1) Subsidiary w.e.f August 24, 2006 formerely known as WebConverse,Inc.

(2) Rupees equivalents have been given on the basis of conversion of foreign currency into rupee using below mentioned closing rate as on December 31, 2006.

1 SGD = Rs.	28.77
I USD = Rs.	44.12
I RM = Rs.	12.49
1 HKD = Rs.	5.67
1 THB = Rs.	1.23
1 Yen = Rs.	0.37
1 CNY= Rs.	5.66

Disclaimer :

We have translated the foreign currency amounts in the financial data drived from our subsidiares's financial statements at the closing rate as on December 31, 2006. The translation should not be considered as a representation that such foreign currency amonuts have been, could have been or could be converted into rupees, at any purticular 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 : EDH, CA, USA
Date : March 3, 2007

O'Neil Nalavadi
[Director Finance & CFO]

Place : EDH, CA, USA
Date : March 3, 2007

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

Place : NOIDA
Date : March 3, 2007

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

Place : NOIDA
Date : March 3, 2007

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

	Name of the Subsidiary	R Systems (Singapore) Pte Limited, Singapore	R Systems, Inc., USA	Indus Software, Inc., USA	R Systems Solutions, Inc., USA (1)	ECnet Limited, Singapore	ECnet (M) SDN. BHD, Malaysia	ECnet, Inc., USA	ECnet (Hong Kong) Limited, Hong Kong	ECnet Systems (Thailand) Co. Ltd., Thailand	ECnet Kabushiki Kaisha, Japan	ECnet (Shanghai) Co. Ltd., China
1	The financial year of the subsidiary ended on	December 31, 2006	December 31, 2006	December 31, 2006	December 31, 2006	December 31, 2006	December 31, 2006	December 31, 2006	December 31, 2006	December 31, 2006	December 31, 2006	December 31, 2006
2	Date from which it become Subsidiary Company	September 19, 2000	January 2, 2001	April 1, 2002	August 24, 2006	January 8, 2004	January 8, 2004	January 8, 2004	January 8, 2004	January 8, 2004	January 8, 2004	January 8, 2004
3a	Shares held by the holding company in the subsidiary (including its nominees in the subsidiary)	4,070,000 ordinary shares of no par value	1,000 common shares of no par value	243,750 common shares of no par value	10,335,833 common shares of no par value and 8,666,884 Series A preferred stock of no par value	17,904,335 ordinary shares of no par value	200,000 ordinary shares of RM 1 each	1,000 shares of USD 2 each	2 ordinary shares of HKD 1 each	4,00,000 ordinary shares of THB 5 each	200 shares of Yen 50,000 each	shares of no par value
3b	Extent of interest of holding company at the end of the financial year of the Subsidiary Company	100%	100%	100%	100%	98.59%	98.59%	98.59%	98.59%	98.59%	98.59%	98.59%
4	The net aggregate amount of the Subsidiary Company Profit/(Loss) so far as it concerns the members of the Holding Company											
a	Not dealt with in the Holding Company's accounts											
i)	For the financial year ended December 31, 2006	Profit SGD 55,570 i.e. Rs.15.99 lacs	Loss USD 76,949 i.e. Rs.33.95 lacs	Loss USD 6,761 i.e. Rs.2.98 lacs	Loss USD 110,247 i.e. Rs.48.64 lacs	Loss SGD 793,831 i.e. Rs.228.38 lacs	Loss RM 646,535 i.e. Rs.80.77 lacs	Loss USD 12,576 i.e. Rs.5.55 Lacs	Loss HKD 71,187 i.e. Rs. 4.04 Lacs	Loss THB 299,725 i.e. Rs.3.68 lacs	Profit Yen 390,947 i.e. Rs.1.45 lacs	Loss CNY 718,390 i.e. Rs.40.65 lacs
ii)	For the previous financial years of the Subsidiary Company since it became the Holding Company's Subsidiary	Loss SGD 403,770 i.e. Rs.116.16 lacs	Loss USD 575,844 i.e. Rs.282.01 lacs	Loss USD 327,710 i.e. Rs.155.42 lacs	N/A	Loss SGD 1,299,530 i.e. Rs.346.88 lacs	Profit RM 582,597 i.e. Rs.69.14 lacs	Profit USD 727 i.e. Rs.0.28 Lacs	Profit HKD 702,471 i.e. Rs. 40.82 Lacs	Profit THB 4,626,505 i.e. Rs.51.79 lacs	Loss Yen 11,328,166 i.e. Rs.45.49 lacs	Loss CNY 2,433,472 i.e. Rs.133.43 lacs
b	Dealt with in Holding Company's accounts											
i)	For the financial year ended December 31, 2006	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
ii)	For the previous financial years of the Subsidiary Company since it became the Holding Company's Subsidiary	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Note :

(1) Subsidiary w.e.f August 24, 2006 formerely known as WebConverse,Inc.

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

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

Satinder Singh Rekhi
[Managing Director]

Place : EDH, CA, USA
Date : March 3, 2007

O'Neil Nalavadi
[Director Finance & CFO]

Place : EDH, CA, USA
Date : March 3, 2007

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

Place : NOIDA
Date : March 3, 2007

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

Place : NOIDA
Date : March 3, 2007

To,
Board of Directors
R Systems International Limited
B-104A Greater Kailash - I
New Delhi- 110048

1. We have examined 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 20 to the consolidated financial statements) as at December 31, 2006, the Consolidated Profit and Loss Account and Consolidated Cash Flow Statement for the year then ended, prepared in accordance with accounting principles generally accepted in India.

2. These financial statements are the responsibility of R Systems International Limited's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in India. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements. 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 statements. We believe that our audit provides a reasonable basis for our opinion.

3. *The Company has not obtained any valuations of its shares to determine the additional benefit, if any, being offered to the existing option holders consequent to changes in the existing stock option plans as explained in note 11(a) and 11(c) of Schedule 20. Considering this, we are unable to assess the benefit if any, not accounted for and the consequent impact on these financial statements.*

4. We did not audit the financial statements of the Company's subsidiaries, whose financial statements reflect:

   (i) in relation to R Systems, Inc., US subsidiary, total assets (net) of Rs.166,474,555 (US$ 3,773,222) as at December 31, 2006 and revenues of Rs. 745,656,158 (US $ 16,453,572) for the year then ended.

   (ii) in relation to the R System (Singapore) Pte Ltd., Singapore subsidiary, total assets (net) of Rs.101,474,063 (Sing $ 3,527,079) as at December 31, 2006 and revenues of Rs. 18,866,029 (Sing $ 661,126) for the year then ended.

   (iii) in relation to Indus Software, Inc., US subsidiary, total liabilities (net) of Rs. (19,457,582) (US$ 441,015) as at December 31, 2006 and revenues of Rs. 46,750,302 (US $ 1,031,587) for the year then ended.

   (iv) in relation to EC Net Limited, total liabilities (net) of Rs. 60,433,655 (Sing $ 2,100,630) as at December 31, 2006 and revenues of Rs. 143,539,683 (Sing $ 5,030,091) for the year then ended.

   (v) in relation to R Systems Solutions, Inc.,(formerly know as Webconverse,Inc.) US subsidiary, total liabilities (net) of Rs. 119,995,502 (US$ 2,719,753) as at December 31, 2006 and revenues of Rs. 66,678,750 (US $ 1,471,909) for the year then ended.

5. These financial statements of Company's subsidiaries 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 countries, copies of which have been provided to us by the Company. Our opinion thus, insofar it relates to amounts included in respect of these subsidiaries, is based solely on the reports of the other auditors and figures certified by the management.

6. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of R Systems International Limited and its subsidiaries included in the consolidated financial statements.

7. *Subject to our comments in para 3 above, relating to additional benefit, if any, being offered to the existing option holders consequent to changes in existing stock options*, consequential impact of which is not determinable, on the basis of the information and explanations given to us and on the consideration of the separate audit reports on the individual audited financial statements of R Systems International Limited and its aforesaid subsidiaries, we are of the opinion that:

   (a) the Consolidated Balance Sheet gives a true and fair view of the consolidated state of affairs of R Systems International Limited and its subsidiaries as at December 31, 2006;

   (b) the Consolidated Profit and Loss Account gives a true and fair view of the consolidated results of operations of R Systems International Limited and its subsidiaries for the year then ended and

   (c) the Consolidated Cash Flow Statement gives a true and fair view of the consolidated cash flows of R Systems International Limited and its subsidiaries for the year then ended.

For S. R. Batliboi & Associates
Chartered Accountants

per Pankaj Chadha
Partner
Membership No. 91813

Place : Gurgaon
Date : March 3, 2007

Consolidated Balance Sheet

(All amounts are in Rupees, unless otherwise stated)

	Schedules	As at December 31, 2006	As at December 31, 2005
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	135,457,570	51,391,886
Share application money pending allotment		-	1,598,100
Reserve and surplus	2	1,146,885,165	560,175,285
		1,282,342,735	613,165,271
Minority interest	3	-	-
Loan funds			
Secured loans	4	24,257,700	101,330,290
		24,257,700	101,330,290
Deferred payments liability (refer note 10 (d) under Schedule 20)		16,831,920	-
Deferred tax liability (net)	5	17,693,842	-
TOTAL		1,341,126,197	714,495,561
APPLICATION OF FUNDS			
Fixed assets	6		
Gross block		820,762,913	462,720,909
Less : Accumulated depreciation / amortisation		276,525,303	235,155,904
Net block		544,237,610	227,565,005
Capital work-in-progress including capital advances		10,613,124	54,517,277
		554,850,734	282,082,282
Investments	7	13,462,849	1,645,376
Deferred tax assets (net)	8	-	22,036,866
Current assets, loans and advances			
Sundry debtors	9	483,371,250	419,902,664
Cash and bank balances	10	531,741,117	115,277,949
Other current assets	11	141,566,747	66,662,694
Loans and advances	12	75,351,235	35,256,525
(A)		1,232,030,349	637,099,832
Less : Current liabilities and provisions			
Current liabilities	13	342,820,740	186,104,980
Provisions	14	116,396,995	42,263,815
(B)		459,217,735	228,368,795
Net current assets (A-B)		772,812,614	408,731,038
TOTAL		1,341,126,197	714,495,561
Notes to accounts	20		

The schedules referred to above and the notes to accounts form an integral part of the Balance Sheet.

As per our report of even date.

For S. R. Batliboi & Associates
Chartered Accountants

per Pankaj Chadha
Partner
Membership No. 91813

Place : Gurgaon
Date : March 3, 2007

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]	[Senior Executive Director]	[Vice President (Finance) & Company Secretary]
Place : EDH, CA, USA	Place : EDH, CA, USA	Place : NOIDA	Place : NOIDA
Date : March 3, 2007	Date : March 3, 2007	Date : March 3, 2007	Date : March 3, 2007

Consolidated Profit and Loss Account

(All amounts are in Rupees, unless otherwise stated)

	Schedules	For the year ended December 31, 2006	For the year ended December 31, 2005
INCOME			
Sale of software products and rendering software development services		2,039,458,343	1,577,933,922
Amortisation of government grant received (refer note 10(c) under Schedule 20)		-	712,268
Other income	15	40,207,989	3,587,762
TOTAL		2,079,666,332	1,582,233,952
EXPENDITURE			
Personnel expenses	16	1,270,299,269	950,948,664
Operating and other expenses	17	589,576,882	429,212,432
Depreciation /amortisation	6	59,123,941	48,924,178
Finance expenses	18	5,694,247	8,422,630
TOTAL		1,924,694,339	1,437,507,904
Profit before tax and prior period expenses		154,971,993	144,726,048
Prior period expenses	19	15,889,350	538,160
Profit for the year before tax and after prior period expenses		139,082,643	144,187,888
Current tax (net of excess provision of Rs. Nil, Previous year Rs.181,145)		15,523,136	7,397,477
Deferred tax (net of prior period item of Rs.Nil Previous year Rs. 2,380,094)		39,890,987	9,379,542
Fringe benefit tax		5,425,536	2,641,190
Total tax expense		60,839,659	19,418,209
Profit available for appropriation		78,242,984	124,769,679
Appropriations			
Proposed final dividend		16,299,247	-
Tax on proposed final dividend		2,770,057	-
Transfer to general reserve		2,512,190	-
Surplus carried to Balance Sheet		56,661,490	124,769,679
Earnings per share (refer note 12 under Schedule 20)			
Basic [Nominal value of shares Rs. 10 (Previous year: Rs. 10)]		6.17	11.65
Diluted [Nominal value of shares Rs. 10 (Previous year: Rs. 10)]		6.17	11.65
Notes to accounts	20		

The schedules referred to above and the notes to accounts form an integral part of the Profit & Loos Accounts.

As per our report of even date.

For S. R. Batliboi & Associates
Chartered Accountants

per Pankaj Chadha
Partner
Membership No. 91813

Place : Gurgaon
Date : March 3, 2007

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

Satinder Singh Rekhi
[Managing Director]
Place : EDH, CA, USA
Date : March 3, 2007

O'Neil Nalavadi
[Director Finance & CFO]
Place : EDH, CA, USA
Date : March 3, 2007

Lt. Gen. Baldev Singh (Retd)
[Senior Executive Director]
Place : NOIDA
Date : March 3, 2007

Nand Sardana
[Vice President (Finance) & Company Secretary]
Place : NOIDA
Date : March 3, 2007

	For the year ended December 31, 2006	For the year ended December 31, 2005
A. Cash flow from operating activities		
Net profit before taxation	**139,082,643**	144,187,888
Adjustments for:		
Depreciation / amortization	**59,123,941**	48,924,178
Amortisation of government grant	**-**	(712,268)
Debts and advances provided / written off	**43,728,875**	23,291,004
Loss on sale / discard of fixed assets	**1,025,975**	807,113
Unrealised foreign exchange loss / (gain)	**(5,058,245)**	(4,787,383)
Interest income	**(23,601,857)**	(1,416,984)
Write back of provision for doubtful debts	**(8,467,013)**	(449,256)
Excess provisions written back	**(3,121)**	(1,623,474)
Interest expense	**3,853,002**	6,597,353
Operating profit before working capital changes	**209,684,200**	214,818,171
Movements in working capital :		
Decrease / (Increase) in sundry debtors	**(67,499,245)**	(64,089,638)
Decrease / (Increase) in other current assets	**(65,071,412)**	(616,002)
Decrease / (Increase) in loans and advances	**(35,503,537)**	(33,493,819)
Increase / (Decrease) in provisions	**34,670,891**	3,823,217
Increase / (Decrease) in current liabilities	**64,555,290**	(7,088,852)
Cash generated from operations	**140,836,187**	113,353,077
Direct taxes paid (net of refund)	**(13,839,248)**	(4,992,569)
Interest on income-tax refund	**57,638**	(394,148)
Net cash from operating activities	**127,054,577**	107,966,360
B. Cash flows used in investing activities		
Purchase of fixed assets	**(188,030,955)**	(68,020,711)
Proceeds from sale of fixed assets	**952,587**	121,177
Purchase of investment	**(12,178,136)**	-
Acquisition of subsidiary (net of deferred compensation to the erstwhile shareholders of R Systems Solutions, Inc. (formerly known as Webconverse, Inc.)) (also refer note 10 (d) under Schedule 20)	**(53,530,826)**	-
Interest received	**12,733,253**	1,390,306
Net cash used in investing activities	**(240,054,077)**	(66,509,228)
C. Cash flows from/(used in) financing activities		
Proceeds from borrowings	**4,703,770**	20,663,849
Proceeds from issue of equity shares, including share application money pending allotment	**722,211,814**	1,764,574
Share issue expenses	**(92,030,667)**	(2,390,943)
Repayment of borrowings	**(95,424,477)**	(45,645,837)
Interest paid	**(3,852,871)**	(6,597,353)
Net cash from / (used in) financing activities	**535,607,569**	(32,205,710)

Consolidated Cash Flow Statement

(All amounts are in Rupees, unless otherwise stated)

	For the year ended December 31, 2006	For the year ended December 31, 2005
Net increase in cash and cash equivalents (A + B + C)	**422,608,069**	9,251,422
Cash and cash equivalents at the beginning of the year	**112,524,829**	103,273,407
Cash and cash equivalents at the end of the year	**535,132,898**	112,524,829
Components of cash and cash equivalents as at	**December 31,2006**	December 31,2005
Cash and cheques on hand	**379,476**	148,611
Balances with scheduled banks		
on current accounts	**12,158,092**	7,904,760
on cash credit accounts	**3,986,468**	-
on EEFC accounts	**14,759,683**	4,959,507
on deposit accounts	**431,307,934**	16,011,748
Balances with other banks		
on current accounts	**69,149,464**	32,328,384
on deposit accounts	**-**	53,924,939
	531,741,117	115,277,949
Unrealised loss/ (gain) on foreign currency cash and cash equivalents	**3,391,781**	(2,753,120)
Net cash and cash equivalents	**535,132,898**	112,524,829

As per our report of even date.

For S. R. Batliboi & Associates
Chartered Accountants

per Pankaj Chadha
Partner
Membership No. 91813

Place : Gurgaon
Date : March 3, 2007

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

Satinder Singh Rekhi
[Managing Director]

Place : EDH, CA, USA
Date : March 3, 2007

O'Neil Nalavadi
[Director Finance & CFO]

Place : EDH, CA, USA
Date : March 3, 2007

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

Place : NOIDA
Date : March 3, 2007

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

Place : NOIDA
Date : March 3, 2007

	As at December 31, 2006	As at December 31, 2005
Schedule 1: Share capital		
Authorised		
20,000,000 (Previous year 50,000,000 equity shares of Rs. 2 each) equity shares of Rs. 10 each	**200,000,000**	100,000,000
Issued, subscribed and paid up capital		
13,782,206 (Previous year 26,890,087 of Rs. 2 each fully paid-up) equity shares of Rs. 10 each fully paid-up (also refer note 9 under Schedule 20)	**137,822,060**	53,780,174
Less: Equity shares buy-back (refer note 2 below) 997,500 (Previous Year 997,500 equity shares of Rs. 2 each) equity shares of Rs. 2 each fully paid-up	**1,995,000**	1,995,000
Less: Advance to Indus Software Employees Welfare Trust (also refer note 11 (b) under Schedule 20)	**369,490**	393,288
	135,457,570	51,391,886

Notes:

1) Pursuant to the shareholders' agreement dated February 16, 2002, the Company had agreed to issue warrants to its two strategic shareholders. The number of warrants to be issued were to be determined based on the proportionate new revenues to the Group by these shareholders over an agreed period, subject to the maximum of 7.5% of equity stake each in the Company's then diluted share capital (including shares issued / to be issued under an ESOP or any instruments convertible into equity shares). Such warrants, were to be issued, at zero cost and consideration for exercise of warrants, to the extent eligible, was to be paid at the time of exercise of the warrants at the par value of Company's shares, subject to the minimum pricing guidelines of the Reserve Bank of India prevailing on the exercise date. These warrants were converted into 495,667 equity shares of the Company on January 25, 2006 upon exercise of option by these shareholders.

2) The Company had earlier advanced Rs.115,131,450 to R Systems Employee Stock Option Trust, and allotted 997,500 equity shares at the rate of Rs.115.42. During the year ended December 31, 2004, the Company bought back these shares at the rate of Rs 115.42 per equity share.

3) Also refer note 11 under Schedule 20

	As at December 31, 2006	As at December 31, 2005
Schedule 2: Reserves and surplus		
Securties premium account		
Balance as per last account	**435,536,007**	468,310,600
Less: Utilised for written off of goodwill arised on amalgamation of EC net Limited. (also refer note 10 (a) under Schedule 20)	**-**	24,495,721
Add : Amount received on issue of equity shares	**693,320,578**	-
Less: Utilised for issue of bonus shares	**53,552,550**	-
Less: Utilised for share issue expenses *	**93,616,467**	8,278,872
	981,687,568	435,536,007
Less: Advance to Indus Software Employees Welfare Trust (also refer note 11 (b) under Schedule 20)	**2,652,218**	2,837,030
	979,035,350	432,698,977

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

Capital reserve	**31,726**	31,726
General Reserve		
Balance as per last account	**-**	-
Add: Transferred from Profit and Loss Account	**2,512,190**	-
	2,512,190	-

	As at December 31, 2006	As at December 31, 2005
Profit and Loss account		
Balance as per last account	**127,138,727**	2,369,048
Less: Increased liability in accordance with 'AS-15 (Revised) Employee benefits'	**9,560,042**	-
Add: Transferred from Profit and Loss Account	**56,661,490**	124,769,679
	174,240,175	127,138,727
Government grant (also refer note 10(c) under schedule 20)		
Balance as per last account/at the time of acquisition	**-**	712,288
Less: Amortised during the year	**-**	712,288
Balance at the end of the year	**-**	-
Foreign curreny translation reserve		
Balance as per last account	**305,855**	(9,818,406)
Less: Current year translation differences *	**(9,240,131)**	10,124,261
	(8,934,276)	305,855
Total	**1,146,885,165**	560,175,285

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

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

Loan from banks		
Cash credit facilities (Secured by first charge over current assets and collateral charge over the immovable property and fixed assets)	**15,478,841**	43,915,477
Working capital loan (Secured by substantially all of the assets of a US subsidiary, R Systems Inc.)	**-**	17,698,515
For motor vehicles (Secured by hypothecation of underlying motor vehicles)	**7,908,747**	6,336,939
For equipment (Secured by hypothecation of underlying equipment)	**870,112**	-
Term loan (Secured by first charge over the immovable property, fixed assets and current assets)	**-**	33,379,359
	24,257,700	101,330,290

Note:

In case of term loan facilities- the amount repayable within one year is Rs Nil (Previous year Rs 14,974,382).
In case of motor vehicle loans, amount repayable within one year is Rs. 3,434,298 (Previous year Rs.2,225,354)

	As at December 31, 2006	As at December 31, 2005
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	27,193,583	-
Gross deferred tax liability	27,193,583	-
Deferred tax assets		
Provision for gratuity	4,646,339	-
Provision for leave encashment	4,853,402	-
Gross deferred tax assets	9,499,741	-
Deferred tax liability (net)	17,693,842	-

Note:
For previous year figures refer Schedule 8.

Schedule 6: Fixed assets

	Land freehold	Land-leasehold	Building-freehold	Building-leasehold (1)	Computers	Office and electrical equipment (5)	Furniture and fittings	Vehicle (2)	Software	Prduct development cost	Right to provide services	Goodwill	Total	As at December 31, 2005
Gross block														
As at January 1, 2006	4,765,674	10,005,968	31,614,582	48,769,181	184,728,811	40,365,951	35,405,189	23,450,299	73,806,782	4,057,182	5,751,290	-	462,720,909	439,632,049
Acquisiton of R Systems Solutions, Inc.(formerly known as Webconverse, Inc.) (Refer note 10 (e) of Schedule 20)	-	-	-	-	14,145,728	2,505,948	876,610	-	1,166,146	-	-	135,983,568	154,678,000	-
Additions	-	-	-	50,237,453	81,158,860	40,273,140	45,176,389	8,863,428	8,812,344	-	-	-	234,521,614	47,004,988
Deductions/adjustments	-	-	(50,134)	357,005	17,391,661	1,310,794	338,083	2,335,463	9,337,939	-	136,799	-	31,157,610	23,916,128
At December 31, 2006	**4,765,674**	**10,005,968**	**31,664,716**	**98,649,629**	**262,641,738**	**81,834,246**	**81,120,105**	**29,978,264**	**74,447,333**	**4,057,182**	**5,614,491**	**135,983,568**	**820,762,913**	462,720,909
Depreciation/ amortisation														
As at January 1, 2006	-	283,651	2,536,498	15,515,223	103,397,606	15,737,499	17,251,395	8,256,459	65,707,554	1,436,923	5,033,096	-	235,155,904	183,701,820
Acquisiton of R Systems Solutions, Inc.(formerly known as Webconverse, Inc.) (Refer note 10 (e) of Schedule 20)	-	-	-	-	8,355,006	1,597,798	605,728	-	646,851	-	-	-	11,205,383	-
For the year	-	163,098	573,314	1,598,782	32,102,062	4,031,832	7,852,193	2,951,312	8,116,905	1,014,300	720,143	-	59,123,941	48,924,178
Deletions/adjustments	-	-	(42,225)	335,590	16,867,872	503,787	353,860	1,472,887	9,329,186	-	138,968	-	28,959,925	(2,529,906)
At December 31, 2006	-	**446,749**	**3,152,037**	**16,778,415**	**126,986,802**	**20,863,342**	**25,355,456**	**9,734,884**	**65,142,124**	**2,451,223**	**5,614,271**	-	**276,525,303**	235,155,904
Net block														
At December 31, 2006	**4,765,674**	**9,559,219**	**28,512,679**	**81,871,214**	**135,654,936**	**60,970,903**	**55,764,649**	**20,243,380**	**9,305,209**	**1,605,959**	**220**	**135,983,568**	**544,237,610**	227,565,005
At December 31, 2005	4,765,674	9,722,317	29,078,084	33,253,958	81,331,205	24,628,452	18,153,794	15,193,840	8,099,228	2,620,259	718,194	-		
Capital work in progress (including capital advances)													10,613,124	54,517,277
													554,850,734	282,082,282

Notes:

(1) Includes Rs. 21,155,390 (Previous Year Rs. 21,155,390) paid towards land and building under a composite lease for which no separate values are assignable.
(2) Vehicles amounting to Rs 16,373,713 (Previous Year Rs. 10,746,455) are hypothecated against terms loans for vehicle finance from banks.
(3) The exchange difference included in the assets capitalized is Rs.94,111 (Previous Year Rs.31,340)
4) The goodwill arising on acquisition of ECnet Limited had been written off against Securities Premium Account (also refer note 10 (b) under Schedule 20)
(5) Includes assets obtained on finance lease Gross book value Rs.903,313 (Previous year Rs. Nil) Net book value Rs.798,748 (Previous year Rs. Nil)
(6) Capital work in progess include Product development cost in progress amounting to Rs. 4,534,053 (Previous year Rs. Nil)

	As at December 31, 2006	As at December 31, 2005
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		
Non trade, unquoted		
30,000* (Previous year 30,000) shares of common stock of "no par" value in Caranything.com Inc., USA	45,002	46,099
34,000** (Previous year 34,000) shares of common stock of "no par" value in N Techra Inc., USA	1,536,832	1,574,277
268,722*** (Previous year Nil) shares of common stock of US$ 1 each in ANY COMM Inc., USA	11,856,015	-
	13,462,849	1,645,376
Aggregate amount of unquoted investments	13,462,849	1,645,376

* represent shares issued by Caranything.com Inc. to settle the amount owed by it to a US subsidiary, R Systems Inc.

** represent shares (series A preferred stock) issued by N Techra Inc. to settle the amount owed by it to a 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.

	As at December 31, 2006	As at December 31, 2005
Schedule 8: Deferred tax assets (net)		
Deferred tax assets		
Provision for gratuity	-	-
Provision for leave encashment	-	1,271,109
Allowance for doubtful advances	-	11,909,606
Accrued vacation	-	4,274,557
Prepaid expenses	-	1,671,718
Unabsorbed tax losses and depreciation	-	14,345,707
Miscellaneous temporary differences	-	423,568
Gross deferred tax assets	-	33,896,265
Deferred tax liability		
Differences in depreciation/amortisation and other differences in block of fixed assets as per tax books and financial books	-	11,859,399
Gross deferred tax liability	-	11,859,399
Deferred tax assets (net)	-	22,036,866

Note :
For current year figures refer Schedule 5.

		As at December 31, 2006		As at December 31, 2005
Schedule 9: Sundry debtors				
Debts outstanding for more than six months				
Unsecured, considered good		21,569,829		15,107,576
Considered doubtful		58,510,391		43,451,924
Other debts				
Unsecured, considered good		461,801,421		404,795,089
Considered doubtful		11,035,115		5,432,459
		552,916,756		468,787,048
Less : Provision for doubtful debts		69,545,506		48,884,384
		483,371,250		419,902,664
Schedule 10: Cash and bank balances				
Cash on hand		379,476		148,611
Balances with scheduled banks				
On current accounts		12,158,092		7,904,760
On cash credit account		3,986,468		-
On EEFC account		14,759,683		4,959,507
On deposit accounts		431,307,934		16,011,748
Balances with other banks				
On current accounts		69,149,464		32,328,384
On deposit accounts		-		53,924,939
		531,741,117		115,277,949
Also refer note 14 under Schedule 20				
Schedule 11: Other current assets				
Interest accrued on deposits		10,961,473		142,397
Interest accrued on staff advance		37,691		45,799
Unbilled revenue	137,207,368		68,888,755	
Less: Anticipated cost to complete contracts	6,639,785	130,567,583	3,088,802	65,799,953
Fixed assets held for disposal (at net book value or estimated net realisable value,whichever is lower)		-		674,545
		141,566,747		66,662,694
Schedule 12: Loans and advances				
(Unsecured, considered good, except where otherwise stated)				
Advances recoverable in cash or in kind or for value to be received (including Rs.7,092,925 considered doubtful, Previous year Rs. 8,762,506)		49,885,856		31,517,201
Foreign currency receivable on forward contracts		8,670,000		-
Deposits - others		23,888,304		12,501,830
		82,444,160		44,019,031
Less Provision for doubtful advance		7,092,925		8,762,506
		75,351,235		35,256,525

	As at December 31, 2006	As at December 31, 2005
Schedule 13: Current liabilities		
Sundry creditors	**230,533,060**	136,277,655
Deferred compensation to erstwhile ECnet shareholders (Refer note 10(a) under schedule 20)	**27,953,223**	26,368,974
Deferred payment compensation to the shareholders of R Systems Solutions, Inc.(formerly known as WebConverse, Inc.) (Refer note 10(d) under schedule 20)	**57,167,887**	-
Unamortised income on forward cover contracts	**1,213,010**	909,484
Book overdraft	**2,057,199**	-
Deferred revenue	**7,210,612**	3,496,773
Advance from customers	**2,245,688**	5,037,356
Security deposits	**1,958,025**	1,247,834
Other liabilities	**12,482,036**	12,766,904
	342,820,740	186,104,980
Schedule 14: Provisions		
Provision for employee bonus (refer note 1 below)	**15,690,148**	9,000,000
Provision for income tax (net of advance taxes amounting to Rs.16,215,014 (Previous year Rs.8,221,351))	**7,393,969**	1,276,927
Provision for fringe benefit tax (net of advance taxes amounting to Rs.6,908,195 (Previous year Rs.1,448,078))	**1,279,723**	1,193,112
Proposed final dividend	**16,299,247**	-
Tax on proposed final dividend	**2,770,057**	-
Provision for gratuity	**16,885,862**	8,913,558
Provision for leave encashment	**56,077,989**	21,880,218
	116,396,995	42,263,815
Note 1:		
Provision for employee bonus		
Opening provision	**9,000,000**	5,650,000
Provision made during the year	**15,154,500**	8,800,000
Amount used during the year	**8,464,352**	5,450,000
Closing provision	**15,690,148**	9,000,000
Schedule 15: Other income		
Interest on :		
-Loans and bank deposits (Gross of tax deducted at source Rs. 2,667,197, Previous year Rs. 35,805)	**23,544,219**	1,309,340
-Interest received on Income tax refund	**57,638**	107,644
Foreign exchange fluctuation (net)	**6,594,542**	-
Provision for doubtful debts written back	**8,467,013**	449,256
Excess provisions written back, as no longer required	**3,121**	1,623,474
Miscellaneous income	**1,541,456**	98,048
	40,207,989	3,587,762
Schedule 16: Personnel expenses		
Salaries, wages and bonus	**1,190,458,634**	896,656,462
Contribution to provident fund and other funds	**60,629,321**	42,769,439
Staff welfare expenses	**19,211,314**	11,522,763
	1,270,299,269	950,948,664

		As at December 31, 2006		As at December 31, 2005
Schedule 17: Operating and other expenses				
Recruitment and training expenses		**15,762,674**		10,657,935
Travelling and conveyance		**158,668,231**		103,715,439
Insurance		**8,129,478**		7,501,739
Commission		**704,015**		1,039,932
Repair and maintenance		**22,471,688**		14,833,444
Provision for doubtful debts and advances		**43,457,483**		19,777,882
Debts and advances written off		**271,392**		3,513,122
Rent - premises		**30,783,702**		16,588,614
Rent - equipment		**7,562,928**		8,598,948
Power and fuel		**25,602,593**		17,704,899
Communication costs		**49,698,174**		40,175,971
Printing and stationery		**7,307,928**		4,788,125
Advertising and sales promotion		**4,819,838**		5,383,578
Legal and professional expenses		**196,877,879**		153,098,214
Auditor's remuneration				
- Audit fee	1,346,880		1,322,400	
- Limited reviews	561,200		-	
- Other services	448,960		330,600	
- Out of pocket expenses	48,254	**2,405,294**	65,000	1,718,000
Director's sitting fee		**145,000**		35,000
Loss on sale of fixed assets		**1,025,975**		807,113
Rates and taxes		**2,065,723**		979,565
Loss on exchange fluctuation		**-**		10,041,070
Watch and ward expenses		**2,841,140**		1,950,362
Membership and subscription		**3,381,404**		2,742,687
Miscellaneous expenses		**5,594,343**		3,560,793
		589,576,882		429,212,432

		As at December 31, 2006		As at December 31, 2005
Schedule 18: Financial expenses				
Interest on loan from banks		**3,853,002**		6,597,353
Bank charges		**1,841,245**		1,825,277
		5,694,247		8,422,630

		As at December 31, 2006		As at December 31, 2005
Schedule 19: Prior period expenses				
Foreign exchange fluctuation (net)		**-**		538,160
Salaries, wages and bonus		**15,332,452**		-
Legal and professional fees		**556,898**		-
		15,889,350		538,160

Schedule 20: 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 under the historical cost convention on an accrual and going concern basis. The accounting policies have been consistently applied by the Company and except for the changes in accounting policy discussed more fully below, are consistent with those used in the previous year.

All figures are in Rupees except where expressly stated.

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

Certain subsidiaries of the companies have significant losses at the year- end. Subsidiaries are meeting their short term funding requirement through parent and fellow subsidiaries loans. The management will extend its continual financial support during the financial year 2007 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.

(b) Changes in accounting policies

Adoption of Accounting Standard AS15 (Revised 2005) Employee Benefits

Till December 31, 2005, the Company had been providing employee retirement benefits (namely gratuity and leave encashment) in accordance with the Accounting Standard 15 on Retirement Benefits. In the current year, the Company has gone for early adoption of the Accounting Standard 15 (Revised 2005) which is mandatory from accounting periods starting from December 7, 2006. Accordingly the Company has provided for gratuity and leave encashment based on actuarial valuation done as per projected unit credit method. Further in accordance with the transitional provision in the revised accounting standard, Rs. 9,560,042 has been adjusted to the Reserve and Surplus.

Had the Company followed the earlier policy, the expense of the year would have been lower by Rs.7,104,491, profit for the year would have been higher by Rs.7,104,491 and year-end Reserves and Surplus would have been higher by Rs.1,664,533.

(c) Fixed assets

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

(d) Depreciation

Depreciation is provided on Straight Line method over the remaining estimated useful lives of the fixed assets. The useful lives of the fixed assets have been estimated giving due consideration to environment in respective countries by the Group management as:

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.

(e) Intangibles

Product development costs

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

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

Computer software

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

Rights to provide services

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

(f) 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.

(g) 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.

(h) Impairment

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

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

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

(i) 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.

(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 and historically have ranged in length from two months to six months. Revenue from fixed price contracts (including maintenance and support contracts) is recognised using the percentage of completion method, when reasonable progress has been made on the milestones achieved as specified in the contracts. In terms of contracts excess/ shortfall over the amount billed as at the year- end is carried in the financial statements as unbilled revenue/ deferred revenue respectively. The stage of completion of project is determined by the proportion that contract efforts incurred for work performed up to the balance sheet date bear to the estimated total contract effort. Changes in contract performance, estimated profitability and final contract settlements may result in revisions to costs and revenues and are recognised in the period in which the revisions are determined. If a loss is projected on any contracts in process, the entire projected loss is recognised currently.

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

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

(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; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

(iii) Exchange differences

Exchange differences arising on the settlement of monetary items or on reporting company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year in which they arise except those arising from investments in non-integral operations. Exchange differences arising in respect of fixed assets acquired from outside India 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 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, 2006, the rates used were US $ 1= Rs. 45.32 [Except for R System Solution, Inc. (formerly known as Webconverse, Inc.) at US $ 1= Rs 45.30] and Singapore $ 1 = Rs. 28.54. For translating assets and liabilities at the year-end, the rates used were US $ 1= Rs. 44.12 and Singapore $ 1= Rs. 28.77.

For translating income, expense and cash flows items, except cash and cash equivalents, during the year ended December 31, 2005, the rates used were US $ 1= Rs. 44.12 and Singapore $ 1 = Rs. 26.52. For translating assets and liabilities at the year-end, the rates used were US $ 1= Rs. 45.20 and Singapore $ 1= Rs. 27.14.

(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.

(m) Employee benefits

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

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

(iii) Long term compensated absences are provided for based on actuarial valuation.

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

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

(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.

Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities across various countries of operation are not set off against each other as the company does not have a legal right to do so. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. If the company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits.

Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realized.

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

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.

(o) 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.

(p) 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.

(q) Provisions

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

(r) 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.

(s) Segment reporting policies

Identification of segments :

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

Inter segment transfers :

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

Allocation of common costs :

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

Unallocated items :

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

(t) Derivative instruments

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

2. Description of the Group

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

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

Subsidiary	Holding	Country of incorporation and other particulars
R Systems, Inc.	100%	A company registered under the laws of California, USA in 1993 and subsidiary of the Company since January 2, 2001. R Systems Inc. has a division in Japan.
R Systems (Singapore) Pte Limited	100%	A company registered under the laws of Singapore in 1997 and subsidiary of the Company since September 19, 2000.
Indus Software, Inc.	100%	A company registered under the laws of Delaware, USA in 1996 and subsidiary of the Company since April 1, 2002.
R Systems Solution,Inc (formerly known as WebConverse, Inc.)	100%	A company registered under the laws of California, USA in 2000 and subsidiary of the Company since August 24, 2006.

ECnet Limited	98.59%	A company registered under the laws of Singapore in 1996. The Company has acquired majority share on January 8, 2004. The Company has subsidiaries in Malaysia, Thailand, China, Hong Kong, USA, Korea and Japan.

The Company has following wholly owned subsidiaries:

Name	Holding in %	Country of incorporation
ECnet (M) Sdn Bhd	100	Malaysia
ECnet Systems (Thailand) Co. Ltd.	100	Thailand
ECnet (Shanghai) Co. Ltd.	100	People's Republic of China
ECnet (Hong Kong)	100	Hong Kong
ECnet (Taiwan) Co. (Liquidated during year ended 2006)	100	People's Republic of China
ECnet Inc.	100	United State Of America
ECnet Korea Co, Ltd. (Liquidated during year ended 2006)	100	Korea
ECnet Kabushiki Kaisha	100	Japan

3. Segment information

Business Segments :

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

Geographical Segments :

The group operates in four principal geographical areas of the world which are: India, United States of America, South East Asian countries and Other areas.

The following table provides required information for the primary segments for the year ended December 31, 2006 and year ended December 31, 2005:

(Amount in Rs.)

Particulars	Software development & customisation services		Business process outsourcing services		Eliminations		Corporate and others		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
REVENUE										
External sales	**1,822,624,880**	1,496,639,887	**216,833,463**	81,294,035	-	-	-		**2,039,458,343**	1,577,933,922
Inter-segment sales	-	-	-	-	-	-	-	-	-	-
Total revenue	**1,822,624,880**	1,496,639,887	**216,833,463**	81,294,035	-		-		**2,039,458,343**	1,577,933,922
RESULT										
Segment result	**132,974,391**	141,205,514	**13,958,702**	9,775,948	-	-	-	-	**146,933,093**	150,981,461
Unallocated corporate expenses	-	-	-	-	-	-	**35,680,786**	1,711,252	**35,680,786**	1,711,252
Operating profit									**111,252,307**	149,270,209
Interest expenses	-	-	-	-	-	-	**(3,853,002)**	(6,597,353)	**(3,853,002)**	(6,597,353)
Interest income	-	-	-	-	-	-	**23,544,219**	1,416,984	**23,544,219**	1,416,984
Other income	-	-	-	-	-	-	**8,139,119**	98,048	**8,139,119**	98,048
Income taxes	-	-	-	-	-	-	**(60,839,659)**	(19,418,209)	**(60,839,659)**	(19,418,209)
Net profit	-	-	-	-	-	-	-	-	**78,242,984**	124,769,679
OTHER INFORMATION										
Segment assets	**1,201,555,683**	751,677,646	**121,805,488**	63,016,582	**60,510,638**	49,933,067			**1,262,850,533**	764,761,161
Unallocated corporate assets	-	-	-	-	-	-	**537,493,399**	156,066,328	**537,493,399**	156,066,328
Income tax assets	-	-	-	-	-	-	-	22,036,865	-	22,036,865
Total assets	**1,201,555,683**	751,677,646	**121,805,488**	63,016,582	**60,510,638**	49,933,067	**537,493,399**	178,103,193	**1,800,343,932**	942,864,354
Segment liabilities	**306,063,689**	234,876,543	**117,289,599**	64,641,566	**60,510,638**	49,933,067	-	-	**362,842,651**	249,585,042
Unallocated corporate liabilities	-	-	-	-	-	-	**126,020,956**	77,530,873	**126,020,956**	77,530,873
Income tax liabilities	-	-	-	-	-	-	**29,137,591**	2,583,168	**29,137,591**	2,583,168
Total liabilities	**306,063,689**	234,876,543	**117,289,599**	64,641,566	**60,510,638**	49,933,067	**155,158,547**	80,114,041	**518,001,197**	329,699,083
Capital expenditures	**172,834,209**	71,631,136	**13,249,208**	3,746,200	-	-	-	-	**186,083,417**	75,377,336
Depreciation and amortization	**51,048,034**	43,722,156	**8,075,907**	5,203,135	-	-	-	-	**59,123,941**	48,925,291
Other non-cash expenses	**42,832,415**	22,443,696	**1,922,435**	1,654,421	-	-	-	-	**44,754,850**	24,098,117

Geographical segments:

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

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

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

Revenue by geographical market

	Year ended December 31, 2006	Year ended December 31, 2005
India	**90,148,206**	49,854,451
USA	**1,493,240,024**	1,185,867,950
South East Asia	**185,183,831**	153,666,222
Others	**270,886,282**	188,545,299
Total	**2,039,458,343**	1,577,933,922

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

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

	Carrying amount of assets Year ended December 31, 2006	Carrying amount of assets Year ended December 31, 2005	**Addition to fixed assets and intangible assets Year ended December 31, 2006**	Addition to fixed assets and intangible assets Year ended December 31, 2005
India	**1,205,163,223**	414,760,132	**173,032,182**	57,783,090
USA	**501,117,649**	453,480,374	**9,763,287**	10,067,898
South East Asia	**35,903,126**	8,812,966	**3,107,622**	7,287,012
Others	**58,159,934**	65,810,881	**180,326**	239,337
Total	**1,800,343,932**	942,864,354	**186,083,417**	**75,377,336**

4. Related party disclosure

(i) Names of related parties

Key management personnel

Sl. No.	**Name of Person**	**Designation**	**Company**
1	Satinder Singh Rekhi	Managing Director Director Director Director Director	R Systems International Limited R Systems, Inc. R Systems (Singapore) Pte Ltd. Indus Software, Inc. R Systems Solution, Inc. (formerly known as Web Converse, Inc.)
2.	O'Neil Nalavadi	Director Finance & CFO	R Systems International Limited
3.	Lt. Gen. Baldev Singh (Retd)	Managing Director till January 18, 2006, appointed Senior Executive Director as per Board of Directors resolution dated January 18, 2006	R Systems International Limited

4.	Raj Swaminathan	Chief Operating Officer, appointed Executive Director as per Board of Directors resolution dated September 29, 2006	R Systems International Limited
5.	Avirag Jain	Alternate Director & Executive Vice President	R Systems International Limited
6.	Mrs. Harpreet Rekhi	Director Director Director	R Systems (Singapore) Pte Ltd. Indus Software, Inc. R Systems, Inc.
7.	Lu Kok Wah	Director	ECnet Ltd.
8.	Tan Cant Wee	Director Director	ECnet Ltd. R Systems (Singapore) Pte Ltd.
9.	Tarun Shankar Mathur	Director Director	ECnet Ltd. R Systems (Singapore) Pte Ltd.
10.	See Kwee Tong Peter	Director Director	R Systems (Singapore) Pte Ltd. ECnet Ltd.
11.	Peter Newel	Director	R Systems Solution, Inc. (formerly known as Web Converse, Inc.)
12.	Nikhil Khosla	Director	R Systems Solution, Inc. (formerly known as Web Converse, Inc.)
13.	Sartaj Singh Rekhi	Director	R Systems Solution, Inc. (formerly known as Web Converse, Inc.)
14.	Mandeep Sodhi	Vice President Marketing	R Systems, Inc.
15.	Thiru Dorai	VP Strategic Solutions	R Systems International Limited
16.	Sarvi Dhaliwal	Vice President Marketing	R Systems, Inc.

Key managerial personnel

	Year ended December 31, 2006	Year ended December 31, 2005
Remuneration		
Satinder Singh Rekhi	**13,005,452**	12,257,151
O'Neil Nalavadi	**8,415,060**	6,429,928
Lt. Gen. Baldev Singh (Retd)	**5,438,893**	1,337,363
Raj Swaminathan	**3,357,665**	-
Avirag Jain	**2,465,337**	1,195,100
Peter See Kwee Tong	**-**	15,547,381
Lu Kok Wah	**3,473,289**	3,018,013
Tan Cant Wee	**2,404,888**	2,022,032
Tarun Shankar Mathur	**6,734,657**	2,685,476
Sarvi Dhaliwal	**-**	4,303,632
Mandeep Sodhi	**10,187,143**	7,183,603
Thiru Dorai	**3,399,064**	3,522,483
Peter Newel	**2,476,446**	-
Nikhil Khosla	**2,174,441**	-
Sartaj Singh Rekhi	**604,248**	-
Rent		
Satinder Singh Rekhi	**4,894,430**	4,764,461
Total	**66,766,791**	64,266,623

Note

The above remuneration includes Rs. 1,302,519 (Previous Year Rs.Nil) pending approval of Central Government.

5. Leases - In case of assets taken on lease

The Group has operating leases for office premises, etc. including composite leases for land and building, where lease rentals toward land are not separated. The future minimum payments required under non-cancelable operating leases at year -end are as follows

	Year ended December 31,2006	Year ended December 31,2005
Minimum Lease Payments:		
Not later than one year	**37,525,331**	21,294,507
Later than one year but not later than five years	**14,812,648**	14,050,955
Later than five years	**Nil**	Nil
The Company has finance leases for office and electrical equipment.		
Minimum Lease Payments:		
Not later than one year	**701,508**	Nil
Later than one year but not later than five years	**267,985**	Nil
Later than five years	**Nil**	Nil
6. Capital Commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for.		
Commitments for acquisition of fixed assets	**8,842,917**	25,979,161
	8,842,917	25,979,161

7. Contingent Liabilities not provided for

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

(ii) Also refer note 10 (d) below.

8. Sundry creditors do not include any amounts payable to small scale and ancillary industrial undertakings; to the extent such parties have been identified by the management from available documents/information.

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

- 18,000,000 equity shares of Rs.2 each, allotted as fully paid up bonus shares by way of capitalisation of accumulated profits.

- 335,000 equity shares of Rs.2 each, allotted at a premium of Rs.2,167.55 per equity share pursuant to a contract for share swap with existing shareholders of R Systems, Inc., USA after obtaining necessary regulatory approvals.

- 3,596,869 equity shares of Rs. 2 each, allotted at a premium of Rs. 113.42 per equity share pursuant to a "Shareholders Agreement" resulting in share swap with specific shareholders of Indus Software Private Limited (or 'Indus') after obtaining necessary regulatory approvals.

- 1,281,364 equity shares of Rs. 2 each, allotted at a premium of Rs. 113.42 per equity share to the remaining shareholders of Indus, pursuant to the approval of "Scheme of Amalgamation" relating to the amalgamation of Indus with the Company by the High Courts of Delhi and Mumbai.

During the year,

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

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

10. (a) During the year ended December 31, 2004, the Company had acquired 98.59% shares in ECnet Limited, a Company incorporated in Singapore at total consideration of Rs.34,938,958. As at December 31, 2004, the Company had to pay balance amount of Rs. 25,952,338 to the erstwhile shareholders of ECnet Limited, out of which Rs. 4,579,824 was payable on January 8, 2005 and the balance Rs. 21,372,514 was payable on January 8, 2006. Rs. 27,953,223 (Previous year 26,368,974), being the amount payable within a year has been shown under 'current liabilities'.

Considering that cash flows from the investment are currently negative, Rs. 27,953,223 payable to the erstwhile shareholders of ECnet Limited has not been paid. One of the erstwhile shareholder has filed a case against the Company to recover its dues of Rs. 11,446,124. The management has filed its submission and believes that the erstwhile shareholders have no legal recourse to recover this amount other than instructing the Company to dispose of such number of shares in the subsidiary which shall permit Company to pay these liabilities, net of expenses incurred on such disposal. The management has no plans of disposal of shares of subsidiary and has neither received from the said erstwhile shareholder, any instructions to dispose any shares and believes that this liability shall be settled once the subsidiary's financial position improves.

(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 previous year, 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) ECnet Limited had received government grant of Rs 2,136,800 which has been amortised over a period of three years upto 2005 as other income.

(d) During the year the Company has completed the acquisition and integration of R Systems Solutions, Inc. (formerly known as WebConverse, Inc), a technical support company based in the US. The maximum purchase consideration for the above acquisition is US$ 10.34 million, including consideration determined as contingent of future earn-outs and offshore activities amounting to US$ 7.49million. The maximum purchase consideration for the above acquisition is US$ 10.34 million i.e. Rs 463,420,783, including consideration determined as contingent amounting to US$7.49 million i.e. Rs. 330,624,695. The Company has recognized the investment at value of US$ 2.85 million i.e. Rs.132,796,088 which represents the consideration assessed as probable to be paid. Out of such payables, Rs.54,803,268 has been paid at time of acquisition and remaining payable within one year from the year-end and is shown under 'current liabilities' and balance amount is payable after one year which has been disclosed separately as 'deferred payment liabilities'. The goodwill arising on acquisition of Rs.135,983,568 has been recorded in the books and shall be tested for impairment.

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

Asset	Gross block	Accumulated depreciation
Computers	14,145,728	8,355,006
Software	1,166146	646,851
Furniture and fittings	876,610	605,728
Office and electrical equipment	2,505,948	1,597,798
Total	18,694,432	11,205,383

(f) Breakup of assets and liabilities acquired on acquisition of the R Systems Solutions, Inc. (formerly known as Web Converse, Inc.) as noted in 10 (d) above**:**

Assets	
Cash and bank balances	1,272,396
Sundry Debtors	34,168,658
Loans and advances	1,799,878
Fixed assets	
Gross block	18,694,432
Less : Accumulated depreciation / amortisation	11,205,383
Net block	7,489,049
Total assets	**44,729,981**
Liabilities	
Current liability and provisions	30,891,396
Secured loan	13,071,923
Unsecured loan	3,954,141
Total liability	**47,917,460**
Net assets (A)	**(3,187,479)**
To be discharged by:	
Cash already paid	54,803,268
Future amount assessed as probable to be paid	77,992,821
Total Consideration (B)	**132,796,089**
Goodwill arising on acquisition (B-A)	**135,983,568**

(g) All profits / losses relating to the Company's subsidiary subsequent to the date of acquisition are included in these consolidated financial statements. Accordingly, loss for the period from September 1, 2006 to December 31, 2006 is incorporated into the profit and loss account. Further, goodwill, as mentioned above, has been computed on the basis of accounts of the subsidiary as on the August 31, 2006. For the purpose of above computation, the amounts in foreign currencies have been translated at the applicable rates on the acquisition date, i.e., US$ 1= Rs. 46.52.

11. (a) R Systems International Limited- Year 2004 Employee Stock Option 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, the Company has consolidated five equity shares of Rs.2 each in to one equity share of Rs.10 each and then issued 1:1 bonus share to each existing shareholder (excluding the option holders) by utilization of Securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956. Considering these changes in the capital structure, the management has 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 has been adjusted to one option of Rs. 10 per share and instead of earlier exercise price of Rs. 42 per share for each Rs.2 share, the exercise price had been accordingly adjusted to Rs. 105 per equity share. The management believes that by these adjustments the Company is being fair to the employees and does not result in any additional benefit being offered to the employees.

The vesting period is 4 years (25% in each year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2006 and year ended December 31, 2005 is set out below:

	Year ended December, 31, 2006 (Nos.)	Year ended December, 31, 2005 (Nos.)
At the beginning of the years		
- Grants outstanding under the plan (Rs. 2 per share)	**863,075**	887,200
- Grants pending determination by the compensation committee (Rs. 2 per share)	**96,375**	110,300
Option issued to the employee during the year (Rs. 2 per share)	**-**	185,100
Option exercised (Rs. 2 per share)	**114,174**	38,050
Before reverse share split (consolidation of shares from Rs. 2 to Rs. 10)		
- Grants outstanding under the plan (Rs. 2 per share)	**748,901**	-
- Grants pending determination by the compensation committee (Rs. 2 per share)	**96,375**	-
After reverse share split (consolidation of shares from Rs. 2 to Rs. 10)		
- Grants outstanding under the plan (Rs. 10 per share)	**149,780**	-
- Grants pending determination by the compensation committee (Rs. 10 per share)	**19,275**	-
Option exercised (Rs. 10 per share)	**24,390**	-
Option lapsed or surrendered during the year (Rs. 10 per share)	**18,430**	-
Option lapsed or surrendered during the year (Rs. 2 per share)	**-**	171,175
At the end of the years		
- Grants outstanding under the plan (Rs. 10 per share)	**106,960**	-
- Grants outstanding under the plan (Rs. 2 per share)	**-**	863,075
- Grants pending determination by the compensation committee (Rs. 10 per share)	**37,705**	-
- Grants pending determination by the compensation committee (Rs. 2 per share)	**-**	96,375

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

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

As a result of the merger of Indus with the Company, all employees had surrendered their options in favour of the Indus Trust to enable them to obtain options for shares in R Systems International Limited after the merger. Also, the Company had issued 206,822 equity shares of Rs. 2 each at a premium of Rs. 113.42 per share to the Indus Trust in exchange of 21,967 equity shares of Indus, apropos to the agreed swap ratio.

The company has consolidated 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 shares by utilization of securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956, consequently total number of shares issued are now 82,729 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 years ended December 31, 2006 and December 31, 2005 is set out below:

	Year ended December 31, 2006 (Nos.)	Year ended December 31, 2005 (Nos.)
At the beginning of the years		
- Grants outstanding under the plan (Rs. 2 per share)	11,901	25,308
- Grants pending determination by the compensation committee (Rs. 2 per share)	184,743	181,514
Option issued to the employee during the year	-	-
Option exercised (Rs. 2 per share)	11,901	10,178
Before reverse share split (consolidation of shares from Rs. 2 to Rs. 10)		
- Grants outstanding under the plan	-	-
- Grants pending determination by the compensation committee (Rs. 2 per share)	184,743	-
After reverse share split (consolidation of shares from Rs. 2 to Rs. 10)		
- Grants outstanding under the plan	-	-
- Grants pending determination by the compensation committee (Rs. 10 per share)	36,949	-
Option exercised (Rs. 10 per share)	-	-
Option lapsed or surrendered during the year (Rs. 2 per share)	-	3,229
At the end of the years		
- Grants outstanding under the plan (Rs. 2 per share)	-	11,901
- Grants pending determination by the compensation committee (Rs. 10 per share)	36,949	-
- Grants pending determination by the compensation committee (Rs. 2 per share)	-	184,743

(c) R Systems International Limited – Year 2004 Employees Stock Option Plan –ECnet (the plan)

The Company had instituted the plan for all eligible employees in pursuance of the special resolution duly approved by the shareholders. The plan provides for the issuance of 1,000,000 options to eligible employees as recommended by the Compensation Committee constituted for this purpose.

The plan is administered by a compensation committee and exercise price is "Book Value of the Share as per the audited Balance Sheet as on 31st December 2003 i.e. Rs. 26 or as on the date of Exercise, the book value as per immediate previous accounting year audited balance sheet rounded off to nearest rupee which ever is higher".

During the year, the Company has consolidated five equity shares of Rs.2 each in to one equity share of Rs.10 each and then issued 1:1 bonus share to each existing shareholder (excluding the option holders) by utilization of Securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956. Considering these changes in the capital structure, the management has 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 has been adjusted to one option of Rs. 10 per share and instead of earlier exercise price of Rs. 26 per share for each Rs.2 share, the exercise price had been accordingly adjusted to Rs. 65 per equity share. The management believes that by these adjustments the Company is being fair to the employees and does not result in any additional benefit being offered to the employees.

The vesting period is 4 years (40% in 1st year & 20% in 2nd, 3rd & 4th year) commencing from the date of grant under the plan. The eligible employees have an option to exercise it over a period of 10 years from the date of grant under the plan. The movement in the options during the year ended December 31, 2006 and year ended December 31, 2005 is set out below:

	Year ended December 31, 2006 (Nos.)	Year ended December 31, 2005 (Nos.)
At the beginning of the years		
- Grants outstanding under the plan (Rs. 2 per share)	**584,800**	862,000
- Grants pending determination by the compensation committee (Rs. 2 per share)	**415,200**	138,000
Option issued to the employee during the year	**-**	-
Option exercised (Rs. 2 per share)	**235,797**	-
Before reverse share split (consolidation of shares from Rs. 2 to Rs. 10)		
- Grants outstanding under the plan (Rs. 2 per share)	**349,003**	-
- Grants pending determination by the compensation committee (Rs. 2 per share)	**415,200**	-
After reverse share split (consolidation of shares from Rs. 2 to Rs. 10)		
- Grants outstanding under the plan (Rs. 10 per share)	**69,801**	-
- Grants pending determination by the compensation committee (Rs. 10 per share)	**83,040**	-
Option exercised (Rs. 10 per share)	**22,800**	-
Option lapsed or surrendered during the year (Rs. 10 per share)	**200**	-
Option lapsed or surrendered during the year (Rs. 2 per share)	**-**	277,200
At the end of the years		
- Grants outstanding under the plan (Rs. 10 per share)	**46,801**	-
- Grants outstanding under the plan (Rs. 2 per share)	**-**	584,800
- Grants pending determination by the compensation committee (Rs. 10 per share)	**83,240**	-
- Grants pending determination by the compensation committee (Rs. 2 per share)	**-**	415,200

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

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

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

* : R Systems International Limited- Year 2004 Employee Stock Option Plan
**: Indus Software Employees Stock Option Plan – Year 2001
***: R Systems International Limited – Year 2004 Employees Stock Option Plan ECnet

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

12. Earning per share

During the current year, the Company has converted 495,667 warrants to equity shares of Rs. 2 each and has allotted 388,021shares to employees on exercise of options by them. The Company has consolidated five equity shares of Rs. 2 each to one equity share of Rs.10 each and then issued 1:1 bonus share for each share held by utilization of Securities premium account in terms of the provisions of Section 78 of the Companies Act, 1956. For the purpose of computation of earnings per share, the number of shares has been accordingly adjusted.

Earnings per share	For the year ended December 31, 2006	For the year ended December 31, 2005
Basic [nominal value of share Rs10 (previous year Rs10)]	6.17	11.65
Diluted [nominal value of share Rs10 (previous year Rs10)]	6.17	11.65
Net profit after tax	78,242,984	124,769,679
Weighted average number of equity shares for calculating Basic and Diluted EPS	12,687,426	10,710,510

13. Post employment benefits

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

The following tables summaries the components of net benefit expense recognized in the Profit and Loss Account.

Net employee benefit expense recognized under Salary, wages and bonus

Particulars	For year ended December 31, 2006
Current service cost	5,099,206
Interest cost on benefit obligation	916,465
Expected return on plan assets	-
Net actuarial(gain) / loss recognised in the year	(1,187,307)
Past service cost	-
Net benefit expense	4,828,364

Details of defined benefit gratuity plan

Particulars	As at December 31, 2006
Defined benefit obligation	-
Fair value of plan assets	-
Present value of unfunded obligations	16,885,862
	16,885,862
Less: Unrecognised past service cost	-
Plan asset / (liability)	16,885,862

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

Particulars	For year ended December 31, 2006
Opening defined benefit obligation	13,230,425
Interest cost	916,465
Current service cost	5,099,206
Benefits paid	(1,172,927)
Actuarial (gains) / losses on obligation	(1,187,307)
Closing defined benefit obligation	16,885,862

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

Particulars	For year ended December 31, 2006
	%
Discount rate	7.80% p.a.
Expected rate of return on plan assets	-
Salary Escalation Rate	10.0% p.a. for first 4 years and 7% p.a. thereafter
Attrition rate:	As per table below

Attrition rate:

Age (Years)	Rates
21 – 30	15%
31 – 34	10%
35 – 44	45%
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.

In the current year, the Company has gone for early adoption of the Accounting Standard 15 (Revised 2005) which is mandatory from accounting periods starting from December 7, 2006. Accordingly the corresponding previous year figures have not been disclosed.

14 (a) During the year, the Company has 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 have 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. 70.625 Crores (net of selling shareholders' proceeds), details of utilisation of IPO proceeds are as follows:

Object	Estimated use of IPO proceeds	Amount incurred till December 31, 2006
Up gradation and expansion of existing infrastructure	315,000,000	174,879,074
Repayment of outstanding loans	36,550,000	36,550,000
Financing working capital requirements	179,510,000	86,324,290
General corporate purpose	62,190,000	57,086,651
Issue expenses	113,000,000	98,562,497
Total	**706,250,000**	**453,402,512**

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

- The total amount incurred for up gradation and expansion of existing infrastructure till December 31, 2006 was Rs. 174,879,074, out of which Rs. 107,264,923 were incurred from IPO proceeds and balance from internal accrual & loans funds.

-The total issue expenses paid by December 31, 2006 were Rs. 98,562,497 out of which Rs. 62,832,163 were paid from IPO proceeds and balance from internal accrual and loans fund.

-The total out flow for General corporate purpose by December 31, 2006 was Rs. 57,086,651, out of which Rs. 55,734,425.00 were paid from IPO proceeds and balance from internal accrual and loans fund.

-The total outflow for repayment of loans is Rs. 47,000,000, out of this Rs 36,550,000 was the repayment of term loan outstanding at the time of filing Draft Red Herring Prospectus. This balance was increased to Rs.47,000,000 because of capital expenditure until the realization of issue proceeds . Balance amount of Rs. 10,450,000 has been utilized for up gradation and expansion of existing infrastructure.

15. Derivative instruments and unhedged foreign currency exposure

Particulars of derivatives	**Purpose**
Forward contract outstanding as at Balance Sheet date	
Sell US $ 5,200,000	Hedge of debtors

Particulars of unhedged foreign currency exposure as at the Balance Sheet date

	Currency	Foreign Currency amount	Closing foreign exchange rate	Amount (Rs.)
Liabilities				
Deferred compensation				
	SGD	971,634	28.77	27,953,223
	USD	1,677,240	44.12	73,999,807
Foreign currency creditors				
	SGD	13,470	28.77	387,524
	USD	123,665	44.12	5,456,110
Advances from customers	USD	12,775	44.12	563,636
	GBP	680	86.44	58,777
Assets				
Debtors	USD	7,188,251	44.12	317,507,438
	SGD	48,134	28.77	1,384,781
	CAD	93	37.86	3,511
	GBP	20,679	86.44	1,787,383
	AUD	36,000	34.83	1,253,707
	EURO	53,864	58.25	3,137,585
Loans and advances				
	SGD	23,192	28.77	667,213
	USD	241,465	44.12	10,653,418
Unbilled revenue	USD	1,704,061	44.12	75,183,159
	SGD	14,490	28.77	416,867

16. (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 Note 2 above, certain changes had taken place in the group structure during the year. Accordingly, the current year figures are not strictly comparable with previous year figures.

As per our report of even date.

For S. R. Batliboi & Associates
Chartered Accountants

per Pankaj Chadha
Partner
Membership No. 91813

Place : Gurgaon
Date : March 3, 2007

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

Satinder Singh Rekhi
[Managing Director]
Place : EDH, CA, USA
Date : March 3, 2007

O’Neil Nalavadi
[Director Finance & CFO]
Place : EDH, CA, USA
Date : March 3, 2007

Lt. Gen. Baldev Singh (Retd)
[Senior Executive Director]
Place : NOIDA
Date : March 3, 2007

Nand Sardana
[Vice President (Finance)
& Company Secretary]
Place : NOIDA
Date : March 3, 2007

NOTICE OF THIRTEENTH ANNUAL GENERAL MEETING

(Regd. Office : B - 104A, Greater Kailash - I, New Delhi - 110 048)

Notice is hereby given that the Thirteenth Annual General Meeting of the shareholders of **R SYSTEMS INTERNATIONAL LIMITED** (the "Company" / "R Systems") will be held on Tuesday the 01st day of May 2007 at 09.30 A.M. at **Air Force Auditorium,** Subroto Park, New Delhi – 110 010 for transacting the following business:

AS ORDINARY BUSINESS

1. To receive, consider and adopt the audited balance sheet as at December 31, 2006 and the Profit & Loss Account for the year ended on that date together with the reports of auditors' and directors' thereon.

2. To declare a dividend of Rs. 1.20 per equity shares on 13,582,706 equity shares of Rs. 10 each for the year ended December 31, 2006.

3. To appoint a director in place of Mr. Raj Kumar Gogia, who retires by rotation and being eligible offers himself for re-appointment.

4. To appoint a director in place of Lt. Gen. Baldev Singh (Retd.), who retires by rotation and being eligible offers himself for re-appointment.

5. To appoint M/s. S.R. Batliboi & Associates, Chartered Accountants, as statutory auditors of the Company to hold office from the conclusion of this annual general meeting till the conclusion of the next annual general meeting and to fix their remuneration.

AS SPECIAL BUSINESS

6. To consider and if thought fit to pass with or without modification(s), the following resolutions as an **Ordinary Resolution**

   "**RESOLVED THAT** Mr. Suresh Paruthi, who was appointed as an additional director of the Company by the Board of Directors with effect from September 29, 2006 to hold the office up to the date of ensuing annual general meeting and in respect of whom the Company had received a notice under Section 257 of the Companies Act, 1956, in writing along with the deposit of Rs. 500/, proposing his candidature for the office of director, be and is hereby appointed as a director of the Company subject to retirement by rotation as per the provisions of the Companies Act, 1956 read with the Articles of Association of the Company.

   "**RESLOVED FURTHER THAT** the Board of Directors of the Company be and is hereby authorized to do all such acts, deeds, matters and things as they may in their absolute discretion deem necessary or desirable to give effect to this resolution."

7. To consider and if thought fit to pass with or without modification(s), the following resolutions as an **Ordinary Resolution**

   "**RESOLVED THAT** Mr. Raj Swaminathan, who was appointed as an additional director of the Company by the Board of Directors with effect from September 29, 2006 to hold the office up to the date of ensuing Annual General Meeting and in respect of whom the Company had received a notice under Section 257 of the Companies Act, 1956, in writing along with the deposit of Rs. 500/, proposing his candidature for the office of director, be and is hereby appointed as a director of the Company subject to retirement by rotation as per the provisions of the Companies Act, 1956 read with the Articles of Association of the Company.

   "**RESLOVED FURTHER THAT** the Board of Directors of the Company be and is hereby authorized to do all such acts, deeds, matters and things as they may in their absolute discretion deem necessary or desirable to give effect to this resolution."

8. To consider and if thought fit to pass with or without modification(s), the following resolutions as a **Special Resolution**

   "**RESOLVED THAT** pursuant to the provisions of Section 198, 269 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 subject to approval of the Central Government and pursuant to any other laws prevailing for the time being in force, consent of the members of the Company be and is hereby accorded for the appointment of Mr. Raj Swaminathan as the Director & Chief Operating Officer of the Company for a period of 3 years commencing from September 29, 2006.

   "**RESOLVED FURTHER THAT** the appointment of Mr. Raj Swaminathan as the Director & Chief Operating Officer of the Company will be on the existing terms & conditions of his employment (listed below) as the Chief Operating Officer of the company for the period of three years w.e.f September 29, 2006 & he will not be entitled to any other additional benefit as a director which is over and above its existing terms & conditions.

Monthly Salary Particulars	
	INR
Basic	140,000
HRA	70,000
Conveyance Allowance	800
Executive Allowance	117,503
Gross Per Month	**328,303**

Annual Allowances	
Leave travel Assistance	120,000
Food Coupon	12,000
Company's Contribution to Provident Fund	9,360
Gross Annual Allowances	**141,360**
Annual Reimbursements	
Medical Reimbursement	15,000
Petrol Reimbursement	144,000
Gross Annual Reimbursements	**159,000**
Gross Per annum	**4,240,000**

In addition to the above, he will be eligible for the Group Mediclaim and Personal Accident Insurance as per Company policy.

He may also be eligible for a performance incentive consisting of a fixed bonus of Rs. 1,100,000 paid pro rata for period of service in the year, at the end of each year and a variable bonus subject to a maximum of Rs. 1,000,000 per annum & subject to his being on the rolls of the Company at the time the same is declared. This incentive is discretionary and is based on the Company's performance in that financial year and also his own annual performance.

"**RESOLVED FURTHER THAT** as per the usual terms & conditions of the employment of Mr. Raj Swaminathan with R Systems International Limited, he will be entitled for a maximum annual increment of 15% per annum on his total cost to the Company effective on January 01, 2007, January 01, 2008 & January 01, 2009.

"**RESOLVED FURTHER THAT** in the event of absence or inadequacy of profits in any financial year during the tenure of Mr. Raj Swaminathan as the Director and Chief Operating Officer of the Company, the company shall pay him the remuneration as approved by the remuneration committee.

"**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 including filing and verifying the documents, affidavits, affixing the common seal of the Company wherever required in accordance with the provisions of the Article of Association of the Company and to appear before the Government or any other authority including Registrar of Companies.

"**RESOLVED FURTHER THAT** the Board may, by a resolution passed at a meeting, 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 resolutions as a **Special Resolution**

"**RESOLVED THAT** pursuant to the provisions of Section 198, 268, 269, 309, 310 read with Schedule XIII of the Companies Act, 1956, Memorandum and Articles of Association of the Company and other applicable provisions, if any, and subject to the approval of the Central Government and such other approvals as may be required, consent of the shareholders be and is hereby given to the alteration made by the Board of Directors in the terms and conditions of the appointment of Mr. O'Neil Nalavadi, Director Finance & CFO of the Company by providing him an annual increment of US$5,000.00 (Rs. 222,500.00 at Rs.44.5/US$1.00) & an annual ex-gratia compensation of a maximum of US$ 30,000.00 (Rs. 1,335,000 at Rs.44.5/US$1.00) w.e.f. January 01, 2007.

"**RESOLVED FURTHER THAT** pursuant to the applicable provisions and subject to the approval of the Central Government the terms of his employment were also modified to include an annual increment up to 15% to his basic salary and an annual ex-gratia compensation of a maximum of US$ 30,000 during the remaining tenure of his appointment as the Director Finance & CFO commencing from January 01, 2008, after incorporating the annual increment & modifications as approved by the Remuneration Committee & Board of Directors at its meeting held on March 03, 2007, the terms of employment of Mr. O'Neil Nalavadi, will be as follows:

1. Compensation: Basic salary at the rate of $131,000 (US$ One Hundred and Thirty One Thousand) w.e.f. January 1, 2007 payable semi-monthly on the 15th and the last day of each month & an annual ex-gratia compensation of a maximum US$ 30,000.00. Applicable taxes will be deducted from his gross earnings.

2. Automobile: The Company will furnish him with an automobile including maintenance and fuel expenses, comparable to his position, while employed with the Company

3. Health Insurance: He and his qualified dependents will be eligible to receive health insurance coverage through the Company or its subsidiaries insurance carriers. The terms, conditions, and eligibility requirements for such insurance coverage are set forth in the summary plan description(s) describing the coverage.

4. Other benefits: He will be eligible to participate in the Company's or R Systems Inc.'s retirement plans in accordance with the prevalent policies.

5. Bonus:

   a.) He will be entitled to participate in incentive schemes as set up and approved by the remuneration committee from time to time.

   b.) Upon a completion of initial public offering by the Company, he will be entitled to a bonus equal $60,000 (US$ Sixty Thousand only)

c.) He will be entitled to a bonus for every acquisition completed by the Company or its subsidiary equal to 1% of the revenues of the target acquired subject to a maximum of $25,000 (US$ Twenty Five Thousand) per transaction. 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 subject to a maximum of $37,500 (US$ Thirty Seven Thousand Five Hundred) per acquisition.

6. Annual Increment: He will be entitled to a maximum annual increment of 15% of preceding year's basic salary at the discretion of the Board of Directors w.e.f January 01, 2008 & onwards, during the remaining tenure of his employment with the Company.

"**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 the Director Finance and Chief Financial Officer of the Company, the Company shall pay him the remuneration as approved by the remuneration committee.

"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 including filing and verifying the documents, affidavits, affixing the common seal of the Company wherever required in accordance with the provisions of the Article of Association of the Company and to appear before the Government or any other authority including Registrar of Companies.

"RESOLVED FURTHER THAT the Board may, by a resolution passed at a meeting, 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."

10. To consider and if thought fit to pass with or without modification(s), the following resolutions as a **Special Resolution**

"RESOLVED THAT pursuant to section 309 (2), 310 of the Companies Act, 1956 read with Rule 10B of the Companies (Central Government's) General Rules & Forms 1956, Listing Agreement entered in to with Stock Exchanges and other applicable provisions if any, the Company be and is hereby authorized to pay the increased sitting fee of Rs 15,000 to each of the non-executive directors for attending each meeting of the board or committee thereof as approved by the Board of Directors on July 22, 2006."

11. To consider and if thought fit to pass with or without modification(s), the following resolutions as a **Special Resolution**

"**RESOLVED THAT** pursuant to Sub Section (1) of Section 314 of the Companies Act, 1956 and other applicable provisions of the Act, if any read with the Articles of Association of the Company, approval of the shareholders be and is hereby given for the appointment of Sartaj Singh Rekhi, son of Mr. Satinder Singh Rekhi, Chairman and Managing Director of the Company as executive manager of R Systems, Inc. wholly owned subsidiaries of R Systems International Limited for two years beginning from July 01, 2006 on an annual salary of US$ 40,000 with a maximum annual increment of 15% per annum w.e.f. January 01 each year during the present tenure of his appointment.

"**RESOLVED FURTHER THAT** the approval of the shareholders be and is hereby also given for his appointment as the director of R Systems Solutions, Inc. wholly owned subsidiaries of R Systems International Limited, none of the directors except Mr. Satinder Singh Rekhi & Lt. Gen Baldev Singh (Retd.) being related to Mr. Sartaj Singh Rekhi are interested in the said appointment.

"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.

"RESOLVED FURTHER THAT the Board may, by a resolution passed at a meeting, 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 resolutions as a **Special Resolution**

"RESOLVED THAT pursuant to the provisions of Section 81(1A) and other applicable provisions of the Companies Act, 1956 (including any amendment thereto or re-enactment thereof) and in accordance with the provisions of the Memorandum and Articles of Association of the Company, Securities and Exchange Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 and regulations / guidelines issued by the Reserve Bank of India or any other relevant authority, from time to time, to the extent applicable and subject to such approvals, consents, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed by them while granting such permissions, consents, authority and approval, consent of the members of the Company be and is hereby accorded to the Board of Directors of the Company (hereinafter referred to as "the Board", which term shall be deemed to include any committee including the Compensation Committee of

Directors constituted by the Board to exercise its powers, including the powers conferred by this resolution) to frame the proposed Employee Stock Option Plan 2007 ("ESOP 2007") and to create, issue, offer and allot in one or more trenches under the said proposed ESOP Scheme 2007 at any time to or for the benefit of permanent employees and directors (except promoter directors) of the Company such number of equity shares and/or equity linked instruments or securities which could give rise to the issue of equity shares (hereinafter collectively referred to as "Securities" of the Company) not exceeding 650,000 (six lacs fifty thousand only) options at such price and on such terms and conditions as may be fixed or determined by the Board in accordance with the Guidelines or other applicable provisions of any law as may be prevailing at that time.

"RESOLVED FURTHER THAT the Board is authorised to formulate, evolve, decide upon and bring into effect any scheme (hereinafter referred to as "the ESOP Scheme 2007") on such terms and conditions as contained in the relevant Explanatory Statement to this notice and to make any modification(s), change(s), variation(s), alternation(s) or revision(s) in the terms and conditions of the scheme from time to time including but not limited to amendments with respect to vesting period, exercise price, eligibility criteria, vesting schedule or to suspend, withdraw or revive the ESOP Scheme 2007.

"RESOLVED FURTHER THAT the new equity shares to be issued and allotted as stated aforesaid shall rank pari passu inter-se with the then equity shares of the Company for all purposes.

"RESOLVED FURTHER THAT the Board be and is hereby authorized to take necessary steps for listing of the securities allotted under the ESOP Scheme 2007 on the stock exchanges where the securities of the Company are listed as per the provisions of the Listing Agreement with the relevant stock exchanges and other applicable guidelines, rules and regulations.

"RESOLVED FURTHER THAT for the purpose of giving effect to any creation, offer, issue, allotment or listing of securities, the Board be and is hereby authorized on behalf of the Company to evolve, decide upon and bring into effect the scheme and make any modifications, changes, variations, alternations or revisions in the said scheme from time to time or to suspend, withdraw or revise the scheme from time to time as may be specified by any statutory authority and to do all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary or desirable for such purpose and with authority on behalf of the Company to settle any questions, difficulties or doubts that may arise in this regard without requiring the Board to secure any further consent or approval of the Members subject however to the provisions of the Companies Act, 1956, the Memorandum and Articles of Association of the Company, and any other applicable laws."

13. To consider and if thought fit to pass with or without modification(s), the following resolutions as a **Special Resolution**

"RESOLVED THAT pursuant to the provisions of Section 81(1A) and other applicable provisions of the Companies Act, 1956 (including any amendment thereto or re-enactment thereof) and in accordance with the provisions of the Memorandum and Articles of Association of the Company, Securities and Exchange Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 and regulations / guidelines issued by the Reserve Bank of India or any other relevant authority, from time to time, to the extent applicable and subject to such approvals, consents, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed by them while granting such permissions, consents, authority and approval, consent of the members of the Company be and is hereby accorded to the Board of Directors of the Company (hereinafter referred to as "the Board", which term shall be deemed to include any committee including the Compensation Committee of Directors constituted by the Board to exercise its powers, including the powers conferred by this resolution) to create, issue, offer and allot in one or more trenches, at any time to or for the benefit of the permanent employees and directors of the subsidiary companies, such number of equity shares and/or equity linked instruments or securities which could give rise to the issue of equity shares (hereinafter collectively referred to as "Securities" of the Company) within the overall limit of 650,000 (six lacs fifty thousand only) options as stated in Item No. 12 above, at such price and on such terms and conditions as may be fixed or determined by the Board in accordance with the Guidelines or other applicable provisions of any law as may be prevailing at that time.

"RESOLVED FURTHER THAT the new equity shares to be issued and allotted as stated aforesaid shall rank pari passu inter-se with the then equity shares of the Company for all purposes.

"RESOLVED FURTHER THAT the Board be and is hereby authorized to take necessary steps for listing of the securities allotted under the ESOP Scheme 2007 on the stock exchanges where the securities of the Company are listed as per the provisions of the Listing Agreement with the relevant stock exchanges and other applicable guidelines, rules and regulations.

"RESOLVED FURTHER THAT for the purpose of giving effect to any creation, offer, issue, allotment or listing of securities, the Board be and is hereby authorized on behalf of the Company to evolve, decide upon and bring into effect the scheme and make any modifications, changes, variations, alternations or revisions in the said scheme from time to time or to suspend, withdraw or revise the scheme from time to time as may be specified by any statutory authority and to do all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary or desirable for such purpose and with authority on behalf of the Company to settle any questions, difficulties or doubts that may arise in this regard without requiring the Board to secure any further consent or approval of the Members subject however to the provisions of the Companies Act, 1956, the Memorandum and Articles of Association of the Company, and any other applicable laws."

14. To consider and if thought fit to pass with or without modification(s), the following resolutions as a **Special Resolution**

"RESOLVED THAT pursuant to the applicable provisions of the Companies Act, 1956 and other applicable provisions, if any and in accordance with provisions prescribed under the SEBI (Disclosure & Investor Protection) Guidelines 2000, listing agreement entered in to with the stock exchanges and subject to such approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed in granting such approvals/sanctions and subject to such other conditions, if any imposed by the Securities and Exchange Board of India (SEBI) approval of the members be and is hereby given for redistribution of the statement relating to fund requirements as disclosed in the offer document in the following manner

(Rs. in lacs)

Sr. No	Description	Estimated fund requirement as stated in the offer document	Redistributed fund requirement
1	Upgrading and expansion of existing infrastructure	3,150.00	3,265.43
2	Repayment of outstanding loans	365.50	365.50
3	Financing general working capital requirements	1,795.10	1,795.10
4	General corporate purposes	621.90	617.52
5	Meeting offer expenses	1,130.00	1,018.95
	Total	**7,062.50**	**7,062.50**

"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 in connection with the proposed redistribution and to give effect to this resolution and other related matters including filing and verifying the documents, affidavits, appear before the Securities and Exchange Board of India, Stock Exchanges or any other authority including Registrar of Companies etc.

"RESOLVED FURTHER THAT the Board may, by a resolution passed at a meeting, 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."

15. To consider and if thought fit to pass with or without modification(s), the following resolutions as a **Special Resolution**

"RESOLVED THAT pursuant to the applicable provisions of the Companies Act, 1956 and other applicable provisions, if any and in accordance with provisions prescribed under the SEBI (Disclosure & Investor Protection) Guidelines 2000, listing agreement entered in to with the stock exchanges and subject to such approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed in granting such approvals/sanctions and subject to such other conditions, if any imposed by the Securities and Exchange Board of India (SEBI) approval of the members be and is hereby given for making temporarily investment of surplus funds in fixed deposits with any scheduled bank which offers a higher rate of interest in accordance with the investment policies approved by the Board of Directors in addition to nationalized bank as submitted in the offer document out of the IPO proceeds which are available with the Company till the time they are utilized for the purposes as earmarked in the prospectus.

"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 in connection with the investment and to give effect to this resolution and other related matters including filing and verifying the documents, affidavits, appear before the Securities and Exchange Board of India, Stock Exchanges or any other authority including Registrar of Companies etc.

"RESOLVED FURTHER THAT the Board may, by a resolution passed at a meeting, delegate the aforementioned power to any committee of directors, the managing director, director or any other principal officer of the Company on such conditions as the Board may prescribe."

By Order of the Board
For R Systems International Limited

Place : Singapore
Date : April 05, 2007

Satinder Singh Rekhi
Chairman & Managing Director

NOTES :

(i) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PERSONS AS HIS PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY SO APPOINTED NEED NOT BE A MEMBER OF THE COMPANY. THE PROXIES IN ORDER TO BE EFFECTIVE SHOULD BE DULY COMPLETED, STAMPED AND SIGNED AND MUST BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE AFORESAID MEETING.

(ii) Corporate members intending to send their authorised representatives are requested to send a duly certified copy of the board or governing body resolution authorising the representatives to attend and vote at the Annual General Meeting.

(iii) Members/proxies attending the meeting are requested to

- bring their copies of Annual Report sent to the members as copies of the Annual Report shall not be distributed at the Annual General Meeting;
- note that no gifts/coupons shall be distributed at the Annual General Meeting and
- quote their Folio/Client ID & DP ID Nos. in all correspondence.

(iv) The register of members and share transfer books of the Company will remain closed from April 24, 2007 to May 01, 2007 (both days inclusive).

(v) The dividend of 12 % for the year ended December 31, 2006 as recommended by the Board, if sanctioned 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 on April 24, 2007 after giving effect to all valid share transfers in physical form which would be received by the Company's Registrar & Share Transfer Agent M/s Intime Spectrum Registry Limited up to end of business hours on April 23, 2007.

(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 & Share Transfer Agent M/s Intime Spectrum Registry Limited, A-31, 3rd Floor, Phase-1, Naraina Industrial Area, 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 queries 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 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 M/s Intime Spectrum Registry Limited for any change in their addresses and bank mandate, members holding shares in electronic form may write to their depository participants for immediate updation so as to enable the Company to dispatch the dividend warrants to the correct addresses.

(x) The statutory registers 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 in accordance with the SEBI (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 and the resolutions passed by the members in the General Meeting, will be available at the venue of Annual General Meeting for inspection by members.

(xi) All documents referred to in the Notice and accompanying explanatory statement as well as the annual accounts of the subsidiary companies etc., are open for inspection at the Registered Office of the Company at all working days between 11.00 A.M. and 02.00 P.M. up to the date of 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 to their 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 & transfer agent M/s Intime Spectrum Registry Limited. Form 2B can also be downloaded from the website of our registrar & transfer agent M/s Intime Spectrum Registry Limited at the following URL http://www.intimespectrum.com/intime/downloads/Nomination.doc

(xiv) Additional information, pursuant to clause 49 of the Listing Agreement with stock exchanges, in respect of directors recommended for appointment/re-appointment 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 nos. 6 to 15 of the Notice is appended hereto and forms part of this notice. Further, disclosures required to be made in terms of Clause C, Part II of Schedule XIII with respect to the proposed resolution for the remuneration of Director & Chief Operating Officer under item no. 8 & alteration in the terms & conditions of employment of Director Finance under item no. 9 are also given as annexure to the said Explanatory Statement and is a part of the notice of the Annual General Meeting.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956

Item No. 6

Regularisation of the appointment of Mr. Suresh Paruthi as a director of the Company

Mr. Suresh Paruthi was appointed as an Additional Director of the Company pursuant to Section 260 of the Companies Act, 1956 and Article of Association of the Company by the Board of Directors at its meeting held on September 29, 2006. The additional director is entitled to hold office from the date of appointment to the next Annual General Meeting of the Company. The Company has received a notice under Section 257 of the Companies Act, 1956 from a member signifying his intention to propose the appointment of Mr. Suresh Paruthi as a director of the Company along with a deposit of Rs. 500/- in favour of the Company which will be refundable if the proposed person succeeds in getting elected as a director of the Company.

Mr. Suresh Paruthi aged about 56 years, has 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 has wide experience of working with various multinationals, including Hindustan Brown Boveri (ABB), Siemens Limited, Bhartia Cutler Hammer Ltd, Omron Asia Pacific Pte & Messung Systems.

Mr. Paruthi does not hold any shares in R Systems & if appointed, he will be a non executive independent director of the Company. Except Mr. Suresh Paruthi, none of the other directors are interested or concerned in this resolution.

The Board of Directors recommends the resolution for approval by the members.

Item No. 7

Regularisation of the appointment of Mr. Raj Swaminathan as a Director of the Company

Mr. Raj Swaminathan was appointed as an Additional Director of the Company pursuant to Section 260 of the Companies Act, 1956 and Article of Association of the Company by the Board of Directors at its meeting held on September 29, 2006. The additional director is entitled to hold office from the date of appointment to the next Annual General Meeting. The Company has received a notice under Section 257 of the Companies Act, 1956 from a member signifying his intention to propose the appointment of Mr. Raj Swaminathan as a director of the Company along with a deposit of Rs. 500/- in favour of the Company which will be refundable if the proposed person succeeds in getting elected as a director of the Company.

Mr. Raj Swaminathan aged about 48 years, has an MBA from Xavier Labour Relations Institute (XLRI), India. Prior to joining Indus Software, Raj was Vice President, Technology at GE-Capital and Chief Information Officer at GE-Countrywide. Prior to joining GE, Raj headed the IT function at Standard Chartered Bank for consumer, corporate banking and treasury businesses.

Mr. Swaminathan does not hold any shares in the Company & if appointed, he will be an executive director of the Company. Except Mr. Raj Swaminathan, none of the other Directors are interested or concerned in this resolution.

The Board of Directors recommends the resolution for approval by the members.

Item No. 8

Appointment & Remuneration of Mr. Raj Swaminathan as the Director & Chief Operating Officer of the Company

Mr. Raj Swaminathan aged about 48 years, is an MBA from Xavier Labour Relations Institute (XLRI), India. Prior to joining Indus Software, Mr. Raj Swaminathan was the Vice President, Technology at GE-Capital and Chief Information Officer at GE-Countrywide. Prior to joining GE Mr. Raj headed the IT functions at Standard Chartered Bank for consumer, corporate banking and treasury businesses. He joined the Company through Indus Software Private Limited ("Indus") which got amalgamated with the Company on April 01, 2002. At the time of the amalgamation Raj was an employee of GE Capital on deputation to Indus as President & Chief Operating Officer. On May 01, 2006 he left GE to join the Company as the Chief Operating Officer. In order to give recognition to his responsibilities & to secure his participation in the board level management he was appointed as the Additional Director of the Company and w.e.f. September 29, 2006 he was designated as Director & Chief Operating Officer of the Company. There were no changes to the terms & conditions of his employment upon appointment as a director

Statement containing the prescribed information as required in terms of clause C part II of Schedule XIII of the Companies Act, 1956

I. GENERAL INFORMATION

(1) Nature of Industry.

The Company is engaged in the business of providing software engineering, information technology related services, business process outsourcing services, developing and selling software products for the retail-lending sector & 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 follows

Particulars	Financial Year ended (Amt in Rs. Lacs)		
	31.12.2006	**31.12.2005**	**31.12.2004**
Gross Revenues	12,247.29	8,162.59	5,637.17
Profit before Depreciation & Tax	1,710.87	1,713.46	493.74
Less: Depreciation	453.12	317.41	283.85
Profit Before Tax	**1,257.75**	**1,396.05**	**209.89**
Less: Provision for Tax (net of Excess provision of earlier years)	144.38	61.20	15.00
Less Fringe Benefit Tax	54.26	26.41	-
Less Deferred Tax (net of prior period items)	54.24	34.68	23.04
Profit After Tax	**1,004.87**	**1,273.76**	**171.85**
Profit available for appropriation	1,004.87	1,273.76	171.85
Proposed final dividend	162.99	-	-
Corporate dividend tax on final dividend	27.70	-	-
Transfer to general reserve	25.12	-	-
Balance carried forward to Balance Sheet	**789.06**	**1,273.76**	**171.85**

(5) Export performance

Foreign exchange earning & outgo of the Company for last 3 years is follows

Particulars		Financial Year ended (Amt in Rs. Lacs)		
		31.12.2006	**31.12.2005**	**31.12.2004**
(a)	Earning (Accrual Basis)	11,477.12	7,989.37	5,447.91
(b)	Outgo (Accrual Basis)*	1,857.04	1,188.04	1,403.12

*Excluding share issue expenses incurred in foreign currency of Rs. 41.30 in year 2006 and Rs. 38.54 in year 2005.

(6) Foreign investments or collaborators, if any

R Systems has investments from non residents & foreign companies & R Systems has made investments outside India. At present R Systems has five subsidiary companies, all incorporated & based outside India. One of its subsidiary company, ECnet Limited, based in Singapore has six subsidiary companies. Therefore in terms of the provisions of the Companies Act, 1956 R Systems has an aggregate of eleven subsidiary companies all incorporated & based outside India.

II. INFORMATION ABOUT THE APPOINTEE

(1) Background details:

Mr. Raj Swaminathan aged about 48 years, is an MBA from Xavier Labour Relations Institute (XLRI), India. Prior to joining Indus Software, Mr. Raj Swaminathan was the Vice President, Technology at GE-Capital and Chief Information Officer at GE-Countrywide. Prior to joining GE Mr. Raj headed the IT functions at Standard Chartered Bank for consumer, corporate banking and treasury businesses. He joined the Company through Indus Software Private Limited ("Indus") which got amalgamated with the Company on April 01, 2002. At the time of the amalgamation Raj was an employee of GE Capital on deputation to Indus as President & Chief Operating Officer. On May 01, 2006 he left GE to join the Company as the Chief Operating Officer. In order to give recognition to his responsibilities & to secure his participation in the board level management he was appointed as the Additional Director of the Company and w.e.f. September 29, 2006 he was designated as Director & Chief Operating Officer of the Company. There were no changes to the terms & conditions of his employment upon appointment as a director

(2) Past remuneration:

Income during the Last 3 Years

	Total Cost to the Company (in Rs.)	Rs. Per Month
For the year ending on December 31, 2004	5,220,000	435,000
For the year ending on December 31, 2005	5,340,000	445,000
For the year ending on December 31, 2006	5,340,000	445,000

(3) Recognition or awards

Mr. Raj Swaminathan has earned Masters in Business Administration from Xavier Labour Relations Institute (XLRI), India.

(4) Job profile and his suitability

Mr. Raj Swaminathan, being the Director & Chief Operating Officer of R Systems is responsible for the overall operation of the Company. Raj is aged about 48 years and has an MBA from Xavier Labour Relations Institute (XLRI). Prior to joining Indus Software, Raj was Vice President, Technology at GE-Capital and Chief Information Officer at GE-Countrywide. Prior to joining GE, Raj headed the IT function at Standard Chartered Bank for consumer, corporate banking and treasury businesses. Considering his vast experience and knowledge, R Systems will benefit from his capabilities and wishes to appoint him as the Director & Chief Operating Officer of the Company.

(5) Remuneration proposed

Mr. Raj Swaminathan is proposed to be appointed on the following remuneration

Upon the appointment of Mr. Raj Swaminathan as a director there will be no change in terms of his employment. Mr. Raj Swaminathan is proposed to be appointed on the following terms:

Monthly Salary Particulars	
	INR
Basic	140,000
HRA	70,000
Conveyance Allowance	800
Executive Allowance	117,503
Gross Per Month	**328,303**
Annual Allowances	
Leave travel Assistance	120,000
Food Coupon	12,000
Company's Contribution to Provident Fund	9,360
Gross Annual Allowances	**141,360**
Annual Reimbursements	
Medical Reimbursement	15,000
Petrol Reimbursement	144,000
Gross Annual Reimbursements	**159,000**
Gross Per annum	**4,240,000**
In addition to the above, he will be eligible for the Group Mediclaim and Personal Accident Insurance as per Company policy.	
He may also be eligible for a performance incentive consisting of a fixed bonus of Rs. 1,100,000 paid pro rata for period of service in the year, at the end of each year and a variable bonus subject to a maximum of Rs. 1,000,000 per annum & subject to his being on the rolls of the Company at the time the same is declared. This incentive is discretionary and is based on the Company's performance in that financial year and also his own annual performance.	

In addition as per the usual terms & conditions of his employment he will be entitled for a maximum annual increment of 15% per annum on his total cost to the Company effective on January 01, 2007, January 01, 2008 & January 01, 2009 and he is entitled to the aforementioned minimum remuneration & annual increment as approved by the remuneration committee even in the case of absence or inadequacy of profits in any financial year during his tenure.

(6) Comparative remuneration profile with respect to industry, size of the company, profile of the position and person.

The proposed remuneration is reasonably justified in comparison with the general market trends and remuneration package of top-level managerial persons having comparable qualifications and experience.

(7) Pecuniary relationship directly or indirectly with the company, or relationship with the managerial personnel, if any

As on the date of this notice Mr. Raj Swaminathan does not hold any shares in R Systems. Further he does not have any pecuniary or other relationship with the Company and with any of the managerial personnel except the proposed remuneration.

III. OTHER INFORMATION

(1) Reasons for loss or inadequate profits

The Company has made a reasonable profit during the last financial year ended December 31, 2006. Our gross revenues increased to Rs. 12,247.28 lacs as against Rs. 8162.58 lacs during the same period in the previous year, a growth of 50.04%. Profit after tax for the year ended December 31, 2006 was Rs. 1,004.87 lacs as against Rs. 1,273.75 lacs during the same period in the previous year. Based on the performance of R Systems and the competitive salaries in the market place to retain and motivate Mr. Swaminathan the remuneration proposed is reasonably justified.

(2) Steps taken or proposed to be taken for improvement

R Systems management process involves taking continuous steps to improve performance through growth in revenues, managing costs and improving productivity. The financial strategy involves maintaining a secure financial position, managing risks and ensuring accurate and timely reporting of performance.

(3) Expected increase in productivity and profits in measurable terms.

R Systems expects to close the current financial year with improved sales and profitability.

The Board of Directors recommends that the shareholders approve the said appointment and remuneration by way of a special resolution.

None of the director except Mr. Raj Swaminathan is interested in the appointment.

Item No. 9

Modification of the terms of employment of Mr. O'Neil Nalavadi, Director Finance & Chief Operating Officer of the Company

Mr. O'Neil Nalavadi joined R Systems Group as Chief Financial Officer in January 2000. He brings with him over 20 years of experience in financial, accounting, mergers and acquisitions with both public and private companies. Prior to joining R Systems, Mr. Nalavadi was the Senior Vice President, CFO and director of UBICS, Inc. He also served in various management capacities for companies in the UB Group in the United Kingdom and India from 1984 to August 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 University of Bombay

Statement containing the prescribed information as required in terms of clause C part II of Schedule XIII of the Companies Act, 1956

I. GENERAL INFORMATION

(1) Nature of Industry.

The Company is engaged in the business of providing software engineering, information technology related services, business process outsourcing services, developing and selling software products for the retail-lending sector & 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 follows Particulars	Financial Year ended (Amt in Rs. Lacs)		
	31.12.2006	31.12.2005	31.12.2004
Gross Revenues	12,247.29	8,162.59	5,637.17
Profit before Depreciation & Tax	1,710.87	1,713.46	493.74
Less: Depreciation	453.12	317.41	283.85
Profit Before Tax	**1,257.75**	**1,396.05**	**209.89**
Less: Provision for Tax (net of Excess provision of earlier years)	144.38	61.20	15.00
Less Fringe Benefit Tax	54.26	26.41	-
Less Deferred Tax (net of prior period items)	54.24	34.68	23.04
Profit After Tax	**1,004.87**	**1,273.76**	**171.85**
Profit available for appropriation	1,004.87	1,273.76	171.85
Proposed final dividend	162.99	-	-
Corporate dividend tax on final dividend	27.70	-	-
Transfer to general reserve	25.12	-	-
Balance carried forward to Balance Sheet	**789.06**	**1,273.76**	**171.85**

(5) Export performance

Foreign exchange earning & outgo of the Company for last 3 years is follows

	Particulars	Financial Year ended (Amt in Rs. Lacs)		
		31.12.2006	31.12.2005	31.12.2004
(a)	Earning (Accrual Basis)	11,477.12	7,989.37	5,447.91
(b)	Outgo (Accrual Basis)*	1,857.04	1,188.04	1,403.12

*Excluding share issue expenses incurred in foreign currency of Rs. 41.30 in year 2006 and Rs. 38.54 in year 2005.

(6) Foreign investments or collaborators, if any

R Systems has investments from non residents & foreign companies & R Systems has made investments outside India. At present R Systems has five subsidiary companies, all incorporated & based outside India. One of its subsidiary company, ECnet Limited, based in Singapore has six subsidiary companies. Therefore in terms of the provisions of the Companies Act, 1956 R Systems has an aggregate of eleven subsidiary companies all incorporated & based outside India.

II. INFORMATION ABOUT THE APPOINTEE

(1) Background details:

Mr. O'Neil Nalavadi joined R Systems Group as Chief Financial Officer in January 2000. He brings with him over 20 years of experience in financial, accounting, mergers and acquisitions with both public and private companies. Prior to joining R Systems, Mr. Nalavadi was the Senior Vice President, CFO and director of UBICS, Inc. He also served in various management capacities for companies in the UB Group in the United Kingdom and India from 1984 to August 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 University of Bombay

(2) Past remuneration:

Income during the Last 3 Years

	USD	Per Annum (Rs.)	Rs. P.M
For the year ending on December 31, 2004	135,117	6,012,707 #	501,059
For the year ending on December 31, 2005	145,753	6,486,009 #	540,501
For the year ending on December 31, 2006	185,591	8,415,060# #	701,255

(@Rs. 44.50/ US$1)
(as per actual exchange rate during the year)

(3) Recognition or awards

Mr. O'Neil Nalavadi is a member of the Institute of Chartered Accountant 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 & Chief Financial Officer of the Company is entrusted with the responsibility for global 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's existing terms of employment, before providing for the amendments, are as follows

1. Compensation: He will be paid at the rate of $126,000 (US$ One Hundred and Twenty Six Thousand) basic salary. This will be payable semi-monthly on the 15th of each month and again on the last day of the month. Applicable taxes will be deducted from his gross earnings.

2. Automobile: The Company will furnish him with an automobile including maintenance and fuel expenses, comparable to his position, while employed with the Company

3. Health Insurance: He and his qualified dependents will be eligible to receive health insurance coverage through the Company or its subsidiaries insurance carriers. The terms, conditions, and eligibility requirements for such insurance coverage are set forth in the summary plan description(s) describing the coverage.

4. Other benefits: He will 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. Upon a completion of initial public offering by the Company, he will be entitled to a bonus equal $60,000 (US$ Sixty Thousand only)

   c. He will be entitled to a bonus for every acquisition completed by the Company or its subsidiary equal to 1% of the revenues of the target acquired subject to a maximum of $25,000 (US$ Twenty Five Thousand) per transaction. 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 subject to a maximum of $37,500 (US$ Thirty Seven Thousand Five Hundred) per acquisition.

On January 15, 2007 Mr. Nalavadi completed seven years of services with the R Systems Group and in accordance with Company's policy he is entitled to an annual increment w.e.f. January 01, 2007.

The Board of Directors of the Company based on the approval & recommendation of the Remuneration Committee approved and awarded an annual increment of US$5,000.00 (Rs. 222,500.00 at Rs.44.5/US$1.00) and an annual ex-gratia compensation of a maximum of US$ 30,000.00 (Rs. 1,335,000 at Rs.44.5/US$1.00) w.e.f. January 01, 2007 to Mr. O'Neil Nalavadi subject to the approval of the shareholders & Central Government, wherever required.

Further, the terms of his employment were also modified to include an annual increment of up to 15% to his basic salary and an annual ex-gratia compensation of a maximum of US$ 30,000 during the remaining tenure of his appointment as the Director Finance & CFO at the discretion of the Board of Directors.

After incorporating the annual increment & modifications as approved by the Remuneration Committee & Board of Directors at its meeting held on March 03, 2007, the terms of employment of Mr. O'Neil Nalavadi, will be as follows

1. Compensation: Basic salary at the rate of $131,000 (US$ One Hundred and Thirty One Thousand) w.e.f. January 1, 2007 payable semi-monthly on the 15th and the last day of each month & an annual ex-gratia compensation of a maximum US$ 30,000.00. Applicable taxes will be deducted from his gross earnings.

2. Automobile: The Company will furnish him with an automobile including maintenance and fuel expenses, comparable to his position, while employed with the Company

3. Health Insurance: He and his qualified dependents will be eligible to receive health insurance coverage through the Company or its subsidiaries insurance carriers. The terms, conditions, and eligibility requirements for such insurance coverage are set forth in the summary plan description(s) describing the coverage.

4. Other benefits: He will be eligible to participate in the Company's or R Systems Inc.'s retirement plans in accordance with the prevalent policies.

5. Bonus:

   a.) He will be entitled to participate in incentive schemes as set up and approved by the remuneration committee from time to time.

   b.) Upon a completion of initial public offering by the Company, he will be entitled to a bonus equal $60,000 (US$ Sixty Thousand only)

   c.) He will be entitled to a bonus for every acquisition completed by the Company or its subsidiary equal to 1% of the revenues of the target acquired subject to a maximum of $25,000 (US$ Twenty Five Thousand) per transaction. 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 subject to a maximum of $37,500 (US$ Thirty Seven Thousand Five Hundred) per acquisition.

6. Annual Increment: He will be entitled to a maximum annual increment of 15% of preceding year's basic salary at the discretion of the Board of Directors w.e.f January 01, 2008 & 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 top-level managerial persons having comparable qualifications and experience.

(7) Pecuniary relationship directly or indirectly with the Company, or relationship with the managerial personnel, if any

As on the date of this notice Mr. O'Neil Nalavadi holds 240,000 equity shares of Rs. 10/- each in his own name jointly with Mrs. Meera Nalavadi. Except as listed above he does not have any other pecuniary relationship with the Company except the proposed remuneration.

III. OTHER INFORMATION

(1) Reasons for loss or inadequate profits

The Company has made a reasonable profit during the last financial year ended December 31, 2006.Our gross revenues increased to Rs. 12,247.28 lacs as against Rs. 8162.58 lacs during the same period in the previous year, a growth of 50.04%. Profit after tax for the year ended December 31, 2006 was Rs. 1,004.87 lacs as against Rs. 1,273.75 lacs during the same period in the previous year. Based on the performance of R Systems and the competitive salaries in the market place to retain and motivate Mr. Nalavadi the remuneration proposed is reasonably justified

(2) Steps taken or proposed to be taken for improvement

R Systems management process involves taking continuous steps to improve performance through growth in revenues, managing costs and improving productivity. The financial strategy involves maintaining a secure financial position, managing risks and ensuring accurate and timely reporting of performance

(3) Expected increase in productivity and profits in measurable terms.

R Systems expects to close the current financial year with improved sales and profitability.

The Board of Directors recommends that the shareholders approve the said modification by way of a special resolution.

None of the directors except Mr. O'Neil Nalavadi are interested in the appointment.

Item No. 10

Approval for the enhanced sitting fee payable to the non-executive directors for attending the Board and/or Committee Meetings

Prior to the enhancement the sitting fee payable to the non-executive director was Rs. 5,000/- for attending each meeting of the board or committee thereof. Considering the increased size of the business, broader scope of the activities and additional responsibilities of the board members; and comparable sitting fees paid to the non-executive directors in the peer group companies & the increased limits prescribed by the Central Government, the Board of Directors had increased the sitting fee payable to the non-executive directors to Rs. 15,000 for attending each meeting of the board or committee thereof w.e.f July 22, 2006.

In accordance with Sub Clause (B) of Part I of Clause 49 of the Listing Agreement entered into by the Company with National Stock Exchange of India Limited & Bombay Stock Exchange Limited the shareholders are requested to give their approval to the increase in sitting fees of the non-executive directors

Except to the extent of sitting fee payable to the non-executive directors none of the other directors are interested in the proposed approval.

Item No. 11

Appointment & Remuneration of Mr. Sartaj Singh Rekhi as the Executive Manager of R Systems, Inc. wholly owned subsidiary of R Systems International Limited.

Mr. Sartaj Singh Rekhi is the son of Mr. Satinder Singh Rekhi, Chairman & Managing Director of the Company. He was appointed as the executive manager of our wholly owned subsidiary company R Systems, Inc based in USA in terms of Sub Clause (1) of Section 314 of the Companies Act, 1956 by the Board of Directors at its meeting held on June 26, 2006 with effect from July 01, 2006. Subsequently he was also appointed as director on the board of the newly acquired wholly owned subsidiary company WebConverse, Inc. (Renamed as R Systems Solutions, Inc.) of R Systems.

Mr. Sartaj Singh Rekhi aged about 26 years is a Bachelor of Science, Business Administration (Management) from San Jose State University, California, USA. His appointment as the executive manager of our wholly owned subsidiary Company R Systems, Inc was for a period of two years beginning from July 01, 2006 on an annual salary of US$ 40,000. Further he is eligible for an annual maximum increment of upto 15% per annum to be effective on January 1 of every year till 2008.

The Board of Directors recommends that the shareholders approve the said appointment & remuneration by way of a special resolution.

None of the directors except Mr. Satinder Singh Rekhi & Lt. Gen Baldev Singh (Retd.) being related to Mr. Sartaj Singh Rekhi are interested in the said appointment.

Item No. 12

Employees Stock Option Plan

The industry in which R Systems operates is people intensive and we believe that human resources play a pivotal role in the sustainability and growth of the Company. R Systems International Limited has always believed in rewarding its employees with competitive compensation packages for their dedication, hard work, loyalty and contribution to the performance of the Company. To enable more and more employees to be a part of the success of the Company, retain them for future growth and attract new employees to pursue growth, it is proposed to implement an Employees Stock Option Scheme. Stock options are recognized as an effective instrument to align the interests of the employees with those of the company and its shareholders and to create long term wealth in the hands of the employees. Therefore, the Board proposed to evolve an Employees Stock Option Scheme 2007 (hereinafter referred to as "ESOP Scheme - 2007") for benefit of permanent employees and directors of the Company**.**

The following is the explanatory statement which sets out the various disclosures as required under of the Securities and Exchange Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 ("hereinafter referred to as Guidelines")**.**

The details of the Scheme are as follows **:**

a) Under the Scheme the employees will be given an option to acquire a certain number of shares of the face value of Rs. 10/-each**.**

b) The Compensation Committee of Directors shall formulate detailed terms and conditions of the Scheme, administer and supervise the same. Subject to the provisions of the Scheme, and subject to the approval of the relevant authorities the Compensation Committee shall :

- Determine the quantum of option to be granted under the scheme per employee and in aggregate;
- Determine the conditions under which option vested in employees may lapse in case of termination of employment for misconduct;
- Determine the exercise period under which the employees should exercise the option;
- Provide the specified time period within which the employees shall exercise the vested options in the event of termination or resignation of an employee;
- Determine the right of an employee to exercise of all options vested in him at one time or various points of time within the exercise period;
- Determine the procedure for making a fair and reasonable adjustment to the number of options and to the exercise price in case of corporate actions;
- Grant, vest and exercise of option in case of employees who are on long leave;
- Determine the procedure of cashless exercise of options;

c) The salient features of the scheme are as follows :

(i) **The total number of options to be granted**

The maximum number of options available for being granted under the proposed scheme shall be 650,000 (six lacs fifty thousand only). Each option when exercised will be converted into one Equity Share of the face value of Rs. 10/- (Rupees Ten only) fully paid-up.

(ii) **Identification of the class of employees entitled to the Scheme**

Employees entitled to participate in the ESOP - 2007 are permanent employees including non-executive directors and full time directors as defined in the ESOP – 2007 guidelines (including any statutory modifications or re-enactment of the Act, or the guidelines, for the time being in force), of the Company and its subsidiaries, as may be decided by the ESOP Compensation Committee from time to time. Under the prevailing regulations, an employee who is a promoter or belongs to the promoter group will not be eligible to participate in the ESOP - 2007. Identification of employees eligible to participate in the ESOP - 2007 and grant of options to the identified employees will be based on such parameters as may be decided by the Compensation Committee in its' discretion from time to time. The options granted to an employee will not be transferable to any person and shall not be pledged, hypothecated, mortgaged or otherwise alienated in any manner.

(iii) **Grant of Options**

The Compensation Committee shall have responsibility to consider and grant options to eligible participants under the Company's ESOP – 2007 plan and in accordance with the said plan.

(iv) **Requirements of vesting and period of vesting**

Except in case of demise or permanent incapacity, continuation of the employee in the service of the Company or its subsidiaries, as the case may, be shall be primary requirement of the vesting of options under ESOP - 2007. The Compensation Committee shall formulate the other requirements of vesting, which may, inter alia, include position, years of service with the Company, and performance. The vesting period for each grant may vary at the exclusive discretion of the Compensation Committee, but shall never be less than the minimum vesting period stipulated under the said plan. The minimum vesting period shall not be less than one year from the date of grant of options. Subject to the minimum vesting period, the proportion and the period over which the options would vest would be determined by the Compensation Committee / Board of Directors of R Systems.

In the event of the death of an employee while in employment, all the options granted to him till such date shall vest in the legal heirs or nominees of the deceased employee, and in the event of permanent incapacity while in employment, all the options granted to him as on the date of permanent incapacitation shall vest in him on that date as prescibed under Securities and Exchange Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999.

(v) **Maximum period within which the options shall be vested**

The maximum vesting period of options shall be not more than five years from the date of grant of options

(vi) **Exercise price or pricing formula**

The exercise price of an option shall be the market price of the share.

"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/shares are issued, 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.

(vii) **Exercise period and the process of exercise**

The option granted under the proposed scheme shall be exercisable at such times and under such circumstances as determined by the Compensation Committee from time to time. However the vested options are permitted to be exercised within a period of 10 years from the date of grant & shall be lapsed if not exercised within such period. The option shall be deemed to have been exercised when an employee makes an application in writing to the Company for the issuance of Equity Shares against the vested options.

(viii) **Appraisal process for determining eligibility of employees**

The appraisal process for determining the employees to whom the option shall be granted, shall be based upon the performance of the employees as indicated by the annual performance appraisal, minimum period of service, the position of employees in the Company and the present and potential contribution of the employee to the success of the Company, and other factors as deemed relevant by the Compensation Committee

In case of directors, the eligibility would depend on the period for which the office of the director is held by the incumbent or proposed to be held by the incumbent and such other factors as Compensation Committee may think appropriate. The Compensation Committee at its discretion may extend the benefits of the proposed Scheme to a new director.

(ix) **Maximum number of options to be issued per employees**

The maximum number of options granted to an employee/director shall not equal or exceed 1 % of the issued capital of the Company at the time of grant of option.

(x) **Accounting policies & disclosures**

The Company will confirm with the disclosures and the accounting policies prescribed by the Securities and Exchange Board of India under Securities and Exchange Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 and other regulatory authorities.

(xi) **Method to be used to value the options**

The Company shall use the intrinsic value method to value its options. The difference between the employee compensation cost computed under intrinsic value method and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed in the Director's Report and the impact of this difference on profits and on Earnings per share of the company shall also be disclosed in the Director's Report

The document containing the salient features of ESOP-2007, the duties and responsibilities of the option holders as also the benefits and the procedures to be followed after taking into consideration the Securities and Exchange Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 is available for inspection at the registered office of the company during the business hours and on all working days.

Clause 6 of the Securities and Exchange Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 requires that any employee stock option plan for offering stock options to the employees of the company/subsidiary must be approved by the shareholders by way of special resolution Further, as the scheme will entail new shares to be offered to the persons other than existing shareholders of the company, consent of the shareholders is required by way of special resolution pursuant to the provisions of the section 81(1A) of the Companies Act, 1956

Accordingly the resolution set out as Item No. 12 is being placed before the shareholders for approval. The Board of Directors recommends the resolution for approval of the members.

None of the directors of the Company are in any way concerned or interested in the resolution, except to the extent of the securities that may be offered to them under the proposed scheme.

Item No. 13

Extension of benefits under the proposed Employees Stock Option Plan to the employees of the subsidiary companies

As per the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, a separate resolution is required to be passed if the benefits of employee stock option plan are to be extended to the employees of a subsidiary or holding company. This separate resolution is being proposed accordingly to cover those employees, and/or such other persons as may be permitted from time to time under prevailing laws, rules and regulations, and/or amendments thereto from time to time, for grant of options. This may be read with Explanatory Statement for item no. 12. The Board accordingly recommends the resolution for approval of the members as a special resolution.

None of the Directors of the Company are any way concerned or interested in the resolution, except to the extent of the securities that may be offered to them under the proposed scheme.

Item No. 14

Redistribution of the funds requirement as stated in the Prospectus

R Systems completed an initial public offer of its shares on March 31, 2006 and is now listed with National Stock Exchange of India Limited & Bombay Stock Exchange Limited w.e.f. April 26, 2006. At the time of the initial public offering, R Systems had stated the following requirements of funds in the offer document:

(Rs. in lacs)

Sr. No	Description	Estimated fund requirement
1	Upgrading and expansion of existing infrastructure	3,150.00
2	Repayment of outstanding loans	365.50
3	Financing general working capital requirements	1,795.10
4	General corporate purposes	621.90
5	Meeting offer expenses	1,130.00
	Total	**7,062.50**

Now on account of changes in the business plans of your Company the Board of Directors wish to redistribute the estimated funds usage within the available heads as provided in the Prospectus. After the proposed redistribution the estimated fund requirements under the existing description will be as follows

(Rs. in lacs)

Sr. No	Description	Estimated fund requirement
1	Upgrading and expansion of existing infrastructure	3,265.43
2	Repayment of outstanding loans	365.50
3	Financing general working capital requirements	1,795.10
4	General corporate purposes	617.52
5	Meeting offer expenses	1,018.95
	Total	**7,062.50**

The proposed redistribution is in the best interest of the company. The Board of Directors recommends the resolution for approval of members as a special resolution.

None of the directors of the Company are in any way concerned or interested in the proposed resolution.

Item No. 15

Temporarily investment of surplus funds in fixed/ term deposits with Schedule Banks in additions to Nationalized Banks.

R Systems completed an initial public offer ("IPO") of its shares on March 31, 2006 and is now listed with National Stock Exchange of India Limited & Bombay Stock Exchange Limited w.e.f. April 26, 2006. In the prospectus filed by the Company for the IPO R Systems had undertaken to temporarily invest the surplus funds to the extent they are not utilized for the earmarked purposes in fixed deposits with Nationalized Banks, for the necessary duration or for reducing overdraft or such investments as would be in accordance with investment policies approved by our Board of Directors from time to time. Pursuant to the said statement in the prospectus, R Systems deposited the surplus funds with the Nationalized Banks. However while evaluating the opportunities to improve yield rates on the unutilized surplus funds without significantly trading off the risks, the Board of Directors observed that highly reputable and financially strong Scheduled Banks like ICICI Bank, HDFC Bank etc. are offering interest rates that are higher by an average of 1% to 2% per annum compared to the rates offered by the Nationalized Banks.

As a result of differences in yield rates for deposits with Scheduled Banks and Nationalized Banks, the Board of Directors of R Systems believes that it will be in the best interests of the Company if the Company is permitted to temporarily invest the surplus funds in fixed deposit accounts of either Nationalized Banks or Scheduled Banks at the discretion of the management or Board of Directors of the Company. Therefore the Board of Directors recommends the resolution for approval of members as a special resolution.

None of the directors of the Company are in any way concerned or interested in the proposed resolution.

By Order of the Board

For R Systems International Limited

Place : Singapore
Date : April 05, 2007

Satinder Singh Rekhi
Chairman & Managing Director

PROFILE OF DIRECTORS SEEKING APPOINTMENT / RE-APPOINTMENT AT THE FORTHCOMING ANNUAL GENERAL MEETING PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT

DIRECTORS RETIRING BY ROTATION AND SEEKING REAPPOINTMENT

1.	**Mr. Raj Kumar Gogia**	
	Date of Birth	: November 09, 1939
	Qualifications	: B. Tech (Hons) in Electrical Engineering from IIT, Kharagpur
	Expertise & Experience in specific functional areas	: Mr. Raj Kumar Gogia completed his B.Tech Honors. (First Class First) in Electrical Engineering from IIT, Kharagpur in 1961. He has a rich and vast experience of 44 years serving various Indian, multinational and foreign concerns. He joined R Systems as an additional director on July 09, 2002, thereafter he is continuingly providing his guidance and advice on the Board of R Systems International Limited.
	Directorships/ Membership in other Board Committees	: NIL
	Shareholdings in the Company	: NIL

2.	**Lt. Gen. Baldev Singh (Retd.)**	
	Date of Birth	: September 21, 1940
	Qualifications	: Masters in Military Science
	Expertise & Experience in specific functional areas	: Lt. Gen. Baldev Singh (Retd.) has more than 40 years of international 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 Berkley, in Strategic Account Management and Marketing. He is related to Mr. Satinder Singh Rekhi.
	Directorships/ Membership in other Board Committees	: NIL
	Shareholdings in the Company	: 78,808 Equity Shares

ADDITIONAL DIRECTORS RETIRING ON ANNUAL GENERAL MEETING AND SEEKING REGULARISATION AS DIRECTOR

3.	**Mr. Suresh Paruthi**	
	Date of Birth	: November 01, 1950
	Qualifications	: Bachelor of Technology (Hons.) from IIT, Kharagpur
	Expertise & Experience in specific functional areas	: 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 multinational, some of them are Siemens Limited, Bhartia Cutler Hammer Ltd & Omron Asia Pacific Pte.
	Directorships/ Membership in other Board Committees	: NIL
	Shareholdings in the Company	: NIL

4.	**Mr. Raj Swaminathan**		
	Date of Birth	:	May 23, 1959
	Qualifications	:	Bachelors of Engineering & Masters in Business Administration
	Expertise & Experience in specific functional areas	:	Mr. Raj Swaminathan has over 22 years experience in IT & Financial Services Industry. He has done his MBA from Xavier Labour Relations Institute, Jamshedpur after his Bachelors of Engineering from Bangalore University. Prior to joining R Systems, Raj has a distinguished 11 year career at GE where he was Vice President & 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.
	Directorships/ Membership in other Board Committees	:	NIL
	Shareholdings in the Company	:	NIL

In addition to above, detailed information with respect to each director seeking appointment / reappointment at the ensuing annual general meeting have been given in the report on corporate governance.

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R SYSTEMS INTERNATIONAL LIMITED

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

Thirteenth Annual General Meeting to be held on Tuesday, the 1st day of May 2007 at 09.30 A.M. at Air Force Auditorium, Subroto Park, New Delhi - 110 010

PROXY FORM

I/We..of...being a member/members of R Systems International Limited hereby appoint..of...................................... or failing him/her ....of...as my / our proxy to attend and vote for me/us on my/our behalf at the Thirteenth Annual General Meeting of the Company to be held on Tuesday, the 1st day of May 2007 at 09.30 A.M. at Air Force Auditorium, Subroto Park, New Delhi - 110 010 and any adjournment thereof.

In witness whereof

I/We have signed on this.........................day of............................2007

Registered Folio No..(or)

Demat Account No...D.P.I.d. No...................

Affix a Revenue Stamp

Notes :
1. The Proxy form should be signed by the member across the stamp.
2. A member intending to appoint a Proxy should complete the Proxy form and deposit it at the Company's Registered Office at least 48 hours before the meeting.
3. Those who hold shares in Demat form to quote their Demat Account No. and Depository Participant (D.P.) Id. No.

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R SYSTEMS INTERNATIONAL LIMITED

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

Thirteenth Annual General Meeting to be held on Tuesday, the 1st day of May 2007 at 09.30 A.M. at Air Force Auditorium, Subroto Park, New Delhi - 110 010

ATTENDANCE SLIP

Registered Folio No..(or)

Demat Account No...D.P.I.d. No...................

Name of shareholder(s)..

I/We certify that I am / We are Member/s/Proxy of the Members of the company holding................................ shares.

I hereby record my presence at the Thirteenth Annual General Meeting of the Company held on Tuesday, the 01st day of May 2007 at 09.30 A.M. at Air Force Auditorium, Subroto Park, Dhaula Kaun, New Delhi - 110 010

....

Signature of Member's/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 teh 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.

SYSTEMS

The future is bright,

the confidence is deep,

We have dreams of clients to keep,

And miles to go before we sleep...

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R Systems International Limited

Regd Office : B 104-A, Greater Kailash - I, New Delhi 110 048
Corp Office : C-40 Sector 59, Noida, U.P. (INDIA), 201 307