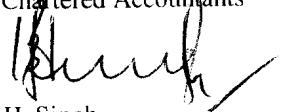


**Auditors' Report to the Board of Directors of
Element K Corporation**

1. We have audited the attached Balance Sheet of Element K Corporation, as at March 31 2010, and the Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the Element K Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We have 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. Attention is drawn to Note 5 on Schedule 17 regarding the extension of repayment terms of loans and future plans of the Company with a consequent impact on the financial position of the Company.
4. Based on our audit, without qualifying paragraph 3 above, in our opinion and to the best of our information and according to the explanations given to us, the attached financial statements together with the notes thereon *subject to the non disclosure of related party transactions in accordance with AS 18 'Related Party Disclosures' notified by the Government of India under Section 211(3C) of the Companies Act, 1956*, 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 March 31, 2010;
 - b. in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date; and
 - c. in case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

Place: Gurgaon, India
Date: April 22, 2010

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

H. Singh
Partner
Membership No. F-86994

Element K Corporation
Balance Sheet as at March 31, 2010

	Schedule] (Note Reference)	As at March 31, 2010 INR	As at March 31, 2009 INR
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share Capital	'1'	466,151	466,151
Currency Translation Reserve	'2'	<u>56,250,565</u>	<u>(122,353,688)</u>
		56,716,716	(121,887,537)
LOAN FUNDS			
Unsecured Loans	'3'	1,155,930,829	1,322,468,360
		<u>1,212,647,545</u>	<u>1,200,580,823</u>
APPLICATION OF FUNDS			
FIXED ASSETS			
Gross Block	'4'	800,163,500	598,219,714
Less: Depreciation		<u>288,493,410</u>	<u>161,412,795</u>
Net Block		511,670,090	436,806,919
Capital work-in-progress		338,728,472	379,832,617
INVESTMENTS			
	'5'	15,261,957	15,261,957
CURRENT ASSETS, LOANS AND ADVANCES			
Inventories	'6'	12,891,992	14,732,156
Sundry Debtors	'7'	484,867,896	522,670,847
Cash and Bank Balances	'8'	32,291,152	57,427,754
Loans and Advances	'9'	<u>316,827,551</u>	<u>329,132,335</u>
		846,878,591	923,963,092
Less : CURRENT LIABILITIES AND PROVISIONS			
Current Liabilities	'10'	1,831,807,926	1,957,148,348
Provisions	'11'	<u>35,793,371</u>	<u>41,723,146</u>
		1,867,601,297	1,998,871,494
Net Current Liabilities		(1,020,722,706)	(1,074,908,402)
Profit and Loss account (Debit)		1,367,709,732	1,443,587,732
		<u>1,212,647,545</u>	<u>1,200,580,823</u>
NOTES TO ACCOUNTS			
	'17'		

The Schedules referred to above form an integral part of the Balance Sheet
This is the Balance Sheet referred to in our report of even date

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

H. Singh
Partner
Membership No. F-86994

Place : Gurgaon, India
Date : April 22, 2010

Paul Krause
Paul Krause
CEO & Whole Time Director

Jaydip Gupta
Jaydip Gupta
Chief Financial Officer

Place : Rochester, NY, USA
Date : April 22nd, 2010

Vijay Kumar Thadani
Vijay Kumar Thadani
Director

Element K Corporation
Profit and Loss Account for the year ended March 31, 2010

	Schedule No. (Note Reference)	For the year ended March 31, 2010 INR	For the year ended March 31, 2009 INR
INCOME			
Revenue from Operations			
Subscription from Catalog Products	17 [1B(iv)]		
Development Services		1,393,930,769	1,276,872,637
Print Courseware		589,372,276	746,329,177
Other Income	'12'	1,597,353,096	1,838,390,953
		22,836,463	38,949,908
		3,603,492,604	3,900,542,675
EXPENDITURE			
Personnel	'13'	1,126,544,225	1,303,474,821
Development, Production and Execution	'14'	1,559,038,020	1,765,741,383
Administration, Finance and Others	'15'	455,635,523	484,938,037
Marketing	'16'	232,220,924	260,132,396
Depreciation and Amortisation	'4'	154,620,776	83,499,390
		3,528,059,468	3,897,786,027
Profit before Tax		75,433,136	2,756,648
Income Tax Expense - current	'17(8)'	(444,864)	4,468,362
Profit after Tax		75,878,000	(1,711,714)
Loss brought forward from previous year		(1,443,587,732)	(1,441,876,018)
Balance Carried to Balance Sheet		(1,367,709,732)	(1,443,587,732)
Basic and Diluted Earning per share. (Face value of USD 0.01 each fully paid up)	'17(11)'	75.88	(1.71)

NOTES TO ACCOUNTS

'17'

The Schedules referred to above form an integral part of the Profit and Loss Account

This is the Profit and Loss Account referred to in our report of even date

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

H. Singh
Partner
Membership No. F-86994

Place : Gurgaon, India
Date : April 22, 2010

Paul Krause
CEO & Whole Time Director

Jaydip Gupta
Chief Financial Officer

Place : Rochester, NY, USA
Date : April 22, 2010

Vijay Kumar Thadani
Director

Element K Corporation

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2010

	Year ended March 31, 2010 INR	Year ended March 31, 2009 INR
A. Cash flow from operating activities:		
Net (loss)/profit before tax	75,433,136	2,756,648
Adjustments for:		
Depreciation and amortisation	154,620,776	83,499,390
Interest Expense	75,497,532	83,625,497
Provision for doubtful debts	-	2,142,582
Liability no longer required written back	(18,627,151)	(36,488,429)
Provision for doubtful debts written back	12,863,696	-
Provision for Compensated Absences	(3,919,370)	8,341,362
Provision for inventory for obsolete/ damaged stock	1,101,883	2,425,492
	221,537,366	143,545,894
Operating profit before working capital changes	296,970,502	146,302,542
Add / (Less) : Increase / Decrease in Operating working capital		
Trade receivable	24,939,255	(72,636,957)
Loans and advances	12,304,783	(8,660,727)
Other current assets	-	131,243,073
Inventories	738,281	1,440,850
Current liabilities and provisions	(83,867,899)	364,654,869
	251,084,922	562,343,650
Cash generated from operations -	251,084,922	562,343,650
Direct Tax - (Paid) / refund Received	(1,565,541)	496,877
Net cash from operating activities	249,519,381	562,840,527
B. Cash flow from Investing activities:		
Purchase of fixed assets (including capital work in progress)	(230,076,433)	(519,107,390)
Proceeds from Sale of fixed assets	-	135,720
Net cash used in investing activities	(230,076,433)	(518,971,670)
C. Cash flow from financing activities:		
Loan received from Holding Company [Refer note 17(4)]	33,980,654	567,412,383
Repayment of Loan from bank and other liabilities [Refer note 17(4)]	(293,065,930)	(293,065,930)
Working capital facility from Bank of the West	79,303,809	75,826,401
Other loans received (leases)	13,243,937	7,912,977
Interest Paid	(98,342,904)	(76,611,278)
Net cash used in financing activities	(264,880,434)	281,474,553
Net Increase/(Decrease) in Cash & Cash Equivalents	(245,437,486)	325,343,410
Adjustments on account of exchange rate	220,300,884	(349,662,833)
Cash and cash equivalents as at the beginning of the year	57,427,754	81,747,177
Cash and cash equivalents as at the end of the year	32,291,152	57,427,754
Cash and cash equivalents comprise		
Cash, Cheques & Drafts (in hand) and Remittances in transit	4,601	38,146
Balance with Scheduled Banks	32,286,551	57,389,608
Cash and cash equivalents as at the end of the year	32,291,152	57,427,754

Notes :

- The above Cash flow statement has been prepared under the indirect method setout in AS-3 notified u/s 211 3(C) of the Companies Act 1956.
- The schedule 1 to 17 forms an integral part of the Cash Flow Statement.
- Figures in brackets indicate cash outgo.

This is the Cash Flow Statement referred to in our report of even date.

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

H. Singh
Partner
Membership No. F-86994

Place : Gurgaon, India

Date : April 22, 2010

Paul Krause
CEO & Whole Time Director

Vijay Kumar Thadani
Director

Jaydip Gupta
Chief Financial Officer

Place : Rochester, NY, USA

Date : April 22, 2010

Element K Corporation

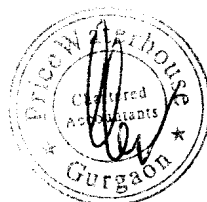
Schedules annexed to and forming part of the Accounts

Schedule No.	As at March 31, 2010 INR	As at March 31, 2009 INR
1. SHARE CAPITAL [Refer Note 15 on Schedule 17]		
Authorized Share Capital		
1,000,000 Equity Shares of USD 0.01 each	466,151	466,151
200,000 Equity non-voting common stock USD 0.01 each	80,122	80,122
	546,273	546,273
Issued, Subscribed and Paid-up Capital		
1,000,000 Equity Shares of USD 0.01 each	466,151	466,151
	466,151	466,151



Element K Corporation
Schedules annexed to and forming part of the Accounts

Schedule No.	As at March 31, 2010 INR	As at March 31, 2009 INR
2. Currency Translation Reserve [Refer Note 1A on Schedule 17]		
Opening balance	(122,353,688)	213,077,536
Additions/(Utilization) during the year	178,604,253	(335,431,224)
	<u>56,250,565</u>	<u>(122,353,688)</u>
3 UNSECURED LOANS [Refer Notes 4 and 12 (b) on Schedule 17]		
Loan from group companies [Due within one year Rs 292,336,200 (previous year Rs. 208,531,740)]	969,125,976	1,228,211,253
Working capital loan [Due within one year Rs.155,130,228 (previous year Rs. 75,826,413)]	155,130,210	75,826,401
Deferred lease obligation [Due within one year Rs. 13,191,559 (previous year Rs. 9,894,221)]	31,674,643	18,430,706
	<u>1,155,930,829</u>	<u>1,322,468,360</u>



Element K Corporation

Schedules annexed to and forming part of the Accounts

4. Fixed Assets

[Refer Notes 1B (i), (ii), (viii) & (ix) and 9 on Schedule 17]

Amounts in INR

Description of Assets	GROSS BLOCK					DEPRECIATION AND AMORTIZATION				NET BLOCK	
	As at April 1, 2009	Additions during the year	Sales during the year	Currency Translation Adjustment	As at March 31, 2010	As at April 1, 2009	For the year	Sales during the year	Currency Translation Adjustment	As at March 31, 2010	As at March 31, 2009
<u>Tangible</u>											
Plant & Machinery											
-Owned	94,215,979	1,519,829	-	(10,904,378)	84,831,430	66,308,230	19,026,405	-	(10,066,344)	75,268,291	9,563,139
-Leased	18,866,972	23,575,470	-	(2,183,627)	40,258,815	4,828,950	7,025,845	-	(891,187)	10,963,608	29,295,207
Lease Hold Improvements	4,562,166	-	-	(528,016)	4,034,150	3,724,007	412,402	-	(546,957)	3,589,452	444,698
Furniture & Fixtures	1,897,853	-	-	(219,654)	1,678,199	208,179	252,659	-	(37,012)	423,826	1,254,373
Sub Total (a)	119,542,970	25,095,299	-	(13,835,675)	130,802,594	75,069,366	26,717,311	-	(11,541,500)	90,245,177	40,557,417
<u>Intangible</u>											
Software											
- acquired	20,790,102	890,128	-	(2,406,204)	19,274,026	15,116,657	3,418,242	-	(2,269,165)	16,265,734	3,008,292
- licenses - leased	8,479,013	127,728	-	(981,345)	7,625,396	3,768,445	2,683,625	-	(617,007)	5,835,063	1,790,333
- internally generated	449,407,629	245,067,424	-	(52,013,569)	642,461,484	67,458,327	121,801,598	-	(13,112,489)	176,147,436	466,314,048
(Educational content and Tools)											
Sub Total (b)	478,676,744	246,085,280	-	(55,401,118)	669,360,906	86,343,429	127,903,465	-	(15,998,661)	198,248,233	471,112,673
Total (a+b)	598,219,714	271,180,579	-	(69,236,793)	800,163,500	161,412,795	154,620,776	-	(27,540,161)	288,493,410	511,670,090
Previous Year	137,472,783	423,826,813	141,955	37,062,073	598,219,714	55,089,177	83,499,390	6,236	22,830,464	161,412,795	436,806,919
Capital Work-in Progress (including capital advances)											
											379,832,617
											338,728,472



Element K Corporation
Schedules annexed to and forming part of the Accounts

Schedule No.	As at March 31, 2010 INR	As at March 31, 2009 INR
5 INVESTMENTS		
LONG TERM, TRADE [UNQUOTED]		
32,012 (previous year 32,012) Equity shares of INR 10 each of fully paid up in Element K India Pvt Ltd	15,170,265	15,170,265
1,000 (previous year 1,000) Equity shares of GBP 1 each of fully paid up in Element K UK	91,272	91,272
1,000 (Previous year 1,000) Equity shares of CAD 0.01 each of fully paid in Element K Canada Inc.	420	420
	<u>15,261,957</u>	<u>15,261,957</u>
6 INVENTORIES		
[Refer Note 1B (iii) on Schedule 17]		
Raw materials	5,458,265	9,495,824
Finished goods - education and training material *	7,433,727	5,236,332
	<u>12,891,992</u>	<u>14,732,156</u>
Note:		
* Net of provision for non-moving stocks of Rs. 2,290,162 (previous year Rs. 3,973,394)		
7 SUNDRY DEBTORS		
(Unsecured)		
[Refer Note 10 on Schedule 17]		
Outstanding for over six months		
- Considered Good	557,405	5,629,848
- Considered Doubtful	<u>26,562,896</u>	<u>15,849,347</u>
	27,120,301	21,479,195
Less : Provision for Doubtful Debts	<u>26,562,896</u>	<u>15,849,347</u>
	557,405	5,629,848
Outstanding for less than six months (considered good)	484,310,491	517,040,999
	<u>484,867,896</u>	<u>522,670,847</u>
8 CASH AND BANK BALANCES		
Cash and Cheques in Hand	4,601	38,146
Balances with Banks in :		
- Current Accounts	32,286,551	57,389,608
	<u>32,291,152</u>	<u>57,427,754</u>



Element K Corporation
Schedules annexed to and forming part of the Accounts

Schedule No.		As at March 31, 2010 INR	As at March 31, 2009 INR
9	LOANS AND ADVANCES (Unsecured, considered good) [Refer Note 1B (v) on Schedule 17]		
	Recoverable from Subsidiaries	-	25,427,150
	Deferred expenses		
	- Royalty	166,066,972	176,117,463
	- Commission	<u>102,110,882</u>	<u>76,824,064</u>
		268,177,854	252,941,527
	Advances recoverable in cash or in kind or for value to be received	42,968,693	49,169,020
	Security Deposits	5,681,004	1,594,638
		<u>316,827,551</u>	<u>329,132,335</u>
10	CURRENT LIABILITIES [Refer Notes 1B (iv) and (vi) on Schedule 17]		
	Sundry Creditors		
	- due to other than micro and small enterprises	660,232,569	766,732,094
	Amount Payable to Subsidiaries	32,719,935	-
	Amount payable to Holding Company [Including Interest Accrued but not due Rs.6,173,421 (previous year Rs. 29,229,589)]	95,408,675	159,444,222
	Interest accrued but not yet due	998,565	787,769
	Unearned revenue (net)	59,040,715	54,893,042
	Deferred revenue	956,584,921	948,158,381
	Other Liabilities	26,822,546	27,132,841
		<u>1,831,807,926</u>	<u>1,957,148,349</u>
11	PROVISIONS [Refer Notes 1B(vi), (x), 8 and 13 on Schedule 17]		
	Provision for Leave Encashment	32,831,603	36,750,973
	Provision for Current Tax	2,961,768	4,972,173
		<u>35,793,371</u>	<u>41,723,146</u>



Element K Corporation
Schedules annexed to and forming part of the Accounts

Schedule No.		For the year ended March 31, 2010 INR	For the year ended March 31, 2009 INR
12	OTHER INCOME [Refer Note 1B(vii) on Schedule 17]		
	Gain on exchange fluctuations (Net)	-	1,350,166
	Provisions/liabilities written back	18,627,151	36,488,429
	Miscellaneous	4,209,312	1,111,313
		<u>22,836,463</u>	<u>38,949,908</u>
13	PERSONNEL [Refer Notes 1B(vi), (xii), 9, 13 and 15 on Schedule 17]		
	Salaries and Benefits	1,112,552,925	1,282,281,900
	Contribution to retirement benefits	9,528,394	11,212,410
	Welfare and Other Expenses	4,462,906	9,980,511
		<u>1,126,544,225</u>	<u>1,303,474,821</u>
14	DEVELOPMENT, PRODUCTION AND EXECUTION [Refer Notes 1B (iii), (v), (viii) and 12 on Schedule 17]		
	Material consumed for Courseware		
	Opening Inventory		
	- Raw Material	9,495,824	9,104,740
	- Finished Goods	<u>5,236,332</u>	<u>9,493,758</u>
		14,732,156	18,598,498
	Add: Purchase of Material for consumption		
	[Includes inventory write off Rs. 1,168,848 (previous year Rs. 2,745,407)]	101,927,042	131,858,093
	Less: Closing Inventory		
	- Raw Material	5,458,265	9,495,824
	- Finished Goods	<u>7,433,727</u>	<u>5,236,332</u>
		12,891,992	14,732,156
		103,767,206	135,724,435
	Royalties	1,223,523,345	1,349,900,183
	Reseller Fees	4,386,955	5,029,065
	Course Execution Charges	13,481,175	15,493,309
	Professional Charges	85,082,253	114,934,957
	Printing Costs [Including lease rent of Rs. 49,886,118 (previous year Rs. 49,393,873)]	76,184,616	78,833,894
	Consumables	1,952,411	2,626,685
	Dispatch & Shipping	50,660,059	63,198,855
		<u>1,559,038,020</u>	<u>1,765,741,383</u>



Element K Corporation
Schedules annexed to and forming part of the Accounts

Schedule No.	For the year ended March 31, 2010 INR	For the year ended March 31, 2009 INR
15 ADMINISTRATION, FINANCE AND OTHERS [Refer Notes 1B (vii), (viii), (ix) , 6, 9, 10 and 12 on Schedule 17]		
Rent	33,653,751	34,728,781
Rates and Taxes	16,177,197	17,851,379
Electricity and Water	12,906,489	13,448,724
Communication	32,483,823	35,894,472
Contract Services	17,616,290	29,706,538
Legal and Professional	25,099,021	20,210,708
Traveling and Conveyance	36,589,472	67,204,721
Bank, Discounting and Other Financial Charges	26,161,949	29,102,202
Insurance Premium	11,616,960	13,313,037
Repairs and Maintenance		
- Plant and Machinery	69,005,902	60,595,152
- Buildings	11,073,505	13,497,185
Provision for doubtful debts	12,863,696	2,142,582
Interest on loans	75,497,532	83,625,497
Loss on exchange fluctuations (Net)	9,029,906	-
Management services expenses	42,020,544	38,200,077
Sundry Expenses	23,839,486	25,416,982
	455,635,523	484,938,037
16 SELLING AND MARKETING [Refer Note 1B(v) on Schedule 17]		
Sales commission	195,708,420	202,237,819
Advertisement and Publicity	31,928,048	50,079,435
Others	4,584,456	7,815,142
	232,220,924	260,132,396

ELEMENT K CORPORATION, USA
SCHEDULE '17': NOTES TO ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2010

- 1(A) These financial statements are prepared on an accrual basis, under historical cost convention and in compliance in all material aspects with the applicable accounting principles in India, the applicable accounting standards notified under section 211(3C) of the Companies Act, 1956 and the relevant provisions of the Companies Act, 1956. The Company's local and reporting currency is United States Dollar (USD).

The Company's local and reporting currency is United States Dollar (USD) and these accounts have been presented in Indian Rupees (Rs.). The USD balances as per books of the company have been converted and presented into Indian Rupees as follows:

- i. All revenue and expense items have been converted at average rate for the year.
- ii. All assets and liabilities have been converted at the year end rate.
- iii. Share capital, Reserves and Surplus and Investments are translated at the historical rate.

The net difference on translation is reported under Currency Translation Reserve/ (Debit Balance) and is disclosed separately in the Balance Sheet.

1(B) **STATEMENT ON SIGNIFICANT ACCOUNTING POLICIES**

i). **Fixed Assets, Depreciation and Amortization**

Fixed assets are stated at cost less accumulated depreciation and amortization.

Expenses incurred on internal development of educational content and products are capitalized either individually or as libraries and tools in the form of software, once their technical feasibility and ability to generate future economic benefit is established in accordance with the requirements of Accounting Standard 26, "Intangible Assets" notified under Section 211 (3C) of the Companies Act, 1956. Expenses incurred during the research phase till the establishment of commercial feasibility is charged to the Profit and Loss Account.

Depreciation and amortization is provided on a pro-rata basis on the straight-line method over the estimated useful lives of the assets determined as follows:

Plant and Machinery including:	
a) Computers, printers and related accessories	2-5 years
b) Office equipment	7 years
Leasehold Improvements	3-5 years or lease period, whichever is lower
Furniture and fixtures	7 years
Software	3-5 years

Further, computer systems and software (including tools) are technically evaluated each year for their useful economic life and the unamortized depreciable amount of the asset is charged to Profit and Loss Account as depreciation/ amortization over their revised remaining useful life.

ii). **Impairment of Assets**

All assets other than inventories, investments and deferred tax asset, are reviewed for impairment, wherever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets whose carrying value exceeds their recoverable amount are written down to the recoverable amount.

iii). **Inventory Valuation**

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first-in first-out (FIFO) basis and includes all applicable costs incurred in bringing the inventories to their present location and condition. Provision is made for non moving inventory on the basis of an estimate.



ELEMENT K CORPORATION, USA
SCHEDULE '17': NOTES TO ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2010

iv). **Revenue Recognition**

The revenue in respect of print courseware consists of print product sales and content licensing arrangements. Revenue is recognized on dispatch of the material to the customer.

The Company receives contracts for subscription revenue and invoices the license fee based on the invoicing terms in the agreement. The subscription is hosted on the server, in advance. The subscription fees for subsequent terms of the arrangements are billed on the respective invoicing date as in the agreement. The Company records deferred revenue amounts that have been billed in advance to the customers for products or services to be provided. Deferred revenue includes the unamortized portion of revenue associated with license fees for which the Company has received payment or for which amounts have been billed and are due for payment. Revenue derived pursuant to content hosted on customers' server for a definite period is recognized on delivery of the content.

The Company recognizes service revenue, such as, customized content development, website development/hosting and implementation services, as the services are performed, under proportionate completion method.

The Company records revenue net of discounts and applicable sales tax collected. Taxes collected from customers are recorded as part of accrued expenses on the balance sheet and are remitted to state and local taxing jurisdictions based on the filing requirements of each jurisdiction.

v). **Deferred Charges**

Deferred royalties, sales commissions and referral fees are amortized over the average terms of the license or subscription matching with the related revenue.

vi). **Employee Benefits**

Defined Contribution Plans

The Company makes defined contribution on a monthly basis towards retirement benefits of the employees under 401K plan, which is charged to the profit and loss account. The Company has no further obligations towards the retirement benefits.

Defined Benefit Plans

The Company has defined benefit plans for leave encashment for employees, the liability for which is determined on the basis of an actuarial valuation, based on "Projected Unit Credit Method", as at each period end. Also, the Company's obligation in respect of accumulating compensated absences for sickness is provided based on actuarial valuation as at each period end.

At the end of the period, any gain or loss arising out of such actuarial valuation is recognized to Profit and Loss Account as income or expense.

vii). **Foreign Currency Transactions**

Transactions in foreign currency (currency other than Company's reporting currency) are booked at standard rates determined periodically which approximates the actual rates, and all monetary assets and liabilities in foreign currency are restated at the end of accounting year. Gain/ Loss arising out of fluctuations on realization / payment or restatement is charged/ credited to the Profit and Loss Account.



ELEMENT K CORPORATION, USA
SCHEDULE '17': NOTES TO ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2010

viii). **Leases**

The Company has taken assets as well as premises on lease. Lease rental in respect of operating lease arrangements are charged to expense on a straight-line basis over the lease term.

Finance lease transactions entered into are considered financing arrangements in accordance with Accounting Standard 19, Leases, and the leased asset is capitalized at an amount equal to the present value of future lease payments and a corresponding amount is recognized as a liability. The lease payments made are apportioned between finance charge and reduction of outstanding liability in relation to the leased asset.

ix). **Borrowing Cost**

Borrowing costs are recognized in the Profit and Loss Account for the period in which they are incurred except where the cost is incurred during the construction of an asset that takes a substantial period to get ready for its intended use, in which case, it is capitalized.

x). **Taxation**

Tax expense, comprising of both current tax and deferred tax, other than federal income tax for the parent company, Element K Corporation, USA, is included in determining the net results for the year. Deferred tax reflects the effect of timing differences between the assets and liabilities recognized for financial reporting purposes and the amounts that are recognized for current tax purposes. As a matter of prudence, deferred tax assets are recognized and carried forward only to the extent, there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. Current tax is determined based on the provisions of the applicable taxation laws of the respective countries (refer to note 8 on this schedule).

xi). **Provisions and Contingencies**

The Company creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that probably will not require an outflow of resources or where a reliable estimate of the obligation cannot be made.

xii). **Employee Stock Options**

Employee share-based payment plans in the form of cash settled stock option are accounted for using the intrinsic value method. The intrinsic value being the excess of fair value of the underlying share on the date of grant, based on independent valuer report, over its exercise price. The liability for cash settled options is measured at intrinsic value over the life of options whereby intrinsic value is re-measured at each reporting date, with any changes in intrinsic value recognized in the profit and loss account. The liability at the date of exercise is settled based on valuation of share as per latest audited financials.

2 **Contingent Liabilities**

The transfer pricing analysis in relation to transactions with foreign subsidiaries subsequent to March 31, 2007 is under process. The management does not foresee any financial implication on these statements of accounts upon completion of such analysis.

3. Estimated amount of contracts remaining to be executed on capital account (net of advances) not provided for total Rs.100,923 (previous year Rs.78,072).



ELEMENT K CORPORATION, USA
SCHEDULE '17': NOTES TO ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2010

4. a) Element K Corporation has an unsecured Promissory Note with its holding company, NIIT Ventures Inc., with an outstanding amount of Rs. 676,789,776 (previous year Rs. 765,372,513). In the previous year pursuant to an extension granted by the holding company, NIIT Ventures, Inc., the principal amount of the Note, together with all interest, was payable in four equal semi-annual installments of Rs. 191,343,128 plus accrued interest until paid in full commencing from July 25, 2010. During the current year the repayment of principal amount has been further extended to commence from July 25, 2011 in four equal semi-annual installments of Rs. 169,197,446 and to be paid in full by January 25, 2013.
- b) Element K Corporation has issued two unsecured Promissory Notes with ultimate parent company in USA, NIIT USA, Inc. for a total of Rs. 224,874,000. The principal amount of the notes, together with all interest, was repayable in full by January 31, 2009. During the previous year, the principal amount was extended for a further period of two years to be paid in full by January 31, 2011.
- c) Element K Corporation has an unsecured Promissory Note with ultimate parent company, NIIT USA, Inc. for a total of Rs. 67,462,200. The balance principal amount of the note, together with all interest, is to be paid in full by October 15, 2010.
- d) Element K Corporation has been sanctioned a working capital loan in the form of a line of credit from the Bank of the West for a total of Rs. 247,361,400 (previous year Rs.152,584,200). The principal amount of the line of credit utilized Rs.155,130,228 together with all interest, shall be paid in full by November 30, 2010. The loan is covered by a corporate guarantee given by NIIT Limited, the ultimate holding company.
5. The holding companies in USA, namely NIIT Ventures Inc. and NIIT USA Inc. are supporting the Company in form of granting additional loans during the year and as well as extending the repayment of the principal amount of the loans that existed at the beginning of the year. This, along with the additional working capital loans obtained during the year and Company's plans to diversify businesses across geographies, newer product launched as well as under development, is expected to improve the liquidity and financial position of the Company.

6. **PAYMENT TO AUDITORS**

Particulars	Amount in Rs.	
	For the year ended March 31, 2010	For the year ended March 31, 2009
Statutory Audit fee	3,000,000	3,000,000
Reimbursement of expenses	2,009,351	1,229,320
Other services	477,081	-

7. **SEGMENT INFORMATION**

i) **Primary segment information-business segment**

In the view of the management, Company operates in a single business segment i.e. Learning Business.

ii) **Secondary Segment Information – Geographical**

The secondary segment information in relation to the geographies is as follows:

Particulars	Revenue from customers by location of customers	Carrying amount of segment assets by location of the assets	Amounts in Rs.
			Additions to fixed assets
Americas (USA & Canada)	3,580,656,141 (3,861,592,767)	1,712,539,110 (1,755,864,586)	271,180,579 (423,826,813)
Others	- (-)	- (-)	- (-)
Total	3,580,656,141 (3,861,592,767)	1,712,539,110 (1,755,864,586)	271,180,579 (423,826,813)

Previous years figures are given in parenthesis.



ELEMENT K CORPORATION, USA
SCHEDULE '17': NOTES TO ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2010

8. **TAXATION:**

- (a) Current tax expense comprises of taxes payable on income in different states of the United States.
- (b) Element K Corporation, USA is a subsidiary of NIIT Ventures Inc. which is a wholly owned subsidiary of NIIT USA Inc.. These entities would be assessed for federal taxes on a consolidated level as the return of taxes on income is filed at a consolidated level. Therefore these stand alone financial statements of the Company do not reflect the tax expense (current and deferred) in United States of the Company.

9. During the previous year, the Company had initiated development of various contents and tools (software). The investment would expand the business in existing and new markets and also enhance capabilities of its products and software in future. The Company is confident of its ability to generate future economic benefits. The costs incurred for such development during the year (capitalized as well as capital work in progress) are as follows:

Nature of Expense	Amount in Rs.	
	For the year ended March 31, 2010	For the year ended March 31, 2009
Personnel	188,932,091	231,857,233
Professional Charges	45,620,155	126,078,487
Rent	14,333,517	12,312,547
Rates and Taxes	2,955,565	2,979,854
Others	9,484,943	8,765,422
Total	261,326,271	381,993,543

10. **Movement of Provision for Doubtful Debts:**

Particulars	Amount in Rs.	
	For the year ended March 31, 2010	For the year ended March 31, 2009
Opening Provision	15,849,347	15,709,427
Add: Additional Provision created	12,863,696	2,142,582
Add: Currency Translation Reserve	4,905,556	3,979,516
Less: Provision utilized	7,055,703	5,982,178
Closing Provision	26,562,896	15,849,347

11. **EARNING PER SHARE:**

Particulars	For the Year Ended March 31, 2010	For the Year Ended March 31, 2009
Basic / Diluted		
Profit / (Loss) after tax (Rs.) (A)	75,878,000	(1,711,714)
Weighted average number of Equity Shares (B)	1,000,000	1,000,000
EPS (Rs.) (A/B)	75.88	(1.71)

Note: There are no potential dilutive instruments outstanding as at the year end.

ELEMENT K CORPORATION, USA
SCHEDULE '17': NOTES TO ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2010

EARNING PER SHARE [Had the fair value method been employed for accounting of employee stock options (Refer Note 15 below)]

Particulars	Amount in Rs.	
	For the Year Ended March 31, 2010	For the Year Ended March 31, 2009
Profit / (Loss) attributable to Equity Shareholders (C)	76,971,708	(7,400,715)
Basic / Diluted Earnings Per Share (C/B)	76.97	(7.40)

12. LEASES:

a) Operating Leases:

i. The minimum non-cancelable lease payment outstanding at the Balance Sheet date in respect of plant & machinery and building:

Particulars	Amount in Rs.	
	For the year ended March 31, 2010	For the year ended March 31, 2009
	Minimum lease payments	Minimum lease payments
Not later than 1 year	86,961,544	103,974,066
Later than 1 year but not later than 5 years	234,291,549	251,817,994
5 years and beyond	161,075,440	210,565,546

Aggregate payments (on accrual basis) during the year under operating leases are as shown hereunder:

Particulars	Amount in Rs.	
	For the year ended March 31, 2010	For the year ended March 31, 2009
In respect of Premises*	33,653,751	34,728,781
In respect of Equipments**	49,886,118	49,393,873

* Includes payment in respect of premises for office and employee accommodation

** Includes payment in respect of printing machines and related computer, printers and other equipments.

b) Finance Leases:

The Company has entered into finance leasing arrangements for licenses and computers.

Particulars	Amount in Rs.	
	For the year ended March 31, 2010	For the year ended March 31, 2009
Minimum lease payments	36,260,033	22,756,362
Less: Finance costs	4,585,390	4,325,666
Principal value of obligations outstanding as at year end	31,674,643	18,430,706

Minimum lease payments due:

Particulars	Amount in Rs.	
	For the year ended March 31, 2010	For the year ended March 31, 2009
Not later than 1 year	15,454,466	11,222,751
Later than 1 year but not later than 5 years	20,805,567	11,533,611

Present Value of Minimum Lease Payments :-

Particulars	Amount in Rs.	
	For the year ended March 31, 2010	For the year ended March 31, 2009
Not later than 1 year	13,191,559	9,894,221
Later than 1 year but not later than 5 years	18,483,084	8,536,485

ELEMENT K CORPORATION, USA
SCHEDULE '17': NOTES TO ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2010

13. Retirement Benefit Plans

A) Defined Contribution Plans

Company makes contribution towards a defined contribution retirement benefit plan (401K plan) for eligible employees. During the year the Company has recognized an amount of Rs. 9,528,394 (previous year Rs. 11,212,410) in the Profit and Loss account.

B) Defined Benefit Plan

1. Compensated Absences

a. Change in present value of obligation

	Amount in Rs.	
	For the year ended March 31, 2010	For the year ended March 31, 2009
Present value obligation as at beginning	36,750,971	28,409,609
Interest cost	1,908,324	-
Current service cost	9,541,620	15,227,648
Benefits paid	(4,007,480)	(11,191,186)
Actuarial (gain)/loss on obligations	(7,088,040)	-
Currency Translation Adjustment	(4,273,792)	4,304,900
Present value obligation as at end	32,831,603	36,750,973

b. Assumptions used in accounting for leave plan:

Discount rate (per annum)	2.80%
Future salary increase	3.00%

14. The Company appointed, NIIT USA Inc., a parent group company, as a distributor for sale of products in the international markets. The revenue and costs for the sale of such products is recognized based on the terms of the agreement with guaranteed minimum revenue aggregating to Rs.50,847,150 from all products to the Company. Courseware minimum revenue is Rs.16,922,206, and on-line revenue minimum is Rs.33,924,944. The minimum guaranteed for on-line revenue has been met. As at the year end, there was a shortfall of revenue aggregating to Rs.8,061,953 from the courseware minimum guaranteed. The amount has been reported under revenues as follows:

Particulars	Amount in Rs.	
	For the year ended March 31, 2010	For the year ended March 31, 2009
Revenue of shortfall related to the minimum guaranteed amount	8,061,953	8,124,335
Amount payable to NIIT USA Inc. for its revenue share	-	-
Net income reported under revenue from print courseware	8,061,953	8,124,335

15. EMPLOYEE STOCK OPTION SCHEME

- (a) During the earlier year, the Company had established Element K Stock Option Plan and the same was approved at the board meeting of the Company held on March 24, 2007 and again on February 29, 2008. The plan was set up to offer the grant for the benefit of employees of the company, who are eligible as per the approved scheme and on such terms and conditions as may be fixed or determined by the board in accordance with the provisions of law or guidelines issued by the relevant authorities in this regard.

ELEMENT K CORPORATION, USA
SCHEDULE '17': NOTES TO ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2010

The Company granted option in as follows:

Particulars	Tranche 1	Tranche 2	Tranche 3
Date of Grant	April 1 2007	February 28 , 2008	December 14, 2009
Dates of Vesting	December 31, 2007 December 31, 2008 December 31, 2009	December 31, 2008 December 31, 2009 December 31, 2010	December 31, 2010 December 31, 2011 December 31, 2012
Method of settlement	Cash settled	Cash settled	Cash settled
Live options at the beginning of the year (Nos.)	34,500	34,500	-
Granted during the year (Nos.)	-	-	33,000
Forfeited / lapsed till vesting period (Nos.)	-	-	-
Options vested (Nos.)	34,500	23,000	-
Forfeited / lapsed post vesting (Nos.)	6,000	-	-
Options exercised (Nos.)	18,000	-	-
Outstanding / Exercisable at the end of the year (Nos.)	10,500	34,500	33,000
Exercise price (USD)	13.92	18.48	19.30
Fair value of the options based on Black Scholes – Merton Option Pricing Model at the date of grant (USD)	5.60	6.05	7.11
Intrinsic value of the options granted as at year end (USD)	5.38	0.82	-

The assumptions used by an independent valuer, for determination of fair value as per the Black & Scholes – Merton Option Pricing model are as follows:

- Since the Company is unlisted, stock price is taken on the basis of the valuation analysis done by independent valuer in Dec 2009.
- Exercise price is the price payable by the employees for exercising the option.
- No dividend payout in the past by the company. Dividend yield is not considered for the valuation.
- Volatility of the comparable shareholding company is considered for the computation of the expected volatility of the company's equity share options.
- Average life of the options is considered 3.5 years depending upon the vesting dates.
- Risk free interest rate has been assumed 1.36% depending on the grant dates based on Treasury bills (Treasury yields curve rates).



ELEMENT K CORPORATION, USA
SCHEDULE '17': NOTES TO ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2010

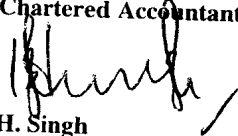
Other Information regarding employee share based payment is as below:


Particulars	Tranche 1	Tranche 2	Tranche 3
Expense amortized during the year on the basis of intrinsic value of the shares	2,487,500	1,107,305	-
Additional Expense / (Income) had the company recorded the ESOP expense based on the fair value of the options (USD)	(1,731,088) (1,976,136)	637,380 (3,369,228)	-
Closing value of liability for cash settled options	2,344,986	1,043,865	-
Expense arising from increase in intrinsic value of liability for cash settled option during the year	2,487,500	1,107,305	-

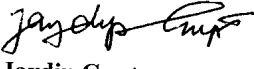
Previous year numbers are given in parenthesis.


For impact on basic and dilutive earnings per share, had the fair value of the options been used for determining ESOP expense, refer to Note 11 above.

- (b) During the year, the company has issued and repurchased 18,000 shares under the plan and has recorded a charge of Rs. 4,620,052 in the Profit and Loss Account. An amount of Rs. 3,594,805 has been accrued as expense on account of change in accounting policy for the outstanding options as at the year end. Further, the Company is in the process of cancellation of 25,500 shares issued and repurchased under the ESOP plan so far, and is initiating steps to amend the ESOP plan to include that in future, shares will not be issued and only incremental fair value of share as per the latest available valuation over and above the fair value as on the date of grant would be paid to employees at the time of exercise of options after vesting.
16. Previous year figures have been regrouped to conform to current year's classification.

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

H. Singh
Partner
Membership No. F-86994


Paul Krause
CEO & Whole Time Director


Jaydip Gupta
Chief Financial Officer


Vijay Kumar Thadani
Director

Place : Gurgaon, India
Date : April 22, 2010

Place : Rochester, NY, USA
Date : April 22, 2010