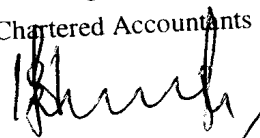


**Auditors' Report to the Board of Directors of  
Element K (UK) Limited**

1. We have audited the attached Balance Sheet of Element K (UK) Limited, 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 (UK) Limited'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. 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 loss of the Company for the year ended on that date; and
  - c. in case of the Cash Flow Statement, of the cash flows 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 (UK) Limited**  
**Balance Sheet as at March 31, 2010**

	Schedule No. (Note Reference)	As at March 31, 2010 INR	As at March 31, 2009 INR
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Share Capital	'1'	77,771	77,771
Reserves and Surplus		5,961,548	7,596,041
Currency Translation Reserve	'2'	7,898,966	13,486,711
		<u>13,938,285</u>	<u>21,160,523</u>
			<u>21,160,523</u>
<b>APPLICATION OF FUNDS</b>			
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Sundry Debtors	'3'	5,528,835	8,821,510
Cash and Bank Balances	'4'	1,807,285	1,981,991
Loans and Advances	'5'	9,745,410	13,228,586
		<u>17,081,530</u>	<u>24,032,087</u>
<b>Less : CURRENT LIABILITIES AND PROVISIONS</b>			
Current Liabilities	'6'	3,143,245	2,871,564
		<u>3,143,245</u>	<u>2,871,564</u>
Net Current Assets		13,938,285	21,160,523
		<u>13,938,285</u>	<u>21,160,523</u>
<b>NOTES TO ACCOUNTS</b>			
	12		

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 : 22<sup>nd</sup> April 2010


  
Paul Krause  
CEO & Whole Time Director



Jaydip Gupta  
Chief Financial Officer

Place : Rochester, NY, USA

Date : 22<sup>nd</sup> April 2010

  
Vijay Kumar Thadani  
Director

**Element K (UK) Limited**  
**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
<b>INCOME</b>			
<b>Revenue from Operations</b>	'12 (1B) (i)'	91,355	1,187,229
Subscription from Catalog Products		305,628	3,209,938
Development Services		44,132,720	49,761,876
Print Courseware	7'	713,128	1,370,852
Other Income			
		<u>45,242,831</u>	<u>55,529,895</u>
<b>EXPENDITURE</b>			
			24,821
Personnel	'8'	-	51,860,271
Development, Production and Execution	'9'	43,276,996	321,540
Administration, Finance and Others	'10'	2,990,171	-
Selling and Marketing	'11'	610,157	-
		<u>46,877,324</u>	<u>52,206,632</u>
		(1,634,493)	3,323,263
Profit /(Loss) before Tax			132,969
Income Tax Expense - current	'12 (1B) (v) & 4)'		
		<u>(1,634,493)</u>	<u>3,190,294</u>
<b>Profit /(Loss) after Tax</b>		7,596,041	4,405,747
Profit brought forward from previous year			
		<u>5,961,548</u>	<u>7,596,041</u>
Balance available for appropriation			
<b>APPROPRIATION</b>			
		5,961,548	7,596,041
Balance Carried to Balance Sheet		<u>5,961,548</u>	<u>7,596,041</u>
		(1,634)	3,190
Basic / Diluted Earning per share. (Face value of GBP 1 each fully paid up)	'12(3)'		

**NOTES TO ACCOUNTS**


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 : 22nd April 2010

  
Paul Krause  
CEO & Whole Time Director

  
Jaydip Gupta  
Chief Financial Officer

Place : Rochester, NY USA

Date : 22nd April 2010

  
Vijay Kumar Thadani  
Director

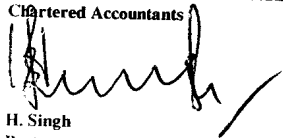
**Element K (UK) Limited**  
**CASH FLOW STATEMENT**  
**FOR YEAR PERIOD ENDED 31ST MARCH, 2010**

	Year ended March 31, 2010 INR	Year ended March 31, 2009 INR
<b>A. Cash flow from operating activities:</b>		
Net (loss)/profit before tax but after exceptional/extraordinary items	(1,634,493)	3,323,263
Adjustments for:		
Provision for Bad & doubtful debts	1,577,413	
Provision for doubtful debts written back	-	(1,048,131)
<b>Operating profit before working capital changes</b>	<u>(57,080)</u>	<u>2,275,132</u>
<b>Add / (Less) : Increase / Decrease in Operating working capital</b>		
Trade receivable	1,715,262	(1,042,690)
Loans and advances	3,483,176	(4,847,429)
Current liabilities and provisions	<u>271,681</u>	<u>(5,659,730)</u>
	<b>5,470,119</b>	<b>(11,549,849)</b>
Direct Tax - (Paid) / refund Received	-	(132,969)
<b>Net cash from/(used in) operating activities</b>	<u><b>5,413,039</b></u>	<u><b>(9,407,685)</b></u>
<b>B. Cash flow from Investing activities:</b>	<b>B</b>	-
<b>C. Cash flow from financing activities:</b>	<b>C</b>	-
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>	<b>(A+B+C)</b>	<b>(9,407,685)</b>
Adjustments on account of exchange rate	(5,587,745)	9,136,321
<b>Cash and cash equivalents as at the beginning of the year</b>	<b>1,981,991</b>	<b>2,253,356</b>
<b>Cash and cash equivalents as at the end of the year</b>	<u><b>1,807,285</b></u>	<u><b>1,981,991</b></u>
<b>Cash and cash equivalents comprise</b>		
Balance with Scheduled Banks	1,807,285	1,981,991
<b>Cash and cash equivalents as at the end of the year</b>	<u><b>1,807,285</b></u>	<u><b>1,981,991</b></u>

**Notes :**

- 1 The above Cash flow statement has been prepared under the indirect method setout in AS-3 notified u/s 211 (3C) of the Companies Act, 1956.
- 2 The schedule 1 to 12 forms an integral part of the Cash Flow Statement
- 3 Figures in brackets indicate cash outgo.
- 4 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 : 22nd April 2010

  
Paul Krause  
CEO & Whole Time Director

  
Jaydip Gupta  
Chief Financial Officer

Place : Rochester, NY, USA

Date : 22nd April 2010

  
Vijay Kumar Thadani  
Director

# Element K (UK) Limited

## Schedules annexed to and forming part of the Consolidated Accounts as at March 31, 2010

Schedule No.	As at March 31, 2010 INR	As at March 31, 2009 INR
<b>1. SHARE CAPITAL</b>		
<b>Authorized Share Capital</b>		
1,000 Equity Shares of GBP 1 each	77,771	77,771
	<u>77,771</u>	<u>77,771</u>
<b>Issued, Subscribed and Paid-up Capital</b>		
1,000 Equity Shares of GBP 1 each fully paid (All of the above shares are held by Holding Company, Element K Corporation, USA)	77,771	77,771
	<u>77,771</u>	<u>77,771</u>
<b>2. Currency Translation Reserve</b> [Refer Note 1A on Schedule 12]		
Opening balance	13,486,711	4,350,390
Additions during the year	(5,587,745)	9,136,321
	<u>7,898,966</u>	<u>13,486,711</u>



**Element K (UK) Limited**  
**Schedules annexed to and forming part of the Balance Sheet**  
**as at March 31, 2010**

Schedule No.	As at March 31, 2010 INR	As at March 31, 2009 INR
<b>3 SUNDRY DEBTORS</b> (Unsecured, considered good unless otherwise stated)		
Outstanding for over six months		170,348
- Considered Good	115,405	384,683
- Considered Doubtful	<u>2,798,552</u>	<u>555,031</u>
	2,913,957	384,683
Less : Provision for Doubtful Debts	<u>2,798,552</u>	170,348
	115,405	
Outstanding for less than six months Considered Good	5,413,430	8,651,162
	<u>5,528,835</u>	<u>8,821,510</u>
<b>4 CASH AND BANK BALANCES</b>		
Balances with Banks in :		1,981,991
- Current Accounts	1,807,285	
	<u>1,807,285</u>	<u>1,981,991</u>



**Element K (UK) Limited**

**Schedules annexed to and forming part of the Consolidated Accounts  
as at March 31, 2010**

Schedule No.		As at March 31, 2010 INR	As at March 31, 2009 INR
<b>5</b>	<b>LOANS AND ADVANCES (Unsecured, considered good)</b>		
	Recoverable from Subsidiaries	1,376,047	7,494,179
	Recoverable from Affiliates	8,013,772	5,206,097
	Security Deposits	23,709	134,881
	Advance recoverable in cash or in kind or for value to be received	331,882	393,429
		<u><b>9,745,410</b></u>	<u><b>13,228,586</b></u>
<b>6</b>	<b>CURRENT LIABILITIES [Refer Note 1B (i) on Schedule 12]</b>		
	Sundry Creditors - - other than micro and small enterprises	2,351,908	2,823,495
	Unearned revenue (net)	44,243	48,069
	Deferred revenue	747,094	-
		<u><b>3,143,245</b></u>	<u><b>2,871,564</b></u>



**Element K (UK) Limited**

**Schedules annexed to and forming part of the Consolidated Profit and Loss Account  
as at March 31, 2010**

Schedule No.		For the year ended March 31, 2010 INR	For the year ended March 31, 2009 INR
<b>7</b>	<b>OTHER INCOME</b> [Refer Note 1B (iii) on Schedule 12]		
	Gain on exchange fluctuations (Net)	-	2,512
	Provision for Doubtful Debts written Back	-	1,048,131
	Miscellaneous	713,128	320,209
		<u>713,128</u>	<u>1,370,852</u>
<b>8</b>	<b>PERSONNEL</b>		
	Salaries and Benefits	-	24,821
		<u>-</u>	<u>24,821</u>
<b>9</b>	<b>DEVELOPMENT, PRODUCTION AND EXECUTION</b>		
	Courseware and manuals	7,541,072	7,523,664
	Royalties	2,321,438	-
	Professional Charges	4,510,064	4,841,263
	Consumables	118,803	5,971
	Management services recovery	26,832,923	37,991,797
	Dispatch & Shipping	1,952,696	1,497,576
		<u>43,276,996</u>	<u>51,860,271</u>





**Element K (UK) Limited**

**Schedules annexed to and forming part of the Consolidated Profit and Loss Account  
as at March 31, 2010**

Schedule No.	For the year ended March 31, 2010 INR	For the year ended March 31, 2009 INR
<b>10 ADMINISTRATION, FINANCE AND OTHERS</b> [Refer Notes 1B (ii) & (iii) on Schedule 12]		
Rates and Taxes	135,506	-
Communication	160,136	168,723
Bank, Discounting and Other Financial Charges	53,154	29,701
Bad debt expense	1,577,413	-
Loss on exchange fluctuations (Net)	735,926	-
Sundry Expenses	328,036	123,116
	<b>2,990,171</b>	<b>321,540</b>
<b>11 SELLING AND MARKETING</b>		
Advertisement and Publicity	610,157	-
	<b>610,157</b>	<b>-</b>



**Element K (UK) Limited**  
**Schedule '12': Notes to accounts for the Year ended March 31, 2010**

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- 1(A)** These financial statements are prepared to comply 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 on an accrual basis, under historical cost convention.

The Company's local and reporting currency is GBP and these accounts have been presented in Indian Rupees (Rs.). The GBP 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 and reserves and surplus is translated at the historical rate.

The net difference on translation is taken to Currency Translation Reserve and is shown as a separate component under Shareholder's Fund.

**1B. STATEMENT ON SIGNIFICANT ACCOUNTING POLICIES**

**i. 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.

**ii. Deferred Charges**

Sales commissions are amortized over the term of the license or subscription associated with the related revenue.

**iii. 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 (UK) Limited**  
**Schedule '12': Notes to accounts for the Year ended March 31, 2010**

iv). **Provisions and Contingencies**

The Company creates a provision when there is 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.

v). **Taxation**

Tax expense, comprising of both current tax and deferred tax 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.

2. **SEGMENT INFORMATION**

i. **Primary Segment Information – business segment**

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

ii. **Secondary Segment Information – Geographical**

The Company operates in only one geography i.e. Europe.

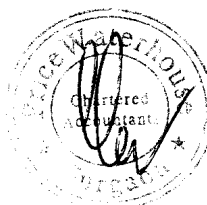
3. **EARNINGS PER SHARE:**

Particulars	Amount in INR	
	Year ended March 31, 2010	Year ended March 31, 2009
Profit/Loss attributable to equity shareholders - (A)	(1,634,493)	3,190,294
Weighted average number of equity shares outstanding during the year – (B)	1,000	1,000
Nominal Value of Equity Shares (GBP)	1	1
Basic/Diluted Earnings per Share (Rs.) (A/B)	(1.634)	3,190

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

4. a. There is no current tax in view of carried forward losses of the company.

b. There are no timing differences between book profit/loss and profit/loss determined in accordance with the applicable tax laws of the country in which the Company is incorporated. Deferred tax assets have not been created on cumulative tax losses in view of the substantial losses incurred by the Company and consequent lack of reasonable certainty of utilization of such losses in the near future.

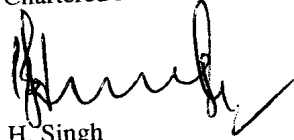


**Element K (UK) Limited**  
**Schedule '12': Notes to accounts for the Year ended March 31, 2010**

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5. Previous period figures have been regrouped to conform to current year classification.

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