

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

1. We have audited the attached Balance Sheet of Element K (UK) Limited (the "Company"), as at March 31 2011, and the related 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 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 the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. 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, 2011;
 - b. in the case of the Profit and Loss Account, of the results of operations 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.
4. We conducted our audit of these financial statements in accordance with the requirements of section 212 of the Companies Act, 1956. Accordingly, we neither accept nor assume any responsibility or liability to any other person, or to the Company for any other use, without our prior consent in writing.

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

Place: Gurgaon, India
Date: May 6, 2011

Partner : Usha Rajeev
Membership No. F-87191

Element K (UK) Limited
Balance Sheet as at March 31, 2011

	Schedule No. (Note Reference)	As at March 31, 2011 INR	As at March 31, 2010 INR
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share Capital	1	77,771	77,771
Reserves and Surplus		-	5,961,548
Currency Translation Reserve	2	7,671,867	7,898,966
		<u>7,749,638</u>	<u>13,938,285</u>
APPLICATION OF FUNDS			
CURRENT ASSETS, LOANS AND ADVANCES			
Sundry Debtors	3	28,671,705	5,528,835
Cash and Bank Balances	4	12,403,302	1,807,285
Loans and Advances	5	7,963,631	17,759,182
		<u>49,038,638</u>	<u>25,095,302</u>
Less : CURRENT LIABILITIES AND PROVISIONS			
Current Liabilities	6	60,347,725	11,157,017
		<u>60,347,725</u>	<u>11,157,017</u>
Net Current Assets		(11,309,087)	13,938,285
Profit & Loss Account (Debit)		19,058,725	-
		<u>7,749,638</u>	<u>13,938,285</u>
NOTES TO ACCOUNTS	11		

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

Sd/-

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

Sd/-

Paul Krause
CEO & Whole Time Director

Sd/-

Vijay Kumar Thadani
Director

Sd/-

Usha Rajeev
Partner
Membership No. F-87191

Sd/-

Jaydip Gupta
Chief Financial Officer

Place : Gurgaon, India
Date : May 6, 2011

Place : Rochester, NY, USA
Date : May 6, 2011

Element K (UK) Limited
Profit and Loss Account for the year ended March 31, 2011

	Schedule No. (Note Reference)	For the year ended March 31, 2011 INR	For the year ended March 31, 2010 INR
INCOME			
Revenue from Operations	11 (1B) (i)		
Subscription from Catalog Products		21,932,458	91,355
Development Services		12,362,450	305,628
Print Courseware		27,394,289	44,132,720
Other Income	7	1,110,710	713,128
		62,799,907	45,242,831
EXPENDITURE			
Development, Production and Execution	8	77,198,347	43,276,996
Administration, Finance and Others	9	4,954,463	2,990,171
Selling and Marketing	10	5,667,370	610,157
		87,820,180	46,877,324
Profit /(Loss) before Tax		(25,020,273)	(1,634,493)
Income Tax Expense - current	11 (1B (v) & 4)	-	-
Profit /(Loss) after Tax		(25,020,273)	(1,634,493)
Profit brought forward from previous year		5,961,548	7,596,041
Balance available for appropriation		(19,058,725)	5,961,548
APPROPRIATION			
		-	-
Balance Carried to Balance Sheet		(19,058,725)	5,961,548
		(19,058,725)	5,961,548
Basic / Diluted Earning per share. (Face value of GBP 1 each fully paid up)	11(3)	(25,020)	(1,634)

NOTES TO ACCOUNTS

11

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

Sd/-

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

Paul Krause
CEO & Whole Time Director

Sd/-

Vijay Kumar Thadani
Director

Sd/-

Usha Rajeev
Partner
Membership No. F-87191

Sd/-

Jaydip Gupta
Chief Financial Officer

Place : Gurgaon, India
Date : May 6, 2011

Place : Rochester, NY USA
Date : May 6, 2011

Element K (UK) Limited

CASH FLOW STATEMENT FOR YEAR PERIOD ENDED 31ST MARCH, 2011

		Year ended March 31, 2011 INR	Year ended March 31, 2010 INR
A. Cash flow from operating activities:			
Net (loss)/profit before tax but after exceptional/extraordinary items		(25,020,273)	(1,634,493)
Adjustments for:			
Provision for Bad & doubtful debts		643,601	1,577,413
Operating profit before working capital changes		<u>(24,376,672)</u>	<u>(57,080)</u>
Add / (Less) : Increase / Decrease in Operating working capital			
Trade receivable	(23,786,471)		1,715,262
Loans and advances	9,795,551		3,483,176
Current liabilities and provisions	<u>49,190,708</u>		<u>271,681</u>
Cash generated from operations		35,199,788	5,470,119
Direct Tax - (Paid) / refund Received		-	-
Net cash from/(used in) operating activities	A	<u>10,823,116</u>	<u>5,413,039</u>
B. Cash flow from Investing activities:	B	-	-
C. Cash flow from financing activities:	C	-	-
Net Increase/(Decrease) in Cash & Cash Equivalents	(A+B+C)	10,823,116	5,413,039
Adjustments on account of exchange rate		(227,099)	(5,587,745)
Cash and cash equivalents as at the beginning of the year		1,807,285	1,981,991
Cash and cash equivalents as at the end of the year		<u>12,403,302</u>	<u>1,807,285</u>
Cash and cash equivalents comprise			
Balance with Scheduled Banks		12,403,302	1,807,285
Cash and cash equivalents as at the end of the year		<u>12,403,302</u>	<u>1,807,285</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 11 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.

Sd/-

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

Sd/-

Usha Rajeev
Partner
Membership No. F-87191

Place : Gurgaon, India
Date : May 6, 2011

Paul Krause
CEO & Whole Time Director

Sd/-

Jaydip Gupta
Chief Financial Officer

Place : Rochester, NY, USA
Date : May 6, 2011

Sd/-

Vijay Kumar Thadani
Director

Element K (UK) Limited

Schedules annexed to and forming part of the Consolidated Accounts as at March 31, 2011

Schedule No.	As at March 31, 2011 INR	As at March 31, 2010 INR
1. SHARE CAPITAL		
Authorized Share Capital		
1,000 Equity Shares of GBP 1 each	77,771	77,771
	<u>77,771</u>	<u>77,771</u>
Issued, Subscribed and Paid-up Capital		
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>
2. Currency Translation Reserve [Refer Note 1(A) on Schedule 11]		
Opening balance	7,898,966	13,486,711
Additions during the year	(227,099)	(5,587,745)
	<u>7,671,867</u>	<u>7,898,966</u>

Element K (UK) Limited
Schedules annexed to and forming part of the Balance Sheet
as at March 31, 2011

Schedule No.	As at March 31, 2011 INR		As at March 31, 2010 INR	
3 SUNDRY DEBTORS (Unsecured, considered good unless otherwise stated)				
Outstanding for over six months				
- Considered Good	-		115,405	
- Considered Doubtful	1,160,598		2,798,552	
	<u>1,160,598</u>		<u>2,913,957</u>	
Less : Provision for Doubtful Debts	<u>1,160,598</u>	-	<u>2,798,552</u>	115,405
Outstanding for less than six months				
- Considered Good	<u>28,671,705</u>	28,671,705	<u>5,413,430</u>	5,413,430
		<u>28,671,705</u>		<u>5,528,835</u>
4 CASH AND BANK BALANCES				
Balances with Banks in :				
- Current Accounts		12,403,302		1,807,285
		<u>12,403,302</u>		<u>1,807,285</u>

Element K (UK) Limited
Schedules annexed to and forming part of the Consolidated Accounts
as at March 31, 2011

Schedule No.		As at March 31, 2011 INR	As at March 31, 2010 INR
5	LOANS AND ADVANCES (Unsecured, considered good)		
	Recoverable from Subsidiaries	6,247,112	17,403,591
	Security Deposits	57,470	23,709
	Advance recoverable in cash or in kind or for value to be received - Considered Good	1,659,049	331,882
		<u>7,963,631</u>	<u>17,759,182</u>
6	CURRENT LIABILITIES [Refer Note 1B (i) on Schedule 11]		
	Sundry Creditors - - other than micro and small enterprises	4,573,795	2,351,908
	Amount Payable to Affiliates	23,236,768	8,013,772
	Unearned revenue (net)	2,063,842	44,243
	Deferred revenue	30,473,320	747,094
		<u>60,347,725</u>	<u>11,157,017</u>

Element K (UK) Limited

**Schedules annexed to and forming part of the Consolidated Profit and Loss Account
as at March 31, 2011**

Schedule No.		For the year ended March 31, 2011 INR	For the year ended March 31, 2010 INR
7	OTHER INCOME [Refer Note 1B (iii) on Schedule 11]		
	Miscellaneous	1,110,710	713,128
		1,110,710	713,128
8	DEVELOPMENT, PRODUCTION AND EXECUTION		
	Courseware and manuals	4,847,233	7,541,072
	Royalties	15,215,681	2,321,438
	Professional Charges	42,720,305	4,510,064
	Consumables	260,073	118,803
	Management services recovery	12,802,686	26,832,923
	Dispatch & Shipping	1,352,369	1,952,696
		77,198,347	43,276,996

Element K (UK) Limited
Schedule '11': Notes to accounts for the Year ended March 31, 2011

- 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.

1(B). 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). Prepaid Expenses

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 '11': Notes to accounts for the Year ended March 31, 2011

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, 2011	Year ended March 31, 2010
Profit/Loss attributable to equity shareholders - (A)	(25,020,272)	(1,634,493)
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)	(25,020)	(1,634)

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 '11': Notes to accounts for the Year ended March 31, 2011

5. The net worth of the company has eroded as at March 31, 2011. However, the revenue from the subscription business has increased and the Company expects to achieve further growth in terms of subscription revenue based on the new product launches which would result in greater profitability. Based on this and along with continuous support from parent company, Element K Corporation, USA, the liquidity and financial position is expected to improve and accordingly, these accounts have been prepared on a going concern basis.
6. Previous period figures have been regrouped to conform to current year classification.

	Sd/-	Sd/-
For Price Waterhouse	Paul Krause	Vijay Kumar Thadani
Firm Registration Number: 301112E	CEO & Whole Time Director	Director
Chartered Accountants		
Sd/-	Sd/-	
Usha Rajeev	Jaydip Gupta	
Partner	Chief Financial Officer	
Membership No. F-87191		
Place : Gurgaon, India	Place : Rochester, NY, USA	
Date : May 6, 2011	Date : May 6, 2011	