

Auditors' Report on the Financial Statements of Element K Corporation to the Board of Directors of Element K Corporation

1. We have audited the attached Balance Sheet of Element K Corporation (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 Corporation
Balance Sheet as at March 31, 2011

	Schedule No.		As at		As at
	(Note Reference)		March 31, 2011		March 31, 2010
			(INR)		(INR)
SOURCES OF FUNDS					
SHAREHOLDERS' FUNDS					
Share Capital	1	466,151		466,151	
Currency Translation Reserve	2	<u>70,176,888</u>	70,643,039	<u>56,250,565</u>	56,716,716
LOAN FUNDS					
Unsecured Loans	3		1,045,956,323		1,155,930,829
			<u>1,116,599,362</u>		<u>1,212,647,545</u>
APPLICATION OF FUNDS					
FIXED ASSETS					
Gross Block	4	1,161,617,542		800,163,500	
Less: Depreciation		<u>498,674,140</u>		<u>288,493,410</u>	
Net Block			662,943,402		511,670,090
Capital work-in-progress			275,603,288		338,728,472
INVESTMENTS	5		15,261,957		15,261,957
CURRENT ASSETS, LOANS AND ADVANCES					
Inventories	6	10,338,826		12,891,992	
Sundry Debtors	7	675,502,114		494,098,254	
Cash and Bank Balances	8	33,300		32,291,152	
Loans and Advances	9	<u>356,082,029</u>		<u>316,827,551</u>	
		<u>1,041,956,269</u>		<u>856,108,949</u>	
Less : CURRENT LIABILITIES AND PROVISIONS					
Current Liabilities	10	2,080,009,262		#####	
Provisions	11	<u>44,807,127</u>		<u>35,793,371</u>	
		<u>2,124,816,389</u>		<u>#####</u>	
Net Current Liabilities			(1,082,860,120)		(1,020,722,706)
Profit and Loss account (Debit)			1,245,650,835		1,367,709,732
			<u>1,116,599,362</u>		<u>1,212,647,545</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

Sd/-
Usha Rajeev
Partner
Membership No. F-87191

Place : Gurgaon, India
Date : May 6, 2011

Sd/-
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 Corporation
Profit and Loss Account for the year April 1, 2010 to 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	17 [1(iv)]		
Subscription from Catalog Products		1,426,565,503	1,393,930,769
Services		628,654,848	589,372,276
Print Courseware		1,564,682,244	1,597,353,096
Other Income	12	2,271,375	22,836,463
		3,622,173,970	3,603,492,604
EXPENDITURE			
Personnel	13	1,123,725,253	1,126,544,225
Development, Production and Execution	14	1,493,293,887	1,559,038,020
Administration, Finance and Others	15	417,785,150	455,635,523
Selling and Marketing	16	239,300,137	232,220,924
Depreciation and Amortisation	4	219,445,960	154,620,776
		3,493,550,387	3,528,059,468
Profit before Tax		128,623,583	75,433,136
Income Tax Expense	17(8)		
- Current		6,564,686	(444,864)
Profit after Tax		122,058,897	75,878,000
Loss brought forward from previous year		(1,367,709,732)	(1,443,587,732)
Balance Carried to Balance Sheet		(1,245,650,835)	(1,367,709,732)
Earning per share.	17(11)		
Basic / Diluted		122.06	75.88
(Face value of USD 0.01 each fully paid up)			

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.

Sd/-

Sd/-

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

Paul Krause
CEO & Whole Time Director

Vijay Kumar Thadani
Director

Sd/-

Sd/-

Usha Rajeev
Partner
Membership No. F-87191

Jaydip Gupta
Chief Financial Officer

Place : Gurgaon, India
Date : May 6, 2011

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

Element K Corporation

Cash Flow Statement for the year ended March 31, 2011

		Year ended March 31, 2011 (INR)	Year ended March 31, 2010 (INR)
A. Cash flow from operating activities:			
Net (loss)/profit before tax		128,623,583	75,433,136
Adjustments for:			
Depreciation and amortization	219,445,960		154,620,776
Interest Expense	49,463,858		75,497,532
Provision for doubtful debts	9,267,845		12,863,696
Liability no longer required written back	-		(18,627,151)
Provision for Compensated Absences	4,020,397		(3,919,370)
Provision for Inventory for obsolete/ damaged stock	888,000		1,101,883
		283,086,060	221,537,366
Operating profit before working capital changes		411,709,643	296,970,502
Add / (Less) : Increase / (Decrease) in Operating working capital			
Trade receivable	(190,671,705)		24,939,255
Loans and advances	(39,254,477)		12,304,783
Inventories	1,665,163		738,281
Current liabilities and provisions	237,544,522		(83,867,899)
		9,283,504	(45,885,580)
Cash generated from operations-		420,993,147	251,084,922
Direct Tax - (Paid) / Refund received		(1,571,327)	(1,565,541)
Net cash from operating activities	A	419,421,820	249,519,381
B. Cash flow from Investing activities:			
Purchase of fixed assets (including capital work in progress)		(309,163,662)	(230,076,433)
Proceeds from sale of fixed assets		466,697	
Net cash used in investing activities	B	(308,696,965)	(230,076,433)
C. Cash flow from financing activities:			
Loan received from Holding Company [Refer note 17(4)]		66,600,000	33,980,654
Repayment of Loan from holding company [Refer note 17(4)]		(145,585,905)	(293,065,930)
Working capital facility from Bank of the West		-	79,303,809
Repayment of working capital facility		(31,877,814)	-
Other loans received (leases) (net)		889,213	13,243,937
Interest Paid		(48,037,402)	(98,342,904)
Net cash used in financing activities	C	(158,011,908)	(264,880,434)
Net Increase/(Decrease) in Cash & Cash Equivalents	(A+B+C)	(47,287,053)	(245,437,486)
Adjustments on account of exchange rate		15,029,201	220,300,884
Cash and cash equivalents as at the beginning of the year		32,291,152	57,427,754
Cash and cash equivalents as at the end of the year		33,300	32,291,152
Cash and cash equivalents comprise			
Cash, Cheques (in hand) and Remittances in transit		33,300	4,601
Balance with Scheduled Banks		0	32,286,551
Cash and cash equivalents as at the end of the year		33,300	32,291,152

Notes :

- 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.
- 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

Sd/-

Usha Rajeev
Partner
Membership No. F-87191

Place : Gurgaon, India
Date : May 6, 2011

Sd/-
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 Corporation

Schedules annexed to and forming part of the Accounts

Schedule No.	As at March 31, 2011 (INR)	As at March 31, 2010 (INR)
1. SHARE CAPITAL [Refer Notes 1 (B)(xii) and 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
	<u>546,273</u>	<u>546,273</u>
Issued, Subscribed and Paid-up Capital		
1,000,000 Equity Shares of USD 0.01 each	466,151	466,151
(The above are held by NIIT Venture Inc. USA the Holding Company)	<u>466,151</u>	<u>466,151</u>

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

Schedule No.	As at March 31, 2011 (INR)	As at March 31, 2010 (INR)
2. Currency Translation Reserve [Refer Note 1 (B)(vii) on Schedule 17]		
Opening balance	56,250,565	(122,353,688)
Additions/(Utilization) during the year	13,926,323	178,604,253
	70,176,888	56,250,565
3 UNSECURED LOANS [Refer Notes 4 and 12 (b) on Schedule 17]		
Loan from group companies (Due within one year Rs. 556,070,040 (previous year Rs. 292,336.200))	890,140,071	969,125,976
Working capital facility (Due within one year Rs. 123,252,402 (previous year Rs. 155,130,228))	123,252,395	155,130,210
Deferred lease obligation (Due within one year Rs. 9,658,110 (previous year Rs. 13,191,559))	32,563,857	31,674,643
	1,045,956,323	1,155,930,829

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]

Description of Assets	GROSS BLOCK					DEPRECIATION AND AMORTIZATION					NET BLOCK	
	As at April 1, 2010	Additions during the year	Sales during the year	Translation adjustment during the year	As at March 31, 2011	As at April 1, 2010	For the year	Sales during the year	Translation adjustment during the year	As at March 31, 2011	As at March 31, 2011	As at March 31, 2010
<u>Tangible</u>												
Plant & Machinery												
-Owned	84,831,430	6,962,374	224,496	(1,084,188)	90,485,120	75,268,291	8,827,940	52,696	(1,180,667)	82,862,868	7,622,252	9,563,139
-Leased	40,258,815	15,434,909	-	(514,527)	55,179,197	10,963,608	14,401,527	-	(496,901)	24,868,234	30,310,963	29,295,207
Lease Hold Improvements	4,034,150	396,492	-	(51,558)	4,379,084	3,589,452	309,782	-	(53,550)	3,845,684	533,400	444,698
Furniture & Fixtures	1,678,199	397,344	-	(21,448)	2,054,095	423,826	248,535	-	(11,574)	660,787	1,393,308	1,254,373
Sub Total (a)	130,802,594	23,191,119	224,496	(1,671,721)	152,097,496	90,245,177	23,787,784	52,696	(1,742,692)	112,237,573	39,859,923	40,557,417
<u>Intangibles</u>												
Software including content												
- acquired	19,274,026	13,842,271	383,827	(246,331)	32,486,139	16,265,734	13,800,819	88,930	(317,307)	29,660,316	2,825,823	3,008,292
- licenses - leased	7,625,396	-	-	(97,456)	7,527,940	5,835,063	1,729,740	-	(117,427)	7,447,376	80,564	1,790,333
- internally generated (Educational content / tools)	642,461,484	335,255,456	-	(8,210,973)	969,505,967	176,147,436	180,127,617	-	(6,946,176)	349,328,877	620,177,090	466,314,048
Sub Total (b)	669,360,906	349,097,727	383,827	(8,554,760)	1,009,520,046	198,248,233	195,658,176	88,930	(7,380,910)	386,436,569	623,083,477	471,112,673
Total (a+b)	800,163,500	372,288,846	608,323	(10,226,481)	1,161,617,542	288,493,410	219,445,960	141,626	(9,123,602)	498,674,142	662,943,400	511,670,090
Previous Year	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	
Capital Work-in Progress (including capital advances)											275,603,288	338,728,472

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

Schedule No.	As at March 31, 2011 (INR)	As at March 31, 2010 (INR)
5 INVESTMENTS		
LONG TERM, TRADE [UNQUOTED]		
32,012 (previous year 32,012) Equity shares of INR 10 each of fully paid up Element K India Pvt Ltd	15,170,265	15,170,265
1000 (previous year 1,000) Equity shares of GBP 1 each of fully paid up in Element K UK	91,272	91,272
1000 (previous year 1,000) Equity shares of CAD 0.01 each of fully paid in Element K Canada Inc.	420	420
	15,261,957	15,261,957
6 INVENTORIES [Refer Note 1 (B)(iii) on Schedule 17]		
Raw materials	5,262,395	5,458,265
Finished goods - education and training material *	5,076,431	7,433,727
	10,338,826	12,891,992
Note: * Net of provision for non-moving stocks of Rs.1,429,190 (previous year Rs. 2,290,162)		
7 SUNDRY DEBTORS (Unsecured) [Refer Note 10 on Schedule 17]		
Outstanding for over six months		
- Considered Good	-	557,405
- Considered Doubtful	27,769,731	26,562,896
	27,769,731	27,120,301
Less : Provision for Doubtful Debts	27,769,731	26,562,896
	-	557,405
Outstanding for less than six months		
- Considered Good	675,502,114	493,540,849
- Considered Doubtful	826,639	-
	676,328,753	493,540,849
Less : Provision for Doubtful Debts	826,639	-
	675,502,114	493,540,849
	675,502,114	494,098,254
8 CASH AND BANK BALANCES		
Cash and Cheques in Hand	33,300	4,601
Balances with Banks in :		
- Current Accounts	0	32,286,551
	33,300	32,291,152

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

Schedule No.	As at March 31, 2011 (INR)	As at March 31, 2010 (INR)
9 LOANS AND ADVANCES (Unsecured, considered good) [Refer Note 1B (v) on Schedule 17]		
Advances recoverable in cash or in kind for value to be received		
- Considered Good	350,980,369	311,146,547
Security Deposits	5,101,660	5,681,004
	356,082,029	316,827,551
10 CURRENT LIABILITIES [Refer Notes 1B (iv) and (vi) on Schedule 17]		
Sundry Creditors		
- due to other than micro and small enterprises	709,700,784	659,120,488
Amount Payable to Subsidiaries	31,448,202	32,719,935
Amount payable to Holding Company [Including Interest Accrued but not due Rs. 8,598,460 (previous year 6,173,421)]	50,211,433	96,520,756
Advances from Customers	7,055,389	9,230,358
Interest accrued but not yet due	36,657	998,565
Unearned revenue (net)	127,148,651	59,040,715
Deferred revenue	1,126,133,982	956,584,921
Other Liabilities	28,274,164	26,822,546
	2,080,009,262	1,841,038,284
11 PROVISIONS [Refer Notes 1B(vi), (x), 8 and 13 on Schedule 17]		
Provision for Leave Encashment	36,852,000	32,831,603
Provision for Current Tax	7,955,127	2,961,768
	44,807,127	35,793,371

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

Schedule No.		For the year ended March 31, 2011 (INR)	For the year ended March 31, 2010 (INR)
12	OTHER INCOME		
	Provisions/liabilities written back	-	18,627,150.56
	Miscellaneous	2,271,375	4,209,312
		<u>2,271,375</u>	<u>22,836,463</u>
13	PERSONNEL [Refer Notes 1B(vi), (xii), 9, 13 and 15 on Schedule 17]		
	Salaries and Benefits	1,106,683,418	1,112,552,925
	Contribution to retirement benefits	9,373,511	9,528,394
	Welfare and Other Expenses	7,668,324	4,462,906
		<u>1,123,725,253</u>	<u>1,126,544,225</u>
14	DEVELOPMENT, PRODUCTION AND EXECUTION [Refer Notes 1 (B)(iii), (v) & (viii) and 12 on Schedule 17]		
	Material consumed for Courseware		
	Opening 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
	Add: Purchase of Material for consumption [Includes inventory provision of Rs. 910,558 (previous year Rs. 1,168,848)]	96,141,208	101,927,042
	Less: Closing Inventory		
	- Raw Material	5,262,395	5,458,265
	- Finished Goods	<u>5,076,431</u>	<u>7,433,727</u>
		10,338,826	12,891,992
		98,694,374	103,767,206
	Royalties	1,154,756,497	1,223,523,345
	Referral Fees	3,316,290	4,386,955
	Course Execution Charges	11,196,457	13,481,175
	Professional Charges	100,965,729	85,082,253
	Printing Costs (Including lease rent of Rs. 39,904,566 [previous year Rs. 49,886,118])	66,160,089	76,184,616
	Consumables	1,303,491	1,952,411
	Dispatch & Shipping charges	56,900,960	50,660,059
		<u>1,493,293,887</u>	<u>1,559,038,020</u>

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

Schedule No.	For the year ended March 31, 2011 (INR)	For the year ended March 31, 2010 (INR)
15 ADMINISTRATION, FINANCE AND OTHERS [Refer Notes 1B (vii), (viii) & (ix), 6, 9, 10 and 12 on Schedule 17]		
Rent	43,131,902	33,653,751
Rates and Taxes	7,354,513	16,177,197
Electricity and Water	8,793,368	12,906,489
Communication	26,462,367	32,483,823
Contract Services	28,028,288	17,616,290
Legal and Professional	24,084,933	25,099,021
Traveling and Conveyance	44,590,008	36,589,472
Bank, Discounting and Other Financial Charges	21,936,235	26,161,949
Insurance Premium	9,840,469	11,616,960
Repairs and Maintenance		
- Plant and Machinery	69,116,015	69,005,902
- Buildings	7,070,838	11,073,505
Provision for doubtful debts	9,267,845	12,863,696
Interest on Loans	49,463,858	75,497,532
Loss on exchange fluctuations (Net)	1,785,716	9,029,906
Management services expenses	48,742,314	42,020,544
Sundry Expenses	18,116,481	23,839,486
	417,785,150	455,635,523
16 SELLING AND MARKETING [Refer Note 1B (v) on Schedule 17]		
Sales Commission	201,578,980	195,708,420
Advertisement and Publicity	30,274,166	31,928,048
Others	7,446,991	4,584,456
	239,300,137	232,220,924

ELEMENT K CORPORATION, USA
SCHEDULE '17': NOTES TO ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2011

- 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, 2011

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). Prepaid Charges

Prepaid 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.

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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, 2010 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. Nil (previous year Rs.100,923).

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4. a) Element K Corporation has an unsecured Promissory Note with its holding company, NIIT Ventures Inc., with an outstanding amount of Rs. 668,140,080 (previous year Rs. 676,789,776). 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. 169,197,446 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. 167,035,020 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. 222,000,000. The principal amount of the notes, together with all interest, was repayable in full by January 31, 2011. During the previous year, the principal amount was extended for a further period of two years to be paid in full by January 31, 2012.
- c) Element K Corporation has sanctioned a working capital loan in the form of a line of credit from the Bank of the West for a total of Rs. 244,200,000 (previous year Rs. 247,361,400). The principal amount of the line of credit utilized Rs.91,329,868 together with all interest, shall be paid in full by November 30, 2011. 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 and have extended the repayment of the principal amount of the loans that existed at the beginning of the year. This, along with rescheduling repayment of working capital loans obtained during the last year, improved operations and the Company's plan to diversify businesses across geographies, new products 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, 2011	For the year ended March 31, 2010
Statutory Audit fee	3,000,000	3,000,000
Reimbursement of expenses	1,243,200	2,009,351
Other services	333,000	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	Amounts in Rs.		
	Revenue from customers by location of customers	Carrying amount of segment assets by location of the assets	Additions to fixed assets
Americas (USA & Canada)	3,619,902,595 (3,580,656,141)	1,995,764,915 (1,712,539,110)	372,288,845 (271,180,579)
Others	- (-)	- (-)	- (-)
Total	3,580,656,141 (3,580,656,141)	1,996,568,815 (1,712,539,110)	372,288,845 (271,180,579)

Previous years figures are given in parenthesis.

8. **TAXATION:**

- (a) Current tax expense comprises of taxes payable on income in different states of the United States.

ELEMENT K CORPORATION, USA
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- (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, 2011	For the year ended March 31, 2010
Personnel	180,037,528	188,932,091
Professional Charges	69,688,736	45,620,155
Rent	14,534,418	14,333,517
Rates and Taxes	2,229,411	2,955,565
Others	9,272,349	9,484,943
Total	275,762,442	261,326,271

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

Particulars	Amount in Rs.	
	For the year ended March 31, 2011	For the year ended March 31, 2010
Opening Provision	26,562,896	15,849,347
Add: Additional Provision created	9,038,242	12,863,696
Add: Currency Translation Reserve	495,502	4,905,556
Less: Provision utilized	6,364,607	7,055,703
Closing Provision	28,596,370	26,562,896

11. **EARNING PER SHARE:**

Particulars	For the Year Ended March 31, 2011	For the Year Ended March 31, 2010
Basic / Diluted		
Profit / (Loss) after tax (Rs.) (A)	122,058,894	75,878,000
Weighted average number of Equity Shares (B)	1,000,000	1,000,000
EPS (Rs.) (A/B)	122.06	75.88

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

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SCHEDULE '17': NOTES TO ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2011

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, 2011	For the Year Ended March 31, 2010
Profit / (Loss) attributable to Equity Shareholders (C)	110,586,403	76,971,708
Basic / Diluted Earnings Per Share (C/B)	110.59	76.97

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, 2011	For the year ended March 31, 2010
	Minimum lease payments	Minimum lease payments
Not later than 1 year	85,695,685	86,961,544
Later than 1 year but not later than 5 years	303,144,996	234,291,549
5 years and beyond	95,394,998	161,075,440

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, 2011	For the year ended March 31, 2010
In respect of Premises*	52,430,156	33,653,751
In respect of Equipments**	39,904,566	49,886,118

* 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, 2011	For the year ended March 31, 2010
Minimum lease payments	35,541,623	36,260,033
Less: Finance costs	2,977,775	4,585,390
Principal value of obligations outstanding as at year end	32,563,848	31,674,643

Minimum lease payments due:

Particulars	Amount in Rs.	
	For the year ended March 31, 2011	For the year ended March 31, 2010
Not later than 1 year	11,105,328	15,454,466
Later than 1 year but not later than 5 years	24,436,295	20,805,567

Present Value of Minimum Lease Payments :-

Particulars	Amount in Rs.	
	For the year ended March 31, 2011	For the year ended March 31, 2010
Not later than 1 year	9,658,110	13,191,559
Later than 1 year but not later than 5 years	22,905,738	18,483,084

ELEMENT K CORPORATION, USA
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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. 9,459,923 (previous year Rs. 9,528,394) 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, 2011	For the year ended March 31, 2010
Present value obligation as at beginning	32,831,603	36,750,971
Interest cost	888,000	1,908,324
Current service cost	10,212,000	9,541,620
Benefits paid	(6,373,906)	(4,007,480)
Actuarial (gain)/loss on obligations	(455,279)	(7,088,040)
Currency Translation Adjustment	(250,419)	(4,273,792)
Present value obligation as at end	36,851,999	32,831,603

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.33,924,944 from revenue of subscriptions to the Company. Courseware minimum revenue commitment guarantee (previous year INR 16,922,169) is no longer applicable from the current year. The minimum guarantee for subscription revenue has been met. The amount has been reported under revenues as follows:

	Amount in Rs.	
Particulars	For the year ended March 31, 2011	For the year ended March 31, 2010
Revenue of shortfall related to the minimum guaranteed amount	-	8,061,953
Net income reported under revenue from print courseware	-	8,061,953

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. 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.

The Company granted option in as follows:

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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.)	16,500	34,500	33,000
Granted during the year (Nos.)	-	-	-
Forfeited / lapsed till vesting period (Nos.)	-	-	-
Options vested (Nos.)	16,500	34,500	9,000
Forfeited / lapsed post vesting (Nos.)	-	4,500	6,000
Options exercised (Nos.)	7,500	-	-
Outstanding / Exercisable at the end of the year (Nos.)	9,000	30,000	27,000
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)	6.88	2.32	1.50

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

- a) Since the Company is unlisted, stock price is taken on the basis of the valuation analysis done by independent valuer in December 2009.
- b) Exercise price is the price payable by the employees for exercising the option.
- c) No dividend payout in the past by the company. Dividend yield is not considered for the valuation.
- d) Volatility of the comparable shareholding company is considered for the computation of the expected volatility of the company's equity share options.
- e) Average life of the options is considered 3.5 years depending upon the vesting dates.
- f) 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, 2011

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	2,384,524	2,112,039	1,843,880
Additional Expense / (Income) had the company recorded the ESOP expense based on the fair value of the options (USD)	-512,189 (317,736)	5,094,572 (8,850,568)	6,896,108 (11,193,752)
Closing value of liability for cash settled options	2,749,248	3,090,240	1,798,200
Expense arising from increase in intrinsic value of liability for cash settled option during the year	2,384,524	2,112,039	1,843,880

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.

16. Previous year figures have been regrouped to conform to current year's classification.

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

Sd/-
Usha Rajeev
Partner
Membership No. F-87191

Place : Gurgaon, India
Date : May 6, 2011

Sd/-
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