

STOCK EXCHANGES UPDATE



February 16, 2006

The Secretary
The Stock Exchange, Mumbai
Jeejeebhoy Towers
B S Marg,
Mumbai
Scrip Code - 532347

The Secretary
National Stock Exchange, Mumbai
"Exchange Plaza"
Bandra – Kurla Complex,
Bandra (E)
Mumbai – 400051
Scrip Code - HELIOSMATH

Dear Sir,

Ref: Your letters seeking clarification regarding our acquisition

At the outset, we would like to thank you for the opportunity given to us to clarify the current situation.

We would like to elucidate the following:

1. The Sellers (vMoksha Mauritius and others) *vide* a definitive Share Purchase Agreement (SPA) with Helios & Matheson ('the company') on May 11, 2005 sold 100% equity in the 3 vMoksha subsidiaries in Singapore, India and USA to the company.
2. The entire Board of the Sellers, vMoksha Mauritius, was present and the resolution authorizing and approving the sale of the 3 vMoksha entities to Helios & Matheson was unanimously carried in the presence of PricewaterhouseCoopers Private Ltd (PwC), Transaction Advisor and Escrow Agent.
3. Thus the acquisition of the 3 vMoksha companies by Helios & Matheson was completed on May 11, 2005. The consideration was also paid.
4. The Escrow Arrangement with PwC and Khaitan & Co. was to ensure technical compliance (as enumerated below), after which the transferred share certificates would be handed over to Helios & Matheson and for reconstitution of the Board.
5. The Escrow Agents have confirmed receipt of all the original share certificates and duly executed share transfer forms in favor of Helios & Matheson.

The Escrow Arrangement was envisaged *inter alia* for the following reasons:

- Procure approval from the Foreign Investment Promotion Board (FIPB) for the transaction.
 - This FIPB approval was subsequently obtained for us by PwC.
 - The restructuring of the other vMoksha Group companies (Fortress Network Security Pvt. Ltd, etc)
 - The aforementioned restructuring is yet to be completed.
6. vMoksha's strength lies more in the company's technological expertise and delivery capabilities. As a matter of fact, at the time of acquisition, vMoksha had accumulated losses but had the potential to grow with prudent management. The reason for acquiring the said company was to tap the market potential by prudent management. Helios & Matheson provides managerial, marketing and financial support to grow the business of vMoksha. For instance, since inking the deal, Helios & Matheson has been actively involved in supporting vMoksha's operations with bluechip clients, where such support has resulted in significant increase in revenues of a large international client in the 7 months since May 2005.
7. In line with Helios & Matheson's prudent financial management practices and conservative approach, we completely secured the safety of the company's investment in vMoksha as follows:
- In order to incentivize performance, an earn-out was included in the transaction structuring (and detailed in the SPA) such that part of the acquisition consideration is payable on achieving targeted financial milestones over a two-year period.
 - The consideration paid too was completely secured for safety of the transaction. To ensure that the escrow is released and the transferred share certificates are handed over to Helios & Matheson, the entire consideration paid for the 3 companies has been received by Helios & Matheson as subscription money towards redeemable preference shares. The shares will be redeemed in 18 months after allotment.
8. The current arbitration proceedings have been initiated to release the documents from Escrow and for due compliance of the other technical formalities undertaken by the Sellers, which is being stalled by the promoters due to misunderstanding between them. Our company having ventured into the transaction desires to complete the technical formalities involved. Hence the arbitration proceedings. The result in the arbitration will not affect the company in any manner particularly when the entire consideration for the said investments has been redeposited by the Sellers with the company towards redeemable preference shares.
9. Therefore, based on its present knowledge of the facts, the current arbitration proceedings will not, in the opinion of management, have a material effect on the results of operations or the financial position of the company.

We would be happy to provide you copies of the definitive agreements (SPA, Subscription Agreement, Escrow Agreement) or any other information, on request.

Please do not hesitate to contact us if you need any further clarification.

Thanking you,
Yours faithfully,

For Helios & Matheson Information Technology Limited.,

Company Secretary and Compliance Officer

About Helios & Matheson Information Technology Limited

Helios & Matheson Information Technology Ltd is a 15-year old IT services organization with its corporate headquarters in Chennai, India and subsidiaries and offices in USA, Singapore and Bangalore. The range of service offerings is one of the most comprehensive in the industry and spans the entire software services lifecycle, from application development and integration to application life cycle management. Helios & Matheson has a strong client focus backed by internationally certified quality processes and a global delivery model. The company's ability to manage large client relationships, extensive industry specific knowledge and experience, and delivery excellence are some of its important differentiators. For more information visit us at www.heliosmatheson.com.