

REPORT OF THE AUDITORS TO THE MEMBERS

1. We have audited the attached balance sheet of ITC Limited as at 31st March, 2005, and also the profit and loss account and the cash flow statement for the year ended on that date, annexed thereto (in which are incorporated the accounts of the erstwhile ITC Hotels Limited and Ansal Hotels Limited for the year ended 31st March, 2005 which have been audited by their auditors and whose reports have been considered by us). 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. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - ii) in our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;
 - iii) the balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
 - iv) in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
 - v) on the basis of the written representations received from the directors, as on 31st March, 2005, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2005 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
 - vi) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and 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 31st March, 2005;
 - b) in the case of the profit and loss account, of the profit for the year ended on that date; and
 - c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For A.F. Ferguson & Co.
Chartered Accountants

M. S. DHARMADHIKARI
Partner
Membership No. 30802

Kolkata,
May 27, 2005

Annexure to the Auditors' Report to the Members of ITC Limited

[Referred to in paragraph (3) thereof]

- (i) (a) The company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) In our opinion, the fixed assets have been physically verified by the management at reasonable intervals, having regard to the size of the company and the nature of its assets. No material discrepancies between the book records and the physical inventory are noticed.
- (c) During the year, in our opinion, a substantial part of fixed assets has not been disposed of by the company.
- (ii) (a) The inventory of the company has been physically verified by the management during the year except material lying with third parties (which have substantially been confirmed). In our opinion, the frequency of verification is reasonable.
- (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventory followed by the management were found reasonable and adequate in relation to the size of the company and the nature of its business.
- (c) On the basis of our examination of records of inventory, in our opinion, the company has maintained proper records of inventory and the discrepancies noticed on physical verification between the physical stocks and the book records were not material in relation to the operations of the company.
- (iii) (a) The company has not granted any loans, secured or unsecured, to companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956. As the company has not granted any loans, secured or unsecured, to parties listed in the register maintained under Section 301 of the Companies Act, 1956, paragraphs (iii)(b), (c) and (d) of the Order, are not applicable.
- (b) The company has not taken any loans, secured or unsecured, from companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956. As the company has not taken any loans, secured or unsecured, from parties listed in the register maintained under Section 301 of the Companies Act, 1956, paragraphs (iii)(f) and (g) of the Order, are not applicable.
- (iv) In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods and services. Further, on the basis of our examination, and according to the information and explanations given to us, we have neither come across nor have we been informed of any instance of major weaknesses in the aforesaid internal control systems.
- (v) (a) In our opinion and according to the information and explanations given to us, there are no contracts or arrangements that need to be entered into the Register maintained under Section 301 of the Companies Act, 1956.
- (b) In our opinion and according to the information and explanations given to us, as there are no contracts or arrangements that need to be entered into the Register maintained under Section 301 of the Companies Act, 1956, paragraph (v)(b) of the Order is not applicable.
- (vi) In our opinion and according to the information and explanations given to us, the company has complied with the provisions of Sections 58A and 58AA and the other relevant provisions of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 as applicable, with regard to the deposits accepted from the public. According to the information and explanations given to us, in this regard, no order under the aforesaid sections has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal on the company.

- (vii) In our opinion, the company has an internal audit system commensurate with the size of the company and nature of its business.
- (viii) To the best of our knowledge, the Central Government has not prescribed the maintenance of cost records under Section 209 (1) (d) of the Companies Act, 1956, for any of the products of the company excepting paper, for which, in our opinion, prima facie, the prescribed accounts and records have been maintained and are being made up. We are not required to and, accordingly, have not made a detailed examination of the records.
- (ix) (a) According to the information and explanations given to us and according to the books and records as produced and examined by us, in our opinion, the company is regular in depositing undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, service tax, customs duty, cess and other material statutory dues as applicable with the appropriate authorities.
- (b) As at 31st March 2005, according to the records of the company and the information and explanations given to us, the following are the particulars of dues on account of income-tax, sales-tax, wealth tax, service tax, customs duty, excise duty and cess matters that have not been deposited on account of any dispute:

Name of the statute	Nature of the dues	Amount (Rs. in crores)	Period to which the amount relates	Forum where pending
			Various years covering the period	
Sales Tax Laws	Sales tax	2.64	1987-2005	Appellate Authority – upto Commissioners'/ Revisional authorities level
		12.55	1991-99	Appellate Authority – Tribunal level
		0.42	1998-99	High Court
Income Tax Act, 1961	Income tax	0.25	1991-1992	Appellate Authority – upto Commissioners' level
Customs Act, 1962	Customs duty	0.69	1998	Appellate Authority – Tribunal level
Central Excise Act, 1944	Excise duty	52.28	1982-2003	Appellate Authority – upto Commissioners' level
		17.15	1973-2002	Appellate Authority – Tribunal level
		0.14	1989-93	High Court

Out of the amounts aggregating Rs. 86.12 crores, Rs. 33.87 crores has been stayed for recovery by the relevant authorities.

- (x) The company does not have accumulated losses as at 31st March 2005 and has not incurred cash losses during the financial year ended on that date or in the immediately preceding financial year.

- (xi) According to the information and explanations given to us, the company has not defaulted in repayment of dues to any financial institution, bank or to debentureholders during the year.
- (xii) According to the information and explanations given to us, the company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) The provisions of any special statute as specified under paragraph (xiii) of the Order are not applicable to the company.
- (xiv) In our opinion and according to the information and explanations given to us, the company is not a dealer or trader in securities.
- (xv) According to the information and explanations given to us, the company has not given any guarantees for loans taken by others from banks or financial institutions.
- (xvi) In our opinion and according to the information and explanations given to us, the company has not availed of any term loans during the year. There were no term loans outstanding as at the beginning and as at the end of the year.
- (xvii) Based on the information and explanations given to us and on an overall examination of the balance sheet of the company, in our opinion, there are no funds raised on a short term basis which have been used for long term investment.
- (xviii) The company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under Section 301 of the Companies Act, 1956 during the year.
- (xix) As the company has no debentures outstanding at any time during the year, paragraph (xix) of the Order is not applicable to the company.
- (xx) The company has not raised any money by public issue during the year.
- (xxi) According to the information and explanations given to us, during the year, no fraud on or by the company has been noticed or reported.

Kolkata,
May 27, 2005

For A. F. Ferguson & Co.
Chartered Accountants

M. S. DHARMADHIKARI
Partner
Membership No. 30802