

REPORT OF THE DIRECTORS

Principal activities

The Company is engaged in providing IT services, software development and support services.

Business Review

Outsourcing continued to grow in the UK and several countries in Europe. Though UK remained the dominant market for IT-ITES exports, revenues from newer markets, particularly the Nordics, became attractive. Your Company therefore continued to leverage the offshore development capabilities of its parent company while extending its business development activities to the Nordic and Benelux region within Europe, and was successful in the acquisition of several new customers in Europe, particularly in the Nordic countries. Importantly, a significant number of these new customers are marquee global brands, and offer strong potential for future business. Underlining the growing importance of the Nordics and building on the initial success, the Company is actively sourcing business in that region and has acquired customers in Finland, Sweden and Norway against stiff competition, both Indian and foreign.

While the overall economic environment has been conducive to growth, the specific business dynamics in respect of the Company's IT services business continued to be challenging with certain key customers undergoing organizational restructuring and redesign leading to changes in IT strategy and staff. As a result there was pressure on revenue growth and margins. A significant reduction in business in Kuala Lumpur (KL), Malaysia forced your Company to close its Representative Office in KL with effect from 2nd March, 2007.

Consequently, revenue growth for the year has been muted at 17% with the turnover reaching £ 16.81 million (Previous Year £ 14.31 million) and gross profit at £ 3.93 million (Previous Year £ 3.57 million).

Revenue from new customers acquired during the year under review is expected to grow significantly in the current financial year. Building on the success in Nordics, your Company has strengthened business development efforts in the region and expects significant scale up of business. To consolidate the internal restructuring initiated last year in establishing business verticals, sharpen the focus on the marketplace and to transcend operations into a global delivery model, the parent company has created 3 business clusters which will synergise the efforts of the business development and delivery teams. With these efforts and sharpened focus, the Company is confident of meeting the expectations of its stakeholders in the next year.

Key Performance Indicators

	Year ended 31st March 2007 GBP (million)	Year ended 31st March 2006 GBP (million)
Total Income	16.81	14.31
Cost of Sales	12.88	10.74
Gross Profit	3.93	3.57
Operating Profit	0.19	0.56
Profit before Tax	0.21	0.60
Profit after Tax	0.12	0.40

Financial risk management objectives and policies

The objective of financial risk management is to protect the value of the Company's financial assets against possible erosion due to adverse materialisation of risks related to credit, liquidity, interest rate and foreign currency exposures.

The existence of financial assets exposes the Company to a number of financial risks. The main risks are market risk due to the currency risk, credit risk and liquidity risk.

a) Market risk – currency risk

The Company is exposed to translation and transaction foreign exchange risk. Approximately 26% of its sales are in US dollars and the Company pays its major supplier, its parent company, mostly in US dollars. It limits its exposure by holding foreign currency in currency bank accounts. It does not currently hold any hedging instruments but foreign exchange management is kept under regular review.

b) Credit risk

The Company's principal financial assets are cash and trade debtors. The credit risk associated with cash is nil and so the principal credit risk arises on trade debtors. However the Company's customers are mostly blue chip companies and the Company has no history of significant bad debts.

c) Liquidity risk

The Company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Directors

Mr. S. Puri was appointed as Director of the Company at the last Annual General Meeting held on 13th May, 2006.

The Directors in office at the end of the year are listed below. All served on the Board throughout the year, unless indicated otherwise.

The interests of the Directors in the shares of the Company as at 31st March, 2007 and 1st April, 2006 were as follows :

	2007 and 2006 Ordinary Shares
A. Singh	-
B. B. Chatterjee	-
S. Verma (till 13th May, 2006)	-
S. Puri	-

The Company is a wholly owned subsidiary of ITC Infotech India Limited, which is incorporated in India.

Directors' responsibilities for the financial statements

UK Company law requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the affairs of the Company and of the profit or loss of the Company for that year. In preparing those financial statements, the Directors are required to :

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware : (i) there is no relevant audit information of which the Company's auditors are unaware; and (ii) they have taken all steps that ought to have been taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that audit information.

Auditors

Grant Thornton UK LLP offer themselves for reappointment in accordance with Section 385 of the Companies Act, 1985.

Approved by the Board on 11th May, 2007 and signed on behalf of the Board by

S Puri
Director

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF ITC INFOTECH LIMITED

We have audited the financial statements of ITC Infotech Limited for the year ended 31 March 2007 which comprise the principal accounting policies, profit and loss account, balance sheet, cash flow statement and notes 1 to 19, excluding the supplementary information disclosed in Indian Rupees. These financial statements have been prepared under the accounting policies set out therein.

We have not audited the supplementary information stated in Indian Rupees included in these financial statements. The information has been included at the request of the parent company and is for information only.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Report of the directors and financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act, 1985. We also report to you whether in our opinion the information given in the Report of the directors is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if

information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Report of the directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention.

The principal accounting policies of the company are set out below and remain unchanged from the previous year.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Turnover

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts.

Turnover from services performed on a "time and materials" basis is recognised as income as and when the services are performed.

Turnover from software projects performed on a "time bound fixed price" basis is recognised as income at the point which the "milestone" agreed with the customer is achieved.

Fixed assets

All fixed assets are initially recorded at cost.

Opinion

In our opinion:

- the financial statements, excluding the supplementary information, give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its profit for the year then ended;
- the financial statements, excluding the supplementary information, have been properly prepared in accordance with the Companies Act, 1985; and
- the information given in the Report of the directors is consistent with the financial statements.

Grant Thornton UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
CENTRAL MILTON KEYNES
11th May, 2007

Depreciation

Depreciation is calculated to write down the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold improvements	– 25%
Fixtures and fittings	– 25%
Computer equipment	– 25%

Leased assets

All leases are operating leases and the payments made under them are charged to the profit and loss account on a straight-line basis over the lease term.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. All exchange differences are dealt with through the profit and loss account.

Recruitment costs

Legal costs and other charges incurred to obtain visas and other required immigration papers for recruits, recruitment fees and relocation costs are included in prepayments and amortised over the lesser of 2 years or the expected employment period of the employees.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

	Note	2007 £	Unaudited 2007 Rs.	2006 £	Unaudited 2006 Rs.
Turnover	1	16,814,387	1,431,072,471	14,311,045	1,109,034,432
Cost of sales		12,883,682	1,096,530,157	10,743,816	832,592,021
Gross profit		3,930,705	334,542,314	3,567,229	276,442,411
Other operating charges	2	3,740,981	318,394,881	3,009,862	233,249,256
Operating profit	3	189,724	16,147,433	557,367	43,193,155
Interest receivable	5	23,779	2,023,796	37,544	2,909,472
Profit on ordinary activities before taxation		213,503	18,171,229	594,911	46,102,627
Tax on profit on ordinary activities	6	92,609	7,881,910	198,583	15,389,190
Profit for the financial year	16	120,894	10,289,319	396,328	30,713,437

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.

The accompanying accounting policies and notes form part of these financial statements

BALANCE SHEET AS AT 31ST MARCH 2007

	Note	2007 £	Unaudited 2007 Rs.	2006 £	Unaudited 2006 Rs.
Fixed assets					
Tangible assets	8	43,671	3,716,917	51,813	4,015,248
Current assets					
Debtors	9	4,996,690	425,268,272	4,815,067	373,143,617
Loans and advances		35,044	2,982,632	64,296	4,982,619
Deferred tax recoverable	10	15,971	1,359,292	20,000	1,549,900
Cash at bank		1,066,307	90,753,350	753,989	58,430,378
		6,114,012	520,363,546	5,653,352	438,106,514
Creditors: amounts falling due within one year	11	3,762,551	320,230,747	3,252,615	252,061,399
Net current assets		2,351,461	200,132,799	2,400,737	186,045,115
Total assets less current liabilities		2,395,132	203,849,716	2,452,550	190,060,363
Capital and reserves					
Called-up equity share capital	15	685,815	58,369,715	685,815	53,147,233
Profit and loss account	16	1,709,317	145,480,001	1,766,735	136,913,130
Shareholders' funds	17	2,395,132	203,849,716	2,452,550	190,060,363

These financial statements were approved by the Directors on 11th May, 2007 and are signed on their behalf by :

S Puri Director

Date : 11th May, 2007

H S Garewal Chief Executive Officer

The accompanying accounting policies and notes form part of these financial statements

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2007

	Note	2007 £	Unaudited 2007 Rs.	2006 £	Unaudited 2006 Rs.
Net cash inflow/(outflow) from operating activities	18	735,250	62,577,168	(112,322)	(8,704,393)
Returns on investments and servicing of finance					
Interest received		23,779	2,023,796	37,544	2,909,472
Net cash inflow from returns on investments and servicing of finance		23,779	2,023,796	37,544	2,909,472
Taxation		(248,265)	(21,129,838)	(371,055)	(28,754,907)
Capital expenditure					
Payments to acquire tangible fixed assets		(20,134)	(1,713,645)	(34,826)	(2,698,841)
Receipts from sale of fixed assets		—	—	891	69,048
Net cash outflow from capital expenditure		(20,134)	(1,713,645)	(33,935)	(2,629,793)
Equity dividends paid		(178,312)	(15,176,134)	(137,163)	(10,629,447)
Increase /(decrease) in cash	18	312,318	26,581,347	(616,931)	(47,809,068)

The accompanying accounting policies and notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2007

Supplementary information - Indian Rupee amounts

The financial statements of ITC Infotech Limited are prepared in accordance with accounting principles generally accepted in the United Kingdom, the country of incorporation, and are presented in GBP. The supplementary information requested by the parent company has been arrived at by applying the year end interbank exchange rate of GBP 1 = Rs. 85.11 (2006: GBP 1 = Rs. 77.495) as provided by the parent company. The supplementary information has not been audited and has not been prepared in accordance with SSAP 20, which governs the UK GAAP rules for currency conversion.

1. Turnover

The turnover and profit before tax are attributable to the one principal activity of the company.

An analysis of turnover is given below:

	2007	Unaudited 2007	2006	Unaudited 2006
	£	Rs.	£	Rs.
United Kingdom	11,798,893	1,004,203,799	8,647,294	670,122,049
India	1,086,961	92,511,242	1,290,970	100,043,720
US	1,879,839	159,993,079	2,945,409	228,254,470
Malaysia	93,787	7,982,195	379,047	29,374,247
Europe	1,948,457	165,833,167	865,857	67,099,588
Other	6,450	548,989	182,468	14,140,358
	<u>16,814,387</u>	<u>1,431,072,471</u>	<u>14,311,045</u>	<u>1,109,034,432</u>

2. Other operating charges

Administrative expenses	<u>3,740,981</u>	<u>318,394,881</u>	<u>3,009,862</u>	<u>233,249,256</u>
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3. Operating profit

Operating profit is stated after charging:

Depreciation of owned fixed assets	28,277	2,406,660	27,976	2,168,000
Auditors' remuneration:				
Audit fees	17,450	1,485,170	16,150	1,251,544
Non audit fees	3,038	258,522	5,600	433,972
Operating lease costs:				
Land and buildings	51,188	4,356,629	66,830	5,178,991
Plant and equipment	1,255	106,796	3,492	270,613

4. Directors and employees

The average number of staff employed by the company during the financial year amounted to:

	2007	2006
	No.	No.
Staff	<u>116</u>	<u>79</u>

The aggregate payroll costs of the above were:

Wages and salaries	5,052,535	430,021,215	3,936,573	305,064,725
Social security costs	429,429	36,548,731	329,127	25,505,697
	<u>5,481,964</u>	<u>466,569,946</u>	<u>4,265,700</u>	<u>330,570,422</u>

Remuneration in respect of Directors was nil (2006: nil).

	2007 £	Unaudited 2007 Rs.	2006 £	Unaudited 2006 Rs.
5. Interest receivable				
Bank interest receivable	<u>23,779</u>	<u>2,023,796</u>	<u>37,544</u>	<u>2,909,472</u>
6. Taxation on ordinary activities				
(a) Analysis of charge in the year				
Current tax:				
In respect of the year:				
UK Corporation tax based on the results for the year at 30% (2006 - 30%)	86,350	7,349,248	198,583	15,389,190
Over / Under provision in prior year	<u>2,230</u>	<u>189,754</u>	—	—
Total current tax	<u>88,580</u>	<u>7,539,002</u>	<u>198,583</u>	<u>15,389,190</u>
Deferred tax:				
Origination and reversal of timing differences	<u>4,029</u>	<u>342,908</u>	—	—
Tax on profit on ordinary activities	<u>92,609</u>	<u>7,881,910</u>	<u>198,583</u>	<u>15,389,190</u>
(b) Factors affecting current tax charge				
The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2006 - 30%).				
Profit on ordinary activities before taxation	<u>213,503</u>	<u>18,171,229</u>	<u>594,911</u>	<u>46,102,628</u>
Profit on ordinary activities multiplied by rate of tax	64,051	5,451,368	178,473	13,830,765
Expenses not deductible for tax purposes	23,125	1,968,179	22,212	1,721,319
Movement in capital allowances	(826)	(70,299)	(2,102)	(162,894)
Adjustments to tax charge in respect of previous periods	<u>2,230</u>	<u>189,754</u>	—	—
Total current tax [note 6(a)]	<u>88,580</u>	<u>7,539,002</u>	<u>198,583</u>	<u>15,389,190</u>

7. Dividends

Dividends on shares classed as equity

Paid during the year

Equity Dividends on ordinary shares

Proposed after the year-end (not recognised as a liability)

Equity dividends on ordinary shares

Equity Dividends on ordinary shares	<u>178,312</u>	<u>15,176,134</u>	<u>137,163</u>	<u>10,629,447</u>
Proposed after the year-end (not recognised as a liability)	—	—	178,312	13,818,288

8. Tangible fixed assets

	Leasehold improvements £	Unaudited Leasehold improvements Rs.	Fixtures and fittings £	Unaudited Fixtures and fittings Rs.	Computer equipment £	Unaudited Computer equipment Rs.	Total £	Unaudited Total Rs.
Cost								
At 1st April 2006	31,104	2,647,261	39,806	3,387,889	202,758	17,256,733	273,668	23,291,883
Additions	—	—	7,775	661,730	12,359	1,051,915	20,134	1,713,645
Disposals	—	—	—	—	(79,592)	(6,774,062)	(79,592)	(6,774,062)
At 31st March 2007	<u>31,104</u>	<u>2,647,261</u>	<u>47,581</u>	<u>4,049,619</u>	<u>135,525</u>	<u>11,534,586</u>	<u>214,210</u>	<u>18,231,466</u>
Depreciation								
At 1st April 2006	26,315	2,239,669	32,174	2,738,329	163,365	13,903,953	221,854	18,881,951
Charge for the year	1,681	143,081	4,192	356,817	22,404	1,906,762	28,277	2,406,660
On disposals	—	—	—	—	(79,592)	(6,774,062)	(79,592)	(6,774,062)
At 31st March 2007	<u>27,996</u>	<u>2,382,750</u>	<u>36,366</u>	<u>3,095,146</u>	<u>106,177</u>	<u>9,036,653</u>	<u>170,539</u>	<u>14,514,549</u>
Net book value								
At 31st March 2007	<u>3,108</u>	<u>264,511</u>	<u>11,215</u>	<u>954,473</u>	<u>29,348</u>	<u>2,497,933</u>	<u>43,671</u>	<u>3,716,917</u>
At 31st March 2006	<u>4,789</u>	<u>407,592</u>	<u>7,632</u>	<u>649,560</u>	<u>39,392</u>	<u>3,352,653</u>	<u>51,813</u>	<u>4,409,804</u>

For simplicity, the brought forward Rupee amounts at 31 March 2006 have been translated at the 31 March 2007 exchange rate.

9. Debtors

	2007 £	Unaudited 2007 Rs.	2006 £	Unaudited 2006 Rs.
Trade debtors	4,522,479	384,908,181	4,450,164	344,865,459
Amounts owed by group undertakings	124,782	10,620,227	81,413	6,309,100
Prepayments and accrued income	291,958	24,848,529	283,490	21,969,058
Corporation tax	<u>57,471</u>	<u>4,891,335</u>	—	—
	<u>4,996,690</u>	<u>425,268,272</u>	<u>4,815,067</u>	<u>373,143,617</u>

10. Deferred taxation

The Deferred tax included in the Balance Sheet is as follows:

	2007 £	Unaudited 2007 Rs.	2006 £	Unaudited 2006 Rs.
Deferred tax asset	<u>15,971</u>	<u>1,359,292</u>	<u>20,000</u>	<u>1,549,900</u>
The movement in the deferred taxation account during the year was:				
Balance brought forward	20,000	1,702,200	20,000	1,549,900
Profit and loss account movement arising during the year	<u>(4,029)</u>	<u>(342,908)</u>	<u>—</u>	<u>—</u>
Balance carried forward	<u>15,971</u>	<u>1,359,292</u>	<u>20,000</u>	<u>1,549,900</u>
The balance of the deferred taxation account consists of the tax effect of timing differences in respect of:				
Excess of depreciation over taxation allowances on fixed assets	<u>15,971</u>	<u>1,359,292</u>	<u>20,000</u>	<u>1,549,900</u>

11. Creditors: amounts falling due within one year

Trade creditors	861,316	73,306,594	565,060	43,789,325
Amounts owed to group undertakings	1,898,968	161,621,200	1,356,836	105,148,006
Corporation tax	—	—	102,214	7,921,074
Other taxation and social security	538,258	45,811,129	494,423	38,315,310
Other creditors	<u>464,009</u>	<u>39,491,824</u>	<u>734,082</u>	<u>56,887,684</u>
	<u>3,762,551</u>	<u>320,230,747</u>	<u>3,252,615</u>	<u>252,061,399</u>

12. Leasing commitments

At 31st March 2007 the company had annual commitments under non-cancellable operating leases as set out below.

	2007				2006			
	Land & Buildings £	Unaudited Land & Buildings Rs.	Other Items £	Unaudited Other Items Rs.	Land & Buildings £	Unaudited Land & Buildings Rs.	Other Items £	Unaudited Other Items Rs.
Operating leases which expire:								
Within 1 – 2 years	37,018	3,150,559	449	38,172	—	—	—	—
Within 2 to 5 years	—	—	—	—	35,441	2,746,500	359	27,821
	<u>37,018</u>	<u>3,150,559</u>	<u>449</u>	<u>38,172</u>	<u>35,441</u>	<u>2,746,500</u>	<u>359</u>	<u>27,821</u>

13. Capital commitments

There were no capital commitments at 31st March 2007 or 31st March 2006.

14. Contingent liabilities

There were no contingent liabilities at 31st March 2007 or 31st March 2006.

15. Share capital

	2007 £	Unaudited 2007 Rs.	2006 £	Unaudited 2006 Rs.
Authorised share capital:				
1,629,700 Ordinary shares of £1 each	<u>1,629,700</u>	<u>138,703,767</u>	<u>1,629,700</u>	<u>126,293,602</u>
Allotted, called up and fully paid:				
	2007 No	2007 £	2006 No	2006 £
Ordinary shares of £1 each	<u>685,815</u>	<u>685,815</u>	<u>685,815</u>	<u>685,815</u>
Equity shares				
Ordinary shares of £1 each	<u>685,815</u>	<u>685,815</u>	<u>685,815</u>	<u>685,815</u>
		<u>58,369,715</u>		<u>53,147,233</u>

16. Profit and loss account

	£	Unaudited Rs.
At 1st April, 2006	1,766,735	150,366,816
Profit for the financial year	120,894	10,289,319
Equity dividends paid	(178,312)	(15,176,134)
At 31st March, 2007	<u>1,709,317</u>	<u>145,480,001</u>

For simplicity, the brought forward Rupee amounts at 31 March 2006 have been translated at the 31 March 2007 exchange rate.

17. Reconciliation of movements in shareholders' funds

	2007 £	Unaudited 2007 Rs.	2006 £	Unaudited 2006 Rs.
Profit for the financial year	120,894	10,289,319	396,328	30,713,437
Equity dividends paid	<u>(178,312)</u>	<u>(15,176,134)</u>	<u>(137,163)</u>	<u>(10,629,447)</u>
Net addition to shareholders' funds	<u>(57,418)</u>	<u>(4,886,815)</u>	<u>259,165</u>	<u>20,083,990</u>
Opening shareholders' funds	<u>2,452,550</u>	<u>208,736,531</u>	<u>2,193,385</u>	<u>169,976,373</u>
Closing shareholders' funds	<u>2,395,132</u>	<u>203,849,716</u>	<u>2,452,550</u>	<u>190,060,363</u>

18. Notes to the statement of cash flows

	2007 £	Unaudited 2007 Rs.	2006 £	Unaudited 2006 Rs.		
Reconciliation of operating profit to net cash (outflow)/inflow from operating activities						
Operating profit	189,724	16,147,433	557,367	43,193,155		
Depreciation	28,277	2,406,660	27,976	2,168,000		
Profit on disposal of fixed assets	—	—	(306)	(23,713)		
Increase in debtors	(94,902)	(8,077,067)	(1,056,853)	(81,900,823)		
Increase in creditors	612,151	52,100,142	359,494	27,858,988		
Net cash inflow/(outflow) from operating activities	735,250	62,577,168	(112,322)	(8,704,393)		
Reconciliation of net cash flow to movement in net funds						
Increase/(decrease) in cash in the period	312,318	26,581,347	(616,931)	(47,809,068)		
Movement in net funds in the period	312,318	26,581,347	(616,931)	(47,809,068)		
Net funds at 1st April 2007	753,989	64,172,003	1,370,920	106,239,446		
Net funds at 31st March 2007	1,066,307	90,753,350	753,989	58,430,378		
Analysis of changes in net funds						
	At 1 April 2007 £	At 1 April 2007 Rs.	Cash flows £	Cash flows Rs.	At 31 March 2007 £	At 31 March 2007 Rs.
Net cash:						
Cash in hand and at bank	753,989	64,172,003	312,318	26,581,347	1,066,307	90,753,350
Net funds	753,989	64,172,003	312,318	26,581,347	1,066,307	90,753,350

19. Controlling related party

The immediate parent undertaking is ITC Infotech India Limited, which is incorporated in India and is a wholly owned subsidiary of ITC Limited. This is the smallest group of undertakings for which consolidated accounts are being drawn up including this company.

The ultimate parent undertaking and controlling related party is ITC Limited, which is incorporated in India. This is the largest group of undertakings for which consolidated accounts are being drawn up including this company.

As a wholly owned subsidiary of ITC Infotech India Limited, which is itself a wholly owned subsidiary of ITC Limited, the company is exempt from the requirements of FRS8 to disclose transactions with other members of the group headed by ITC Limited.