REPORT OF THE DIRECTORS

The Directors present their Report together with financial statements for the 15 month period ended 31st March, 2001.

Principal activities

The Company, together with its wholly owned subsidiary, ITC Infotech (USA) Inc. (hereinafter referred to as Group), is engaged in providing IT services, software development and support services.

Change of accounting year

For purposes of MIS and consolidation of accounts and so as to coincide with the accounting year of the holding company, the accounting year of the Company has been changed from January-December to April-March and accordingly the accounting year 2000 was extended by a period of three months from 31st December, 2000 so as to end on 31st March, 2001. The US subsidiary has also similarly changed its accounting year to April-March and prepared its accounts for a fifteen month period ended 31st March, 2001.

Business review

For the IT industry, the year started off on a high note. Belying predictions of a slowdown in the wake of huge Y2K spends and the consequent cut backs in IT expenditure, the market continued to be buoyant with respect to the Group's offerings. The Group took a conscious decision to focus on the lucrative and long-term high end project market resulting in substantial revenue increase from both offshore and onshore projects with an overall revenue growth of over 60%. The Group witnessed a lengthening sales cycle representing the shift in client mix from Internet start-ups with short sales cycles to established enterprises with traditionally longer sales cycles.

To service the high end projects, a development centre was opened in UK, which was certified ISO 9001 during the year confirming the high class quality practices of the Group. To increase market access in the US, an office was opened in the West Coast at Los Angeles. The Group continues to make significant investments in technology infrastructure and business development activities as part of its efforts to service new markets and create business relationships with leading global companies to enrich the revenue portfolio.

However, the latter part of the year witnessed unprecedented turbulence in the technology sector in the US resulting in slow down in the overall economy. There has been an immediate significant drop in spending on information technology by companies. Your Group has also been affected by the slow down and consequently the full potential of the Group's investments in infrastructure and people could not be realised this year. While the turnover of the Company increased from £2.2 million (12 months) to £4.8 million (15 months) and the net profit increased from £0.1 million to £0.3 million, the turnover of the Group increased from £4.3 million to £8.4 million for the same period. However, as a result of substantial drop in the operating margins of US subsidiary, the Group had a net loss of £0.7 million for the fifteen month period ended 31st March, 2001.

These are challenging times for the IT services companies and your Group is closely monitoring the market situation and is confident to achieve future business growth through aggressive marketing, superior management and robust technical and physical infrastructure in the USA, UK, India and availability of domain specialists.

In line with the restructuring of the IT Business of the holding company, your Board has decided to sell its entire shareholding in ITC Infotech (USA) Inc. i.e. 2000 shares of US$100 each to ITC Infotech India Limited, a wholly owned subsidiary of I.T.C. Limited, at an aggregate consideration of US$400,000. Approval of the Treasury in UK has been received by the Company for the sale of these shares. Subsequent to the year end, ITC Infotech India Limited has also received the approval of the Reserve Bank of India for purchase of these shares.

Directors

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

The interests of the Directors in the shares of the company and its subsidiary undertaking at 31st March, 2001 and at 31st December, 1999 were as follows :

	2001 and 1999 Ordinary Shares
A Singh	—
S Verma	—
B B Chatterjee	—
S K Desai (alternate Director to Mr. S. Verma)	—

The company is a wholly owned subsidiary of I.T.C. Limited which is incorporated in India.

Directors' responsibilities for the financial statements

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

i. select suitable accounting policies and then apply them consistently;

ii. make judgements and estimates that are reasonable and prudent;

iii. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

Auditors

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

Approved by the Board on 15th May, 2001 and signed on behalf of the Board

S. Verma *Director*

REPORT OF THE AUDITORS TO THE MEMBERS OF ITC INFOTECH LIMITED

We have audited the financial statements on pages 113 to 115 which have been prepared under the accounting policies set out on page 112.

Respective responsibilities of directors and auditors

As described on page 112 the company's Directors are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, of those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 2001 and of the loss of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
Central Milton Keynes
15 May 2001

PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention. The principal accounting policies of the group are set out below and remain unchanged from the previous year.

Basis of consolidation

The group financial statements consolidate the results of the company and its subsidiary, ITC Infotech (USA) Inc. Profits or losses on intra-group transactions are eliminated in full.

Turnover

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

Tangible fixed assets and depreciation

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful lives.

The rate generally applicable is:

Motor vehicles, fixtures and fittings, computer equipment and leasehold improvements - 25%

Deferred taxation

Deferred tax is provided for using the tax rates estimated to arise when the timing differences reverse, and is accounted for to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred tax is disclosed as a contingent liability.

Leased assets

All leases are regarded as 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.

Investments

Investments are included at cost.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities of foreign subsidiaries are translated at the rate of exchange ruling at the Balance Sheet date. The results of overseas subsidiaries are included in the consolidated profit and loss account at an average rate through the period. All exchange differences are dealt with through the Profit and Loss Account.

Development costs

Development costs are capitalised when recoverability can be assessed with reasonable certainty and amortised in line with expected sales arising from the projects. All other development costs are written off in the year of expenditure.

Liquid resources

Liquid resources are defined as current asset investments held as readily disposable stores of value. A readily disposable investment is one that is disposable by the company without curtailing or disrupting its business; and is either readily convertible into known amounts of cash at or close to its carrying amount, or traded in an active market.

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.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 31 MARCH 2001

	Note	15 months to 31 March 2001 £	12 months to 31 December 1999 £
Turnover	1	8,398,597	4,313,717
Cost of sales		(6,432,763)	(3,035,637)
Gross profit		1,965,834	1,278,080
Other operating income and charges	2	(2,587,002)	(998,176)
Operating (loss)/profit		(621,168)	279,904
Net interest	3	5,876	16,417
(Loss)/profit on ordinary activities before taxation	1	(615,292)	296,321
Tax on (loss)/profit on ordinary activities	5	(91,190)	(109,378)
(Loss)/profit for the financial period	6	(706,482)	186,943
Dividend	7	—	(51,436)
(Loss)/profit retained	14	(706,482)	135,507

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

CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2001

	Note	£	31 March 2001 £	£	31 December 1999 £
Fixed assets					
Intangible assets	8		67,482		—
Tangible assets	9		138,838		98,035
			206,320		98,035
Current assets					
Debtors	11	2,332,157		1,305,144	
Cash at bank and in hand		130,704		468,043	
		2,462,861		1,773,187	
Creditors : amounts falling due within one year	12	(2,205,569)		(710,546)	
Net current assets			257,292		1,062,641
Total assets less current liabilities			463,612		1,160,676
Capital and reserves					
Called up share capital	13		685,815		685,815
Profit and loss account	14		(222,203)		474,861
Shareholders' funds	15		463,612		1,160,676

The financial statements were approved by the Board of Directors on 15th May, 2001.

The accompanying accounting policies and notes form an integral part of these financial statements. S. Verma *Director*

COMPANY BALANCE SHEET
AT 31 MARCH 2001

	Note	£	31 March 2001 £	£	31 December 1999 £
Fixed assets					
Intangible assets	8		67,482		—
Tangible assets	9		122,289		85,556
Investments	10		124,565		124,565
			314,336		210,121
Current assets					
Debtors	11	2,502,868		941,657	
Cash at bank and in hand		4,270		371,902	
		2,507,138		1,313,559	
Creditors : amounts falling due within one year	12	(1,566,498)		(541,030)	
Net current assets			940,640		772,529
Total assets less current liabilities			1,254,976		982,650
Capital and reserves					
Called up share capital	13		685,815		685,815
Profit and loss account	14		569,161		296,835
Shareholders' funds			1,254,976		982,650

The financial statements were approved by the Board of Directors on 15th May, 2001.

The accompanying accounting policies and notes form an integral part of these financial statements. S. Verma *Director*

CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 MARCH 2001

	Note	£	15 months to 31 March 2001 £	£	12 months to 31 December 1999 £
Net cash (outflow)/inflow from operating activities	16		(728,424)		106,277
Returns on investments and servicing of finance					
Interest received		5,876		16,417	
Net cash inflow from returns on investments and servicing of finance			5,876		16,417
Taxation			(103,582)		(122,865)
Capital expenditure					
Purchase of tangible fixed assets		(177,690)		(68,076)	
Net cash outflow from capital expenditure			(177,690)		(68,076)
Equity dividend paid			—		(51,436)
Management of liquid resources					
Release of short term deposits			—		93,587
Decrease in cash and cash equivalents	17		(1,003,820)		(26,096)

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE PERIOD ENDED 31 MARCH 2001

	15 months to 31 March 2001 £	12 months to 31 December 1999 £
(Loss)/profit for the period	(706,482)	135,507
Currency translation differences on foreign currency net investments	9,418	2,397
Total recognised gains and losses	(697,064)	137,904

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2001

1. Turnover and (loss)/profit on ordinary activities before taxation

The turnover and profit before taxation is attributable to the provision of IT consultancy services and the development and support of software.

Turnover by geographical origin and destination is as follows :

	15 months to 31 March 2001 £	12 months to 31 December 1999 £
UK	4,771,916	2,207,854
USA	3,626,681	2,105,863
	8,398,597	4,313,717

The profit on ordinary activities is stated after :	15 months to 31 March 2001 £	12 months to 31 December 1999 £
Auditors' remuneration – group	11,500	10,000
Depreciation :		
Tangible fixed assets, owned	69,305	48,456
Operating lease rentals : – buildings	119,120	71,850
– other	6,394	9,106

2. Other operating income and charges

	15 months to 31 March 2001 £	12 months to 31 December 1999 £
Administrative expenses	2,616,754	1,054,487
Other operating income	(29,752)	(56,311)
	2,587,002	998,176

3. Net interest

	15 months to 31 March 2001 £	12 months to 31 December 1999 £
Other interest receivable and similar income	5,876	16,417

4. Directors and employees

Staff costs during the period were as follows:	15 months to 31 March 2001 £	12 months to 31 December 1999 £
Wages and salaries	4,952,032	2,409,813
Social security costs	352,017	218,482
	5,304,049	2,628,295

	15 months to 31 March 2001	12 months to 31 December 1999
Average number of employees	132	86

Remuneration in respect of directors was as follows :	15 months to 31 March 2001 £	12 months to 31 December 1999 £
Directors' emoluments	130,234	98,969

5. Tax on profit on ordinary activities

The taxation charge represents :	15 months to 31 March 2001 £	12 months to 31 December 1999 £
Corporation tax @ 31%	118,566	52,000
Overseas tax	(27,376)	57,378
Underprovision in respect of prior years	—	—
	91,190	109,378

6. Profit for the financial period

In accordance with the provisions of Section 230 of the Companies Act 1985 the parent company has not included its own profit and loss account in these financial statements.

The group loss for the period includes a profit of £272,326 (1999: £107,906) which is dealt with in the financial statements of the company.

7. Dividend

	15 months to 31 March 2001 £	12 months to 31 December 1999 £
Ordinary shares : proposed final dividend of nil per share (1999 : 7.5p per share)	—	51,436

8. Intangible fixed assets

	Development costs £
The group and company	
Cost	
At 1 January 2000	—
Additions	67,482
At 31 March 2001	67,482
Net book amount at 31 March 2001	67,482
Net book amount at 31 December 1999	—

9. Tangible fixed assets

	Leasehold improvements £	Motor vehicles £	Computer equipments £	Fixtures & fittings £	Total £
The group					
Cost					
At 1 January 2000	22,346	1,666	218,939	27,861	270,812
Additions	2,034	—	88,882	19,292	110,208
Disposals	—	(1,666)	—	—	(1,666)
At 31 March 2001	24,380	—	307,821	47,153	379,354
Depreciation					
At 1 January 2000	9,207	1,566	143,473	18,531	172,777
Provided in the period	7,091	—	53,052	9,162	69,305
Eliminated on disposal	—	(1,566)	—	—	(1,566)
At 31 March 2001	16,298	—	196,525	27,693	240,516
Net book amount at 31 March 2001	8,082	—	111,296	19,460	138,838
Net book amount at 31 December 1999	13,139	100	75,466	9,330	98,035
The company					
Cost					
At 1 January 2000	22,346	1,666	178,955	27,861	230,828
Additions	2,034	—	70,647	19,292	91,973
Disposals	—	(1,666)	—	—	(1,666)
At 31 March 2001	24,380	—	249,602	47,153	321,135
Depreciation					
At 1 January 2000	9,207	1,566	115,968	18,531	145,272
Provided in the period	7,091	—	38,887	9,162	55,140
Eliminated on disposal	—	(1,566)	—	—	(1,566)
At 31 March 2001	16,298	—	154,855	27,693	198,846
Net book amount at 31 March 2001	8,082	—	94,747	19,460	122,289
Net book amount at 31 December 1999	13,139	100	62,987	9,330	85,556

10. Investments

	31 March 2001 £	31 December 1999 £
Investment in share capital of US subsidiary undertaking	124,565	124,565

The investment represents the whole of the share capital of ITC Infotech (USA) Inc., a company incorporated in the USA, and is principally engaged in the provision of IT services, the development and support of software. This company has been consolidated into the group financial statements.

11. Debtors

	The group 2001 £	The group 1999 £	The company 2001 £	The company 1999 £
Trade debtors	1,421,982	990,389	650,553	554,361
Amounts owed by group undertakings	7,940	14,223	1,520,595	203,839
Other debtors	272,012	133,568	65,238	54,039
Prepayments	630,223	166,964	266,482	129,418
	2,332,157	1,305,144	2,502,868	941,657

12. Creditors: amounts falling due within one year

	The group 2001 £	The group 1999 £	The company 2001 £	The company 1999 £
Bank loans and overdrafts	666,481	—	666,481	—
Trade creditors	235,303	109,859	112,879	78,035
Amounts owed to group undertakings	545,929	12,654	325,861	12,654
Corporation tax	91,474	103,866	76,326	41,878
Social security and other taxes	175,055	138,459	175,055	134,367
Proposed dividend	—	51,436	—	51,436
Other creditors	491,327	294,272	209,896	222,660
	2,205,569	710,546	1,566,498	541,030

13. Share capital

	2001 and 1999 £
Authorised share capital	
1,629,700 ordinary shares of £1 each	1,629,700
Allotted, called up and fully paid	
685,815 ordinary shares of £1 each	685,815

14. Profit and loss account

	The group 2001 £	The company 2001 £
At 1 January 2000	474,861	296,835
(Loss)/profit for the financial period	(706,482)	272,326
Exchange difference	9,418	—
At 31 March 2001	(222,203)	569,161

15. Reconciliation of movement in shareholders' funds

	2001 £	1999 £
(Loss)/profit for the financial period	(706,482)	186,943
Dividends	—	(51,436)
	(706,482)	135,507
Other recognised gains and losses	9,418	2,397
Net (decrease)/increase in shareholders' funds	(697,064)	137,904
Shareholders' funds at 1 January 2000	1,160,676	1,022,772
Shareholders' funds at 31 March 2001	463,612	1,160,676

16. Net cash inflow/(outflow) from operating activities

	15 months to 31 March 2001 £	12 months to 31 December 1999 £
Operating (loss)/profit	(621,168)	279,904
Depreciation	69,305	48,456
Loss on disposal of fixed assets	100	—
(Increase) in debtors	(1,027,013)	(189,391)
(Increase)/decrease in creditors	840,934	(35,089)
Exchange differences	9,418	2,397
Net cash inflow from operating activities	(728,424)	106,277

17. Reconciliation of net cashflow to change in net funds

	15 months to 31 March 2001 £	12 months to 31 December 1999 £
(Decrease) in cash in the period	(1,003,820)	(26,096)
(Outflow) from increase in liquid resources	—	(93,587)
Movement in net funds in the period	(1,003,820)	(119,683)
Net funds at 1 January 2000	468,043	587,726
Net funds at 31 March 2001	(535,777)	468,043

18. Analysis of changes in net funds

	At 31 December 1999 £	Cashflow £	At 31 March 2001 £
Cash in hand and at bank	97,959	32,745	130,704
Current asset investments	370,084	(370,084)	—
Bank loans and overdrafts	—	(666,481)	(666,481)
	468,043	(1,003,820)	(535,777)

19. Capital commitments

Neither the group nor the company had any capital commitments at 31 March 2001 or 31 December 1999.

20. Contingent liabilities

There were no contingent liailibities at 31 March 2001 or 31 December 1999.

21. Leasing commitments

Operating lease payments amount to £117,514 (1999: £77,956) are due within 1 year. The leases to which these relate expire as follows:

	Land and buildings 31 March 2001 £	Land and buildings 31 December 1999 £	Other 31 March 2001 £	Other 31 December 1999 £
In one year or less	—	39,500	—	4,212
Between one and five years	81,770	—	6,394	4,894
In five years or more	29,350	29,350	—	—
	111,120	68,850	6,394	9,106

22. Controlling related party

The ultimate parent undertaking and controlling related party is its parent company, I.T.C. Limited, which is incorporated in India. This is also the largest group of undertakings for which consolidated accounts have been drawn up, including this company.