

REPORT OF THE DIRECTORS

Your Directors present their Report together with the Audited Financial Statements for the year ended 31st March, 2004.

Principal activities

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

Business review

During the year under review the European economy was sluggish and IT spends of companies did not grow significantly. However, in line with the worldwide trends, European companies have been more aggressive in outsourcing IT services and related business processes to offshore destinations like India. The Company has therefore continued to aggressively market the offshore development capabilities of its holding company.

Business development efforts over time and effective client account management have resulted in adding depth to the Company's large client relationships. Engagements with some clients have grown beyond the boundaries of Europe. Consequently, revenue for the year under review has grown by 48%.

Growing client engagements have created new challenges in terms of managing scale and of dealing with multiple technologies across several countries. Further, larger accounts require to be supported with superior levels of domain and product knowledge. Consequently, the Company has invested in experienced professionals to induct the differentiating skill sets required. These investments, while adding to costs and depressing margins in the year under review, are expected to yield results in future.

For the year under review, the Company registered a turnover of GBP 7.75 million (Previous Year: GBP 5.23 million) and earned a net profit of GBP 0.33 million (Previous Year: GBP 0.42 million).

The Company has set itself aggressive growth targets for the year ahead and accordingly reinforced its sales team. The Company believes that its skills at relationship building coupled with the offshore development capabilities of its holding company positions it well for the future.

Dividend

Your Directors are pleased to confirm the interim dividend of 40p per share aggregating GBP 274326.00 as the final dividend for the year ended 31st March, 2004.

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 2004 which comprise the principal accounting policies, the profit and loss account, the balance sheet, the cash flow statement and notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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 the financial statements in accordance with United Kingdom law and accounting standards 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 United Kingdom auditing standards.

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

We read other information contained in the Directors' Report and consider whether it is consistent with the audited financial statements. We consider

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 as at 31st March, 2004 and 31st March, 2003 were as follows:

	2004 and 2003
	Ordinary Shares
A. Singh	—
S. Verma	—
B. B. Chatterjee	—

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 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.

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 5th May, 2004 and signed on behalf of the Board by

S Verma
Director

the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 as at 31 March 2004 and of its profit for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
CENTRAL MILTON KEYNES
5 May, 2004

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.

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.

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 economic lives 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 31ST MARCH 2004

	Note	2004 £	2004 Rs.	2003 £	2003 Rs
Turnover	1	7,749,774	621,241,258	5,232,892	392,558,476
Cost of sales		<u>5,792,980</u>	<u>464,379,759</u>	<u>3,691,975</u>	<u>276,962,735</u>
Gross profit		1,956,794	156,861,499	1,540,917	115,595,741
Other operating charges	2	<u>1,492,389</u>	<u>119,633,633</u>	<u>1,033,108</u>	<u>77,501,179</u>
Operating profit	3	<u>464,405</u>	<u>37,227,866</u>	507,809	38,094,562
Interest income	5	<u>22,159</u>	<u>1,776,321</u>	<u>72,752</u>	<u>5,457,673</u>
Profit on ordinary activities before taxation		<u>486,564</u>	<u>39,004,187</u>	580,561	43,552,235
Tax on profit on ordinary activities	6	<u>157,325</u>	<u>12,611,565</u>	<u>163,564</u>	<u>12,270,162</u>
Profit on ordinary activities after taxation		<u>329,239</u>	<u>26,392,621</u>	416,997	31,282,072
Dividends	7	<u>274,326</u>	<u>21,990,658</u>	<u>336,049</u>	<u>25,209,556</u>
Retained profit for the financial year		<u>54,913</u>	<u>4,401,963</u>	80,948	6,072,517

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

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

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

BALANCE SHEET AS AT 31 MARCH 2004

	Note	2004 £	2004 Rs.	2003 £	2003 Rs
Fixed assets					
Tangible assets	8	<u>45,910</u>	<u>3,680,260</u>	<u>36,492</u>	<u>2,737,539</u>
Current assets					
Debtors	9	2,908,907	233,185,257	1,467,488	110,087,281
Cash at bank and in hand		<u>800,283</u>	<u>64,152,686</u>	<u>1,262,498</u>	<u>94,709,444</u>
		3,709,190	297,337,943	2,729,986	204,796,725
Creditors: amounts falling due within one year	11	<u>2,104,451</u>	<u>168,698,053</u>	<u>1,170,742</u>	<u>87,826,138</u>
Net current assets		<u>1,604,739</u>	<u>128,639,890</u>	<u>1,559,244</u>	<u>116,970,587</u>
Total assets less current liabilities		<u>1,650,649</u>	<u>132,320,150</u>	1,595,736	119,708,126
Capital and reserves					
Called-up equity share capital	15	685,815	54,976,645	685,815	51,448,127
Profit and loss account	16	<u>964,834</u>	<u>77,343,506</u>	<u>909,921</u>	<u>68,259,999</u>
Shareholders' funds	17	<u>1,650,649</u>	<u>132,320,150</u>	<u>1,595,736</u>	<u>199,708,126</u>

These financial statements were approved by the Board of Directors on 5 May 2004 and are signed on their behalf by:

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

S. Verma *Director*
H. S. Garewal *Chief Executive Officer*

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2004

	Note	2004 £	2004 Rs.	2003 £	2003 Rs.
Net cash inflow from operating activities	18	91,860	7,363,727	1,296,485	97,259,063
Returns on investments and servicing of finance					
Interest from group undertakings		—	—	49,576	3,719,068
Interest received		22,159	1,776,321	23,176	1,738,606
Net cash inflow from returns on investments and servicing of finance		22,159	1,776,321	72,752	5,457,673
Taxation		(172,589)	(13,835,166)	(155,535)	(11,667,847)
Capital expenditure					
Payments to acquire tangible fixed assets		(40,163)	(3,219,566)	(4,616)	(346,281)
Receipts from sale of fixed assets		—	—	3,167	237,580
Net cash outflow from capital expenditure		(40,163)	(3,219,566)	(1,449)	(108,700)
Equity dividends paid		(363,482)	(29,137,626)	(246,893)	(18,521,296)
(Decrease)/increase in cash	18	<u>(462,215)</u>	<u>(37,052,310)</u>	<u>965,360</u>	<u>72,418,894</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

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:

	2004 £	2004 Rs.	2003 £	2003 Rs.
United Kingdom	5,783,417	463,613,165	4,977,485	373,398,481
India	664,936	53,302,932	255,407	19,159,995
United States	593,486	47,575,321	—	—
Malaysia	501,310	40,186,263	—	—
Other	206,625	16,563,577	—	—
	<u>7,749,774</u>	<u>621,241,258</u>	<u>5,232,892</u>	<u>392,558,476</u>

2. Other operating income and charges

Administrative expenses	<u>1,492,389</u>	<u>119,633,633</u>	<u>1,033,108</u>	<u>77,501,179</u>
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3. Operating profit

Operating profit is stated after charging/(crediting):

Depreciation of owned fixed asset	30,745	2,464,596	38,600	2,895,676
Profit on disposal of fixed assets	—	—	(2,176)	(163,238)
Auditors' remuneration:				
Audit fees	10,900	873,771	10,500	787,684
Operating lease costs:				
Land and buildings	57,601	4,617,440	51,441	3,858,975
Plant and equipment	7,894	632,803	13,608	1,020,838

4. Directors and employees

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

	2004 No.	2003 No.
Staff	61	48

The aggregate payroll costs of the above were:

Wages and salaries	2,255,742	180,825,918	1,466,763	110,032,893
Social security costs	164,914	13,219,919	104,877	7,867,610
	<u>2,420,656</u>	<u>194,045,837</u>	<u>1,571,640</u>	<u>117,900,504</u>

Remuneration in respect of directors was nil (2003: nil).

5. Interest receivable

Bank interest receivable	22,159	1,776,321	23,176	1,738,606
Interest from group undertakings	—	—	49,576	3,719,068
	<u>22,159</u>	<u>1,776,321</u>	<u>72,752</u>	<u>5,457,673</u>

	2004 £	2004 Rs.	2003 £	2003 Rs.				
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% (2003 - 30%)	157,529	12,627,918	180,000	13,503,150				
Over provision in prior year	(204)	(16,353)	(3,436)	(257,760)				
Total current tax	157,325	12,611,565	176,564	13,245,390				
Deferred tax:								
Decrease in deferred tax provision	—	—	(13,000)	(975,228)				
Tax on profit on ordinary activities	157,325	12,611,565	163,564	12,270,162				
(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% (2003 - 30%).								
Profit on ordinary activities before taxation	486,564	39,004,187	580,561	43,552,235				
Profit on ordinary activities multiplied by rate of tax	145,969	11,701,240	174,168	13,065,648				
Expenses not deductible for tax purposes	4,165	333,877	3,111	233,379				
Movement in capital allowances	7,395	592,802	2,721	204,123				
Adjustments to tax charge in respect of previous periods	(204)	(16,353)	(3,436)	(257,760)				
Total current tax (note 6(a))	157,325	12,611,565	176,564	13,245,390				
7. Dividends								
Equity dividends:								
Interim dividend of 40p per share (2003: 36p per share)	274,326	21,990,658	246,893	18,521,296				
Final dividend of 13p per share	—	—	89,156	6,688,260				
	274,326	21,990,658	336,049	25,209,556				
8. Tangible fixed assets								
	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	Total £	Leasehold improvements Rs.	Fixtures and fittings Rs.	Computer equipment Rs.	Total Rs.
Cost								
At 1 April 2003	24,380	32,004	143,436	199,820	1,828,927	2,400,860	10,760,210.13	14,989,997
Additions	1,499	595	38,069	40,163	120,164	47,697	3,051,706.21	3,219,566
Disposals	—	—	(645)	(645)	—	—	(51,704.81)	(51,704,81)
At 31 March 2004	25,879	32,599	180,860	239,338	1,949,090	2,448,557	13,760,212	18,157,859
Depreciation								
At 1 April 2003	23,471	25,678	114,179	163,328	1,760,736	1,926,299	8,565,423.13	12,252,458
Charge for the year	634	4,958	25,153	30,745	50,823	397,446	2,016,327.36	2,464,596
On disposals	—	—	(645)	(645)	—	—	(51,704.81)	(51,705)
At 31 March 2004	24,105	30,636	138,687	193,428	1,811,559	2,323,745	10,530,046	14,665,349
Net book value								
At 31 March 2004	1,774	1,963	42,173	45,910	137,531	124,812	3,230,166	3,492,509
At 31 March 2003	909	6,326	29,257	36,492	68,191	474,561	2,194,787.00	2,737,539
9. Debtors								
	2004 £	2004 Rs.	2003 £	2003 Rs.				
Trade debtors	2,209,573	177,124,895.61	1,068,803	80,178,929.05				
Amounts owed by group undertakings	532,657	42,699,116.76	258,603	19,399,750.55				
Other debtors	57,537	4,612,309.76	48,801	3,660,929.02				
Prepayments and accrued income	96,140	7,706,822.75	78,281	5,872,444.92				
Deferred taxation (note 10)	13,000	1,042,112.50	13,000	975,227.50				
	2,908,907	233,185,257.39	1,467,488	110,087,281				

	2004 £	2004 Rs.	2003 £	2003 Rs.
10. Deferred taxation				
The movement in the deferred taxation account during the year was:				
Balance brought forward	(13,000)	(1,042,113)	—	—
Profit and loss account movement arising during the year	—	—	(13,000)	(975,228)
Balance carried forward	(13,000)	(1,042,113)	(13,000)	(975,228)

The Balance of the deferred taxation account consists of the tax effect of timing differences in respect of :

Excess of taxation allowance over depreciation on fixed assets	13,000	1,042,113	13,000	975,228
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11. Creditors: amounts falling due within one year

Trade creditors	269,594	21,611,329	178,264	13,372,920
Amounts owed to group				
Undertakings	677,829	54,336,467	288,683	21,656,277
Corporation tax	74,736	5,991,025	90,000	6,751,575
Other taxation and social security	190,072	15,236,647	188,923	14,172,531
Proposed dividends	—	—	89,156	6,688,260
Other creditors	892,220	71,522,586	335,716	25,184,575
	<u>2,104,451</u>	<u>168,698,053</u>	<u>1,170,742</u>	<u>87,826,138</u>

12. Leasing commitments

At 31 March, 2004, the company had annual commitments under non-cancellable operating leases as set out below.

	2004				2003			
	Land & Buildings £	Other Items £	Land & Buildings Rs.	Other Items Rs.	Land & Buildings £	Other Items £	Land & Buildings Rs.	Other Items Rs.
Operating leases which expires:								
Within 1 year	—	—	—	—	1,733	624	130,005.33	46,810.92
Within 2 to 5 years	40,523	7,848	3,248,425	629,115	—	8,991	—	674,482.34
After more than 5 years	—	—	—	—	31,750	—	2,381,805.63	—
	<u>40,523</u>	<u>7,848</u>	<u>3,248,425</u>	<u>629,115</u>	<u>33,483</u>	<u>9,615</u>	<u>2,511,811</u>	<u>721,293</u>

13. Capital Commitments

There were no capital commitment at 31 March 2004 or 31 March 2003.

14. Contingent Liabilities

There were no contingent liabilities at 31 March 2004 or 31 March 2003.

15. Share capital

	2004 £	2003 £	2004 Rs.	2003 Rs.
Authorised share capital:				
1,629,700 Ordinary shares of £1 each	1,629,700	1,629,700	130,640,826	122,256,020
Allotted, called up and fully paid:				
	2004 No.	2003 £	2004 Rs.	2003 Rs.
Ordinary shares of £1 each	685,815	685,815	54,976,645	51,448,127

16. Profit and loss account

	2004 £	2004 Rs.	2003 £	2003 Rs.
Balance brought forward	909,921	72,941,542	828,973	62,187,482
Retained profit for the financial year	54,913	4,401,963	80,948	6,072,517
Balance carried forward	<u>964,834</u>	<u>77,343,506</u>	<u>909,921</u>	<u>68,259,999</u>

17. Reconciliation of movements in shareholders' funds

Profit for the financial year	329,239	26,392,621	416,997	31,282,072
Dividends	(274,326)	(21,990,658)	(336,049)	(25,209,556)
Net increase in shareholders funds	54,913	4,401,963	80,948	6,072,517
Opening shareholders' equity funds	1,595,736	127,918,187	1,514,788	113,635,609
Closing shareholders' equity funds	<u>1,650,649</u>	<u>132,320,150</u>	<u>1,595,736</u>	<u>119,708,125</u>

	2004 £	2004 Rs.	2003 £	2003 Rs.
18. Notes to the statement of cash flows				
Reconciliation of operating profit to net cash inflow from operating activities				
Operating profit	464,405	37,227,866	507,809	38,094,562
Depreciation	30,745	2,464,596	38,600	2,895,676
Profit on disposal of fixed assets	—	—	(2,176)	(163,238)
(Increase)/decrease in debtors	(1,441,419)	(115,547,751)	143,604	10,772,813
Increase in creditors	1,038,129	83,219,016	608,648	45,659,251
Net cash inflow from operating activities	<u>91,860</u>	<u>7,363,727</u>	<u>1,296,485</u>	<u>97,259,063</u>
Reconciliation of net cash flow to movement in net funds.				
Decrease / Incease in cash in the period	(462,215)	(37,052,310)	965,360	72,418,894
Movement in net funds in the period	(462,215)	(37,052,310)	965,360	72,418,894
Net Funds at 1 April 2003	<u>1,262,498</u>	<u>94,709,444</u>	<u>297,138</u>	<u>22,290,550</u>
Net funds at 31 March 2004	<u>800,283</u>	<u>64,152,686</u>	<u>1,262,498</u>	<u>94,709,444</u>
Analysis of changes in net funds				

	At 1 April, 2003 £	Cash flows £	At 31 Mar 2004 £	At 1 April, 2003 Rs.	Cash flows Rs.	At 31 Mar 2004 Rs.
Net Cash						
Cash in hand and bank	1,262,498	(462,215)	800,283	94,709,444	(37,052,310)	57,657,134
Net funds	<u>1,262,498</u>	<u>(462,215)</u>	<u>800,283</u>	<u>94,709,444</u>	<u>(37,052,310)</u>	<u>57,657,134</u>

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.

Note : The Audited Financial Statements of ITC Infotech Limited, UK, prepared in accordance with the laws of UK, the country of incorporation, do not include the Indian Rupee equivalent figures, which have been arrived at by applying the year end interbank exchange rate of GBP = Rs. 80.1625 (2003 GBP = 75.0175)