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.

Increase in Paid – in - Capital

During the year under review, ITC Infotech India Limited, the holding company, subscribed to 3500 common shares - without par value for cash at US$ 100 per share aggregating US$ 350,000, in accordance with the approval of the Reserve Bank of India.

Business Review

Large US corporations have continued to pursue the strategic outsourcing of IT services and related business processes into offshore bases like India. The Company therefore continued to focus on marketing the offshore development capabilities of its holding company.

Business development efforts over time have resulted in the holding company securing a strategic long-term contract with the leading provider of software solutions for product lifecycle management. The Company continues to provide account management services to the holding company for this client. The leader in software solutions for the hospitality industry was also added to the client list. These successes have resulted in a 41% revenue growth for the Company.

As accounts grow larger, they require to be supported with superior levels of domain and product knowledge. The Company has invested in experienced professionals to build differentiating skill sets, expand the suite of services offered and provide onsite project management. 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 recorded a turnover of US$ 3.87 million (Previous Year US$ 2.75 million) and incurred a net loss of US$ 0.36 million (previous year US$ 0.36 million).

Apprehensions of job losses in US consequent to large-scale outsourcing to offshore bases has resulted in political opposition and triggered legislative interventions. While the momentum towards outsourcing in the short term has been affected, the longer-term prospects of business process and IT outsourcing remain attractive.

The predicted recovery of the US economy and revival in IT spends should translate into large revenue opportunities for companies like yours that are focused on selling India based IT and BPO services. The Company will aggressively pursue these opportunities.

Auditors

Grant Thornton, LLP, Independent Certified Public Accountants and Auditors of the Company, offer themselves for reappointment.

On behalf of the Board

5th May, 2004

S. Verma
Director

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors

ITC Infotech (USA),Inc.

We have audited the accompanying balance sheets of ITC Infotech (USA),Inc. as of March 31, 2004 and 2003, and the related statements of operations and accumulated deficit, and cash flows for the years then ended. These financial statements are the responsibility of the management of ITC Infotech (USA), Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards applicable in the United States of America. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ITC Infotech (USA),Inc. as of March 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles applicable in the United States of America.

Grant Thornton LLP
Edison, New Jersey
April 16, 2004

BALANCE SHEETS

	March 31, 2004	March 31, 2004	March 31, 2003	March 31, 2003
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 95,310	Rs. 4,166,715	$ 116,065	Rs. 5,511,347
Accounts receivable, net of allowance for doubtful accounts of $ 123,000 (Rs. 5,377,253) and $ 134,000 (Rs.6,362,990) for 2004 and 2003, respectively	605,201	26,457,875	929,956	44,158,961
Advances to officer and employees	47,009	2,055,116	23,317	1,107,208
Prepaid expenses	70,143	3,066,477	66,177	3,142,415
Due from ITC Infotech India Ltd.	60,268	2,634,766	—	—
Due from ITC Infotech (UK)	42,408	1,853,972	—	—
Total Current Assets	920,339	40,234,920	1,135,515	53,919,930
PROPERTY AND EQUIPMENT				
Computer equipment	98,687	4,314,349	70,523	3,348,785
Office equipment	42,671	1,865,469	38,378	1,822,379
Computer software	16,526	722,475	16,526	784,737
	157,884	6,902,294	125,427	5,955,901
Less : Accumulated depreciation	109,322	4,779,285	96,348	4,575,085
	48,562	2,123,009	29,079	1,380,816
OTHER ASSETS, principally capitalized software	24,426	1,067,844	5,396	256,229
SECURITY DEPOSITS	49,175	2,149,808	45,325	2,152,258
	$ 1,042,502	Rs. 45,575,581	$ 1,215,315	Rs. 57,709,233
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)				
CURRENT LIABILITIES				
Accounts payable	$ 222,732	Rs. 9,737,286	$ 206,351	Rs. 9,798,577
Accrued expenses and other current liabilities	147,752	6,459,348	128,911	6,121,339
Accrued payroll and payroll taxes	100,854	4,409,085	83,382	3,959,394
Due to ITC Infotech India Ltd.			216,268	10,269,486
Due to ITC Infotech Ltd. (UK)			2,597	123,319
Total Current Liabilities	471,338	20,605,719	637,509	30,272,115
STOCKHOLDERS' EQUITY)				
Capital stock, no par value; 50,000 shares authorized; 43,500 and 40,000 shares issued and outstanding at March 31, 2004 and 2003, respectively	200,000	8,743,500	200,000	9,497,000
Additional paid-in capital	4,150,000	181,427,625	3,800,000	180,443,000
Accumulated deficit	(3,778,836)	(165,201,263)	(3,422,194)	(162,502,882)
	571,164	24,969,862	577,806	27,437,118
	$1,042,502	Rs. 45,575,581	$ 1, 215,315	Rs. 57,709,233

The accompanying notes are an integral part of these statements.

On behalf of the Board

5th May, 2004

S. Verma
Director

P. Ahuja
President

STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

	March 31, 2004	March 31, 2004	March 31, 2003	March 31, 2003
Revenues	$ 3,872,856	Rs. 169,311,582	$ 2,750,207	Rs. 130,593,579
Cost of revenues, principally employment costs	3,275,924	143,215,207	2,760,562	131,085,287
Gross profit (loss)	596,932	26,096,375	(10,355)	(491,707)
General and administrative expenses	945,942	41,354,219	951,247	45,169,964
Recovery marketing fees - ITC Infotech India Ltd.	—	—	(850,000)	(40,362,250)
Operating loss	(349,010)	(15,257,845)	(111,602)	(5,299,421)
Other income (expense)				
Intercompany interest expense	—	—	(73,871)	(3,507,764)
Interest income	45	1,967	7.094	336,859
Foreign currency exchange (loss)	(121)	(5,290)	(174,456)	(8,284,043)
	(76)	(3,323)	(241,233)	(11,454,949)
Loss before income tax expense	(349,086)	(15,261,167)	(352,835)	(16,754,370)
Income tax expense	7,556	330,329	3,449	163,776
NET LOSS	(356,642)	(15,591,497)	(356, 284)	(16,918,146)
Accumulated deficit at beginning of year	(3,422,194)	(162,502,882)	(3,065,910)	(145,584,736)
Accumulated deficit at end of year	$ (3,778,836)	Rs. (165,201,263)	$(3,422,194)	Rs. (162,502,882)

The accompanying notes are an integral part of these statements.

On behalf of the Board

S. Verma, Director — P. Ahuja, President

5th May, 2004

STATEMENTS OF CASH FLOWS

	March 31, 2004	March 31, 2004	March 31, 2003	March 31, 2003
Cash flows from operating activities				
Net loss	$ (356,642)	Rs. (15,591,497)	$ (356,284)	Rs. (16,918,146)
Adjustments to reconcile net loss to net cash used in operating activities				
Depreciation	12,974	567,191	10,490	498,118
Bad debt provision	31,000	1,355,243	125,700	5,968,865
(Increase) decrease in assets				
Accounts receivable	293,755	12,842,234	(407,895)	(19,368,894)
Prepaid expenses, security deposits and other assets	(26,846)	(1,173,640)	(44,267)	(2,102,018)
Advances to officer and employees	(23,692)	(1,035,755)	(14,431)	(685,256)
Increase (decrease) in liabilities				
Accounts payable	16,381	716,136	90,870	4,314,962
Accrued expenses and other liabilities	18,841	823,681	(82,093)	(3,898,186)
Accrued payroll and payroll taxes	17,472	763,832	(7,116)	(337,903)
Due to ITC Infotech India Ltd., ITC Infotech Ltd. (UK)	(321,541)	(14,056,969)	289,535	13,748,569
Net cash used in operating activities	(338,298)	(14,789,543)	(395,491)	(18,779,890)
Cash flows from investing activities Capital expenditures	(32,457)	(1,418,939)	(21,055)	(999,797)
Net cash used in investing activities	(32,457)	(1,418,939)	(21,055)	(999,797)
Cash flows from financing activities Proceeds from issuance of common stock	350,000	15,301,125	1,800,000	85,473,000
Repayment of loan to ITC Infotech Ltd. (UK)	—	—	(1,318,761)	(62,621,366)
Net cash provided by financing activities	350,000	15,301,125	481,239	22,851,634
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(20,755)	(907,357)	64,693	3,071,947
Cash and cash equivalents at beginning of year	116,065	5,511,347	51,372	2,439,399
Cash and cash equivalents at end of year	$ 95,310	Rs. 4,166,715	$ 116,065	Rs. 5,511,347

Supplemental disclosures of cash flow information :
Interest expense paid in fiscal years 2004 and 2003 was $ 0 (Rs. Nil) and $89,000 (Rs. 4,226,165), respectively. Income taxes paid were $ 7,556 (Rs. 3,30,329) and $ 3,449 (Rs. 1,63,776) during 2004 and 2003, respectively
See Note A for noncash items relating to ITC Infotech Ltd. (UK)

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS
March 31, 2004 and 2003

NOTE A - BUSINESS BACKGROUND AND PRINCIPAL TRANSACTIONS WITH AFFILIATES

ITC Infotech (USA), Inc. (the "Company") is principally engaged in the information technology services business. Its customers are commercial entities and software developers throughout the United States of America. The work is usually performed under contracts which specify fixed hourly rates (at rates which depend upon the skill level of the employee staffed at the customer's location) and which vary in length, but are typically less than one year in duration. Commencing in fiscal year 2002, the Company began to generate revenue through specific projects, whereby the Company and its overseas affiliates undertake the responsibility to deliver specific software solutions ("Project Business") on a contractual basis. Substantially all of these contracts for Project Business were co-sourced, in terms of the marketing agreement with its affiliates (see Note C), or fulfilled with resources drawn from affiliates, on a contractual basis, to supplement the resources on the Company's rolls. The Company either receives fees from affiliates for client account management in respect of work contracted between ITC Infotech India with clients in the United States, or incurs subcontract costs for technical services provided by affiliates to support customer contracts entered into by the Company. The Company continues to be dependent on such support from its affiliates.

Effective May 24, 2001, the Company became a wholly-owned subsidiary of ITC Infotech India Ltd. ("Infotech India"), an Indian company. Prior to this date, the Company was a wholly-owned subsidiary of ITC Infotech Ltd. ("Infotech UK"), which in turn was a wholly-owned subsidiary of ITC Ltd., an Indian company. Infotech India made an investment of $350,000 (Rs. 15,301,125) and $1,800,000 (Rs. 85,473,000) in the common stock of the Company during the fiscal years 2004 and 2003, respectively.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Recognition of Revenue

Service Revenue

Service revenues are based upon hours worked by Company employees on customer assignments and are recognized as and when work is performed. Substantially all customers are billed weekly, biweekly, or monthly.

Project Revenue

Revenues on the Project Business are recognized as earned, typically in the month the service is performed. Costs associated with the use of subcontractors to fulfill such Project Business are recognized in the same period.

In accordance with AICPA Statement of Position 97-2 ("SOP 97-2"), "Software Revenue Recognition," and AICPA Statement of Position 98-9 ("SOP 98-9"), the Company recognizes software revenues on delivery when a non-cancelable agreement has been executed, fees are fixed and determinable and collection is considered probable unless there is significant uncertainty about customer acceptance, in which case revenues are recognized upon such acceptance. Losses on contracts are recognized when determinable.

Account Management Fees

Fees for client account management in respect of work contracted by Infotech India with clients in the United States are billed monthly at a predetermined rate applied on the amount billed by Infotech India to its clients.

2. Accounts Receivable

The majority of the Company's accounts receivable are due from commercial entities and companies in the software industry. Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are generally due within 30 days and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. The Company creates an allowance for accounts receivable when they become uncollectible, despite best efforts to collect.

3. Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all cash accounts which are not subject to withdrawal restrictions or penalties, and certificates of deposit with maturities of ninety days or less, when purchased, to be cash or cash equivalents.

4. Equipment and Software

Equipment and purchased software are stated at cost. Depreciation is provided under various methods based upon the estimated useful lives of the assets, with such lives ranging from one to four years.

5. Income Taxes

The Company accounts for income taxes pursuant to Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), "Accounting for Income Taxes." SFAS No. 109 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Future tax benefits, such as net operating loss carry forwards, are recognized to the extent that realization of these benefits is considered to be more likely than not. If the future realization of such benefits are not more likely than not, than a valuation allowance is provided.

6. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Although actual results could differ from those estimates, in the opinion of management such estimates would not materially affect the financial statements.

7. Prepaid Immigration Fees

Legal costs and other recruitment charges incurred to obtain visas and other required immigration papers for recruits, and for employees are included in prepaid expenses. These charges are amortized over the lesser of two years or the expected employment period of the employees.

8. Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

9. Advertising Costs

Advertising costs are expensed as incurred and were not material for the years ended March 31, 2004 and 2003.

10. Long-Lived Assets

The Company follows Statement of Financial Accounting Standards No.144 ("SFAS No. 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." Accordingly, whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable, the Company assesses the recoverability of the asset.

11. Capitalized Software Costs

Costs incurred for development of computer software for internal use of the Company are capitalized . Any costs incurred in the preliminary stages of development and in the operating stages of the software are expensed immediately. Capitalized Software costs are amortised over a period of 5 years or over the estimated useful lives, whichever is lower.

NOTE C - RELATED PARTY TRANSACTIONS

The Company enters into various transactions with its parent and other group companies as follows :

	Year ended March 31,			
	2004	**2004**	2003	2003
Transaction with Infotech India				
Revenues for account management	**$ 373,760**	**Rs. 16,339,853**	$ —	Rs —
Cost for project consultations	**940,241**	**41,104,986**	658,011	31,245,652
Project / other expenses rembursements	**24,441**	**1,068,499**	—	—
Recovery of marketing fees	—	—	850,000	40,362,250

Amounts due to Infotech UK were payable in pounds sterling pursuant to a loan agreement dated December 31, 2001, and were fully repaid during fiscal year 2003. Interest expense during fiscal year 2003 amounted to $73,871 (Rs. 3,507,764). Any gains or losses resulting from the translation of the liability at the year-end exchange rate are recognized in the statement of operations and retained earnings (deficit).

On January 15, 2002, ITC Infotech India Ltd. and ITC Infotech (USA), Inc. entered into a marketing agreement. The Company received $850,000 related to this agreement during fiscal 2003 and these funds are shown as an expense recovery on the statement of operations and retained earnings (deficit).

At March 31, 2003, the Company had advanced an officer of the Company $15,000 (Rs. 712,275), which was repaid in full during the current year.

NOTE D - ACCOUNTS RECEIVABLE

Accounts receivable consist of trade accounts receivables. Changes in the Company's allowance for doubtful accounts in 2004 and 2003 are as follows :

	2004	2004	2003	2003
Beginning balance	$ 134,000	Rs. 5,858,145	$ 12,700	Rs. 603,060
Bad debt expense	31,000	1,355,243	125,700	5,968,865
Accounts written off	(42,000)	(1,836,135)	(4,400)	(208,934)
Ending balance	$ 123,000	Rs. 5,377,253	$ 134,000	Rs. 6,362,990

NOTE E - COMMITMENTS AND CONTINGENT LIABILITIES

1. **Leases**

The Company has leased office space and an apartment under noncancelable operating leases expiring in 2004 through 2006.

One of the leases contains a renewal option that allows the Company to extend the lease term for five years. Total rent expense under these leases was approximately $110,000 (Rs. 4,808,925) and $107,000 (Rs. 5,080,895) for the years ended March 31, 2004 and 2003, respectively.

In addition, the Company has entered into various noncancelable operating leases for the rental of computer and office equipment.

2. **Litigation**

In addition to the foregoing, the Company has been involved from time to time in various claims and lawsuits in the ordinary course of business, none of which is expected, either singly or in the aggregate, to have a material effect on the Company.

The future minimum lease payments at March 31, 2004 are as follows:

	Office		Transit Accommodation		Equipment		Total	
2005	$76,290	Rs.3,335,208	$28,100	Rs.1228,462	$13,526	Rs.591,323	$117,916	Rs. 5,154,993
2006	29,663	1,296,792	—	—	7,310	319,575	36,973	1,616,367
2007	—	—	—	—	2,449	107,064	2,499	109,250
Total minimum lease payments	$105,953	Rs.4,632,000	$28,100	Rs. 1,228,462	$23,285	Rs. 1,017,962	$ 157,388	Rs. 6,880,610

NOTE F - INCOME TAXES

The Provision for income taxes consisted of :

	Year ended March 31			
	2004	2004	2003	2003
Current Tax Provision				
State and Local	$ 7,556	Rs. 330,329	$ 3,449	Rs. 163,776
	$ 7,556	Rs. 330,329	$ 3,449	Rs. 163,776

The Company's effective income tax rate differs from the statutory rate because the Company has had only certain "minimum tax" obligations in 2004 and 2003, and the Company has recorded a valuation allowance for all deferred tax benefits in 2004 and 2003.

Income taxes paid were $7,556 (Rs. 330,329) and $3,449 (Rs. 163,776) during 2004 and 2003, respectively.

Deferred tax assets and liabilities consisted of the following:

	Year ended March 31			
	2004	2004	2003	2003
Deferred tax assets				
Net operating losses	$ 1,384,000	Rs.60,505,020	$ 1,311,000	Rs. 62,252,835
Others	63,000	2,754,203	18,000	854,730
Valuation allowance	(1,447,000)	(63,259,223)	(1,329,000)	(63,107,565)
Net deffered tax asset	$ —	Rs. —	$ —	Rs. —

At March 31, 2004, the Company had net operating loss carryforwards ("NOLs"), for Federal income tax purposes, of approximately $3,532,000 (Rs. 154,410,210) available to offset future taxable income, which expire by the year 2023. The Company has total deferred tax assets of approximately $1,447,000 (Rs. 63,259,223), consisting primarily of the benefit of the NOLs. Based upon the inherent uncertainty associated with realizing the benefits of the NOLs (particularly in the context of the volatility of the IT industry in the United States), the Company has considered it prudent to establish a valuation allowance against these benefits for the full amount. The Tax Reform Act of 1986 enacted a complex set of rules (Internal Revenue Code Section 382) limiting the utilization of NOLs to offset future taxable income following a corporate "ownership change." Generally, this occurs when there is a greater than 50 percentage point change in ownership at the parent company level. Accordingly, such change could limit the amount of NOLs available in a given year. Management does not believe any such change in ownership has occurred.

Operating loss carryforwards ("NOLs") for Federal income tax purposes will expire as follows :

2020	$ 406,000	Rs. 17,749,305
2021	648,000	28,328,940
2022	1,895,000	82,844,663
2023	245,000	10,710,788
2024	338,000	14,776,515
	$ 3,532,000	Rs. 154,410,211

NOTE G - EQUITY

During fiscal year 2003, the number of shares that the Company is authorized to issue was increased to 50,000. Also during fiscal 2004 and 2003, the company issued 3,500 and 18,000 shares of common stock for $350,000 (Rs. 15,301,125) and $1,800,000 (Rs. 85,473,000), respectivley thereby increasing the number of issued shares to 43,500.

NOTE H - CONCENTRATION OF CUSTOMER SALES

A significant portion of the Company's sales are to several key customers, some of which are also agencies providing software consulting services to commercial entities and software developers. Four such key customers accounted for approximately 66% and approximately 38% of the Company's net sales for the years ended March 31, 2004 and 2003, respectively. Accounts receivable from three different customers approximated 39% (15%, 13% and 11%) of total accounts receivable at March 31, 2004. Accounts receivable from two different customers approximated 41% (28% and 13%) of total accounts receivable at March 31, 2003.

NOTE I – PROJECT REVENUE

Through March 31, 2004, work performed on all projects had been billed to customers, with the exception of $50,000 (Rs.21,85,875) which will be billed on April 15, 2004 and $8,000 (Rs.3,49,740) which will be billed on May 30, 2004.

NOTE J – RECENT ACCOUNTING PRONOUNCEMENT-MULTIPLE-DELIVERABLE REVENUE ARRANGEMENTS

In November 2002, the EITF reached a consensus on Issue 00-21 ("EITF 00-21"), "Multiple-Deliverable Revenue Arrangements." EITF 00-21 addrresses how to account for arrangements that may involve the delivery or performance of multiple products, services, and/or rights to use assets. The consensus mandates how to identify whether goods or services or both to be delivered separately in a bundled sales arrangement should be accounted for separately because they are separate units of accounting. The guidance can affect the timing of revenue recognition for such arrangement, even though it does not change rules governing the timing or pattern of revenue recognition of individual items accounted for separately. The final consensus is applicable to agreements entered into after June 15, 2003, with early adoption permitted. Additionally, companies are permitted to apply the consensus guidance to all existing arrangements as the cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, "Accounting Changes." The Company is assessing the matter, but at this point it does not believe the adoption of EITF 00-21 will have a material impact on its financial position, cash flows or results of operations.

NOTE K – ACCOUNT MANAGEMENT FEES

The Company receives fees for client account management in respect of work contracted by Infotech India with clients in the United States. Such account management fees represent a pre-established rate of the amounts billed by Infotech India to its clients and amounted to approximately $373,760 (Rs.1,63,39,853) for the year ended March 31, 2004.

NOTE L – CAPITALIZED SOFTWARE COSTS

Software costs capitalized at March 31, 2004 were approximately $22,000 (Rs.9,61,785), and amortization will begin April 1, 2004, when the software was placed in service.

Note : The Audited Financial Statements of ITC Infotech (USA), Inc., prepared in accordance with the laws of USA, 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 US$1=Rs.43.7175 (2003: US$1=Rs.47.485).

On behalf of the Board

	S. Verma	P. Ahuja
5th May, 2004	Director	President