Consolidated Financial Statements
Indian GAAP

Auditors' Report on the Consolidated Financial Statements

Report of the Auditors to the Board of Directors of Infotech Enterprises Limited.

1. We have audited the attached consolidated balance sheet of Infotech Enterprises Limited ("the Company") as at March 31, 2005, the consolidated profit and loss account for the year ended on that date annexed thereto, and the consolidated cash flow statement for the year ended on that date, which we have signed under reference to this report. These consolidated financial statements are the responsibility of Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. We did not audit the financial statements of certain consolidated entities, whose financial statements reflect total assets of Rs. 856,504,203 as at March 31, 2005 and total revenues of Rs. 1,609,703,801 for the year ended on that date. These financial statements have been audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of these consolidated entities, is based solely on the report of the other auditors. The accounting period of another consolidated entity being December 31, 2004, the financial statements for the year ended and as at March 31, 2005, considered in consolidation are un-audited. However, such financial statements have been subjected to a limited review by us. The financial statements, of this consolidated entity, reflect total assets of Rs. 51,967,338 as at March 31, 2005 and total revenues of Rs. 109,552,664 for the year ended as on that date.

4. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard 21, Consolidated Financial Statements and Accounting Standard 23, Accounting for investment in Associates in Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of the Company and its consolidated entities and un-audited financial statements of a consolidated entity, subject to a limited review, as referred to in para 3 above, included in the consolidated financial statements.

5. On the basis of the information and explanations given to us and on consideration of the separate audit reports on individual audited financial statements of the Company and its consolidated entities and un-audited financial statements of a consolidated entity, subjected to a limited review, as referred to in para 3 above, in our opinion, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the consolidated balance sheet, of the consolidated state of affairs of the Company and its consolidated entities as at March 31, 2005.

(b) in the case of the consolidated profit and loss account, of the consolidated results of operations of the Company and its consolidated entities for the year ended on that date; and

(c) in the case of the consolidated cash flow statement, of the consolidated cash flows of the Company and its consolidated entities for the year ended on that date.

S. Gopalakrishnan
Membership No. 18863
Partner
for and on behalf of
Price Waterhouse
Chartered Accountants

Place : Hyderabad
Date : 20th April, 2005

Consolidated Balance Sheet

(Amount in Rupees)

	Schedule Reference	As at March 31, 2005		As at March 31, 2004	
I. SOURCES OF FUNDS :					
1. Shareholders' Funds					
(a) Capital	1	**147,270,380**		145,811,300	
(b) Reserves and Surplus	2	**1,417,031,250**		1,161,611,537	
			1,564,301,630		1,307,422,837
2. Loan Funds					
Secured Loans	3		**14,015,752**		25,698,210
3 Deferred Tax (Asset)/Liability	4		**(13,456,143)**		5,442,974
			1,564,861,239		1,338,564,021
II. APPLICATION OF FUNDS :					
1. Fixed Assets	5				
(a) Gross Block		**1,323,705,429**		1,215,341,574	
(b) Less: Depreciation		**860,216,513**		704,177,122	
(c) Net Block		**463,488,916**		511,164,452	
(d) Capital Work in Progress		**140,958,621**		12,465,250	
			604,447,537		523,629,702
2. Investments	6		**99,836,761**		30,971,858
3. Current Assets, Loans and Advances					
(a) Inventories	7	**2,449,663**		19,243,107	
(b) Sundry Debtors	8	**872,301,008**		638,055,457	
(c) Cash and Bank Balances	9	**339,604,335**		374,787,970	
(d) Loans and Advances	10	**111,696,680**		115,960,220	
		1,326,051,686		1,148,046,754	
Less: Current Liabilities and Provisions					
(a) Liabilities	11	**357,539,842**		296,412,850	
(b) Provisions	12	**107,934,903**		67,671,443	
		465,474,745		364,084,293	
Net Current Assets			**860,576,941**		783,962,461
Notes to Accounts	17				
			1,564,861,239		1,338,564,021

The Schedules referred to above and Statement on Significant Accounting Policies form an integral part of the Consolidated Balance Sheet.

This is the Consolidated Balance Sheet referred to in our report of even date.

S. Gopalakrishnan
Partner

For and on behalf of
Price Waterhouse
Chartered Accountants

Place : Hyderabad
Date : 20th April, 2005

On behalf of the Board of Directors

B.V.R. Mohan Reddy
Chairman and Managing Director

B. Sucharitha
Whole-time Director

A. Mohan Krishna Reddy
Chief Financial Officer

M.S. Khan
Company Secretary

S. Nataraja
Vice President - Finance & Accounts

Place : Hyderabad
Date : 20th April, 2005

Consolidated Profit and Loss Account

(Amount in Rupees)

	Schedule Reference	For the year ended March 31, 2005	For the year ended March 31, 2004
INCOME			
Sale of Services and Products		2,571,250,724	1,874,676,800
Other Income	13	42,591,164	34,773,972
TOTAL INCOME		2,613,841,888	1,909,450,772
EXPENDITURE			
Personnel Expenses	14	1,212,729,266	904,953,888
Operating and Administration Expenses	15	875,185,984	685,221,063
(Increase)/Decrease in Inventories		16,793,444	(10,298,709)
Depreciation and Amortization		167,325,268	206,689,157
Financial Expenses	16	2,510,398	3,822,796
Preliminary Expenses Written Off		-	2,805,460
TOTAL EXPENDITURE		2,274,544,360	1,793,193,655
Profit Before Tax		339,297,528	116,257,117
Provision for Taxation			
- Current		109,072,400	49,758,586
- Deferred		(18,899,117)	(19,924,114)
- Earlier Years		-	(3,682,733)
Profit After Tax and Before Share of Profit in Associate Company		249,124,245	90,105,378
Share of Profit in Associate Company		24,619,548	-
Profit After Tax and After Share of Profit in Associate Company		273,743,793	90,105,378
Add: Balance brought forward from previous year		(181,111,594)	(134,861,385)
Amount Available for Appropriation		92,632,199	(44,756,007)
Appropriations :			
Proposed Dividend @ 15% (2004 - 12.50 %)		22,090,557	18,226,413
Tax on Distributed Profits		3,037,452	1,868,207
Forfeiture of Upfront Consideration		-	(14,634,000)
Transfer to General Reserve		189,265,822	130,894,967
Balance carried to Balance Sheet		(121,761,632)	(181,111,594)
Earnings Per Share			
(Equity Shares, Par Value of Rs. 10 Each)			
- Basic		18.69	6.21
- Diluted		18.53	6.14
Number of Shares used in computing Earnings per Share			
- Basic		14,645,261	14,515,481
- Diluted		14,775,677	14,669,437
Notes to Accounts	17		

The Schedules referred to above and Statement on Significant Accounting Policies form an integral part of the Consolidated Profit and Loss Account.

This is the Consolidated Profit and Loss Account referred to in our report of even date.

S. Gopalakrishnan
Partner

For and on behalf of
Price Waterhouse
Chartered Accountants

Place : Hyderabad
Date : 20th April, 2005

On behalf of the Board of Directors

B.V.R. Mohan Reddy
Chairman and Managing Director

B. Sucharitha
Whole-time Director

A. Mohan Krishna Reddy
Chief Financial Officer

M.S. Khan
Company Secretary

S. Nataraja
Vice President - Finance & Accounts

Place : Hyderabad
Date : 20th April, 2005

Schedules to the Consolidated Balance Sheet

(Amount in Rupees)

	As at March 31, 2005	As at March 31, 2004
1. CAPITAL		
Authorised :		
18,000,000 Equity Shares of Rs. 10 each	**180,000,000**	180,000,000
Issued and Subscribed :		
14,727,038 Equity Shares of Rs. 10 each fully paid-up (2004 - 14,581,130 Equity Shares of Rs. 10 each fully paid-up)	**147,270,380**	145,811,300
	147,270,380	145,811,300

Out of the above:

(52,000 Equity Shares of Rs. 10 each were allotted as fully paid-up Equity Shares for a consideration other than cash pursuant to the Scheme of Amalgamation with M/s Cartographic Sciences Limited.)

(270,570 Equity Shares of Rs. 10 each were allotted as fully paid-up Equity Shares for a consideration other than cash pursuant to the Acquisition of 100% Equity in M/s. Infotech Enterprises Europe Limited [formerly known as M/s.Dataview Solutions Limited])

(9,814,375 Equity Shares of Rs. 10 each were allotted as fully paid-up by way of Bonus shares by capitalising General Reserve/Share Premium account in 1994-95, 1995-96, 1996-97 and 2002-03.)

(312,083 [2004 - 166,175] Equity Shares of Rs. 10 each fully paid-up were allotted to employees of the Company pursuant to the Associate Stock Option Plans.)

Schedules to the Consolidated Balance Sheet

(Amount in Rupees)

		As at March 31, 2005		As at March 31, 2004
2. RESERVES AND SURPLUS				
Share Premium Account				
As at the commencement of the year	454,284,742		451,033,687	
Add: Received on account of further issue of Equity Shares	9,191,789		3,251,055	
		463,476,531		454,284,742
General Reserve				
As at the commencement of the year	848,133,587		717,238,620	
Add: Transferred from the Profit and Loss Account	189,265,822		130,894,967	
		1,037,399,409		848,133,587
Share Warrants - Upfront Consideration				
As at the commencement of the year	-		14,634,000	
Less : Transferred to Profit & Loss Account	-		14,634,000	
		-		-
Contingency Reserve (Refer Note 4 of Schedule 17)		45,000,000		45,000,000
Balance in Profit and Loss Account		(121,761,632)		(181,111,594)
Currency Translation Reserve		(7,083,058)		(4,695,198)
		1,417,031,250		1,161,611,537
3. SECURED LOANS				
Foreign Currency Term Loan		-		4,527,987
Term Note		-		17,464,000
Commercial line of credit		-		2,182,869
Working Capital Facilities from Banks		4,950,261		-
Other Loans		9,065,491		1,523,354
		14,015,752		25,698,210
4. DEFERRED TAX (ASSET)/LIABILITY				
Fixed Assets		18,352,407		23,069,321
Employee Benefits		(24,117,943)		(18,965,241)
Others		(7,690,607)		1,338,894
		(13,456,143)		5,442,974

Schedules to the Consolidated Balance Sheet

5. FIXED ASSETS

(Amount in Rupees)

	DESCRIPTION	GROSS BLOCK				DEPRECIATION/AMORTIZATION				NET BLOCK	
		Cost as at 01.04.2004	Additions during the year	Deletions during the year	**Cost as at 31.03.2005**	As at 01.04.2004	For the year	Deletions during the year	**As at 31.03.2005**	**As at 31.03.2005**	As at 31.03.2004
	INTANGIBLE ASSETS										
1.	Goodwill	322,398,459	-	-	**322,398,459**	147,292,895	39,070,836	-	**186,363,731**	**136,034,728**	175,105,564
2.	Other Intangibles	826,350	-	-	**826,350**	547,374	278,976	-	**826,350**	**-**	278,976
	TANGIBLE ASSETS										
3.	Land										
	- Freehold *	7,970,893	4,454,894	-	**12,425,787**	**-**	-	-	**-**	**12,425,787**	7,970,893
	- Leasehold	7,128,040	-	-	**7,128,040**	**-**	-	-	**-**	**7,128,040**	7,128,040
4.	Building	69,992,158	1,003,720	-	**70,995,878**	9,619,905	2,524,586	-	**12,144,491**	**58,851,387**	60,372,253
5.	Leasehold Improvements	-	1,368,618	-	**1,368,618**	-	134,722	-	**134,722**	**1,233,896**	-
6.	Computers and Software **	628,145,314	122,239,076	14,073,387	**736,311,003**	477,868,002	102,808,058	4,272,487	**576,403,573**	**159,907,430**	150,277,312
7.	Plant and Machinery	66,306,855	4,477,399	1,602,737	**69,181,517**	21,259,206	7,600,373	502,398	**28,357,181**	**40,824,336**	45,047,649
8.	Office Equipment	16,432,802	2,071,981	1,172,185	**17,332,598**	6,456,931	2,409,107	544,514	**8,321,524**	**9,011,074**	9,975,871
9.	Furniture and Fixtures (Including Interior Work)	65,682,985	2,412,657	12,210,612	**55,885,030**	28,227,424	8,309,200	3,047,249	**33,489,375**	**22,395,655**	37,455,561
10.	Electrical Installations	17,370,603	631,047	248,306	**17,753,344**	5,769,394	1,846,087	223,588	**7,391,893**	**10,361,451**	11,601,209
11.	Vehicles	13,087,115	1,819,418	2,807,728	**12,098,805**	7,135,991	2,343,323	2,695,641	**6,783,673**	**5,315,132**	5,951,124
		1,215,341,574	**140,478,810**	**32,114,955**	**1,323,705,429**	**704,177,122**	**167,325,268**	**11,285,877**	**860,216,513**	**463,488,916**	**511,164,452**
	Previous year	969,489,812	247,485,050	1,633,288	1,215,341,574	498,823,110	206,689,157	1,335,145	704,177,122	511,164,452	-
12.	Capital Work-in-Progress									**140,958,621**	12,465,250

* Includes Rs. 4,454,894 (2004 - Rs. Nil) in respect of which deed of conveyance is pending [Refer Note 6 of Schedule 17].

** During the year, the computer equipment costing Rs. 7,293,390 (2004 - Rs. Nil) acquired on finance leases. The written down value as at March 31, 2005 was Rs. 6,834,156 (2004 - Rs. Nil) [Refer Note 11 of Schedule 17].

\# Consequent to sale of controlling stake in Infotech Aerospace Services Inc., Puerto Rico, fixed assets costing Rs. 24,954,083 (written down value Rs. 18,870,630) (2004 - Rs. Nil) owned by IASI are removed from the fixed assets. Accordingly, deletions include adjsutment of historical cost of Rs. 24,954,083 and accumulated depreciation of Rs. 6,083,453 in respect of those fixed assets.

Schedules to the Consolidated Balance Sheet

(Amount in Rupees)

		As at March 31, 2005		As at March 31, 2004
6 INVESTMENTS				
I) Long Term				
(Valued at Cost)				
Trade - Unquoted				
a) Investment in Associate				
Infotech Aerospace Services Inc., USA		**51,967,338**		-
490 Shares of $0.01 par value fully paid up				
[Refer Note 2 of Schedule 17]				
b) Others				
Multimedia Mapping Limited, United Kingdom		**13,468,000**		13,468,000
2,721 Ordinary Shares of GBP 0.01 each				
Geo Information Services, USA		**14,262,650**		17,281,914
II) Current Investments				
(Valued at Lower of Cost and Fair Value)				
Non Trade - Quoted				
Yeoman Group Plc, United Kingdom	**6,659,000**		6,659,000	
35,088 Ordinary Shares of GBP 1 each				
Less: Provision for Diminution in Value of Investment	**6,520,227**		6,437,056	
		138,773		221,944
Non Trade - Unquoted				
JM Equity and Derivative Fund - Dividend Option		**10,000,000**		-
1,000,000 Units of Rs. 10 each (Fair Value : Rs. 10,058,300)				
SBI Magnum Debt Fund Series 60 Days - Dividend Option		**10,000,000**		-
1,000,000 Units of Rs. 10 each (Fair Value : Rs. 10,071,500)				
		99,836,761		30,971,858

Current Investments purchased and sold during the year :

Name of the Mutual Fund	No. of Units	Face Value Per Unit
Reliance Treasury Plan - Retail Option - Dividend Option	1,311,243.26	10
Reliance Fixed Term Scheme - Monthly Plan 7 - Dividend Option	1,000,000.00	10
Reliance Fixed Term Scheme - Monthly Plan 8 - Dividend Option	3,003,650.00	10
Principal Deposit Fund (FMP-3) 91 Days Plan - Dividend Reinvestment	1,000,000.00	10
Principal Cash Management Fund Liquid Option - Institutional Plan Dividend Reinvestment	1,009,449.35	10
Alliance Cash Manager	1,149,617.22	10
SBI Liquid Fund	1,747,169.59	10
JM Fixed Maturity Plan - QSA3-Dividend Option	1,000,000.00	10
JM Floater Fund - Short Term Plan - Dividend Option	994,977.12	10
HSBC Cash Fund - Institutional - Daily Dividend	1,436,974.31	10
GCBG Grindlays Cash Fund - Institutional Plan B - Growth	819,604.95	10
Kotak Liquid (Regular) - Growth	575,479.95	10
Sundaram Money Fund Institutional - Dividend Reinvestment	990,559.96	10
GCDB Grindlays Cash Fund - Institutional Plan B - Dividend	2,079,080.67	10

Schedules to the Consolidated Balance Sheet

(Amount in Rupees)

	As at March 31, 2005		As at March 31, 2004	
7. INVENTORIES				
Finished Goods (Software Products for Resale)		2,449,663		19,243,107
		2,449,663		19,243,107
8. SUNDRY DEBTORS (Unsecured)				
Considered Good *				
(a) Over Six Months old	27,255,815		97,150,683	
(b) Other Debts	845,045,193		540,904,774	
		872,301,008		638,055,457
Considered Doubtful - Over Six Months old		27,576,700		6,474,977
		899,877,708		644,530,434
Less: Provision for Doubtful Debts		27,576,700		6,474,977
		872,301,008		638,055,457
* includes Unbilled Revenue of Rs. 206,005,679 (2004 - 110,753,008).				
9. CASH AND BANK BALANCES				
Cash on hand		490,955		268,944
Balances with Scheduled Banks*				
- On Current Accounts	205,066,313		190,547,915	
- On Deposit Accounts	47,094,772		120,552,899	
		252,161,085		311,100,814
Unclaimed Dividend Accounts		640,240		459,771
Balances with Non-Scheduled Banks				
- On Current Accounts	86,312,055		62,744,358	
- On Deposit Accounts	-		214,083	
		86,312,055		62,958,441
		339,604,335		374,787,970
* Includes unutilized amount on further issue of equity shares amounting to Rs. Nil. (2004 - Rs. 103,083,304)				
10. LOANS AND ADVANCES				
(Considered good unless otherwise stated)				
Unsecured - Advances recoverable in cash or in kind or for value to be received		55,901,094		62,814,292
- Advance Tax (net of provision)		9,944,989		21,207,963
- Deposits		45,419,570		30,761,149
Interest accrued on Deposits		431,027		1,176,816
Considered doubtful		371,286		371,286
		112,067,966		116,331,506
Less : Provision for doubtful Loans and Advances		371,286		371,286
		111,696,680		115,960,220
11. LIABILITIES				
Sundry Creditors				
- Dues to small scale industrial undertakings		-		-
- Dues to others		284,379,529		153,613,291
Book Overdraft		-		34,278,041
Advances from Customers		17,690,175		48,915,975
Unearned Revenue		12,487,093		38,807,830
Investor Education and Protection Fund				
- Unclaimed Dividends		640,240		459,771
Other Liabilities		42,342,805		20,337,942
		357,539,842		296,412,850
12. PROVISIONS				
Proposed Dividend including tax thereon		25,128,009		20,094,620
Provision for Gratuity and Leave Encashment		82,806,894		47,239,117
Provision for Post Sales Support		-		337,706
		107,934,903		67,671,443

Schedules to the Consolidated Profit & Loss Account

(Amount in Rupees)

		For the year ended March 31, 2005	For the year ended March 31, 2004
13.	**OTHER INCOME**		
	Interest on Loans and Deposits - Gross	2,336,753	8,585,065
	(Tax Deducted at Source Rs. 410,338 : [2004 - Rs. 1,809,160])		
	Dividend Income from Current Investments	594,036	5,963,929
	Profit on Sale of Current Investments (net)	16,339	2,201,320
	Liabilities/Provisions no longer required Written back	5,213,935	3,825,296
	Gain/(Loss) on Exchange Fluctuations (net)	6,406,574	(12,823,195)
	Subsidies Received	10,251,991	13,255,884
	Miscellaneous Income	17,771,536	13,765,673
		42,591,164	34,773,972
14.	**PERSONNEL EXPENSES**		
	Salaries and Bonus	1,058,021,774	774,448,651
	Contribution to Provident and Other Funds	101,452,474	92,758,139
	Staff Welfare Expenses	53,255,018	37,747,098
		1,212,729,266	904,953,888
15.	**OPERATING AND ADMINISTRATION EXPENSES**		
	Rent	40,796,318	29,459,120
	Rates and Taxes	6,110,770	6,084,719
	Insurance	8,373,735	5,190,796
	Travelling and Conveyance	230,342,773	203,995,279
	Communication	28,551,469	29,234,634
	Printing and Stationery	9,252,535	9,570,474
	Power and Fuel	24,350,411	22,172,396
	Marketing Expenses	11,787,572	6,740,958
	Advertisement	7,447,899	6,573,480
	Repairs and Maintenance		
	- Buildings	1,903,338	1,045,943
	- Machinery	55,391,938	41,632,109
	- Others	3,095,351	4,794,687
	Professional Charges	35,953,842	25,114,033
	Purchase of Services / Software Products	289,455,121	202,794,115
	(Profit)/Loss on sale of Fixed Assets	(61,984)	45,638
	Loss on Discard of Fixed Assets	7,119,525	-
	Bad Debts Written off	1,061,791	1,368,630
	Provision for Doubtful Debts and Advances	20,481,839	2,109,440
	Loss on Sale of Long Term Investments	3,164,027	-
	Provision for Diminution in Value of Investment	83,171	6,437,056
	Auditors' Remuneration	4,717,102	3,987,688
	Recruitment Expenses	7,065,856	6,106,838
	Training and Development	18,262,447	9,286,385
	Managerial Remuneration		
	- Salaries	33,822,052	37,942,822
	- Contribution to PF and Other Funds	1,599,187	1,797,795
	- Commission	3,921,075	3,265,291
	Miscellaneous Expenses	21,136,824	18,470,737
		875,185,984	685,221,063
16.	**FINANCIAL EXPENSES**		
	Interest on Term Loans	-	360,631
	Interest on Other Loans	731,728	418,463
	Bank and Other Finance Charges	1,778,670	3,043,702
		2,510,398	3,822,796

Schedule 17 - Notes to Consolidated Financial Statements

1. Description of Business

Infotech Enterprises Limited and its wholly owned subsidiaries (hereinafter referred to as 'Infotech Group) are engaged in providing global technology services and solutions specializing in geospatial, engineering design and IT solutions. Infotech Enterprises Limited (hereinafter referred to as 'Infotech') has its headquarters and development facilities in India and serves a global customer base through its subsidiaries in United States of America (USA), United Kingdom (UK) and Germany. Infotech Group's range of services include digitization of drawings and maps, photogrammetry, computer aided design/ engineering (CAD/CAE), design and modelling, repair development engineering, reverse engineering application software development, software products development, consulting and implementation. Infotech Group specializes in software services and solutions for the manufacturing, utilities, telecommunications, transportation & logistics, local government and financial services markets.

2. List of Subsidiaries and Associate considered for Consolidation

Sl. No.	Name of the Subsidiary Company	Country of Incorporation	Extent of holding (%) as on March 31, 2005
	Subsidiaries		
1	Infotech Enterprises Europe Limited	U.K	100 %
2	Infotech Software Solutions Inc.	U.S.A	100 %
3	Advanced Graphics Software GmbH	Germany	100 %
4	Vargis LLC	U.S.A	100%*
5	Mapcentric Consulting Ltd.	U.K.	100%
	Associate		
	Infotech Aerospace Services Inc.	U.S.A	49%**

* Wholly owned by Infotech through its wholly owned subsidiary Infotech Software Solutions Inc., USA.

** On September 30, 2004, Infotech sold its 51% equity in Infotech Aerospace Services Inc., Puerto Rico (IASI) to United Technologies International Corporation. Pursuant to this, Infotech's holding in IASI reduced from 100% as at March 31, 2004 to 49% as at September 30, 2004 and IASI ceased to exist as a subsidiary. The consolidated financial statements include the financial statements of IASI upto September 30,2004. Subsequent to September 30, 2004, Infotech has accounted for its interest in IASI under the equity method of accounting.

3. Associate Stock Option Plans

Scheme established prior to SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999, (SEBI guidelines on Stock Options)

Infotech Employee Stock Offer Scheme 1999 (ESOP Plan)

In 1998-99, Infotech set up Infotech Employee Stock Offer Scheme (ESOP Plan) and allotted 80,900 equity shares of Rs. 10 each at a premium of Rs. 100 per share to the "Infotech ESOP Trust" ("Trust"). The Trust, on the recommendation of the management and upon the receipt of full payment upfront transfers the equity shares in the name of selected employees.

During 2002-03, Infotech modified ESOP Plan and adjusted the number of options and exercise price on account of bonus issue. Accordingly, the earmarked shares increased to 161,800 and exercise price reduced to Rs. 55 per share. These equity shares are under lock-in period (i.e., the date of transfer of the shares from the Trust to the employee) and it differs from offer to offer. Where the employee leaves Infotech before the expiry of the lock-in-period the options allocated to such employee stands transferred to Trust at a predetermined price of Rs. 55. Hence, the lock-in-period has been considered as vesting period. However, the Trust and Infotech have a discretionary power to waive the restriction on selling such stock to the Trust.

As this scheme is established prior to the SEBI Guidelines on the stock options, thus there is no cost relating to the grant of options under this scheme.

Scheme established after SEBI Guidelines on Stock Options

Securities Exchange Board of India (SEBI) issued the Employee Stock Option Scheme and Employee Stock Purchase Scheme Guidelines 1999, which is applicable for all Stock Option Schemes established after June 19, 1999.

Associate Stock Option Plan – 2001 (ASOP 2001)

Infotech instituted ASOP 2001 in April 2001and earmarked 225,000 equity shares of Rs.10 each for issue to the employees under ASOP. During 2002-03, Infotech modified ASOP 2001 and adjusted the number of options and exercise price on account of bonus issue. Accordingly the earmarked shares increased to 379,205. Under ASOP 2001, options will be issued to employees at an exercise price, which shall not be less than the market price on the date of grant. These options vest over a period ranging from one to three years from the date of grant, starting with 10% at the end of first year, 15% at the end of one and half years, 20% after two years, 25% at the end of two and half years and 30% at the end of third year. Accordingly, options (net of cancellations) for a total number of 27,970 equity shares of Rs. 10 each were outstanding as at March 31, 2005 (2004 – 106,325).

As the options were granted to the employees at the market price on the date of grant there is no cost relating to grant of options.

Changes in number of options outstanding were as follows:	**2005**	2004
Options outstanding at the beginning of year	**106,325**	262,470
Granted	**15,000**	-
Forfeited	**(7,570)**	(48,490)
Exercised	**(85,785)**	(107,655)
Options outstanding at the end of year	**27,970**	106,325

Associate Stock Option Plan – 2002 (ASOP 2002)

Infotech instituted ASOP 2002 in October 2002 and earmarked 575,000 equity shares of Rs.10 each for issue to the employees under ASOP. Under the ASOP 2002, options will be issued to employees at an exercise price, which shall not be less than the market price on the date of grant. These options vest over a period ranging from one to three years from the date of grant, starting with 10% at the end of first year, 15% at the end of one and half years, 20% after two years, 25% at the end of two and half years and 30% at the end of third year. Accordingly, options (net of cancellations) for total number of 331,832 equity shares of Rs. 10 each were outstanding as at March 31, 2005 (2004 – 429,275).

As the options were granted to the employees at the market price on the date of grant there is no cost relating to grant of options during the year.

Changes in number of options outstanding were as follows:	**2005**	2004
Options outstanding at the beginning of the year	**429,275**	407,350
Granted	**15,000**	83,500
Forfeited	**(52,320)**	(57,900)
Exercised	**(60,123)**	(3,675)
Options outstanding at the end of year	**331,832**	429,275

Associate Stock Option Plan – 2004 (ASOP 2004)

Infotech instituted ASOP 2004 in October 2004 and earmarked 1,150,000 equity shares of Rs.10 each for issue to the employees under ASOP. Under the ASOP 2004, options will be issued to employees at an exercise price, which shall not be less than the market price on the date of grant. These options vest over a period ranging from one to three years from the date of grant, starting with 10% at the end of first year, 15% at the end of one and half years, 20% after two years, 25% at the end of two and half years and 30% at the end of third year. Accordingly, options (net of cancellations) for total number of 5,000 equity shares of Rs.10 each were outstanding as at March 31, 2005 (2004 – Nil).

As the options were granted to the employees at the market price on the date of grant there is no cost relating to grant of options during the year.

4. Contingency Reserve

Infotech is contesting the Income Tax Appellate Tribunal's (ITAT) order for the denial of certain export benefits under the Income Tax Act 1961 on the grounds of the date of establishment of the Export Oriented Unit. The petition contesting the ITAT's Order has been admitted by the High Court of Andhra Pradesh and Infotech is hopeful of a favourable resolution.

5. Secured Loans

Working capital facilities availed by the subsidiary company are secured by way of first charge by hypothecation of all moveable assets forming part of its current assets, both present and future and bank guarantee given by Infotech in favour of subsidiary's bankers.

Vehicles and computers acquired under Hire Purchase Finance/Capital Leases are hypothecated to the banks/ lenders as security for the amounts financed.

6. Land

Infotech has entered an agreement of sale to acquire land measuring 1.294 acres at Madhapur, Hyderabad with AP Industrial Infrastructure Corporation Limited. As per the agreement, Infotech has paid Rs. 4,454,894 towards purchase of the land and the same has been disclosed as Freehold Land. On satisfaction of certain terms and conditions laid down in the agreement, the deed of conveyance shall be executed in favour of Infotech after payment of differential stamp duty, if any. Non-compliance of certain terms and conditions would attract withdrawal of rebate, which may increase the cost of land.

7. Sale of Investment in Infotech Aerospace Services Inc., Puerto Rico

On September 30, 2004, Infotech sold its 51% shareholding in Infotech Aerospace Services Inc., Puerto

Rico (IASI) to United Technologies International Corporation for US$ 550,000 and recognised a loss of Rs. 3,164,027 as loss on sale of long term investments in its consolidated profit and loss account.

Pursuant to above, IASI ceased to exist as subsidiary and Infotech had accounted the investment under the equity method of accounting. The break-up of the carrying value of the investment in IASI included in the consolidated financial statements is as follows:

Description	Amount in Rupees
Carrying value of Investment as at September 30, 2004	27,347,790
Add: Share of Profit from IASI during the period October 1, 2004 to March 31, 2005	24,619,548
Carrying Value of Investment as at March 31,2005	**51,967,338**

8. Investment in Tele Atlas India Private Limited

On March 23, 2005, Infotech entered into a Securities Purchase Agreement with Tele Atlas Data Gent N.V, Belgium and Tele Atlas Data's Hertogenbosch B.V., Netherlands (hereinafter referred to as Tele Atlas) to acquire their 100% equity in Tele Atlas India Private Limited for a cash consideration of Rs. 82,875,699. The above acquisition of shares is subject to fulfilment of certain terms and conditions specified in the agreement and obtaining necessary approvals from various authorities. Infotech has initiated the process of completion of all formalities in this regard.

Subsequent to the year end, Infotech has paid the full amount of consideration to Tele Atlas and the equity shares of Tele Atlas India Private Limited have been transferred in the name of Infotech.

9. Segmental Information

Management evaluates Infotech Group's performance and allocates resources based on an analysis of various performance indicators by business verticals and geographical segmentation of customers.

Consequent to the goals realignment exercise undertaken by Infotech Group, it has realigned its organization and businesses on vertical lines. The previous segmentation on GIS Services, Engineering Services and Software Development is now restructured into two vertically oriented businesses: Utilities, Transportation, Government (or UTG) and Engineering, Manufacturing, Industrial Products (or EMI). Both businesses cater to the specific requirements of customers in their respective user segments. While the erstwhile GIS Services and Engineering Services businesses are captured under UTG and EMI respectively, the Software Development business has been apportioned to the two vertical segments based on the nature of the development work delivered. All functions (delivery, sales & marketing, human resources and finance) have been reorganized along the verticals.

The management believes that such vertical realignment will enhance internal synergies and customer-focus, enabling the Group to achieve its internal growth objectives. It will also enable the Group move up the value chain of service offerings, create deeper, stronger relationships with customers and improve potential of participating in larger deals. The segment disclosures for the previous year have been reclassified to conform to the current year's presentation. A brief description of these verticals is given below:

I. Utilities, Transportation and Government (UTG)

UTG vertical services customers in industries such as power, gas, telecom, transportation and local government. Infotech Group's service offerings to the UTG vertical include data conversion, data maintenance, photogrammetry and IT services.

II. Engineering, Manufacturing, Industrial Products (EMI)

EMI vertical services customers in industries such as aerospace, automotive, off-highway transportation and industrial and commercial products, engineering design, embedded software. It solutions, manufacturing support, technical publications and other strategic customers. New business initiatives are also handled by this vertical.

Revenue in relation to these verticals is categorized based on items that are individually identifiable to that vertical. Gegraphical segmentation is driven based on the location of the respective clients and these are North America, Europe and Rest of the World. Geographic information on revenue is collected based on individual customers invoiced.

Fixed assets used in Group's business are not identified to any of the reportable segments and management believes that it is currently not practicable to provide segment disclosures relating to total assets and liabilities since a meaningful segregation of the available data is onerous.

Business Segments

(Amount in Rupees)

	UTG	EMI	Total
For the year 2005			
Revenues	**1,024,446,116**	**1,557,088,205**	**2,581,534,321**
Less: Inter Vertical Revenues			**(10,283,597)**
Revenue from External Customers			**2,571,250,724**
Operating Expenses	**(712,022,990)**	**(1,180,605,656)**	**(1,892,628,646)**
Less:Inter Vertical Expenses			**10,283,597**
Segmental Operating Income	**312,423,126**	**376,482,549**	**688,905,675**
Un-Allocable Expenses			**(392,199,311)**
Other Income			**42,591,164**
Profit Before Tax			**339,297,528**
Income Tax (including Deferred Tax)			**(90,173,283)**
Profit After Tax and before Share of Profit in Associate Company			**249,124,245**
Share of Profit in Associate Company			**24,619,548**
Profit After Tax and after Share of Profit in Associate Company			**273,743,793**

(Amount in Rupees)

	UTG	EMI	Total
For the year 2004			
Revenues from External Customers	699,056,004	1,175,620,796	1,874,676,800
Operating Expenses	(470,632,715)	(826,325,720)	(1,296,958,435)
Segmental Operating Income	228,423,289	349,295,076	577,718,365
Un-Allocable Expenses			(496,235,220)
Other Income			34,773,972
Profit Before Tax			116,257,117
Income Tax (including Deferred Tax)			(26,151,739)
Profit After Tax			90,105,378

Geographic Segments

Revenue attributable to location of customers is as follows:

(Amount in Rupees)

Geographic Location	2005	2004
North America	**1,690,990,711**	1,396,910,733
Europe	**760,211,263**	416,601,207
Rest of World	**120,048,750**	61,164,860
Total	**2,571,250,724**	1,874,676,800

10. Related Party Transactions

Infotech Group has transactions with the following related parties:

a) Associate

Name of the Associate
Infotech Aerospace Services Inc. Puerto Rico USA

b) Directors:

Name of Director	Designation
Mr. B V R Mohan Reddy	Chairman & Managing Director
Mrs. B Sucharitha	Whole Time Director
Mr. Sudhir Sethi	President and Executive Director

c) Key Management Personnel:

Name	Designation
Mr. Rajeev Lal	President
Mr. A V Ram Mohan	President
Mr. S A Lakshminarayanan	Chief Operating Officer
Mr. K Ashok Kumar	Chief Operating Officer
Mr. Mohan Krishna Reddy	Chief Financial Officer
Mr. B Ashok Reddy	Executive Vice President - Human Resource & Corporate Affairs
Mr K.Rajan Babu	Director & President, Infotech Software Solutions Inc., USA
Mr. John Patrick Renard	Managing Director of Infotech Enterprises Europe Limited
Mr. Martin Trostel	Managing Director of Advanced Graphics Software GmbH
Mr Greg Tilley	CEO and Director of Vargis LLC., USA

d) Infotech Group also has transactions with Digiquest Corporation, a US based Company run by the relative of the whole time directors. The transactions with the related parties are summarized below:

(Amount in Rupees)

Nature of Transactions	Transactions for the year ended		Balance as on March 31	
	2005	2004	**2005**	2004
Transactions with Associate:				
Reimbursement of Expenses/Receivable	-	-	**995,645**	-
Investments (Refer Note 2 and 7)	-	-	**51,967,338**	-
Transactions with Directors:				
Remuneration/Payable	**17,283,830**	14,457,885	**6,864,798**	3,921,628
Rent/Payable	**964,800**	864,000	-	-
Loan Granted/Outstanding	**797,650**	-	-	-
Transactions with Key Managerial Personnel:				
Remuneration/Payable	**41,654,202**	38,325,625	**4,075,099**	683,611
Loan Granted/Outstanding	**1,891,786**	-	**596,837**	926,707
Stock Options Granted/Outstanding	**22,500**	20,000	**52,400**	66,300
Transaction with Relative of Whole Time Directors:				
Agency Commission/Payable	**103,204**	1,424,555	**NIL**	1,859,905

11. Capital Lease

During the year, Vargis LLC entered into a thirty-six month capital lease for computer equipment. The capital lease was recorded at the present value of the minimum lease payments of Rs. 5,456,454 in the consolidated balance sheet. The asset is amortized over the life of the lease.

Infotech Enterprises Europe Limited also entered into a thirty-six month capital lease for computer equipment. The capital lease was recorded at the present value of the minimum lease payments of Rs. 1,836,936 in the consolidated balance sheet. The asset is amortized over the life of the lease.

At March 31, 2005, the future minimum lease payments under the capital leases are as follows:

(Amount in Rupees)

Lease Obligations under Capital Leases:	As at March 31,	
	2005	2004
Not Later than One Year	**2,236,663**	-
Later than One Year but not Later than Five Years	**4,426,145**	-
Total	**6,662,808**	**-**

12. Lease payments

Lease payments made under operating leases amounting to Rs. 40,796,318 (2004 - Rs. 29,459,120) have been recognised as an expense in the consolidated profit and loss account. The future minimum lease commitments of Infotech Group under non-cancellable operating leases are as follows:

(Amount in Rupees)

Maximum obligations on long-term non-cancellable operating leases:	As at March 31,	
	2005	2004
Not Later than One Year	7,988,461	18,438,702
Later than One Year but not Later than Five Years	18,675,123	15,055,597
Total	26,663,584	33,494,299

13. Earnings per Share (EPS)

Particulars	Year ended March 31	
	2005	2004
Basic:		
Weighted average shares outstanding	14,645,261	14,515,481
Profit After Tax (Rs.)	273,743,793	90,105,378
Earnings Per Share (Rs.)	18.69	6.21
Diluted:		
Effect of dilutive issue of stock options	130,416	153,956
Total shares outstanding (including dilution)	14,775,677	14,669,437
Earnings Per Share – (Rs.)	18.53	6.14

14. Contingent Liabilities and Commitments

a. Estimated amount of contracts remaining to be executed on capital accounts not provided for, net of advances Rs. 49,333,775 (2004 - Rs. 93,883,218).

b. Forward contracts outstanding Rs. 207,717,500 [Equivalent to USD 4,750,000] (2004 - Rs 104,784,000 [Equivalent to USD 2,400,000]).

c. Company has outstanding counter guarantees of Rs. 33,585,000 as on March 31, 2005, to banks, in respect of guarantees given by the said banks in favour of various agencies (2004 - Rs. 18,292,645).

d. Bank guarantee given in favour of subsidiary's bankers in respect of borrowings of subsidiary Rs. 14,165,000 (2004 – Rs. Nil).

e. Claims against the Company not acknowledged as debt: Income Tax Matters under appeal Rs. 22,801,181 (2004 - Rs. 22,801,181).

15. Research and Development Expenses

Revenue expenditure pertaining to Research and Development charged to Profit and Loss Account Rs. 20,946,066 (2004 - Rs. 17,736,366). Capital expenditure on Research and Development Rs. 983,000 (2004 – Rs. 1,567,526) is shown in the respective fixed assets.

16. Dividends

Dividends payable to equity shareholders are based on the net profit available for distribution as reported by Infotech in its separate financial statements prepared in accordance with Indian GAAP. The net profit in accordance with the consolidated financial statements may, in certain years, either not be fully available or will be additionally available for distribution to equity shareholders. The net profit available for distribution to equity shareholders was Rs. 223,064,747 and Rs. 122,103,227 for the years ended March 31, 2005 and 2004 respectively.

17. Regrouping/Reclassification

The figures for previous year have been regrouped / reclassified wherever necessary, to conform to the current year's presentation. However, the figures for the current year are not strictly comparable with those of the previous year on account of change in ownership interest in subsidiary during the year (Refer Note 2) and consolidation of financial statements of Vargis LLC for the period from January 21, 2004 to March 31, 2004 in previous year.

On behalf of the Board of Directors

S. Gopalakrishnan
Partner

For and on behalf of
Price Waterhouse
Chartered Accountants

Place : Hyderabad
Date : 20th April, 2005

B.V.R. Mohan Reddy
Chairman and Managing Director

B. Sucharitha
Whole-time Director

A. Mohan Krishna Reddy
Chief Financial Officer

M.S. Khan
Company Secretary

S. Nataraja
Vice President - Finance & Accounts

Place : Hyderabad
Date : 20th April, 2005

Statement on Significant Accounting Policies

1. Basis of Consolidation

The Consolidated Financial Statements include the accounts of Infotech Enterprises Limited (Infotech) and its subsidiary companies. Subsidiary companies are those in which Infotech, directly or indirectly, have an interest of more than one half of the voting power or otherwise have power to exercise control over the operations. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal.

These consolidated financial statements of Infotech and its wholly-owned subsidiaries are prepared under historical cost convention in accordance with generally accepted accounting principles applicable in India and the Accounting Standard 21 on Consolidation of Financial Statements issued by the Institute of Chartered Accountants of India to the extent possible in the same format as that adopted by the parent company (Infotech) for its separate financial statements.

Intra-group balances and intra-group transactions and resulting unrealised profits are eliminated in full. Unrealised losses resulting from intra-group transactions are also eliminated unless cost cannot be recovered. Consistency in adoption of accounting policies among all group companies is ensured to the extent practicable.

Investments in Business entities over which the company exercises joint control are accounted for using the proportionate consolidation except where the control is considered to be temporary. Investment in associates are accounted for using the equity method.

2. Use of Estimates

The preparation of the financial statements in conformity with the GAAP requires that the management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements, and the reported amount of revenues and expenses during the reported year. Actual results could differ from those estimates.

3. Revenue Recognition

Revenue from software services consists primarily of revenue earned from services performed on a "time and material" basis. The related revenue is recognized as and when services are performed.

Infotech Group also performs engagements on "time bound fixed-price" engagements, under which customers are billed, based on completion of specified milestones and/or on the basis of man-days/man hours spent as per terms of the contracts. However revenue in respect of these engagements is recognized using the percentage of completion method. The cumulative impact of any revision in estimates of the percentage of work completed is reflected in the year in which the change becomes known. Provision for estimated losses on such engagements is made in the year in which such loss becomes probable and can be reasonably estimated.

Amounts received or billed in advance of services performed are recorded as unearned revenue. Unbilled revenue, included in debtors, represents amounts recognized based on services performed in advance of billings in accordance with contract terms.

4. Fixed Assets

Fixed Assets are stated at actual cost less accumulated depreciation. The actual cost capitalized comprises material cost, inward freight, installation cost, duties and taxes and other incidental expenses incurred to acquire/construct/install the assets. Gains/Losses arising on foreign exchange liabilities incurred for the purpose of acquiring fixed assets are adjusted in the carrying amount of the respective fixed assets.

The cost and the accumulated depreciation for fixed assets sold, retired or otherwise disposed off are removed from the stated values and the resulting gains and losses are included in the profit and loss account.

Advances paid towards the acquisition of fixed assets outstanding at each balance sheet date and the cost of fixed assets not put to use before such date are disclosed as Capital work in progress.

5. Depreciation

Depreciation on fixed assets is computed on the straight-line method over their estimated useful lives at the rates which are higher than the rates prescribed under Schedule XIV of the Companies Act, 1956. Individual assets acquired for less than Rs. 5,000 are fully depreciated in the year of acquisition.

The estimated useful lives are as follows:

	Estimated Useful Lives
Building	28 years
Computers and Software	3 years
Plant and Machinery	10 years
Office Equipment	10 years
Furniture and Fixtures	10 years
Electrical Installation	10 years
Vehicles	5 years
Leasehold Improvements	Shorter of lease period or estimated useful lives

Statement on Significant Accounting Policies

Costs of software purchased for use in the projects are depreciated over the estimated useful life or over the period of the project whichever is lower.

Depreciation on assets acquired under a finance lease is provided using the straight-line method over the shorter of the lease term or the useful life of the asset.

6. Goodwill and Other Intangible Assets

Goodwill represents the difference between the purchase price and the fair value of assets and liabilities acquired. Goodwill is amortized on a straight-line basis principally over a period of 5-10 years. The goodwill is reviewed for impairment whenever events or changes in business circumstances indicate the carrying amount of assets may not be fully recoverable. If impairment is indicated, the asset is written down to its fair value. Other intangible assets include licence fees, which is amortized over a period of 5 years.

7. Investments

Investments are classified into current investments and long-term investments. Current investments are carried at the lower of the cost and fair value. Provision is made to recognize any reduction in the carrying value and any reversal of such reduction is credited to profit and loss account.

Long-term investments are carried at cost, and provision is made to recognize any decline, other than temporary, in the value of such investment.

Income from interest is recognized in the year in which it is accrued and stated at gross. Dividend income is recognised when the Company's right to receive dividend is established.

8. Inventories

Inventories constitute of software products/packages bought-in for resale and are stated at the lower of cost as determined using the first-in-first-out method (FIFO) and net realizable value.

9. Sundry Debtors

Sundry Debtors represents amounts receivable for software services rendered by Infotech Group. Debts, which are outstanding for more than 15 months, are considered as bad/doubtful and 100% of such debts are written off or provided for in the accounts in the year in which they become bad/doubtful. However, specific debts which are recoverable in the opinion of management and are outstanding for over 15 months need not be written off or provided in the accounts.

Specific debts, which are irrecoverable/doubtful in the opinion of the management, are written off/provided irrespective of their periodicity.

10. Research and Development

Revenue expenditure incurred on research and development is expensed as incurred. Assets used for research and development activities are included in fixed assets.

11. Foreign Currency Transactions

Transactions in foreign currencies are recorded at the exchange rates prevailing on the date of transaction and exchange differences arising from foreign currency transactions are recognized in the profit and loss account but capitalized where they relate to fixed assets. Monetary assets and liabilities denominated in foreign currency are translated at the rates of exchange at the balance sheet date and resultant gain or loss is recognized in the profit and loss account. Non-monetary assets and liabilities are translated at the rate prevailing on the date of transaction.

In case of forward exchange contract or any other financial instruments that is in substance a forward exchange contract to hedge the foreign currency risk which is on account of firm commitment and/or is a highly probable forecast transaction, the premium or discount arising at the inception of the contract is amortized as expense or income over the life of the contract.

Gains/Losses on settlement of transaction arising on cancellation or renewal of such a forward exchange contract is recognized as income or as expense for the period.

In all other cases the gain or loss on contract is computed by multiplying the foreign currency amount of the forward exchange contract by the difference between the forward rate available at the reporting date for the remaining maturity of the contract and the contracted forward rate (or the forward rate last used to measure a gain or loss on that contract for an earlier period), is recognized in the profit and loss account for the period.

Foreign subsidiaries are non-integral in nature. Assets and Liabilities of such subsidiaries are translated at the year end exchange rate. Income and expenditure are translated at the average rate during the year. The resultant translation adjustment is reflected as a separate component of shareholders' funds as a 'Currency Translation Reserve'.

12. Retirement Benefits

Contributions in respect of Employees Provident Fund and Pension Fund are made to fund administered and managed by the Government of India and are charged as

Statement on Significant Accounting Policies

incurred on accrual basis. Contributions under the superannuation plan are made to the fund administered and managed by the Life Insurance Corporation of India and are charged as incurred on accrual basis. Infotech also provides for other retirement benefits in the form of gratuity and leave encashment based on actuarial valuation made by an independent actuary as at the balance sheet date.

The subsidiaries of Infotech operate a defined contribution pension scheme. The assets of the scheme are held separately from those of the subsidiaries in an independent administered fund. The subsidiaries have no further obligations under the scheme beyond its monthly contributions.

13. Taxes on Income

Tax expense for a year comprises of current tax and deferred tax. Provision for current tax is made based on the applicable tax rates and tax laws with respect to that year. In case of matters under appeal, due to disallowances or otherwise, full provision is made when the said liabilities are accepted by Infotech Group. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. The effect of deferred tax assets and liabilities of a change in tax rates is recognized in the profit and loss account in the year of change. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards.

14. Earnings Per Share

The earnings considered in ascertaining Infotech Group's EPS comprises the net profit after tax (and includes the post tax effect of any extra ordinary items). The number of shares used in computing Basic EPS is the weighted average number of shares outstanding during the year. The number of shares used in computing Diluted EPS comprises of weighted average shares considered for deriving Basic EPS, and also the weighted average number of equity shares which could have been issued on the conversion of all dilutive potential equity shares. Dilutive potential equity shares are deemed converted as of the beginning of the year, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e., average market value of the outstanding shares). The number of shares and potentially dilutive shares are adjusted for share splits/ reverse share splits and bonus shares, as appropriate.

15. Employee Stock Options

Stock options granted to the employees under the Stock Option Schemes established after June 19, 1999 are evaluated as per the accounting treatment prescribed by Employee Stock Option Scheme and Employee Stock Purchase Scheme Guidelines 1999 issued by Securities Exchange Board of India. Accordingly the excess of market value of stock options as on the date of grant over the exercise price of the options is recognized as deferred employee compensation and is charged to profit and loss account on straight line method over the vesting period of the options. The unamortized portion of the cost is shown under Reserves and Surplus.

Consolidated Cash Flow Statement

FOR THE YEAR ENDED	March 31, 2005	March 31, 2004
A. CASH FLOW FROM OPERATING ACTIVITIES		
Profit Before Tax	339,297,528	116,257,117
Adjustment for :		
Depreciation and Amortisation	167,325,268	206,689,157
Financial Expenses	2,510,398	3,822,796
(Profit)/Loss on Sale of Fixed Assets	(61,984)	45,638
Loss on Discard of Fixed Assets	7,119,525	-
Interest and Dividend Income	(2,930,789)	(14,548,994)
Provision for Diminution in the Value of Investment	83,171	6,437,056
Loss on Sale of Long Term Investments	3,164,027	-
Profit on Sale of Current Investments	(16,339)	(2,201,320)
(Increase) / Decrease in Inventories	16,793,444	(10,298,709)
(Increase) / Decrease in Sundry Debtors	(251,252,464)	(157,516,293)
(Increase) / Decrease in Loans and Advances	(8,051,116)	(10,517,646)
Increase / (Decrease) in Current Liabilities and Provisions	99,707,988	116,547,796
Income Taxes Paid	(97,809,426)	(54,821,397)
Unrealized Gain on Translation Differences	(2,387,860)	(5,248,685)
Exchange Differences on Translation of Foreign Currency Cash and Cash Equivalents	(3,917,025)	10,649,132
NET CASH GENERATED BY OPERATING ACTIVITIES	269,574,346	205,295,648
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets and Change in Capital Work in Progress	(274,245,345)	(255,869,925)
Proceeds from Sale of Fixed Assets	174,071	252,505
Purchase of Long Term Investments	(23,159,775)	-
Proceeds from Sale of Long Term Investments	25,300,000	-
Purchase of Investment in Associated Venture	(3,747,881)	(17,281,914)
Proceeds from Sale of Investment in Joint Venture	6,767,145	-
Purchase of Current Investments	(213,638,947)	(714,550,838)
Proceeds from Sale of Current Investments	193,655,286	716,752,158
Interest and dividend income	3,676,578	16,823,629
NET CASH USED IN INVESTING ACTIVITIES	(285,218,868)	(253,874,385)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Issue of Share Capital	10,650,869	4,364,355
Proceeds from Secured Loans	36,149,100	-
Repayment of Secured Loans	(52,781,819)	(917,126)
Increase in Working Capital	4,950,261	-
Financial Expenses Paid	(2,510,398)	(3,840,695)
Dividends Paid	(19,914,151)	(20,265,978)
NET CASH USED IN FINANCING ACTIVITIES	(23,456,138)	(20,659,444)
D. EXCHANGE DIFFERENCES ON TRANSLATION OF CASH AND CASH EQUIVALENTS	3,917,025	(10,649,132)
NET DECREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(35,183,635)	(79,887,313)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	374,787,970	454,675,283
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	339,604,335	374,787,970

Note : The current year figures are not comparable with the previous year on account of change in ownership interest in subsidiary during the year and consolidation of financial statements of Vargis LLC for the period January 21, 2004 to March 31, 2004 in previous year.

This is the Consolidated Cash Flow Statement referred to in our report of even date.

On behalf of the Board of Directors

S. Gopalakrishnan
Partner

For and on behalf of
Price Waterhouse
Chartered Accountants

Place : Hyderabad
Date : 20th April, 2005

B.V.R. Mohan Reddy
Chairman and Managing Director

B. Sucharitha
Whole-time Director

A. Mohan Krishna Reddy
Chief Financial Officer

M.S. Khan
Company Secretary

S. Nataraja
Vice President - Finance & Accounts

Place : Hyderabad
Date : 20th April, 2005