CORPORATE INFORMATION

Board of Directors

Mr. Mahendra Nahata (Chairman)
Mr. Vinay Maloo
Mr. T. S. V Panduranga Sarma
Mr. K. B. Lal
Mr. S.Lakshmanan
Mr. M.P. Shukla
Dr. Ranjeet Mal Kastia
Mr. Shyam Sunder Dawra
Mr. R.K.Bansal

Chief Executive Officer

Mr. Surendra Lunia

Audit Committee

Mr. T. S. V Panduranga Sarma (Chairman)
Mr. Mahendra Nahata
Mr. S. Lakshmanan
Mr. R.K.Bansal

Share Transfer & Investors' Grievance Committee

Dr. Ranjeet Mal Kastia (Chairman)
Mr. K. B. Lal
Mr. T. S. V Panduranga Sarma

Remuneration Committee

Mr. S. Lakshmanan (Chairman)
Mr. Shyam Sunder Dawra
Mr. M.P. Shukla

Project Management Review Committee

Mr. M. P. Shukla (Chairman)
Mr. Mahendra Nahata
Mr. S.Lakshmanan
Mr. K. B. Lal
Mr. R.K.Bansal

Auditors

Chaturvedi & Partners, Chartered Accountants
S.R.Batliboi & Associates,Chartered Accountants

Internal Auditors

Khandelwal Jain & Co., Chartered Accountants

Compliance Officer

Mr. Sanjeev Vashishta
G. M. - (Corporate & Legal)
& Company Secretary

Bankers

State Bank of Patiala
Oriental Bank of Commerce
ING Vysya Bank Ltd.
Punjab National Bank
Bank of Punjab Ltd.

Registered Office

B-71, Industrial Focal Point,
Phase VII, Mohali, Punjab – 160 055

Registrar & Share Transfer Agents

Cameo Corporate Services Ltd.
Unit:- HFCL Infotel Ltd.
"Subramaniam Building",
No.1, Club House Road,
Anna Salai, Chennai- 600 002.

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NOTICE

NOTICE is hereby given that the **Fifty Eighth Annual General Meeting** of HFCL Infotel Ltd. will be held on Thursday, the 29th day of September, 2005, at 12.00 Noon at the Registered Office of the Company situated at B-71, Phase – VII, Industrial Focal Point, Mohali 160055, Punjab, to transact the following business: -

ORDINARY BUSINESS

1. To receive, consider and adopt the audited accounts for the Financial Year ended March 31, 2005 along with the report of auditors thereon as well as the Directors' Report and for that purpose to consider and if thought fit, to pass, with or without modifications, if any, the following as an ORDINARY RESOLUTION:

"**RESOLVED THAT** the Company's Audited Balance Sheet as at March 31, 2005 and the audited Profit and Loss Account for the financial year ended on that date together with Directors' and Auditors' Report thereon be and are hereby approved and adopted."

2. To consider and, if thought fit, to pass, with or without modifications, if any, the following as an ORDINARY RESOLUTION:

"**RESOLVED THAT** Mr. Mahendra Nahata, who retires by rotation in this Annual General Meeting be and is hereby re-appointed as a Director of the Company whose office shall be liable to retirement by rotation."

3. To consider and, if thought fit, to pass, with or without modifications, if any, the following as an ORDINARY RESOLUTION:

"**RESOLVED THAT** Mr. Vinay Maloo, who retires by rotation in this Annual General Meeting be and is hereby re-appointed as a Director of the Company whose office shall be liable to retirement by rotation."

4. To consider and, if thought fit, to pass, with or without modifications, if any, the following as an ORDINARY RESOLUTION:

"RESOLVED THAT Mr. T.S.V Panduranga Sarma, who retires by rotation in this Annual General Meeting be and is hereby re-appointed as a Director of the Company whose office shall be liable to retirement by rotation."

5. To consider and if thought fit, to pass, with or without modifications, if any, the following resolution as an ORDINARY RESOLUTION:

"**RESOLVED THAT** pursuant to the provisions under Sections 224, 225 and other applicable provisions, if any, of the Companies Act, 1956, M/s. Chaturvedi & Partners, Chartered Accountants, New Delhi and M/s S. R. Batliboi & Associates, Chartered Accountants, New Delhi be and are hereby re-appointed as Joint Auditors of the Company, to hold office from the conclusion of this meeting up to the conclusion of the next Annual General Meeting of the Company, to examine and audit the accounts of the Company for the financial year 2005-06 on remuneration to be decided by the Board of Directors".

SPECIAL BUSINESS:

6. To consider, and if deemed fit, to pass the following resolution, with or without modification(s), as a SPECIAL RESOLUTION:

"**RESOLVED THAT** subject to the approval of shareholders in the Annual General Meeting and subject to the approval of Financial Institutions / Banks, if applicable and in accordance with the provisions contained in sections 81, 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956, the provisions contained in the Securities and Exchange Board of India (referred to as "**SEBI**") Guidelines, Memorandum and Articles of Association of the Company and the provisions of Listing Agreements entered into by the Company with the Stock Exchanges where the shares of the Company are listed and subject to such approvals, consents, permissions and sanctions as may be necessary from the Government of India (hereinafter referred to as "**GOI**"), Reserve Bank of India (referred to as "**RBI**") and/or other authorities or institutions as may be relevant (hereinafter singly or collectively referred to as "**The Appropriate Authorities**") and subject to such terms and conditions or such modifications thereto, as may be prescribed by any of them while granting such approval(s), consent(s), permission(s) and/or sanction(s), the Board of Directors of the Company (hereinafter referred to as "**The Board**", which term shall be deemed to include any Committee of the Board, for the time being, duly authorized by the Board and exercising the powers conferred on the Board and / or any person(s) / officer(s) or any Committee thereof by this Resolution) be and are hereby authorized on behalf of the Company to create, issue, offer, allot in the course of one or more public or private offerings in the domestic and/or one or more international markets, Equity Shares / Preference Shares/ Equity Shares through Global Depositary Receipts (GDRs) /Convertible Notes / Securities, with or without detachable warrants/ any securities convertible into equity shares whether optionally or otherwise / Euro Convertible Bonds (ECBs) / Foreign Currency Convertible Bonds (FCCBs) /American Depositary Receipts (ADRs)/ Secured Premium Notes (SPNs) (hereinafter collectively referred to as "**the Securities**") to be subscribed to in any foreign currency/currencies by foreign investors (whether individuals and/or bodies corporate and/or institution(s) and whether shareholders of the Company or not) through Prospectus and/or Offer Document and/or other letter or circular and/or through public issue(s), Rights issue(s), Private placement(s), preferential allotment for cash or stock swap, from time to time in one or more tranches, as may be deemed appropriate by the Board for an aggregate amount (inclusive of such premium, as may be determined by the Board) not exceeding Rs. 400 Crores / US$ 100 million, such issue and allotment to be made at such price or prices, at a discount or premium to market price or prices in such manner and on such terms and conditions or such modifications thereto including security, rate of interest, etc., as may be decided and deemed appropriate by the Board at the time of such issue or allotment considering the prevailing market conditions and other relevant factors, wherever necessary, in consultation with the Lead Manager(s) and/or Underwriters and/or other Advisors, with the authority to retain over subscription up to such percentage as may be permitted by the "Appropriate Authorities" and so as to also enable the Company to get listed at Indian Stock Exchanges and Overseas Stock Exchanges such as Luxembourg, London, and/or any other Overseas Stock Exchanges;

RESOLVED FURTHER THAT the Board be and is hereby authorized to accept any modifications in the proposals as may be required by the authorities involved in such issues but subject to such conditions as the SEBI/GOI/RBI or such other appropriate authorities may impose at the time of their approval and as agreed to by the Board;

RESOLVED FURTHER THAT without prejudice to the generality of the above, the issue of Securities in international markets may have all or any term or combination of terms in accordance with the prevailing international practice including but not limited to conditions in relation to payment of interest, additional interest, premium on redemption, prepayment and any other debt service payment whatever and all such terms as are provided in international offerings of this nature including terms for issue of additional Equity Shares or variation of the conversion price of the Securities during the duration of the Securities;

RESOLVED FURTHER THAT subject to the approval of shareholders in their Annual General Meeting, in accordance with section 81(1A) of the Companies Act, 1956, if prior to conversion of such of the Securities offered and issued as are convertible into equity shares (hereinafter referred to as "**the Convertible Securities**") any equity shares as declared and allotted by the Company to the holders of existing equity shares as rights (hereinafter referred to as "**Rights Shares**") and/or as bonus shares (hereinafter referred to as "**Bonus Shares**"), the Board, be and is hereby authorized, to offer and/or issue and/or allot to the holders of the Convertible Securities in addition to the equity shares to which they are entitled upon conversion, additional equity shares in the same proportion and subject to the same conditions as to price and payment mutatis mutandis as the Rights Shares are offered and allotted to holders of the existing equity shares and/or Bonus Shares in the same proportion as are allotted to the holders of the existing equity shares;

RESOLVED FURTHER THAT subject to the approval of shareholders in their Annual General Meeting, the Board, be and is hereby authorized, to issue and allot such number of equity shares as may be required to be issued and allotted upon conversion of any aforesaid Convertible Securities or as may be necessary in accordance with the terms of the offering, all such equity shares shall rank pari passu with the existing equity shares of the Company in all respects, excepting such right as to dividend as may be provided under the terms of the Convertible Securities and in the Offer Document;

RESOLVED FURTHER THAT subject to the approval of shareholders in their Annual General Meeting, the Company and/or any agency or body authorized by the Company may issue:

(i) Depositary Receipts and / or the Foreign Currency Convertible Bonds representing the underlying equity shares issued by the Company in registered or bearer form with such features and attributes as are prevalent in international capital markets for instruments of this nature; and

(ii) to provide for the tradability or free transferability thereof as per the international practices and regulations and under the forms and practices prevalent in the international markets;

RESOLVED FURTHER THAT the Securities issued as aforesaid shall be deemed to have been made abroad in the market and/or at the place of issue of the Securities in the international markets and shall be governed by the applicable laws in such market or place of issue whether English law or U.S. law or otherwise, as the case may be;

RESOLVED FURTHER THAT subject to the approval of shareholders in their Annual General Meeting, the Board, may authorize the Chairman, CEO, GM (Corporate & Legal) and Company Secretary jointly or severally:

(i) to appoint, enter into and execute all such agreements and arrangements with any lead managers, merchant bankers, underwriters, guarantors, depositors, custodians, bankers, solicitors and all such agencies or intermediaries, as may be involved in or concerned with such offerings of Securities;

(ii) to remunerate all such agents or intermediaries by way of payment of commission and/or brokerage and/or fees or the like and to reimburse them and incur all the expenses relating to the issue including documentation, publicity, travel, printing, listing fees or the like, out of the proceeds of the Issue;

(iii) to seek the listing of such Securities in one or more Indian and/or International Stock Exchanges;

RESOLVED FURTHER THAT subject to the approval of shareholders in their Annual General Meeting, the consent of the Company be and is hereby also granted in terms of section 293(1)(a) of the Companies Act, 1956 and all other applicable provisions of the Companies Act, 1956 and subject to all necessary approvals and in particular of the Reserve Bank of India, to the Board to secure, if necessary, the entire or any part or parts of the Securities (to the extent the Securities are issued as debt instruments, convertible or linked to or representing equity shares) by creation of a mortgage and/or charge on all or any of the Company's immovable and/or movable assets, both present and future, such charge to rank pari passu with or second, subservient and subordinate to all the mortgages/charges created/to be created by the Company for all existing and future borrowings and facilities whatsoever;

RESOLVED FURTHER THAT for the purpose of giving effect to any issue or allotment of Securities, subject to the approval of shareholders in their Annual General Meeting, the Board, be and is hereby authorized on behalf of the Company to do all such acts, deeds, matters and things as it may in its discretion deem necessary, proper or desirable for such purpose, including without limitation, the entering into of underwriting, marketing and depositary arrangements, agreements and contracts with power on behalf of the company to settle any questions, difficulties or doubts that may arise in regard to such offering, issue and allotment and the utilisation of the issue proceeds as it may, in its absolute discretion, deem fit or proper;

RESOLVED FURTHER THAT the Board be and is hereby authorized to delegate all or any of the powers herein conferred to any Committee of Directors or Senior Executive(s)/ Officer(s) of the Company to give effect to the resolution."

By Order of the Board
for HFCL Infotel Limited

Sd/-
Sanjeev Vashishta
G.M. -(Corporate and legal)
& Company Secretary

Place: New Delhi
Date : July 30, 2005

Notes:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING OF THE COMPANY IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF/HERSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXY SHALL NOT BE ENTITLED TO VOTE EXCEPT ON A POLL. DULY COMPLETED PROXY FORMS SHOULD BE LODGED WITH THE COMPANY NOT LATER THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.

2. The Register of Members and the Transfer Books of the Company will remain closed from 26th September, 2005 to 29th September, 2005 (both days inclusive).

3. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, relating to the Special Business to be transacted at the meeting is annexed hereto and forms part of this notice.

4. In case the members wish to seek any information about the accounts and operations of the Company, they are requested to send their queries 7 days before the date of the meeting so that information can be made available at the meeting.

5. Members who hold shares in dematerialised form are requested to notify immediately any change of address to their Depository Participants (DPs) and those who hold shares in physical form are requested to write to the Company's Registrar & Share Transfer Agents, M/s. Cameo Corporate Services Ltd., "Subramaniam Building", No.1,Club House Road, Anna Salai, Chennai 600 002.

6. Members who are holding shares under more than one folio are requested to send the relative share certificates to the Registered Office of the Company for consolidation of the holding under one folio. The certificates after consolidation will be returned by Registered Post.

7. Members/Proxies are requested to fill the enclosed Attendance Slip and deposit the same at the entrance of the meeting hall.

8. Pursuant to the provisions of Section 205A of the Companies Act, 1956 the amount of dividend which remains unclaimed for a period of 7 years from the date of declaration would be transferred to the "Investor Education and Protection Fund" and the shareholders would not be able to make any claims as to the amount of dividend so transferred to the fund. As such, shareholders who have not yet encashed their dividend warrants are requested in their own interest to write to the Company immediately for claiming outstanding dividends declared by the Company during the years 1998 onwards. In respect of unclaimed dividends for periods prior to 1997, already transferred by the Company to the General Revenue Account of the

Central Government, shareholders may claim the same by submitting their claims for dividend to the Registrar of Companies, Punjab, Himachal Pradesh & Chandigarh at Jalandhar, by quoting the Company's Registration No. 16-26718.

9. To avail the facility of nomination, members are requested to submit to the Company the nomination form, which will be supplied on request.

10. Members are requested to bring their copy of the Annual Report with them to the Annual General Meeting.

11. The relevant details of item nos. 2,3 & 4 above pursuant to Clause-49 of the listing agreement are annexed hereto.

EXPLANATORY STATEMENT (PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956)

ITEM NO. 6

In order to augment the resources for implementing the expansion project, the company proposes to issue and allot equity shares and convertible debentures by way of offer to subscribers in/outside India. The offer shall be made in denominated currency (ies), whether Indian or foreign. The offer shall be made strictly in conformity with various applicable statutes and approvals of statutory authorities and Government of India. The detailed terms and conditions, including the securities, nature, price and tranches of the issue, will be decided by the Board in due course based on the discussions with the lead managers and underwriters and the conditions prevailing at the time of issue. The equity shares and convertible securities will be listed in the domestic and /or the international stock exchanges. Since the proposal involves issue of shares to non-members, approval from members by way of special resolution is required. The Board is of the view that the proposal would enhance the prestige of the company and be of immense benefit to the company and commend the special resolution for approval of members.

No director is interested or concerned in the resolution.

By Order of the Board
for HFCL Infotel Limited

Sd/-
Sanjeev Vashishta
GM(Corporate and Legal)
& Company Secretary

Place: New Delhi
Date : July 30, 2005

Details of Directors retiring by rotation and seeking re-appointment
(In Pursuance of Clause 49 of the Listing Agreement)

Name	Mr. Mahendra Nahata	Mr. TSV Panduranga Sarma	Mr. Vinay Maloo
Date of Birth	19.05.1959	31.07.1937	20.01.1961
Date of Appointment	29.04.2003	12.12.2003	17.06.2003
Qualification	B.Com (Hons.)	Chartered Accountant	B.Com
Expertise in specific functional areas	Over all Management	Finance	Over all Management
Directorships in other Public Companies	1. Himachal Futuristic Communications Limited 2. Himachal Exicom Communications Ltd. 3. HFCL Bezeq Telcom Ltd 4. Consolidated Futuristic Solutions Ltd. 5. HTL Ltd. 6. Connet Broadband Services Limited (upto July 01, 2005)	None	1. Himachal Futuristic Communications Limited 2. Himachal Exicom Communications Ltd. 3. HFCL Bezeq Telecom Ltd. 4. WPPL Ltd. 5. AB Corp. Ltd. 6. Consolidated Futuristic Solutions Ltd.
Chairman/Member of Committees of the Board of Companies of which he is a Director	1. HFCL Infotel Ltd. – Audit Committee – Member – Project Review Management Committee – Member 2. Himchal Futuristic Communication Limited – Remuneration Committee – Member (upto Jan 30, 2005	1. HFCL Infotel Limited – Audit Committee – Chairman – Share Transfer & Investor Grevience Committee	NIL

By Order of the Board
for HFCL Infotel Limited

Sd/-
Sanjeev Vashishta
G.M. -(Corporate and legal)
& Company Secretary

Place: New Delhi
Date : July 30, 2005

DIRECTORS' REPORT

Your Directors take pleasure in presenting the Fifty Eighth Annual Report of your Company together with the audited Accounts for the year ended 31st March, 2005.

SUMMARY OF FINANCIAL RESULTS

The summarised Financial Results are as under:-

(Rs. in Crores)

Particulars	Year Ended 31-03-2005	Year Ended 31-03-2004
Gross Income- - Service Revenue - Other Income	 253.32 2.22 **255.54**	 191.67 0.77 **192.44**
Operating Profit before Finance Cost, Depreciation and Amortisation	73.14	37.78
Less: - Finance Cost	62.72	69.11
Less: - Depreciation and Amortisation	102.83	79.67
Loss for the year before Prior Period Expenditure and Tax	(-) 92.41	(-) 111.00
Add: - Prior Period Expenditure	-0.81	2.61
Loss before Tax for the year	(-) 93.22	(-) 113.61
Add : Provision for taxation for earlier years	0.38	-
Loss after tax	(-) 93.60	(-) 113.61
Loss, brought forward from previous year	(-) 449.60	(-) 335.99
Profit/(Loss) carried to balance sheet	(-)543.20	(-) 449.60

DIVIDEND

In view of the accumulated losses, which are inherent in the initial few years of operations in any capital-intensive infrastructure project of basic telecom services, your directors are not in a position to recommend any dividend for the financial year 2004-05.

PERFORMANCE

The Year 2004-05 was an eventful year for the Company. The revenue from telecom service increased from Rs. 192 Crores in the previous year to Rs. 256 Crores during the current year. The Operating Profits, i.e. Earnings Before Interest, Depreciation, Extra Ordinary Items and Tax stood at Rs. 73.15 Crores as compared to the previous year's figure of Rs. 37.78 Crores from telecom services, indicating a growth of 96%. The Directors are pleased to announce that your Company achieved Cash Break Even during the first quarter of 2004-05.

Your Company became the first Service provider to have launched the Broadband DSL services in the state of Punjab and Chandigarh. The Broadband DSL-high-speed Internet product received an overwhelming response from the subscribers due to its inherent superior features such as stability, security and high speed. During the year, the Company expanded its services to 125 cities / towns of Punjab as compared to 60 cities / towns in the previous year. The subscribers' base has also shown a growth of over 85%, which correspond to almost 2.47 lacs subscribers as compared to about 1.5 lacs subscribers during the preceding year.

Your company plans to venture into Video and Cable TV services during the current year thus making triple play services a reality in this part of the Country. This would be followed by an expansion into the neighboring states of Punjab for which the Company proposes to acquire additional Licenses. Your Company's endeavor would be to expand the operations geographically apart from offering a wider bouquet of services to its subscribers using the existing infrastructure.

SHARE CAPITAL/OFCDs

At the request of the Company, the Corporate Debt restructuring (CDR) cell, constituted under the aegis of the Reserve Bank of India, approved the CDR package in March, 2004. As per the approved CDR package, your Company allotted Equity shares/ 0% secured optionally fully Convertible Debenture (OFCDs) having 18 months Maturity/0% unsecured OFCDs having 10 years maturity, in the meeting of its Board of Directors held on October 16, 2004, thereby converting part of Lenders outstanding /future dues into Equity/OFCDs as per the detail below:

I. Equity shares allotted to the tune of Rs. 84.05 Crores

S. No.	FI/Bank	Amt. (in Rs.)	Price per Share (Rs.)	No. of Share
1.	Industrial Development Bank of India	633731100	10.00	63373110
2.	Oriental Bank of Commerce	127803700	10.50	12171778
3.	ING Vysya Bank	79014600	10.50	7525200
	Total	**840549400**		**83070088**

II. 0% Unsecured OFCDs*, maturing on March 31, 2014, to the tune of Rs. 16.68 Crores.

S No.	Name of Term Lenders	Amount (In Rs.)	No. of OFCDs
1.	State Bank of Patiala	19310400	193104
2.	Life Insurance Corporation of India	147465700	1474657
	Total	**166776100**	**1667761**

* *These OFCDs have the conversion option only upto April 15, 2006, whereafter these shall automatically become Non-Convertible Debentures (NCDs).*

III. 0% Secured OFCDs having March 31, 2006 as Maturity aggregating Rs. 75.51 Crores.

S No.	Name	Total Amount (in Rs.)	No. of OFCD
1.	Industrial Development Bank of India	499726000	4997260
2.	Life Insurance Corporation of India	93698600	936986
3.	Oriental Bank of Commerce	92949000	929490
4.	ING Vysya Bank	37504600	375046
5.	State Bank of Patiala	31239600	312396
	Total	**755117800**	**7551178**

The Company also issued 7.5% Cumulative Redeemable Preference Shares (CRPS) aggregating Rs. 65 Crores, to its Holding Company, Himachal Futuristic Communications Limited, towards equipment supply & services and other advances.

CORPORATE DEBT RESTRUCTURING AND TYING UP OF FRESH DEBT

During the year the Company approached the CDR Cell for restructuring of the Company's debt by way of reduction in interest rates, which would improve the internal generation of funds and help the Company to embark upon its expansion plans. The lenders' permission was also sought for launching Video Access Services and expanding the telecom services into the neighbouring states of Haryana, Himachal Pradesh and Jammu & Kashmir. Your Company's expansion proposal has been approved by the CDR Empowered Group, including reduction in the Interest Rate and ballooning of the interest payable to the Institutions/ Banks.

During the year, your Company entered into a credit arrangement with the Export & Import Bank of China (China Exim Bank) for a buyer's credit line of USD 12.1 million. Your Company expects to further strengthen its ties with the China Exim Bank for financing its future expansion plans.

DIRECTORS

The Industrial Development Bank of India, has nominated Mr. R. K. Bansal, as Director on the Board of the Company w.e.f April 29, 2005, in place of Mr. T.B. Ananthanarayanan. The Board wishes to place on record its sincere appreciation for the valuable services rendered by Mr. Ananthanarayanan during his tenure as director on the Board of the Company.

In accordance with the Articles of Association of the Company and the provisions of the Companies Act, 1956, Mr. Mahendra Nahata, Mr. Vinay Maloo and Mr. T.S.V. Panduranga Sarma retire by rotation in the ensuing AGM and being eligible offer themselves for reappointment to the office of Director on the Board of your Company.

DIRECTORS' RESPONSIBILITY STATEMENT

In terms of provisions of Section 217 (2AA) of the Companies Act, 1956, your Directors confirm as under :-

(i) that in the preparation of the annual accounts for the financial year ended 31st March, 2005, the applicable accounting standards have been followed along with proper explanations relating to material departures;

(ii) that the Directors have selected appropriate accounting policies and applied them consistently, made changes wherever required, disclosed the same in the financial statements wherever applicable and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2005 and of the loss of the Company for the said period;

(iii) that proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities and

(iv) that the Directors have prepared the accounts for the financial year ended 31st March, 2005 on a going concern basis.

SUBSIDIARY

During the year under review, the wholly owned subsidiary of the company, Connect Braodband Services Limited was formed on July 2, 2004 to undertake the business of distribution of Video and Cable TV. Services.

CONSOLIDATED FINANCIAL STATEMENTS

In accordance with the Accounting Standard (AS-21) – Consolidated Financial Statement read with Accounting Standard (AS-23) on Accounting for Investments in Associates, your directors have pleasure in attaching the Consolidated Financial Statements, which form part of the Annual Report & Accounts.

FIXED DEPOSITS

The Company has not accepted / renewed any deposits from the Public under Section 58 of the Companies Act, 1956 with in the year. The Company had discontinued the NBFC business in the last year and transferred the outstanding amounts in the Escrow Account maintained with Oriental Bank of Commerce. Certain requests for release of matured deposits received from the investors, which were duly paid out of the said Escrow account and certain amounts which were overdue for a period of seven year or above have been transferred to Investor Education and Protection Fund maintained by the Department of Company Affairs under Section 205C of the Companies Act, 1956 out of said Escrow Account.

AUDITORS & AUDITORS' REPORT

M/s S.R. Batliboi & Associates, Chartered Accountants and M/s Chaturvedi & Partners, Chartered Accountants, the Statutory Auditors of the Company, retire at the ensuing Annual General Meeting and are eligible for reappointment.

The Statutory auditors of the Company have submitted Auditors' Report on the accounts of the Company for the accounting period ended March 31, 2005, which is self–explanatory.

MANAGEMENT'S EXPLANATION TO THE AUDITORS' OBSERVATION:

- The auditors have observed that the Internal control system relating to generation of aging reports of receivables and subscriber security deposits, need to be further strengthened and some of these processes are not entirely automated. Your Directors hereby state that the Company is in the process of implementing SAP which is expected to be implemented in the current financial year (2005-06). After the implementation of SAP the reports will be automated and internal controls will be strengthened.

- In response to the observation made by the auditors that there are certain delays in transferring the funds in the investor education and protection fund aggregating to Rs. 1,20,725/- and deposit of service tax, it is clarified that as per the direction of RBI, the company deposited amounts due to the Fixed Deposit holders in an Escrow Account maintained with the Global Trust Bank (now known as the Oriental Bank of commerce). The bank had frozen company's account subsequent to the take over of Global Trust Bank by the Oriental bank of Commerce as a result of which the amount could not be transferred in time. However, all the payments including service tax are regularised along with the due interest.

- To the observation made by the auditors regarding the pending execution of the Debenture Trust Deed and creation of the security in favour of the trust to secure 0% OFCDs allotted to the lenders, it is stated that the company has already appointed IDBI Trusteeship Services Limited as the Debenture Trustees. They are in the process of finalizing of Debenture Trust deed.

CORPORATE GOVERNANCE

Your Company has been practising principles of good Corporate Governance over the years and the Board of Directors lay strong emphasis on accountability, transparency and integrity.

In recent times, a series of regulatory reforms initiated by the Government have changed the framework of Corporate Governance across the Indian corporate sector. In order to strengthen the corporate governance norms, the Securities & Exchange Board of India has revised the Existing clause 49 of the Listing Agreement. Your Company is already complying with the revised clause 49 substantially.

Corporate Governance and Management Discussion and Analysis Reports as well as Corporate Governance Compliance Certificate are provided in separate Annexures.

STATUTORY STATEMENTS

HFCL Infotel Ltd. does not carry on any manufacturing activity and accordingly, the provision to furnish information as per Section 217(1) (e) of the Companies Act, 1956 relating to Conservation of Energy is not applicable. During the year under report, Company has not spent any amount on Research and Development and Technology Absorption.

During the year, there were no foreign exchange earnings for the Company. The total foreign exchange outgo was to the tune of Rs. 37.25 Lacs.

PERSONNEL

Information in accordance with the provisions of Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, as amended, forms part of this Report. As per provisions of Section 219 (1) (b) (iv) of the Companies Act, 1956, the Report and Accounts are being sent to all the Shareholders of the Company excluding the statement of particulars of employees under Section 217 (2A) of the Companies Act, 1956. Any Shareholder interested in obtaining a copy of the said statement may write to the Company Secretary at the Registered Office of the Company, and the same will be sent by post.

ACKNOWLEDGEMENTS

Your Directors wish to express their gratitude for the wholehearted support received throughout the year from the Shareholders, Subscribers, Business Associates, Financial Institutions, Banks, The Export & Import Bank of China, State Governments and The Department of Telecommunications.

Your Directors take this opportunity to put on record their sincere appreciation for the contribution made by the employees at all levels.

for and on behalf of the Board

Place : Mohali (Mahendra Nahata)
Date : July 30, 2005 **Chairman**

MANAGEMENT DISCUSSION & ANALYSIS REPORT

OVERVIEW

HFCL Infotel Ltd ("Infotel" or "the Company") is the first and the largest private sector fixed line telecommunication service provider in Punjab Telecom Circle, which comprises of Punjab, the Union Territory of Chandigarh and Panchkula (a town in Haryana). The services of Infotel have been in operation since September 2000.

Infotel provides a full range of communication services under the Unified Access Services License and the Internet Services Licence that it holds for Punjab Telecom Circle:

- Fixed line Telephony – through wire line, CorDECT wireless and CDMA wireless technologies
- Mobile Telephony – through CDMA technology
- Broadband Internet Access
- Data Networking Solutions

The Company's services are offered under the brand name "CONNECT". At the end of the financial year (i.e. March 2005), the Company had 246,700 telephony subscribers, including 193,500 for fixed-line segment and 53,200 for mobile segment. In addition, the Company had 14,000 Internet Access subscribers, including 4,000 with broadband access (speed : 256 kbps or more).

The Company's core network runs on a very extensive network of optic fiber cables that has a deep penetration up to the local access network. Local access network, in case of wireline fixed telephony segment, is typically less than 1 km long. On this extensive network, Infotel also provides infrastructure-leasing services to other telecom operators such as Spice Communications, Hutchison Essar Group, and Tata Teleservices, who have been leased optic fibre of over 3000 fibre pair kms for their core networks in Punjab by the Company.

With a deep penetration of network, the Company provides services in over 125 cities/ towns out of the approx. 160-census cities/ towns in its service area. These cities/ towns are spread over 48 of the 55 Short Distance Charging Areas ("SDCA") as defined by the Department of Telecommunications, Government of India.

Towards the close of the year, the Company forayed into video access services (distribution of broadcast TV and interactive premium multimedia content). The network is being progressively deployed and the services would be available in most of the areas reached for Telephony services during the financial year 2005-06.

Key highlights of the operating and financial performance for the financial year are:

- Broadband Internet Access services on ADSL technology, giving subscribers access speed of upto 512 kbps were launched in July 2004.
- CDMA wireless network was upgraded to the contemporary 3G1x standards.
- Investments in video access services (distribution of broadcast TV and interactive premium multimedia content) were initiated towards the close of the year.
- Subscriber base grew by 64% from about 150,000 at the end of March 2004 to 246,700 at the end of March 2005.
- Gross Revenue grew by 33% from Rs 192.4 Crore for FY 2003-04 to Rs 255.5 Crore for FY 2004-05.
- Operating Profit (EBIDTA) grew by 94% from Rs 37.8 Crore for FY 2003-04 to Rs 73.1 Crore for FY 2004-05.
- The Company reported a Cash Profit (Profit before Depreciation, Amortization and Taxes) for the first time in the quarter ended June 2004. This level has been achieved in less than 4 years of operations.
- Gross Operating Revenue (excluding infrastructure services) of Rs 248.66 Crore achieved during the year, translates to an overall blended Average Revenue Per User (ARPU) of Rs 1042/- per month (based on opening and closing subscriber base). This ARPU is amongst the highest in the country.

INDUSTRY STRUCTURE

The Telecommunication Services sector operates in a licensed and regulated environment. The sector can be classified in terms of segments for which the Government of India (GOI) issues licences:

- Access Operators - Offering Fixedline and Mobile Services
- National Long Distance Operators - Inter-linking the Access Operators
- International Long Distance Operators - Connecting the domestic operators (Access and National Long Distance) with operators in other countries
- Other Value-added Services Providers - Internet Access Services including Internet Telephony, VSAT based services, Radio Paging Services, Public Mobile Radio Trunking Services, Global Mobile Personal Communications Services through Satellite

The GOI is empowered to decide on the policies that govern the Telecommunication Services Sector and issue licences to the private sector players. The Government plays these roles through the Department of Telecommunications (DOT) and the Telecom Commission, both functioning under the Ministry of Communications and Information Technology.

The Telecommunications Regulatory Authority of India (TRAI), an autonomous body with quasi-judicial powers to regulate the Telecommunications Services was established in early 1997. The Act governing the establishment and role of TRAI was amended in 2000, pursuant to which TRAI's powers to adjudicate disputes have been vested in the Telecom Disputes Settlement Appellate Tribunal (TDSAT).

KEY INDUSTRY DEVELOPMENTS

Growth & Market Trends

During the Financial Year 2004-05, Indian Telecom Services sector continued its high growth trajectory, mainly driven by intense competition and aggressive pricing. The mobile segment continued with a high growth rate. Fixed-line segment grew at a faster pace than the previous year. Fixed wireless terminals contributed a significant part of this growth. The number of subscriber accessing Internet through 'always on' High speed Broadband segment is showing tremendous growth potential. Segmental growth of subscribers is shown below:

Service	Subscribers as on (in million)		Growth
	March '04	March '05	
Fixed including WLL(F)	42.58	46.19	8.47%
Mobile including Cellular & WLL (M)	33.58	52.22	55.50%
Gross Total	**76.16**	**98.41**	**29.21%**
Broadband Internet Access	-	**0.18**	

Tariffs

Given the multiple competing options available to customers, TRAI continued to give operators near-total flexibility in setting tariffs for voice telephony.

TRAI issued the ceiling tariffs for International Private Leased Circuit (IPLCs) and Domestic Lease Line Circuits by up to 70% depending on the distance and capacity.

Inter-connection Usage Charges (IUC) Regime and Access Deficit Charge (ADC) Norms

The IUC Regulations were reviewed during the year and further modified with effect from 1st February 2005. Salient changes from the previous regulations were:

- IUC values were specified for all call distances as well as all combination of originating/ terminating network and the existing practice of charging them on absolute values (Rs./min) was continued. However, for all distance slabs in inter circle calls, values were reduced and a single slab was fixed, instead of different slabs for different distance.
- ADC receipts for fixed-line service providers, other than BSNL, were restricted to outgoing calls only. ADC on incoming calls to non-BSNL fixed-line service providers was now to be passed onto BSNL by the originating mobile services provider in case of intra-circle calls, by the concerned NLD Operator for inter-circle calls and by the concerned ILD Operator for inter-national calls.
- The ADC values were revised downwards further, based on the increased traffic since the last review.

In March 2005, TRAI initiated the next round of review of the IUC regime.

Unified Access Licensing Regime & Other Licensing Related developments

As indicated in the last year, TRAI recommended to the Government that a Unified Licensing Regime should be introduced wherein various services like access voice telephony (fixed and mobile) in multiple circles, national and international long distance telephony, data networking, Internet Access including Internet Telephony, Cable Television (TV), Direct-To-Home (DTH), can be provided under a single licence. In addition, other categories recommended are Class License, Licensing through Authorization and Standalone Broadcasting & Cable TV Licence.

The key objective of the Unified Licensing Regime is to encourage free growth of new applications and services leveraging on the technological developments in the Information and Communication Technology (ICT) area. Other main objectives of the Unified Licensing Regime are to simplify the procedure of licensing in the telecom sector, ensure flexibility and efficient utilisation of resources keeping in mind the technological developments, encourage efficient small operators to cover niche areas in particular rural, remote and telecommunication-facilities-wise less developed areas and to ensure easy entry.

The Government has not accepted TRAI Recommendations.

OPPORTUNITIES AND THREATS

Opportunities

During the year, the Company further expanded the reach of its wireline voice services to smaller towns. The response from the smaller towns has been encouraging and the Company expects the smaller towns to contribute a significant proportion of new customers addition in the subsequent periods.

Following rapid decline in equipment prices, Broadband Internet Access has emerged as a viable value-addition tool and growth driver for the wireline telephony segment. The Company has already deployed broadband network equipment in most of the areas served by the Company's wireline services.

Cognizant of the affluent status and spending behavior of consumer in Punjab, the Company sees a significant opportunity in expanding the portfolio of its services to include video access services (broadcast television and interactive premium multimedia services) for the retail/ household segment along with the core services of voice telephony services and data services (internet access and point-to-point data links).

The market for video services in Punjab is large and growing. The market is under-served by large Multi-System Operators (MSOs). The Management believes that video services will provide synergistic boost to the uptake of the Company's core offering of voice and data services. Further, the Company can leverage the extensive fibre network and organizational set-up to capture large chunk of the market quickly. The Company has initiated investments in this segment towards the close of the year.

Having entrenched itself deep into the market and having developed a deep understanding of the market and customer requirements as well as strong relationships with the high usage customers and franchisees, the Company sees opportunity in expanding its franchise to the neighbouring states of Haryana, Himachal Pradesh and Jammu & Kashmir.

The Company believes that the expansion to the abovementioned neighbouring states would provide economies of scale and improve the Company's financial position significantly. The proposed expansion would assist the Company to increase the topline growth and thereby, combat potential revenue stagnation and profitability pressures arising out of decline in tariffs and competition. Expansion to neighbouring states will also enable the Company to offer attractive "on-net" calling tariffs within the community of interest, a service facet deployed by operators with multi-circle operations. Overall, the Company expects the expansion to improve the asset utilization and overall profitability significantly.

Threats

The competitive intensity in Punjab is high with seven operators offering their services. All the seven operators offer mobile telephony services. Four of these offer fixedline services as well. High level of competition causes pressure on new customer acquisitions, retention of existing customers and tariffs.

The Company derives substantial part of its earnings from wireline (copper based network) services. This market segment is expected to grow at a much slower pace compared to mobile services segment.

OUTLOOK

The Company foresees high degree of competition in the years to come, especially in the mobile telephony segment. The Company currently has a limited presence in the mobile telephony segment through its limited mobility services in five cities, but plans to expand the wireless network footprint to most parts of the service area in the current financial year.

Though the overall market for fixedline services – the Company's largest service stream - has witnessed a slower growth, the Management believes that the Company will sustain a healthy growth on account of following factors:

- The Company is deploying a judicious mix of wireless systems; based on both CDMA and CorDECT technologies to supplement its wireline network and deepen the availability of services in the towns where the Company is presently offering its services.
- With equipment becoming cheaper in recent times, the Company has started offering very affordable tariff packages for broadband internet access services. Increasing demand for high-speed Internet access would be a key driver for the Company's copper based wireline service.
- With the the right to offer full mobile services under the Unified Access Services Licence, the Company expects its subscriber base to grow faster as the mobile telephony segment is growing significantly faster than the fixedline segment.
- The Company foray into video access services over Hybid Fibre Co-axial (HFC) cable network will enable it to offer bundled service offering of voice, data and video services under one roof. This is expected to boost the uptake of each of the individual services and would serve as a key differentiator against the competitors, especially the incumbent operator.
- The planned expansion into the neighbouring states of Haryana, Himachal Pradesh and Jammu & Kashmir, at low incremental capital cost and low incremental operating cost will help improve the overall asset utilization and profitability ratios.

RISKS & CONCERNS

As is the case with any infrastructure project, the Company is also exposed to a number of risks. Some key risks have been mentioned below:

1. Financing Risks

The Company has made substantial investments in laying the core network infrastructure and launch of services. However, to attract new customers, and to offer new/ better services, the Company needs to continually make further investment in the expansion/ upgradation of its network.

As is the case for any other capital-intensive infrastructure business, the deployment of telecommunication services infrastructure entails significant capital expenditure, a substantial portion of which needs to be incurred before the realization of adequate revenues. Though the Company has reported a cash profit since the first quarter of FY 2004-05, the operating cash flows would not be adequate to fund the incremental capital expenditure and working capital requirements.

Thus, the Company's operating results and financial condition depends, among other things, on timely securing of significant external financial resources at competitive rates to fund these requirements. Further, the envisaged fund requirement might also escalate upward due to variety of factors viz., slower uptake of services, stiff competition, and change in regulatory scenario, technological upgradation requirements and delays in planned capital expenditure.

2. Market and Competition Risk

The Company faces competition from other services providers in its service area. Other service providers in the Company's service area are - Bharat Sanchar Nigam Ltd (BSNL), Reliance Infocomm, Tata Teleservices, Bharti Televentures ("Airtel" tradename), Spice Communications (offering mobile services only) and Hutchison-Essar Group ("Hutch" tradename, offering mobile services only). Most of the Company's competitors have significantly greater financial resources, well-established brand names, large and existing all-India customer base, potential to cross-subsidize long-distance tariffs and intra-network tariffs.

The revenues of the Company are significantly dependent on the tariffs as also on the overall economic scenario. Reduction in tariffs and a weak economic scenario would hamper revenue growth.

3. Regulatory Risks

In the ordinary course of business, the Company is required to obtain various regulatory approvals, which mostly are recurring in nature viz., SACFA/ WPC approval for frequency allocation, Right of Way for laying network cables, testing approval for interconnection with BSNL, TRAI approval for interconnection agreements and tariffs etc.

Although, the Company has obtained all such approvals in the past and would continue to apply for these approvals pursuant to roll out schedule, such approvals may not be available in time or on favorable terms and conditions, which may result in time delays and cost overrun which could have an adverse effect on the business and operations of the Company.

4. Risk of rapid technological changes

The telecommunication services industry is characterized by rapid technological change. Given the fast pace of technological innovation in the telecommunication sector, the Company faces the risk of its technology becoming obsolete and may need to invest significantly large amounts to upgrade its networks.

5. Dependence on key personnel

The Company's business is dependent on a few key senior executives, the loss of any one of them could have a material adverse effect on the Company's business, operating results and financial condition.

INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

The company has a proper and adequate internal control systems to ensure that all assets are safeguarded and protected against loss from unauthorized use or its disposition and that transactions are authorized, recorded and reported correctly. The Internal control is supplemented by an extensive internal audit, review by management and audit committee and documented policies, guidelines and procedures. The internal control is designed to ensure that the financial and other records are reliable for preparing financial statements and other data, and for maintaining accountability of assets.

The internal audit function is looked after by an independent firm of Chartered Accountants who conducts audit, reviews, evaluate and submit their reports to the management and the Audit Committee at regular intervals.

The Internal Auditors reports dealing with Internal Control Systems are considered by the Audit Committee and appropriate actions are taken, wherever deemed necessary.

The company makes detailed revenue budgets on business area basis for various products and departments. The actual performance is measured on monthly basis and a detailed analysis of the variances in periodical review before Board is carried out to set right any material deviations. In addition a budgetary control on all capital expenditure ensures that actual spending is in line with the capital budget.

CORPORATE DEBT-RESTRUCTURING (CDR)

The original CDR project was appraised in FY 2000 by IDBI at an estimated peak funding (year 2003-04) cost of Rs 1180 Cr. With the permission to offer mobility services (CDMA technology), and other external and internal factors, IDBI led consortium of lenders had approved reduction in the interest rate of debts through Corporate Debt Restructuring (CDR) Mechanism, constituted under the aegis of the Reserve Bank of India, and approved change in scope of the project vide their approval dated March 10, 2004. Consequently, peak-funding requirement has been upwardly revised from Rs.1180 Crore as appraised by IDBI in March 2000 to Rs.1347 Crore. The approval of the CDR Cell has since been implemented and the necessary instruments have already been allotted/issued are per the details given below:

I. <u>Equity shares allotted to the tune of Rs. 84.05 Crores, including share premium amount.</u>

II. <u>0% Unsecured OFCDs, having maturity on March 31, 2014 to the tune of Rs. 16.68 Crores (</u>The break-up of the above issued Equity / OFCDs are provided under para share capital in Directors' Report). These OFCDs have the conversion option only upto April 15, 2006, whereafter these shall automatically become Non-Convertible Debentures (NCDs).

III. <u>0% Secured OFCDs having March 31,2006 as Maturity aggregating Rs. 75.51 Crores.</u>

The Company had again approached the CDR Cell seeking their permission to launch Video Access Services and foray its telecom services into the neighbouring states of Haryana, Himachal Pradesh and Jammu & Kashmir. The CDR Cell has approved the proposal as per which the consolidated project cost of Rs.1547 Crore till the peak-funding requirement in the FY 2006-07 has been approved.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

It has been Company's endeavor to expand the operations geographically and also in terms of providing new value added services. During the year 2004-05, the Company has expanded its services to 125 cities / towns of Punjab. The subscribers' base has also shown a growth of over 64%, which correspond, to almost 2.47 lacs subscribers as compared about 1.5 lacs subscribers during the preceding year.

The revenue from telecom service increased from Rs. 191.67 Crores in the last year to Rs. 253.33 Crores during this year. The Operating Profits, i.e. Earnings Before Interest, Depreciation, Extra Ordinary Items and Tax stood at Rs. 73.15 Crores as compared to the previous year's figure of Rs. 37.78 Crores, indicating a growth of 94%. The Directors are pleased to announce that your Company achieved Cash Break Even during the first quarter of 2004-05.

Revenue at a glance

(Rs in Crores)

Parameter	2004- 05	2003- 04
Unified Access Services	222.14	166.54
Internet Services	4.56	2.04
Inter connect Usage Charges	21.96	20.61
Infrastructure Services	4.66	2.48
Other Income	2.22	0.77
Total	**255.54**	**192.44**

Key Financial Indicators

(Rs in Crores)

Parameter	2004- 05	2003- 04
Gross Income	255.54	192.44
Operating Profit (EBIDTA)	73.15	37.78
Cash Profit	10.43	(31.33)
Profit / (Loss) After Tax	(93.60)	113.61)

Major Expenses at a glance

(Rs in Crores)

Parameter	2004- 05	2003- 04
Network Operations Expenditure	109.40	95.53
Personnel Cost	22.45	19.37
Sales & Marketing Expenditure	15.71	12.23
Administration & Other Expenditure	34.84	27.53
Finance Cost	62.72	69.11
Total	245.12	223.77

Share Capital

The share capital of the company comprises of Equity Shares and Cumulative Redeemable Preference Shares. Pursuant to Corporate Debt Restructuring ('CDR') scheme the company has issued 8,30,70,088 equity shares of Rs. 10/- each. Out of the above 1,96,96,978 equity shares were issued at premium of Re 0.50 per equity share in line with the SEBI guidelines on October 16, 2004. In addition to above 65,00,000 7.5% Cumulative Redeemable Preference Shares (CRPS) of Rs. 100/- each were allotted to M/s Himachal Futuristic Communication Limited (Holding Company) on October 16, 2004.

Secured Loans

The Secured loans of the company have been increased from Rs. 610.89 Crores on March 31, 2004 to Rs. 692.77 crores on March 31, 2005 pursuant to the Corporate Debt Restructuring ('CDR') scheme under which the company has issued 7551178 Zero percent Optionally fully convertible Debentures of Rs. 100 each and redeemable on premium.

Unsecured Loans

Unsecured Loans decreased from Rs. 35.53 Cores on March 31, 2004 to Rs 17.07 Crores on March 31, 2005 as the advances against application money for OFCDs of Rs. 31.81 Crores was converted in OFCDs and also the Vendor Finance facility of Rs. 3.61 Cores was repaid during the year.

Fixed Assets

The company made addition of Rs. 74.59 crores in the Gross Block during the year 2004-05. However, net block has decreased from Rs. 557.76 crores on March 31, 2004 to Rs. 549.77 crores on March 31, 2005 due to depreciation during the year. The Capital Work In Progress was Rs 44.09 crores on March 31, 2005 as compared to Rs. 14.46 crores on March 31, 2004.

Intangible assets

The intangible assets (net) have been decreased from Rs. 197.66 Crores on March 31, 2004 to Rs. 174.89 Crores on March 31, 2005, mainly as a result of yearly amortization.

Investments

The investments made by the company has been increased from Rs. 71.77 Crores on March 31, 2004 to Rs 71.82 Cores on March 31, 2005. This increase is on account of investment in equity shares of wholly subsidiary named Connect Broadband Services limited.

Current liabilities and Provisions

The Current liabilities and Provisions of the company stood at Rs. 111.05 Crores on March 31, 2005 as compared to Rs. 65.44 Crores on March 31, 2004. This increase is mainly due to increase in capital creditors.

Current Assets

The current assets of the company stood at Rs 51.08 Crores as on March 31, 2005 as compared to Rs. 39.15 Crores as on March 31, 2004. These include cash & bank balances, loans and advances and sundry Debtors.

MATERIAL DEVELOPMENTS IN HUMAN RESOURCE

The company strongly believes that human capital is the key resource in achieving company's growth and business success. The year ended on March 31, 2005 witnessed employee strength growing to 687, with an average age of employees less than 30 yrs. The company has a professionally qualified work force out of which more than 70% are Engineers, MBA's, C.A / C.S. etc.

During a recent people survey managerial competence and a strong feeling of camaraderie amongst the employees has come up as major strength of the organization.

The organization has taken a lot of initiatives for people and organizational development. Continuous inputs are being designed and imparted to develop functional / technical and behavioral competencies of the employees for individual growth and also to ensure business success on sustainable basis.

Modern pay practices such as market-based compensation to identify meritocracy and performance are basis of all compensation design and review in company. Quarterly appraisals encourage people to perform optimally and contribute in achieving business goals.

CAUTIONARY STATEMENT

The report may contains forward looking statements, which may be identified by their use of words like 'plan', 'expects', 'will', 'believes', 'estimates' or other words of similar meaning. All statements that address expectations or projections about the future, including but not limited to statement about the company's strategy for growth, product development, market position, expenditures and financial results are forward looking statements.

Forward-looking statements are based on certain assumptions and expectations of future events. The company cannot guarantee that these assumptions and expectations are accurate and will be realized. The Company's actual results, performance or achievements could thus differ materially from those projected in any such forward-looking statements. The company assumes no responsibility to publicly amend, modify or revise any forward looking statements on the basis of any subsequent developments, information and events.

CORPORATE GOVERNANCE REPORT

Corporate Governance is crucial to the very existence of the Company as it builds confidence, trust and long term relation with its investors, customers and all other stakeholders, encourages efficient use of resources and ensures accountability and transparency thereby leading to overall growth of the business.

1. Company's Philosophy and Principles on Corporate Governance

Philosophy

Transparency, Accountability, Integrity, Fairness, Purposefulness, Trust, Communication and Quality constitute the Company's Philosophy on Corporate Governance with the ultimate aim of value creation for all.

Principles

Company has laid a strong foundation for making Corporate Governance way of life by implementing a Corporate Governance Policy. The Policy is based on highest standard of Corporate Governance practices, which apart from fulfilling the requirements of clause 49 of the listing agreement laid a stress on complete transparency, business ethics and social obligations of the Company. The Company's philosophy on Corporate Governance is based on the following two core basic principles:

- Management must have executive freedom to drive the enterprise forward without undue restraints.
- This freedom of management should be exercised within a framework of effective accountability

The Corporate Governance in the Company, based on the principles and philosophy as mentioned above, takes place at the three interlinked levels i.e.,

a) Strategic Supervision by the Board of Directors.

b) Various Committees of the Board of Directors.

c) Reporting and Disclosures.

2. Board of Directors

(A) Composition

The Company's current Board consists of 9 Directors including two Nominee Directors nominated by the Industrial Development Bank of India Ltd. and the Life Insurance Corporation of India, the term lenders of the company. All the Board Members possess adequate experience, expertise and skills. The Board oversees the business operations with the day-to-day affairs being managed by the Chief Executive Officer of the Company in consultation with the senior Management Team.

The whole of the Board is non-executive and the Independent Directors constitute more than 50% of the current strength of the Board. The Company has a non-executive Chairman.

The non-executive Directors with their diverse knowledge, experience and expertise bring in their independent judgment in the deliberations and decisions of the Board.

None of the directors on the Board are members in more than ten Committees and/or Chairman of more than five Committees across all companies in which they are directors.

The current composition and category of the Directors is as under:

Name of the Director	Joining w.e.f.	Category	No. of other Directorships	Committee Membership	Committee-chairmanship*
Mr.Mahendra Nahata	29.04.2003	(C/NED/PD)	5	2	0
Mr. M.P.Shukla	29.04.2003	(NED/ID)	2	3***	1
Mr. Vinay Maloo	17.06.2003	(NED/ PD)	6	0	0
Mr. S.Lakshmanan	17.06.2003	(NED/ID/ Nominee)	0	3	1
Mr. K.B. Lal	29.10.2003	(NED/ID)	0	2	0
Mr.T.B. Ananthanarayanan (Since resigned on 29.04.2005)**	31.05.2004	(NED/ID/ Nominee)	1	3	0
Mr.T.S.V. Panduranga Sarma	12.12.2003	(NED/ID)	0	2	1
#Mr.R.K.Bansal (In place of Mr.T.B. Ananthanarayanan)	29.04.2005	(NED/ID/ Nominee)	1	3	0
Mr.Shyam Sunder Dawra	19.06.2004	(NED/ID)	3	1	0
Dr. Ranjeet Mal Kastia	19.06.2004	(NED/PD)	2	2	1

Note:

**Includes Membership / Chairmanship in HFCL Infotel Ltd.; Excludes Private Companies; Includes Membership acquired after March 31, 2005; Committees considered are Remuneration Committee, Audit Committee, Share Transfer & Investors' Grievance Committee and Project Management Review Committee.*

[C-Chairman; NED–Non Executive Director; PD–Promoter Director; ID-Independent Director]

** *Member of Share Transfer & Investors' Grievance Committee till July 26, 2004.*

*** *Member of Audit Committee till July 26, 2004*

Mr.R.K.Bansal is a member of the Audit Committee and PMRC committee w.e.f May 30, 2005.

(B) Attendance at the Board meetings/ Annual General meeting

The Board meets every quarter to review and discuss the operating results and other items of agenda. Additional meetings are held whenever required. During the period 01.04.2004 to 31.03.2005, the Board met 8 times on the following dates viz. April 26,2004, May 19, 2004, June 19, 2004, July 26, 2004, October 16, 2004, December 06, 2004, January 29, 2005 and March 17, 2005.

The 57th Annual General Meeting of your Company was held on September 30, 2004.

Attendance of Directors at the Board Meetings held during the year 2004-05 and at the last Annual General Meeting is shown as under:

Attendance of the Directors for the FY 2004-05

S. No.	Name of the Director	Board Meetings		Last AGM attended
		held during the tenture	Attended	
1	Mr.Mahendra Nahata	8	8	Yes
2	Mr.M.P.Shukla	8	6	No
3	Mr.T.B.Ananthanarayanan (Since resigned on 29.04.2005)	6	6	No
4	Mr.T.S.V.Panduranga Sarma	8	7	Yes
5	Mr.S.Lakshmanan	8	8	Yes
6	Mr.S.S.Dawra	6	5	Yes
7	Dr.Ranjeet Mal Kastia	6	4	No
8	Mr.K.B.Lal	8	6	Yes
9	Mr.Vinay Maloo	8	0	No

(C) Information Placed Before the Board

As required by the terms of Corporate Governance, following matters are regularly placed before the Board in addition to the matters, which statutorily require the Board's approval:

a. Minutes of all Committee Meetings;

b. Quarterly Un-audited Financial Results of the Company;

c. Annual Operating Plans, budgets and updates thereon;

d. Information on recruitment, resignation and remuneration of all senior officers just below the Board level including appointment of Chief Financial Officer;

e. Show cause, demand, prosecution notices, penalty notices etc. which are materially important;

f. Material default in financial obligations, if any, to and by the Company or substantial non-payment for goods sold or services rendered by the Company;

g. Non-compliance of any regulatory and statutory requirements or listing requirements and shareholders' service;

h. Details of any joint venture or collaboration agreement;

i. Quarterly details of foreign exchange exposures and the steps taken by the management to limit the risks of adverse exchange rate movement, if material.

j. Legal Compliance reports and Certificates.

k. Accounts of the subsidiary Companies.

3. Board Level Committees

The Board has constituted various Committees for smooth and efficient operations of Company's activities. The draft minutes of the proceedings of each Committee Meeting duly initialed by the Chairman of the respective Committee are circulated to the members of that Committee for their comments and thereafter, confirmed by the respective Committee in its next meeting. The proceedings of all such Committee meetings are regularly placed before the Board. The Committees meet at regular intervals to review their respective areas of operation.

(A) Audit Committee

The Audit Committee comprised of:

- Mr. T S V Panduranga Sarma, Chairman
- Mr. Mahendra Nahata
- Mr. S Lakshmanan
- Mr. T.B.Ananthanarayanan (w.e.f 26.07.2004 to (29, 04.2005)
- Mr. M.P Shukla (up to 26.07.2004)
- Mr. R. K. Bansal (w.e.f 30.05.2005)

The constitution of the Audit Committee meets the requirements of section 292A of the Companies Act, 1956 as well as the requirements of the Listing Agreements. The Committee meets regularly and the Statutory Auditors, the Internal Auditors, Chief Executive Officer and other Senior Officers are invitees to the meetings. The quorum for the Audit Committee is 2 members.

Broad Terms of Reference, as stipulated by the Board to the Audit Committee are as follows:

- Review of quarterly/half-yearly and Annual Financial Statements;
- Review of Company's Financial and Risk Management Policies;
- To oversee Company's Financial Reporting Process;
- Review of adequacy of Internal Control Systems and formulation of Internal and Statutory audit plans;
- Periodical discussion with the Management and Internal Auditors;
- Investigation of matters referred to by the Board;
- Review and recommendations on Direct and Indirect tax legislations and other statutory compliances;

- Access to information contained in the records of the Company and seeking external professional advice, if necessary and
- Reviewing substantial defaults, if any, in the payment to the depositors, debenture holders, shareholders and creditors.
- Any changes in the Accounting policies and practices.
- Qualification on draft Audit report.

During the year under review, the Audit Committee met on 7 occasions i.e., April 26, 2004, May 19, 2004, June 19, 2004, July 26, 2004, October 16, 2004, January 29, 2005 and March 17, 2005. The attendance of the members at the meetings was as under:

S. No.	Name of Member	No.of Meetings held during the tenure	No. of Meetings Attended
1	Mr.T.S.V.Panduranga Sarma	7	6
2	Mr.Mahendra Nahata	7	7
3	Mr.S.Lakshmanan	7	7
4	Mr.T.B.Ananthanarayanan	3	3
5	Mr. M.P Shukla	4	3

(B) Remuneration Committee

The remuneration Committee of the Company comprises of all non executive independent directors.

During the year the Remuneration Committee comprised of :

- Mr.S Lakshmanan, Chairman
- Mr.M.P.Shukla
- Mr.Shyam Sunder Dawra

The constitution of the Remuneration Committee meets the requirements of the Listing Agreements. The Committee met on need basis.

The Committee is responsible for overseeing the following matters:

a. Examination of the terms of agreement(s) entered into with Managing and other Executive Directors and the CEO.

b. Determination of the remuneration packages i.e. salary and perquisites payable to the Managing and other Executive Directors and the CEO.

c. Determination of the amount of bonus, stock option, pension rights and compensation payments to the Managing and other Executive Directors and the CEO.

The Committee met once during the last financial year on July 26, 2004. The attendance of the Members at the meeting was as under:

Name of Member	No. of Meetings during the year	No. of Meetings Attended
Mr. S Lakshmanan	1	1
Mr. M P Shukla	1	0
Mr. S.S.Dawra	1	1

Approval of the Central Govt. received with regard to the Remuneration payable to the CEO & Manager (under Section 269 of the Companies Act 1956).

The Remuneration Committee of the Directors of the Company, in its meeting held on July 26, 2004 had approved the remuneration payable to Mr. Surendra Lunia, as Manager. The Board of Directors of the Company had in their meeting held on October 16, 2004, also approved the appointment of Mr. Lunia, as Manager under Section 269 of the Companies Act, 1956, on the terms and conditions approved by the Remuneration Committee. The shareholders of the company in the 57th Annual General Meeting ratified the said remuneration.

Consequent upon the ratification of appointment and remuneration of Manager by the Shareholders, the Board of Directors in its meeting held on October 16, 2004, passed the resolution, authorizing Mr. Sanjeev Vashishta to make an application before the Central Govt., to seek the approval from the Central Govt. to the remuneration because the remuneration approved was beyond the limit stipulated under Schedule XIII read with sections 198, 269 & 309 of the Companies Act, 1956.

Accordingly, an application was made before the Central Govt. on October 20, 2004, seeking the approval from Central Govt. in respect of the remuneration payable to Mr. Surendra Lunia as Manager. After raising certain queries, which were duly responded to, the Central Govt. approved the remuneration payable to Mr. Surendra Lunia as Manager vide its letter No.1/390/2004 – CL – VII dated 17th May, 2005.

(C) Share Transfer and Investors' Grievance Committee

There are two Committees to look into redressal of shareholders complaints like transfer / transmission of shares, split and issue of duplicate certificates, non-receipt of dividend etc. and to oversee the performance of Registrar and Share Transfer Agents and recommends measures for overall improvement in quality of investor services etc.

The Board level Committee, which is known as the Share Transfer and Investors' Grievance Committee (STIG), consist of Dr. Ranjeet Mal Kastia as Chairman and Mr. K. B. Lal & Mr. TSV Panduranga Sarma as other Members. This Committee meets on need basis to approve the share transfer / transmission / issue of duplicate share certificates etc. above 5000 in Nos. In the case of request received for loss of shares, however, only STIG is empowered to issue the Duplicate share certificates.

During the year under review, the STIG Committee consisting of Board Members met twice on December 28, 2004 and March 15, 2005 and the attendance of the Members at the meetings was as under:

Name of Member	No. of Meetings held	No. of Meetings Attended
Mr.T.S.V.Panduranga Sarma	2	2
Dr.Ranjeet Mal Kastia	2	2
Mr.K.B.Lal	2	2

Besides the aforesaid Committee consisting of the Board Members, another Committee known as the Share Transfer In-House Committee has also been constituted which currently comprise of Mr. Surendra Lunia, CEO, Mr. Sanjeev Vashishta , GM (Corporate & Legal) & Company Secretary and Mr. Pradeep Goel , GM (Finance & Accounts) as its constituents.

The Share Transfer In-House Committee is empowered to transfer / transmit / issue duplicate certificates up to 5000 nos. only. This meeting is held every fortnight. This Committee (In-house) is not empowered to issue duplicate shares in case of loss of shares i.e. in the event the request is not accompanied by share certificate(s), this Committee cannot entertain the request. Thus, this Committee is authorized to handle duplicate issue of shares only in the case of mutilated / torn / partially burnt shares etc.

During the year-ended 31.03.2005, 18 meetings of In-House Share Transfer Committee were held. Total number of letters / complaints received and replied to the satisfaction of shareholders during the year were 6. There were no unresolved complaints as on 31.03.2005.

(D) Project Management Review Committee

During the year the Project Management Review Committee comprised of

- Mr. M. P.Shukla, Chairman
- Mr. Mahendra Nahata
- Mr. S.Lakshmanan
- Mr. K. B. Lal
- Mr.T.B.Ananthanarayanan (till April 29, 2005)
- Mr. R. K. Bansal (w.e.f May 30, 2005)

Scope of Review of the Committee includes:

- Review of the cost of Project and means of financing.
- Review of progress made in implementation of the Project.
- Review of all major contracts and orders for supply and service of Plant and Machinery and other assets.
- Review of and recommending the process of procurement and tendering to be followed by the Company.
- Review of Roll Out Plan and its implementation.
- Review of terms of License Agreement with DOT & amendments thereto.
- Review of Interconnect Agreements with other Telecom Operators.
- Monitoring Key Performance Indicators, budgetary variances and review of operations.
- Review of the Annual Budget before it is presented to the Board for approval.

Powers of the Committee:

- To investigate any activity within terms of Reference.
- To seek information from any vendor/ supplier.
- To seek information on the operations of the Company.

During the year under review, the PMR Committee consisting of Board Members met three times on May 12, 2004, December 06, 2004 and March 17, 2005 and attendance of the members at the meetings was as under :-

Name of the Member	No. of Meetings Held	No. of Meetings Attended
Mr. M.P. Shuka	3	3
Mr. Mahendra Nahata	3	3
Mr. S. Lakshmanan	3	3
Mr. K.B. Lal	3	3
Mr. T.B. Ananthanarayanan	2	1

(E) Sitting fee paid to the Directors

The Company pays sitting fees to all the Non-Executive Directors at the rate of Rs. 5000/- for each Board / Committee Meeting. The details of sitting fee paid to Directors during the FY 2004-05 are as under :–

S. No.	Name of the Director	Sitting Fee (in Rs.)					Total Sitting Fee @Rs. 5000/- per meeting
		Board Meeting	Audit Committee	Remuneration Committee	Project management Review Committee	STIG Committee	
1	Mr. Mahendra Nahata	40000	35000	0	15000	0	90000
2	Mr. M.P.Shukla	30000	15000	0	15000	0	60000
3	Mr. T.B. Ananthanarayanan	30000	15000	0	5000	0	50000
4	Mr. T.S.V. Panduranga Sarma*	35000	30000	0	0	10000	75000
5	Mr. S.Lakshmanan	40000	35000	5000	15000	0	95000
6	Mr. S.S.Dawra	25000	0	5000	0	0	30000
7	Dr. Ranjeet Mal Kastia	20000	0	0	0	10000	30000
8	Mr. K.B.Lal	30000	0	0	15000	10000	55000
9	Mr. Vinay Maloo	0	0	0	0	0	0

*Mr. Panduranga Sarma has been paid sitting fee of Rs. 10,000/- for attending 2 PMRC meetings as a special invitee.

No other remuneration is paid to the Non-Executive Directors.

4. **General Body Meetings**

The location and time of the last three Annual General Meetings is as under:

Year	AGM No.	Location	Date	Time
2001-2002	55	Music Academy, "Mini Hall", 306, T.T.K.Road, Chennai- 600 014.	24.09.2002	11.00 a.m.
2002-2003	56	Music Academy, "Mini Hall", 306, T.T.K.Road, Chennai- 600 014.	25.09.2003	10.00 a.m.
2003-2004	57	B-71, Industrial Area, Phase-VII, Mohali	30.09.2004	12.00 Noon

5. **Disclosures**

a. Disclosures on materially significant related party transactions i.e. transactions of the Company with promoters, Directors, Management, Subsidiaries or Relatives etc. that may have potential conflict with the interests of the Company at large.

Related Party transactions have been disclosed as a part of Financial Statements as required under Accounting Standard 18 – Disclosure on Related Party Transactions, issued by the Institute of Chartered Accountants of India.

None of the transactions with any of the related parties were in conflict with the interest of the Company.

b. Non Compliance by the Company, penalties, strictures imposed on the Company by Stock Exchanges or SEBI or any other statutory authority on any matter related to capital markets during the last 3 years.

There has been no instance of non compliance by the Company or penalty or strictures imposed on the Company by the Stock Exchanges or SEBI or any statutory authority on any matter related to capital markets during the last 3 years.

6. **Means of Communication**

The Quarterly, Half Yearly and Annual results are published in The Financial Express, English daily and Desh Sevak, vernacular language paper and forwarded to the Stock Exchanges immediately. Press releases are also issued simultaneously. The quarterly, half yearly and annual financial results and quarterly shareholding pattern are posted on Company's official website www.hfclconnect.com.

All material information about the Company is promptly sent through facsimile to the stock exchanges where the shares of the Company are listed.

7. **The Management Discussion and Analysis Report forms part of the Annual Report.**

8. **General Shareholder Information**

a. **58th Annual General Meeting**

Date/Day : Septemeber 29, 2005/Thursday

Time : 12.00 Noon

Venue : B-71, Industrial Focal Point, Phase VII, Mohali, Punjab-160055

b. **Dates of Book Closure**

The Company's Register of Members and Share Transfer Books will remain closed from September 26, 2005 to September 29, 2005 (both days inclusive).

c. **Financial Calendar of the Company (Tentative)**

Results for the Qtr ending June 30, 2005	Last week of July 2005
Results for the Qtr ending September 30, 2005	Third week of October 2005
Results for the Qtr ending December 31, 2005	Third week of January 2006
Results for the year ending March 31,2006(un-audited)	Last week of April 2006
Annual General Meeting	September 29, 2006

The financial year covers the period from April 01, 2005 to March 31, 2006.

d. **Registered Office**

The Registered Office of the Company is situated at **B-71, Phase VII, Industrial Focal Point, Mohali, Punjab-160 055**.

e. **Listing of Equity Shares on Stock Exchanges**

The post-merger paid up, subscribed and issued equity share capital of the Company consists of 52,55,17,152 equity shares of Rs.10/- each. Out of this, 1,04,46,814 equity shares i.e., pre-merger 87,16,000 equity shares and 17,30,814 equity shares allotted pursuant to conversion of warrants issued to the shareholders of ITI as per the Scheme of Amalgamation, are listed on the BSE and the MSE. Considering negligible trading of shares in the Kolkata Stock Exchange, the Board of Directors of the Company have, in their meeting held on July 26, 2004, recommended to the shareholders, de-listing of shares from the CSE. The shareholders have approved the de-listing of shares from the CSE in the Annual General Meeting held on September 30, 2004. All the formalities with regard to de-listing the shares from CSE have been completed, though, the CSE has not formally de-listed the shares as yet.

43,20,00,250 equity shares of Rs. 10/- each allotted to the shareholders of erstwhile HFCL Infotel Limited pursuant to the Scheme and 8,30,70,088 equity shares of Rs. 10/- each allotted to the Lenders (IDBI, OBC, ING Vysya) on October 16, 2004, pursuant to the restructuring package approved under Corporate Debt Restructuring mechanism, are yet to be listed on BSE and MSE.

The Company had approached the BSE for listing of 43,20,00,250 Equity shares issued pursuant to the merger. The BSE laid a condition that these shares would be considered for listing after the Company undertakes an "Offer for Sale" to raise the shareholding of non-promoters to the minimum level required as per the SEBI (DIP) Guidelines. The Company has informed the BSE that pursuant to the allotment of Equity Shares to the Institutions/ Banks in terms of the Corporate Debt Restructuring package approved for the Company, the non-promoters holding in the Company has increased substantially and has gone much beyond 25%. However, the BSE has reiterated earlier stand that the Company should come out with offer for Sale." The Company has filed an Appeal against the decision of the BSE in the Hon'ble SAT.

The requisite listing fees have been paid to all these Stock Exchanges.

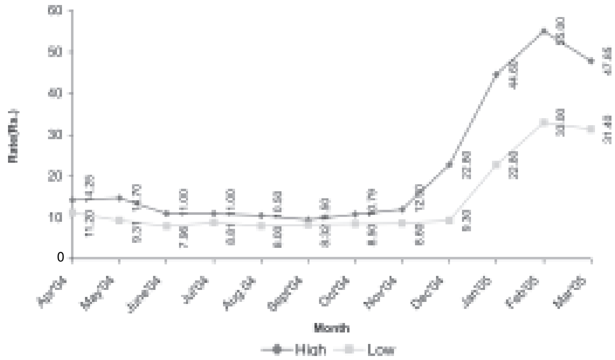
f. Stock Code

- The Stock Exchange, Mumbai – 511116
- Madras Stock Exchange Ltd. – ITR

g. Stock Price Data

The reported high and low closing prices of the Company's shares traded during the fiscal 2004-2005 on the Stock Exchange, Mumbai are given below:

Month	High	Low
April'04	14.25	11.20
May'04	14.70	9.31
June'04	11.00	7.96
July'04	11.00	8.81
August'04	10.50	8.00
September'04	9.50	8.32
October'04	10.79	8.50
November'04	12.00	8.60
December'04	22.80	9.30
January'05	44.60	22.80
February'05	55.00	33.00
March'05	47.85	31.40



h. Registrar & Share Transfer Agents

All Securities Transfer work, both in physical and demat segments shall be handled by M/s. Cameo Corporate Services Ltd., Chennai, who are the Registrar & Share Transfer Agents of the Company for all aspects of investor servicing relating to shares.

i. Registrars for Public Deposits

The Company has appointed M/s. Cameo Corporate Services Ltd., Chennai to act as Registrars to handle all Public Deposit claims and to service the deposit holders.

j. Share Transfer System

Trading in Equity Shares of the Company is permitted only in dematerialized form. Shares sent for transfer in physical form are registered and returned within a period of thirty days from the date of receipt of the documents, provided all documents are valid and complete in all respects. In accordance with SEBI guidelines, the Company offers the facility of transfer-cum-demat to shareholders after share transfers are affected in physical form.

With a view to expediting the process of share transfers, a committee known as the Share Transfer In-House Committee comprising Mr.Surendra Lunia, Chief Executive Officer, Mr. Sanjeev Vashishta, G.M (Corporate & Legal) & Company Secretary and Mr. Pradeep Goel, General Manager (Finance) is authorized to approve transfers / transmissions / issue of duplicate share certificates of shares below 5000 in number. In the case of request received issue of duplicate shares in lieu of the lost shares, where the share certificate is not accompanied with the request, a Board level committee known as Share Transfer and Investors' Grievance Committee (STIG) is authorized and the Share Transfer In-House Committee does not have any power. The Share Transfer and Shareholders / Investors Grievance Committee meets at regular intervals to consider the other transfer proposals and attend to shareholder grievances.

Further, the Board level Committee, which is known as the Share Transfer and Investors' Grievance Committee (STIG), consisting of Dr. Ranjeet Mal Kastia as Chairman and Mr. K. B. Lal & Mr. TSV Panduranga Sarma as other Members meets on need basis to approve the share transfer / transmission / issue of duplicate share certificates etc. above 5000 Nos. In the case of request received for loss of shares, however, only STIG is empowered to issue the Duplicate shares.

k. Distribution of Shareholding as on March 31, 2005

No. of Equity Share held	Shareholders		Shareholding	
	No.	%	No.	%
10-5000	9279	98.08	10469180	0.1992
5001-10000	68	0.72	4810420	0.0915
10001-20000	56	0.56	4417100	0.0841
20001-30000	17	0.19	1685970	0.0321
30001-40000	2	0.02	1435280	0.0273
40001-50000	5	0.05	1481560	0.0282
50001-100000	5	0.05	3864160	0.0735
Above 100000	31	0.33	5227007850	99.4641
Total	**9460**	**100.0000**	**5255171520**	**100.0000**

l. Categories of Shareholding as on 31st March 2005.

A	Category	Shares	%
	Promoters Holding		
1	Indian Promoters	346705000	65.9741
	Foreign Promoters	-	0.00
2	Persons Acting in concert	-	0.00
	Sub Total	**346705000**	**65.9741**
B	**Non-Promoters Holding**		
3	**Institutional Investor**		
a	Mutual Funds & UTI	-	0.00
b	Bank, Financial Institutions, Insurance Companies (Central/State Government Institutions/Non-Government Institutions)	117911374	22.4372
c	Foreign Institutional Investors	25826	0.0049
	Sub Total	**117937200**	**22.4421**
4	**Others**		
a	Private Corporate Bodies	56580787	10.7667
b	Indian Public	3883806	0.7390
c	NRI's/OCB	392213	0.0746
d	Any Other - Clearing Member	18146	.0035
	Sub Total	**60874952**	**11.5838**
	Grand Total	**525517152**	**100.00**

m. Dematerialization of Shares

91.76% of the Listed Equity Capital is held in a dematerialized form with National Securities Depository Limited and Central Depository Services (India) Limited as on March 31, 2005. In respect of 43,20,00,250 shares allotted to the erstwhile shareholders of HFCL Infotel Limited, in the Exchange Ratio as per the Scheme of Amalgamation, and 8,30,70,088 equity shares allotted to the Lenders (IDBI, OBC, ING Vysya) on October 16, 2004, pursuant to the Corporate Debt Restructuring package approved under Corporate Debt Restructuring mechanism, the Corporate Action for Dematerialization of these shares could not be taken as these shares are yet to be listed. The Company had filed the application for listing these shares with the Mumbai and Madras Stock Exchanges. The Company has filed an appeal against BSE's refusal to list the shares with the Securities Appellate Tribunal.

n. Head Office

Company's Head Office is located at B-71, Industrial Focal Point, Phase VII, Mohali, Punjab - 160 055.

o. Address for Correspondence

Shareholders may correspond on all matters relating to transfer / dematerialization of shares and any other query relating to shares of the Company with the Share Transfer Agents at :

Cameo Corporate Services Ltd.
Unit : HFCL Infotel Limited
"Subramaniam Building,
No.1, Club House Road
Anna Salai, Chennai-600 002
Telephone Nos. : 044-2846 0390 (5 lines)

Shareholders would have to correspond with the respective Depository Participants for shares held in demat mode.

p. Website: http://www.hfclconnect.com

AUDITORS' CERTIFICATE

On compliance with the conditions of Corporate Governance under clasue 49 of the Listing Agreement(s)

To
The Members of HFCL Infotel Limited

We have examined the compliance of conditions of corporate governance by HFCL Infotel Limited for the year ended on March 31, 2005, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchange(s).

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state no investor grievance is pending for a period exceeding one month against the Company as per the records maintained by the Shareholders/Investors Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability fo the Company not the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For S.R. Batliboi & Associates
Chartered Accountants

Prashant Singhal
Partner
Membership No: 93283

Place: New Delhi
Date: August 31, 2005

For Chaturvedi & Partners
Chartered Accountants

Alok Chaturvedi
Partner
Membership No. 93521

Place: New Delhi
Date: August 31, 2005

AUDITORS' REPORT

The Members of HFCL INFOTEL LIMITED

1. We have audited the attached Balance Sheet of HFCL INFOTEL LIMITED, as at March 31, 2005, and also the Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the 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 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. As required by the Companies (Auditor's Report) Order, 2003 (as amended) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Without qualifying our opinion, we draw attention to Note 1(c) of Schedule 22 to the financial statements, the Company has incurred a loss of Rs 936.03 million (accumulated loss of Rs 5,432.04 million), resulting into erosion of 88 per cent of networth. However, the Company is in the process of implementing an overall restructuring of the liabilities as approved by the Corporate Debt Restructuring ('CDR') Scheme and accordingly, these financial results are prepared on a going concern basis.

5. Without qualifying our opinion, we draw attention to Note 9(a)(iv) of Schedule 23 to the financial statements with respect to certain Optionally Fully Convertible Debentures ('OFCDs'), the security of which is in the process of being created.

6. Further to our comments in paragraph 3 above, we report that:

   (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

   (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

   (c) The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;

   (d) In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;

   (e) On the basis of written representations received from the directors, as on March 31, 2005 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2005 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

   (f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

   (i) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2005;

   (ii) in the case of the profit and loss account, of the loss for the year ended on that date; and

   (iii) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For S.R. Batliboi & Associates Chartered Accountants	For Chaturvedi & Partners Chartered Accountants
Prashant Singhal Partner Membership No: 93283	R.N.Chaturvedi Partner Membership No. 92087
Place: New Delhi Date: June 13, 2005	Place: New Delhi Date: June 13, 2005

ANNEXURE TO THE AUDITORS' REPORT

Annexure (referred to in paragraph 3 of our report of even date)

Re : HFCL INFOTEL LIMITED

1. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

   (b) The fixed assets are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the management during the year and no material discrepancies between the book records and physical inventory have been noticed.

   (c) There was no substantial disposal of fixed assets during the year.

2. (a) The Company has not maintained any inventory, accordingly clauses (ii)(a) to (ii)(c) of Para 4 of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company for the current year.

3. (a) As informed, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.

   (b) As informed, the Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.

4. In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of fixed assets. *However, the internal control system relating to generation of aging reports of receivables and subscriber security deposits, need to be further strengthened, as it involves significant level of low value and high volume transactions, and some of these processes are not entirely automated. The Company has initiated the process of automation which is yet to be completed*

5. The Company has made purchases of substantial portion of its project related goods, of special nature from the Holding Company in terms of contracts awarded to it during the year. The prices of such purchases prima facie, appear to be reasonable having regard to the prevailing market prices of similar goods as available with the Company. According, to the information and explanations given to us, there are no transactions of goods made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Act and aggregating during the year to five lakh or more.

6. As more fully discussed in Note 19 on Schedule 23, the Company had surrendered its NBFC licence to the Reserve Bank of India ('RBI') and foreclosed the fixed deposits and deposited the amount in an escrow account as directed by the RBI. The Company has not accepted any deposits from the public in the current year within the meaning of Sections 58A and 58AA of the Act and the rules framed there under. Therefore in our opinion clause (vi) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the Company for the current year.

7. In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.

8. We have broadly reviewed the books of account maintained by the Company in respect of services where, pursuant to the Rules made by the Central Government of India, the maintenance of cost records has been prescribed under clause (d) of sub-section (1) of Section 209 of the Act and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. However, we are neither required to nor have we carried out any detailed examination of such accounts and records.

9. (a) Undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income tax, sales-tax, wealth tax, customs duty, excise duty, service tax and cess have generally been regularly deposited with the appropriate authorities *except certain delays in respect of investor education and protection fund aggregating to Rs 120,725 and deposit of service tax.*

   (b) According to the information and explanations given to us, no undisputed amounts payable in respect of the provident fund, employees' state insurance, sales-tax, wealth tax, service tax customs duty, excise duty, cess and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.

   (c) According to the records of the Company, the dues outstanding of income-tax , sales-tax, wealth-tax, service tax , custom duty, excise duty and cess on account of any dispute, are as follows:

Name of the statute	Nature of Dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending
Income-tax Act, 1961	Income tax	7,546,982	1992-1993	Income Tax Appellate Tribunal
Income-tax Act, 1961	Interest tax	7,704,160	1992-1993	Income Tax Appellate Tribunal
Income-tax Act, 1961	Income tax	6,689,592	1993-1994	Income Tax Appellate Tribunal
Income-tax Act, 1961	Interest tax	7,857,254	1993-1994	Income Tax Appellate Tribunal
Income-tax Act, 1961	Income tax	18,790,638	1994-1995	Income Tax Appellate Tribunal
Income-tax Act, 1961	Interest tax	10,617,273	1995-1996	Income Tax Appellate Tribunal
Income-tax Act, 1961	Interest tax	1,020,932	1996-1997	Income Tax Appellate Tribunal
Income-tax Act, 1961	Interest tax	643,960	1997-1998	Income Tax Appellate Tribunal
Income-tax Act, 1961	Interest tax	1,664,643	1998-1999	Income Tax Appellate Tribunal
Income-tax Act, 1961	Interest tax	272,924	1999-2000	Income Tax Appellate Tribunal

10. *The accumulated losses of the Company as at March 31, 2005, are more than fifty percent of its net worth as at that date.* The Company has not incurred cash losses during the year. *In the immediately preceding financial year the Company had incurred cash loss.*

11. In view of the Corporate Debt Restructuring ('CDR') Scheme being approved by the CDR cell during the year as explained in Note 1(c) in Schedule 22 and according to the records of the Company examined by us and the information and explanations given to us, the Company has not defaulted in repayment of dues to any financial institutions or banks or debenture holders.

12. According to the information and explanations given to us and based on the records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

13. In our opinion, the Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.

14. In our opinion, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.

15. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.

16. Based on information and explanations given to us by the management, the term loans were applied for the purpose for which the loans were obtained.

17. According to the information and explanations given to us and on an overall examination of the balance sheet and cash flow statement of the Company, we report that no funds raised on short-term basis have been used for long-term investment.

18. On October 16, 2004, the Company allotted 6,500,000 7.5 per cent Cumulative Redeemable Preference Shares of Rs 100 each at par to a company covered in the register maintained under section 301 of the Act in accordance with the CDR scheme. In our opinion, the price at which the shares have been issued by the Company is not prejudicial to the interest of the Company.

19. *During the year ended March 31, 2005, the Company has issued 7,551,178 Zero per cent Optionally Fully Convertible Debentures ('OFCDs') to the lenders as per the CDR Scheme and is in the process of executing the debenture trust deed and create the security in favour of the trust.*

20. The Company has not raised any money by public issue.

21. Based on the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For S.R. Batliboi & Associates Chartered Accountants	For Chaturvedi & Partners Chartered Accountants
Prashant Singhal Partner Membership No: 93283	R.N.Chaturvedi Partner Membership No. 92087
Place: New Delhi Date: June 13, 2005	Place: New Delhi Date: June 13, 2005

HFCL INFOTEL LIMITED

BALANCE SHEET AS AT 31St March, 2005

(Unless and Otherwise Stated all amounts are in rupees)

PARTICULARS	SCHEDULE	AS AT 31st MARCH 2005 (Rs.)	AS AT 31st MARCH 2004 (Rs.)
SOURCES OF FUNDS			**Schedule 23, Note 21**
Shareholders' Fund			
Share Capital	1	5,905,171,520	4,424,470,640
Advance Against Share Application Money	2	-	1,490,926,946
Reserves and Surplus	3	234,409,392	269,919,182
		6,139,580,912	**6,185,316,768**
Loan Funds			
Secured Loans	4	6,927,734,724	6,108,929,394
Unsecured Loans	5	170,713,842	355,322,077
		7,098,448,566	**6,464,251,471**
		13,238,029,478	**12,649,568,239**
APPLICATION OF FUNDS			
Fixed Assets	6		
Gross Block		8,002,128,032	7,256,204,013
Less: Depreciation		(2,504,472,175)	(1,678,621,583)
Net Block		**5,497,655,857**	**5,577,582,430**
Capital Work-In-Progress		440,928,993	144,607,180
		5,938,584,850	**5,722,189,610**
Intangible Assets, net	7	**1,748,854,722**	**1,976,551,698**
Investments	8	**718,170,900**	**717,670,900**
Current Assets, Loans and Advances			
Sundry Debtors	9	295,985,498	236,430,684
Cash and Bank Balances	10	112,151,810	85,924,119
Other Current Assets	11	244,819	251,024
Loans and Advances	12	102,498,945	68,948,885
		510,881,072	**391,554,712**
Less: Current Liabilities and Provisions	13		
Current Liabilities		1,104,855,273	647,878,121
Provisions		5,648,084	6,535,295
		1,110,503,357	**654,413,416**
Net Current Liabilities		**599,622,285**	**262,858,704**
Profit and Loss Account		5,432,041,291	4,496,014,735
		13,238,029,478	**12,649,568,239**
Significant Accounting Policies	22		
Notes to Accounts	23		

The Schedules referred to above and the Notes to Accounts form an integral part of the Balance Sheet

As per our report of even date.

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

Prashant Singhal
Partner
Membership No. 93283

CHATURVEDI & PARTNERS
Chartered Accountants

R.N. Chaturvedi
Partner
Membership No. 92087

For and on behalf of the Board

Mahendra Nahata
Director

M.P.Shukla
Director

Surendra Lunia
Chief Executive Officer

Pradeep Goel
General Manager (F&A)

Sanjeev Vashishta
GM (Corporate & Legal)
& Company Secretary

Place : New Delhi
Date : June 13, 2005

HFCL INFOTEL LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31St March, 2005

(Unless and Otherwise Stated all amounts are in rupees)

PARTICULARS	SCHEDULE	For the Year Ended 31st MARCH 2005 (Rs.)	For the Year Ended 31st MARCH 2004 (Rs.)
INCOME			
Service Revenue	**14**	2,533,177,806	1,916,730,166
Other Income	**15**	22,244,986	7,632,785
		2,555,422,792	**1,924,362,951**
EXPENDITURE			
Network Operation Expenditure	**16**	1,094,015,004	955,270,970
Cost of Goods Sold	**17**	-	1,385,492
Personnel Expenditure	**18**	224,487,854	193,670,754
Sales and Marketing Expenditure	**19**	157,088,805	122,272,237
Administrative and Other Expenditure	**20**	348,366,613	273,933,472
		1,823,958,276	**1,546,532,925**
Operating Profit before Finance Expenses, Amortisation and Depreciation		731,464,516	377,830,026
Finance Charges	**21**	627,231,451	691,118,058
Depreciation	**6**	866,391,300	633,347,658
Amortisation	**7**	161,935,687	163,389,429
Loss for the year before Prior Period Expenditure and Tax		**924,093,922**	**1,110,025,119**
Prior Period Expenditure (Net)	**23 Note 20**	8,085,813	26,132,116
Loss for the year before Tax		**932,179,735**	**1,136,157,235**
Provision for Taxation for earlier years	**23 Note 12(b)**	3,846,821	**-**
Loss for the year		**936,026,556**	**1,136,157,235**
Loss, brought forward from previous year		**4,496,014,735**	**3,359,857,500**
Loss carried to the Balance Sheet		**5,432,041,291**	**4,496,014,735**
Loss per share (equity shares, par value of Rs 10 each)	**23 Note 14**		
Basic (in Rs)		1.95	2.57
Diluted (in Rs)		1.95	2.57
Weighted average number of shares used in computing earnings per share			
Basic		480,454,474	441,524,909
Diluted		480,454,474	441,524,909
Significant Accounting Policies	**22**		
Notes to Accounts	**23**		

The Schedules referred to above and the Notes to Accounts form an integral part of the Balance Sheet

As per our report of even date.

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

Prashant Singhal
Partner
Membership No. 93283

CHATURVEDI & PARTNERS
Chartered Accountants

R.N. Chaturvedi
Partner
Membership No. 92087

For and on behalf of the Board

Mahendra Nahata
Director

M.P.Shukla
Director

Surendra Lunia
Chief Executive Officer

Pradeep Goel
General Manager (F&A)

Sanjeev Vashishta
GM (Corporate & Legal)
& Company Secretary

Place : New Delhi
Date : June 13, 2005

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT 31st MARCH 2005 (Rs.)	AS AT 31st MARCH 2004 (Rs.)
SCHEDULE 1		
SHARE CAPITAL		
Authorised:		
1,000,000,000 (2004 - 1,000,000,000) equity shares of Rs 10 each (2004 - Rs 10 each)	10,000,000,000	10,000,000,000
20,000,000 (2004 - 20,000,000) preference shares of Rs 100 each (2004 - Rs 100 each)	2,000,000,000	2,000,000,000
	12,000,000,000	**12,000,000,000**
Issued, Subscribed and Paid up		
525,517,152 (2004 - 442,447,064) equity shares of Rs 10 each (2004 - Rs 10 each) fully paid.	5,255,171,520	4,424,470,640
6,500,000 (2004 - Nil) 7.5 per cent Cumulative Redeemable Preference Shares ('CRPS') of Rs 100 each	650,000,000	-
	5,905,171,520	**4,424,470,640**

(a) Of the above

(i) 490,750 (2004 - 490,750) equity shares of Rs 10 each ,were alloted as fully paid bonus shares in the earlier years by way of capitalisation of reserves.

(ii) 346,705,000 (2004 - 348,705,000) equity shares are held by Himachal Futuristic Communications Limited (Holding Company).

(iii) 83,070,088 equity shares of Rs 10 each were allotted on October 16, 2004, pursuant to the Corporate Debt Restructuring ('CDR') Scheme [See Schedule 22, Note 1(c)] Out of the above, 63,373,110 equity shares of Rs 10 each were issued by the Company to Industrial Development Bank of India ('IDBI'), at par and the balance of 12,171,778 and 7,525,200 equity shares of Rs 10 each to Oriental Bank of Commerce ('OBC') and ING Vysya Bank Limited ('ING'), respectively, at a premium of Re 0.50 per equity share [See Schedule 3, Note (a)]. The lender Banks have discussed the issue of premium in the meeting of the Executive Group of CDR Cell and have advised the Company/promoters to settle the equity pricing/ compensation issues with the lender banks. The Company together with its promoters is pursuing this matter with the concerned lender banks and is confident of amicably settling the issue and that no additional liability would result on account of this matter.

(b) As more fully discussed in Schedule 22, Note 1(a), the Company in accordance with the scheme of amalgamation approved by the High Court of the State of Punjab and Haryana and the State of Tamil Nadu on March 6, 2003 and March 20, 2003, respectively under section 391 and 394 of the Companies Act, 1956, the *erstwhile* HFCL Infotel Limited (name earlier allotted to the transferor company), amalgamated with HFCL Infotel Limited ('HIL' or 'the Company'), (*formerly* The Investment Trust of India Limited). Subsequent to the approved amalgamation:

(i) 432,000,250 equity shares of Rs 10 each were allotted to the shareholders of *erstwhile* HFCL Infotel Limited on June 17,2003.

(ii) 1,730,814 equity shares of Rs 10 each were allotted on October 13, 2003, on conversion of the warrants issued to the shareholders of The Investment Trust of India Limited prior to June 11, 2003.

(c) 6,500,000 (2004 - Nil) 7.5 per cent CRPS were alloted to Himachal Futuristic Communications Limited (Holding Company) on October 16, 2004, pursuant to the CDR Scheme [See Schedule 22, Note 1(c)], the specified part of the amount due to HFCL by the Company has been converted into 7.5 per cent CRPS redeemable after the repayment of Rupee Term Loan (i.e. July 1, 2013). Prior approval of the lenders is required to declare dividend on the 7.5 per cent CRPS and all the voting rights attached to the CRPS to be assigned in favour of the term lenders.

SCHEDULE 2		
ADVANCE AGAINST SHARE APPLICATION MONEY		
Advance Against Equity Share Application Money	-	840,926,946
Advance Against Application Money for Cumulative Redeemable Preference Shares	-	650,000,000
	-	**1,490,926,946**

Pursuant to the CDR scheme [See Schedule 22, Note 1(c)], the Company transferred certain overdue interest and loan amounts and disclosed as advance against share application money as at March 31, 2004 based on the approval of the lenders, during the current year on final receipt of the lenders approval letters, the Company recomputed the interest amount and the loan to be converted into equity and consequently adjusted Rs 377,577 to the finance charge of the current year, being the excess amount transferred in the previous year.

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT 31st MARCH 2005 (Rs.)	AS AT 31st MARCH 2004 (Rs.)
SCHEDULE 3		
RESERVES AND SURPLUS		
Capital Reserve	**34,032,776**	**34,032,776**
Securities Premium [See Note (a) & (b) below]		
Balance, beginning of the year	119,548,250	119,548,250
Received during the year	9,848,489	-
Less: Utilised towards the premium payable on redemption of Optionally Fully convertible debentures	45,358,279	-
	84,038,460	**119,548,250**
Statutory Reserve [See Note (c) below]	**11,900,000**	**11,900,000**
General Reserve	**104,438,156**	**104,438,156**
	234,409,392	**269,919,182**

(a) Securities premium includes an amount of Rs 9,848,489 received on allotment of 19,696,978 equity shares of Rs 10 each on October 16, 2004 at a premium of Re 0.50 per equity share [See Schedule 1, Note (a)(iii)]

(b) In accordance with the CDR Scheme [See Schedule 22, Note 1(c)], the Company has provided for the premium on Zero per cent Optionally Fully Convertible Debentures (OFCDs) and has utilised the share premium to that extent.

(c) As more fully discussed in Schedule 22, Note 1(a), the Company (*formerly* The Investment Trust of India Limited) was a Non-Banking Financial Corporation ('NBFC') under the Certificate of Registration ('CoR') No 07.00222 dated April 18, 1998. Further, as more fully discussed in Schedule 23, Note 18, the Company has surrendered its CoR with the Reserve Bank of India ('RBI'). As a condition for the cancellation of the CoR, the RBI has advised the Company to follow certain strictures till the balance in the escrow account is settled

SCHEDULE 4		
SECURED LOANS [SEE SCHEDULE 23, NOTE 9(a)]		
Term Loans		
From Financial Institutions	4,750,000,000	4,750,000,000
From Banks	1,300,000,000	1,300,000,000
Zero per cent Optionally Fully Convertible Debentures ('OFCDs') (to be secured, redeemable at premium)	755,117,800	-
Premium on Redemption of OFCD accrued but not due	45,358,279	-
Vehicle Loans	8,623,509	5,689,828
Bank Overdraft	68,635,136	53,239,566
	6,927,734,724	**6,108,929,394**
Amounts payable within one year -		
OFCDs with a premium of Rs 45,358,279	800,476,079	-
Amounts repayable within a year - Vehicle Loan	3,929,132	2,460,137

SCHEDULE 5		
UNSECURED LOANS [SEE SCHEDULE 23, NOTE 9(b)]		
Advance against Application Money for Optionally Fully Convertible Debentures		318,071,775
Zero per cent Optionally Fully Convertible Debentures ('OFCDs') (others)	166,776,100	-
Vendor Finance Facilities	-	36,050,881
Interest accrued and due on other Vendor Finance Facilities	3,937,742	1,199,421
	170,713,842	**355,322,077**

HFCL INFOTEL LIMITED

SCHEDULES FORMING PART OF BALANCE SHEET

SCHEDULE 6
FIXED ASSET
(See Schedule 23, Note 10)

ASSETS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at 01.04.2004	Additions	Sale/ adjustment	As at 31.03.2005	As at 01.04.2004	Deprecia- tion	On Sale / Adjustment	As at 31.03.2005	As at 31.03.2005	As at 31.03.2004
Freehold Land	16,142,623	-	-	16,142,623	-	-		-	16,142,623	16,142,623
Leasehold Land	8,896,419	-	-	8,896,419	463,355	92,671		556,026	8,340,393	8,433,064
Building	174,822,166	-	-	174,822,166	12,178,286	3,286,810		15,465,096	159,357,070	162,643,880
Leasehold Improvements	65,584,532	4,487,926	-	70,072,458	18,936,895	7,560,088		26,496,983	43,575,475	46,647,637
Network Equipment	2,589,455,515	259,016,636	(614,121)	2,847,858,030	728,118,061	372,293,304	(97,529)	1,100,313,836	1,747,544,194	1,861,337,454
Optical Fibre Cable and Copper Cable	3,810,733,503	139,682,499	-	3,950,416,002	637,324,147	264,493,355		901,817,502	3,048,598,500	3,173,409,356
Telephone Instruments at Customers Premises	388,250,133	333,996,795	(44,772,983)	677,473,945	205,921,436	178,559,862	(37,497,218)	346,984,080	330,489,865	182,328,697
Computers	118,240,494	42,984,893	(1,323,772)	159,901,615	49,641,631	22,535,919	(895,562)	71,281,988	88,619,627	68,598,863
Office Equipment	30,296,192	7,703,165	(1,144,507)	36,854,850	6,609,801	4,904,031	(179,175)	11,334,657	25,520,193	23,686,391
Furniture & Fixture	33,868,634	2,089,780	(448,103)	35,510,311	14,918,210	3,441,776	(79,787)	18,280,199	17,230,112	18,950,424
Vehicles	19,913,802	9,563,935	(5,298,124)	24,179,613	4,509,761	9,223,484	(1,791,437)	11,941,808	12,237,804	15,404,041
	7,256,204,013	**799,525,629**	**(53,601,610)**	**8,002,128,032**	**1,678,621,583**	**866,391,300**	**(40,540,708)**	**2,504,472,175**	**5,497,655,856**	**5,577,582,430**
Previous Year	*6,635,411,590*	*685,756,844*	*(64,964,421)*	*7,256,204,013*	*1,050,038,897*	*633,347,658*	*(4,764,972)*	*1,678,621,583*	*5,577,582,430*	*5,585,372,693*

SCHEDULE 7
INTANGIBLE ASSETS

ASSETS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at 01.04.2004	Additions	Sale/ adjustment	As at 31.03.2005	As at 01.04.2004	Deprecia- tion	On Sale / Adjustment	As at 31.03.2005	As at 31.03.2005	As at 31.03.2004
Portal Software	6,471,479	-	(6,471,479)	-	6,471,479		(6,471,479)	-	-	-
Computer Software	106,968,368	11,949,097	-	118,917,465	45,805,352	25,880,397		71,685,749	47,231,716	61,163,016
Licence Entry Fees	2,430,368,989	-	(77,710,386)	2,352,658,603	514,980,307	136,055,290		651,035,597	1,701,623,006	1,915,388,682
	2,543,808,836	**11,949,097**	**(84,181,865)**	**2,471,576,068**	**567,257,138**	**161,935,687**	**(6,471,479)**	**722,721,346**	**1,748,854,722**	**1,976,551,698**
Previous Year	*2,518,245,693*	*25,563,143*	-	*2,543,808,836*	*403,867,709*	*163,389,429*	-	*567,257,138*	*1,976,551,698*	*2,114,377,984*

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT 31st MARCH 2005 (Rs.)	AS AT 31st MARCH 2004 (Rs.)
SCHEDULE 8		
INVESTMENTS (NON TRADE - LONG TERM)		
Subsidiary company		
Long Term (at cost)		
Unquoted		
50,000 [2004 - Nil] equity shares of Rs 10 each fully paid in Connect Broadband Services Limited ('CBSL')	500,000	-
Associate company [See Schedule 23, Note 11]		
Long Term (at cost)		
Unquoted		
1,750,000 [2004 - 1,750,000] equity shares of Rs 10 each fully paid in The Investment Trust of India Limited ('ITI')	18,000,000	18,000,000
6,996,709 [2004 - 6,996,709] Optionally Fully Convertible Debentures Limited ('OFCDs') of Rs 100 each fully paid in The Investment Trust of India Limited ('ITI')	699,670,900	699,670,900
	718,170,900	717,670,900
Less: Provision for diminution in value of investments	-	-
	718,170,900	**717,670,900**

Note:

(a) The company has incorporated a wholly owned subsidiary named Connect Broadband Services Limited ('CBSL') to carry on the business of distribution of Cable Television Network and all other connected services

(b) The company acquired the entire shareholding in The Investment Trust of India Ltd ('ITI') (*formerly* Rajam Finance and Investments Company India Limited, an unlisted registered NBFC) from the erstwhile promoters [See Schedule 22, Note 1(a)]. Consequently ITI became a wholly owned subsidiary of the company with effect from August 19, 2002. Subsequently to September 30, 2003 with infusion of fresh equity, ITI became an associate company.

(c) The company has acquired OFCDs in ITI in the year 2002-03. Terms and conditions associated with debentures are:
- (i) The OFCDs of Rs 100 each are convertible into 10 equity shares (with pari passu right with the existing equity shares in terms of the present Articles of Association of the Company) of Rs 10 each after three years at the option of the holder.
- (ii) The OFCDs are redeemable after 10 years at a premium of Rs 60 per OFCD.
- (iii) The issuing company shall have an option to redeem the OFCD anytime after a period of one year at aproportionate premium as mentioned in condition (ii) above.

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT 31st MARCH 2005 (Rs.)	AS AT 31st MARCH 2004 (Rs.)
SCHEDULE 9		
SUNDRY DEBTORS		
Debts outstanding for a period exceeding six months:		
Secured and Considered Good	3,180,686	31,967,048
Unsecured and Considered Good	2,659,577	-
Unsecured and Considered Doubtful	20,480,745	9,423,244
Debts outstanding for a period less than six months:		
Secured and Considered Good	18,983,449	12,020,529
Unsecured and Considered Good	271,161,787	192,443,107
Unsecured and Considered Doubtful	38,183,224	3,876,517
	354,649,468	249,730,445
Less: Provision for Doubtful Debts	58,663,970	13,299,761
	295,985,498	**236,430,684**

Notes:

a) Debtors are secured to the extent of deposit received from the subscribers.

b) Includes Rs 155,017,877 of unbilled revenues, the invoices for which have been raised subsequent to March 31, 2005 [See Schedule 22, Note 2.7]

c) During the year company has revised the method of estimating the provision for doubtful debts on account of which there is an increase in loss of Rs 14,169,898.

PARTICULARS	AS AT 31st MARCH 2005 (Rs.)	AS AT 31st MARCH 2004 (Rs.)
SCHEDULE 10		
CASH AND BANK BALANCES		
Cash in Hand	1,924,615	725,711
Cheques in Hand	8,410,956	7,919,270
Balances with Scheduled Banks		
In Current Account	64,843,225	31,090,097
In Fixed Deposit [Receipts pledged with Banks as margin money for guarantees and LCs issued Rs 34,202,785, (2004 - Rs. 42,865,101)]	34,202,785	42,865,101
In Escrow Account [See note below]	2,770,229	3,323,940
	112,151,810	**85,924,119**

Notes:

The balance with scheduled banks in Escrow account is towards public deposits payable by the Company [See Schedule 23, Note 18]

PARTICULARS	AS AT 31st MARCH 2005 (Rs.)	AS AT 31st MARCH 2004 (Rs.)
SCHEDULE 11		
OTHER CURRENT ASSETS		
Interest Accrued on Fixed Deposits	241,977	175,354
Interest Accrued on Investment	2,842	75,670
	244,819	**251,024**

PARTICULARS	AS AT 31st MARCH 2005 (Rs.)	AS AT 31st MARCH 2004 (Rs.)
SCHEDULE 12		
LOANS AND ADVANCES		
(Unsecured , considered good except otherwise stated)		
Advances Recoverable in cash or in kind or for value to be received		
Considered Good	38,630,737	46,252,112
Considered Doubtful [See Schedule 23, Note 1(d)]	134,859,908	134,859,908
Due from The Investment Trust of India Limited - Associate (Maximum outstanding balance during the year Rs 1,149,999 (2004 - Rs 39,353,035)	1,149,999	650,321
Security Deposits		
Considered Good	14,315,707	12,861,223
Considered Doubtful	1,211,265	1,211,265
Advance Tax [Net of provision Nil , (2004 - Rs 3,772,300)]	11,535,639	9,185,229
Balance with Customs and Excise	36,866,863	-
	238,570,118	**205,020,058**
Less Provision for Doubtful Advances	136,071,173	136,071,173
	102,498,945	**68,948,885**

Notes:

Advance recoverable inculdes dues from Chief Executive Officer as under		
Housing Loan (Maximum amount outstanding during the year Rs.950,000)	800,000	-
Other Advances (Maximum amount outstanding during the year Rs.231,064)	93,573	-

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT 31st MARCH 2005 (Rs.)	AS AT 31st MARCH 2004 (Rs.)
SCHEDULE 13		
CURRENT LIABILITIES AND PROVISIONS		
Current Liabilities		
Sundry Creditors		
Capital Goods	472,844,480	178,252,103
Expenses [See Note (b), below]	87,935,637	82,313,826
Interconnection Usage Charges ('IUC') payable to other operators	32,565,472	2,493,439
Expenses Payable	129,147,060	90,101,344
Book Overdraft [See Note (a), below]	23,209,404	1,146,626
Advance Against Booking	2,179,076	1,183,168
Advance From Customers and Unaccrued Income	85,246,706	47,512,811
Security Deposits		
From Subscribers	190,518,754	197,846,013
From Others	17,197,503	12,027,301
Investor Education and Protection Fund		
Unclaimed Dividends	735,160	864,801
Unclaimed Deposits from Public	1,740,599	2,349,283
Interest accrued and due on Public Deposits	232,795	327,041
Other Liabilities	61,302,627	29,180,598
Interest Accrued but not Due on Loans	-	2,279,767
	1,104,855,273	**647,878,121**
Provisions		
Wealth Tax	32,864	54,000
Leave Encashment	3,481,575	3,202,993
Gratuity	2,133,645	3,278,302
	5,648,084	**6,535,295**
	1,110,503,357	**654,413,416**

Notes:
(a) Book overdraft has been settled subsequent to the year end.
(b) Sundry creditors include cheques outstanding beyond six months of Rs 592,780 (2004 - 592,780) towards repayment of public deposits under the NBFC CoR [See Schedule 23, Note 18]

PARTICULARS	For the year Ended 31st MARCH 2005 (Rs.)	For the year Ended 31st MARCH 2004 (Rs.)
SCHEDULE 14		
SERVICE REVENUE		
Revenue		
From Unified Access Services	2,221,447,805	1,665,424,738
From Interconnection Usage Charge	219,541,950	206,086,617
From Infrastructure Services	46,583,891	24,824,274
From Internet Services	45,604,160	20,394,537
	2,533,177,806	**1,916,730,166**
SCHEDULE 15		
OTHER INCOME		
Interest Income [Gross of tax deducted at source - Rs 386,216 (2004 - Rs 253,370)]	2,386,875	1,603,995
Interest on Tax Refunds	-	369,959
Excess Provision written back	18,980,178	1,530,398
Sale of Telephone sets, Modems etc.	-	1,611,476
Profit/Loss on sale of Government Securities	-	487,590
Interest on Government Securities (Gross)	-	999,852
Miscellaneous Income	877,933	1,029,515
	22,244,986	**7,632,785**

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

PARTICULARS	For the year Ended 31st MARCH 2005 (Rs.)	For the year Ended 31st MARCH 2004 (Rs.)
SCHEDULE 16		
NETWORK OPERATION EXPENDITURE		
Interconnect Usage Charges	676,017,698	635,110,295
Other Value Added Service charges	10,573,672	-
Port Charges	26,035,568	27,030,477
Testing and Technical Survey Expenses	1,960,000	930,000
Licence Fees on Revenue Share Basis	149,734,898	126,727,024
Royalty and licence fees to Wireless Planning Commission	12,483,159	7,719,619
Stores and Spares Consumed	41,093,598	25,501,210
Rent	23,083,829	17,350,667
Electricity and Water	35,418,145	28,903,515
Security Charges	2,826,519	3,182,351
Repair & Maintenance - Network	94,864,376	67,942,819
Bandwidth Charges	19,923,542	14,872,993
	1,094,015,004	**955,270,970**
SCHEDULE 17		
COST OF GOODS SOLD		
Opening Stock	-	-
Purchases	-	1,385,492
Less Closing stock	-	-
	-	**1,385,492**
SCHEDULE 18		
PERSONNEL EXPENDITURE		
Salaries, Wages and Bonus	190,799,201	169,906,109
Employer's Contribution to Provident and Other Funds	12,153,877	12,355,996
Staff Welfare Expenses	15,006,032	8,120,784
Recruitment & Training Expenses	6,528,744	3,287,865
	224,487,854	**193,670,754**
SCHEDULE 19		
SALES AND MARKETING EXPENDITURE		
Sales and Business Promotion	8,129,162	4,096,363
Advertisement Expenses	38,082,934	24,728,300
Customers Acquisition Costs	110,876,709	93,447,574
	157,088,805	**122,272,237**

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

PARTICULARS		For the year Ended 31st MARCH 2005 (Rs.)	For the year Ended 31st MARCH 2004 (Rs.)
SCHEDULE 20			
ADMINISTRATIVE AND OTHER EXPENDITURE			
Legal and Professional Expenses		19,273,577	16,956,136
Travelling and Conveyance		39,846,163	27,889,895
Communication Expenses		4,960,651	3,733,717
Rent		16,037,471	14,109,257
Auditors' Remuneration		3,441,218	4,860,795
Security Charges		3,350,031	2,914,353
Repairs and Maintenance - Building		2,395,782	787,216
Repairs and Maintenance - Others		11,619,082	6,824,659
Electricity and Water		11,241,857	9,382,232
Insurance		4,815,309	6,899,462
Rates and Taxes		7,305,889	23,037,873
Freight & Cartage		7,028,561	3,721,853
Printing and Stationary		5,472,029	4,886,548
Billing and Collection Expenses		62,314,950	40,137,455
Software Expenses		403,580	169,685
Directors' Fees		495,000	417,000
Interest Tax		-	596,997
Provision for Doubtful Advances		-	2,000,933
Bad Debts Written off		81,320,624	65,276,255
Provision for Doubtful Debts	48,950,603		
Less Transferred to Bad Debts Written off	(3,586,394)	45,364,209	3,207,285
Loss on Sold/Discarded Fixed Assets and Capital Work in Progress		15,695,880	30,809,663
Wealth Tax		33,964	56,800
Miscellaneous Expenses		5,950,786	5,257,403
		348,366,613	**273,933,472**

PARTICULARS	For the year Ended 31st MARCH 2005 (Rs.)	For the year Ended 31st MARCH 2004 (Rs.)
SCHEDULE 21		
FINANCE CHARGES		
Interest on Public Deposits	-	693,529
Interest on Term Loans	604,352,459	669,567,240
Interest to Others	13,442,162	13,254,794
Bank Guarantee Commission	3,950,907	5,805,614
Trustees Fee	1,371,233	-
Other Finance Charges	4,114,690	1,796,881
	627,231,451	**691,118,058**

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET AND PROFIT AND LOSS ACCOUNT
AS AT AND FOR THE YEAR ENDED MARCH 31, 2005

[All amounts in Indian Rupees, except share data, unless otherwise stated]

SCHEDULE 22

BACKGROUND AND SIGNIFICANT ACCOUNTING POLICIES

1. Background

(a) Nature of business and ownership

HFCL Infotel Limited ('the Company' or 'HIL'), Unified Access Services Licensee for Punjab & Chandigarh, is providing a full gamut of Telecommunication Services, which includes voice telephony, both wireline and fixed wireless, CDMA based mobile, Internet services, Broadband data services and a wide range of value added service viz., Centrex, Leased lines, VPNs, Voice mail, Video Conferencing etc. The services were commercially launched in October 2000 and as on date the Company has a subscriber base of over 2.47 lacs. HIL has established a State-wide optical fiber network in Punjab and is providing services in more than 110 cities/towns.

The company is a subsidiary Company of Himachal Futuristic Communications Limited ('the Holding Company' or 'HFCL'). It was incorporated on August 2, 1946 with the name of The Investment Trust of India Limited which was subsequently changed to HFCL Infotel Limited on May 12, 2003. This was done pursuant to a scheme of amalgamation, approved by the High Court of the State of Punjab and Haryana and the State of Tamil Nadu on March 6, 2003 and March 20, 2003, respectively, whereby the *erstwhile* HFCL Infotel Limited (name earlier allotted to the transferor Company) ('*erstwhile* HFCL Infotel') was merged with the Company with effect from September 1, 2002. As per the Scheme envisaged the Company's then existing business of hire purchase, leasing and securities trading to its wholly owned subsidiary, Rajam Finance & Investments Company (India) Limited ('Rajam Finance') with effect from September 1, 2002. Rajam Finance was renamed as The Investment Trust of India Limited with effect from June 17, 2003 and it ceased to be the subsidiary of the Company with effect from September 30, 2003, due to allotment of fresh equity by it to other investors. The Company, during the year ended March 31, 2004, surrendered its licence granted by Reserve Bank of India ('RBI') to carry out NBFC business; RBI confirmed the cancellation of the NBFC licence as per their letter dated May 24, 2004. The revenues and expenses in the profit and loss account pertain to the telecommunications business of the Company.

(b) License Fees

The Company obtained licence for Basic Telephony Service for the Punjab circle by way of amalgamation of the erstwhile HFCL Infotel with the Company. Erstwhile HFCL Infotel had obtained this licence under fixed license fee regime under National Telecom Policy ('NTP') 1994, valid for a period of 20 years from the effective date, and subsequently migrated from the fixed license fee regime to revenue sharing regime upon implementation of NTP 1999. Further to the Telecom Regulatory Authority of India's ('TRAI') recommendations of October 27, 2003 and the Department of Telecommunications ('DoT') guidelines on Unified Access (Basic & Cellular) Services Licence ('UASL') dated November 11, 2003, the Company migrated its licence to the UASL regime with effect from November 14, 2003. A fresh Licence Agreement was signed on May 31, 2004. Pursuant to this migration, the Company became additionally entitled to provide full mobility services, Erstwhile HFCL Infotel had also entered into a Licence Agreement dated June 28, 2000 and amendments thereto with DoT to establish, maintain and operate internet service in Punjab telecom circle.

The License Entry Fees for Punjab Circle was based on the total fixed license fees of Rs 1,775.85 million paid under the old license fee regime from inception till July 31, 1999, were considered as the License Entry Fees of the Punjab circle as part of the migration package to NTP 1999.

With effect from August 1, 1999, the Company is required to pay revenue share license fees as a fraction of Adjusted Gross Revenue ('AGR'), which is defined as total income including service revenues [refer Note 2.7], finance income and non-operating income, reduced by interconnection costs, service tax and/or sales tax, if applicable. The revenue share fraction was set at 10 per cent with effect from August 1, 1999 and was reduced to 8 per cent with effect from April 1, 2004. In addition, spectrum charges calculated at 2 per cent of the AGR earned through the wireless technology is payable under the license agreement. Income from internet services is excluded from the service revenues for the definition of the AGR.

(c) Project Financing

The Company's project was initially appraised by Industrial Development Bank of India ('IDBI') during the year ended March 31, 2000 for an estimated peak fund requirement of Rs 11,800 million. The appraised means of finance for the project was by way of equity capital of Rs 5,240 million and debt of Rs 6,560 million.

Pursuant to the migration to UASL regime, the consortium of lenders, led by IDBI approved, through the Corporate Debt Restructuring ('CDR') mechanism approved an overall restructuring of the liabilities of the Company, upward revision of the peak funding requirements from Rs 11,800 million to Rs 13,470 million upto March 31, 2006, with peak funding gap of Rs 1,670 million.

The revised project cost was envisaged to be funded by way of equity share capital to the tune of Rs 6,360 million, preference share capital of Rs 650 million; debts of Rs 6,300 million and Zero per cent Unsecured OFCDs of Rs 160 million.

Of this, the Company as at March 31, 2005, has an equity share capital of Rs 5,255 million, preference share capital of Rs 650 million, term loans aggregating to Rs 6,050 million and Zero per cent Unsecured OFCDs of Rs 166 million for the project. Pending tie-up of the balance equity, the term lenders have extended bridge funding of Rs 900 million (inclusive of premium of Rs 140 million) upto March 31, 2006 by way of subscribing to zero per cent OFCDs at a premium. The gap in debt and balance equity funding is proposed to be met by way of vendor credit and to this effect the Company entered into an agreement on February 8, 2005 with The Export Import Bank of China for USD 12 million amounting to 85 per cent of the total contract value of USD 14 million with a vendor for supply of telecommunications equipment [Schedule 23, See Note 13(b)]. The Company, as at March 31, 2005, is in the process of complying certain pre-conditions to the agreements to make it effective.

Subsequently, on May 23, 2005, the Company has submitted a proposal to the lenders for providing services in the States of Haryana, Himachal Pradesh and Jammu & Kashmir and expansion of Mobile network & launch of Cable Access services in Punjab. Consequent to the proposed expansion plan, the revised peak funding requirement would increase to Rs 15,470 million upto March 31, 2007. The funding for the same shall be arranged on the completion of the appraisal.

The ability of the Company to continue its operations as a going concern and realise its assets and discharge its liabilities in the normal course of business is dependent on its ability to successfully arrange for additional funding requirements on satisfactory terms; generating operating cash flows in order not to have a material adverse effect on the Company's business, operating results and financial conditions for the next twelve months. Based on the commitments and funding provided by the Shareholders and the Lenders so far, the Company is confident that it would be able to arrange the additional funding requirements, for the project and, accordingly, these financial statements are prepared on a going concern basis.

2. <u>Summary of significant accounting policies</u>

2.1 Basis of preparation of Financial Statements

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by The Institute of Chartered Accountants of India ('ICAI') and the relevant provisions of the Companies Act, 1956 ('the Act'). The financial statements have been prepared under the historical cost convention, on the accrual basis of accounting. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year other than those disclosed in note 2.3. The significant accounting policies are as follows:

2.2 Fixed Assets

Fixed assets are stated at cost less impairment loss, if any, and accumulated depreciation. The Company capitalises direct costs including taxes, duty, freight and incidental expenses attributable to the acquisition and installation of fixed assets. Capital work-in-progress is stated at cost.

Telephone sets lying with deactivated customers for more than 90 days since disconnection are written off.

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the income statement for items of fixed assets carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtained from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset, from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if not possible, for the cash generating unit. Impairment loss recognised for an asset in earlier accounting periods is reversed, to the extent of its recoverable amount, if there has been a change in the estimates of used to determine the asset's recoverable amount since the last impairment loss was recognised.

Effective April 1, 2004, the Company has adopted Accounting Standard 28, Impairment of Assets ('AS 28'), which has not given rise to any impairment loss to be recognised in the financial statements for the year ended March 31, 2005.

2.3 Depreciation

(i) Depreciation is provided pro-rata to the period of use (except for Telephone Instruments at the customer premises which are depreciated from the beginning of the month, following the month of purchase), on the straight line method based on the estimated useful life of the assets, as follows:

Asset	Useful life(in years)
Leasehold Land Buildings	Over the primary period of the lease Factory Building 30 years Others 58 years
Leasehold Improvements:	10 years or over the primary period of the lease, whichever is lower
Network Equipment	9.67 years
Testing Equipments (included in Network Equipments)	5 years
Optical Fibre Cable and Copper Cable	15 years
Telephone Instruments at Customer's Premises	5 years
Computers	6 years
Software	5 years
Office Equipments	10 years, except in case issued to employees where asset is depreciated in 5 years
Furniture and Fixture	10 years, except in case issued to employees where asset is depreciated in 5 years
Vehicles	4 years
Fixed Assets costing less than Rs 5,000	Fully depreciated when they are ready to use

(ii) Depreciation rates derived from the above are not less than the rates prescribed under Schedule XIV of the Companies Act, 1956.

(iii) Depreciation on the amount capitalized on upgradation of the existing assets is provided over the balance life of the original asset.

(iv) Depreciation on the amount capitalised on account of foreign exchange fluctuations is provided over the balance life of the original asset.

(v) Effective April 1, 2004, the Company has revised the economic useful life of furniture and fixtures from 16 years to 10 years, office equipment from 21 years to 10 years and vehicles from 5 years to 4 years and has accordingly depreciated the written down value as on March 31, 2004 over the remaining useful life. As a result, the Company has recorded accelerated depreciation of Rs 11.44 million for the year ended March 31, 2005 resulting in an increase in the loss for the year by Rs 11.44 million.

(vi) During the year, the Company has revised the economic useful life of the certain network equipment purchased from the original supplier. The Company believes that these network equipment would be utilised upto March 31, 2008. As a result, the Company has recorded accelerated depreciation of Rs 68.64 million for the year ended March 31, 2005 resulting in an increase in loss for the year by Rs 68.64 million.

2.4 Licence Fees

(i) Licence Entry Fee

The Licence Entry Fee [See Note 1(b)] has been recognised as an intangible asset and is amortised over the remainder of the licence period of 20 years from the date of commencement of commercial operations

[Refer Note 1(a)]. Licence entry fees includes interest on funding of licence entry fees, foreign exchange fluctuations on the loan taken upto the date of commencement of commercial operations.

The carrying value of license entry fees are assessed for recoverability by reference to the estimated future discounted net cash flows that are expected to be generated by the asset. Where this assessment indicates a deficit, the assets are written down to the market value or fair value as computed above.

(ii) Revenue Sharing Fee

Revenue Sharing Fee, currently computed at the prescribed rate of AGR is expensed in the Statement of Profit and Loss in the year in which the related income from providing unified access services is recognised.

An additional revenue share towards spectrum charges is computed at the prescribed rate of the service revenue earned from the customers who are provided services through the CDMA and CorDect wireless technology. This is expensed in the Statement of Profit and Loss in the year in which the related income is recognised.

2.5 Investments

Investments that are readily realisable and intended to be held for not more than 12 months are classified as current investments. All other investments are classified as long-term investments. Long term investments are stated at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments. Current investments are carried at lower of cost and fair value and determined on an individual investment basis.

2.6 Provisions

A provision is recognised when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

2.7 Revenue Recognition

Revenue from unified access services are recognised on services rendered and are net of rebates, discounts and service tax. Unbilled revenues resulting from unified access services provided from the billing cycle date to the end of each month are estimated and recorded. Revenues from unified access services rendered through prepaid cards are recognised based on actual usage by the customers. Billings made but not expected to be collected , if any, are estimated by the management and not recognized as revenues in accordance with Accounting Standard on Revenue Recognition ('AS 9').

Revenue on account of internet services and revenue from infrastructure services are recognised as services are rendered, in accordance with the terms of the related contracts.

2.8 Interconnection Usage Revenue and Charges

The TRAI issued Interconnection Usage Charges Regulation 2003 ('IUC regime') effective May 1, 2003 and subsequently amended twice with effect from February 1, 2004 and February 1, 2005. Under the IUC regime, with the objective of sharing of call revenues across different operators involved in origination, transit and termination of every call, the Company pays interconnection charges (prescribed as Rs per minute of call time) for all outgoing calls originating in its network to other operators, depending on the termination point of the call i.e. mobile, fixed line, and distance i.e. local, national long distance and international long distance. The Company receives certain interconnection charges from other operators for all calls terminating in its network

Accordingly, interconnect revenue are recognised on those calls originating in another telecom operator network and terminating in the Company's network. Interconnect cost is recognised as charges incurred on termination of calls originating from the Company's network and terminating on the network of other telecom operators. The interconnect revenue and costs are recognised in the financial statement on a gross basis and included in service revenue and network operation expenditure, respectively.

2.9 Foreign Currency Transactions

Initial Recognition

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

Conversion

At the year end, monetary items denominated in foreign currencies, other than those covered by forward contracts, are converted in to rupee equivalents at the year end exchange rates.

Exchange Differences

Exchange differences arising on the settlement or reporting of monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year in which they arise except those arising from investments in non-integral operations.

All exchange differences arising on settlement/conversion of foreign currency transactions are included in the profit & loss account, except in cases where they relate to the acquisition of Fixed Assets from outside India, in which they are adjusted in the in carrying cost of the corresponding assets.

2.10 Borrowing Costs

Borrowing costs that are attributable to the acquisition and construction of a qualifying asset are capitalised as a part of the cost of the asset. Other borrowing costs are recognised as an expense in the year in which they are incurred.

2.11 Leave Encashment

Liability for leave encashment is in accordance with the rules of the Company and is provided on the basis of an actuarial valuation performed by an independent actuary at the year end.

2.12 Other Retirement Benefits

The contributions towards provident fund are made to statutory authorities and are charged to the profit and loss account The gratuity benefits of the Company are administered by a trust formed for this purpose through the group gratuity scheme with Life Insurance Corporation of India ('LIC') to cover the gratuity liability for its employees. Provision is made for the shortfall if any in the contribution made as compared to the actuarial valuation at the close of the year.

2.13 Income-Tax

Tax Expenses for the year, comprises both current tax and deferred tax, is included in determining the net profit/(loss) for the year. Current tax is measured at the amount expected to be paid to/recovered from the taxation authorities, using the applicable tax rates and laws.

Deferred income taxes reflect the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets, other than on unabsorbed depreciation and tax losses carried forward, are recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. Deferred tax assets from unabsorbed depreciation and tax losses carried forward are recognized and carried forward only to the extent that there is a virtual certainty that such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become virtually certain that future taxable income will be available against which such deferred tax assets can be realised.

2.14 Operating Leases

Leases under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under operating leases are recognized as an expense in the profit and loss account on a straight-line basis over the lease term.

2.15 Earning Per Share

Basic earnings per share is calculated by dividing the net earnings for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year.

For calculating diluted earning per share, the number of shares comprises the weighted average shares considered for deriving basic earning per share, and also the weighted average number of shares, if any which would have been used in the conversion of all dilutive potential equity shares. The number of shares and potentially dilutive equity shares are adjusted for the bonus shares and the sub-division of shares, if any.

2.16 Segment Reporting

Identification of segments:

The Company's operating businesses are organized and managed separately according to the nature of products manufactured/traded, with each segment representing a strategic business unit that offers different products to different markets. The analysis of geographical segments is based on the areas in which the Company's products are sold.

Allocation of common costs:

Common allocable costs are allocated to each segment according to the relative contribution of each segment to the total common costs.

Unallocated items:

The Corporate and other segment include general corporate income and expense items, which are not allocated to any business segment.

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET AND PROFIT AND LOSS ACCOUNT
AS AT AND FOR THE YEAR ENDED MARCH 31, 2005
[All amounts in Indian Rupees, except share data, unless otherwise stated]

SCHEDULE 23

NOTES FORMING PART OF THE ACCOUNTS

1. Contingent liabilities not provided for in respect of:

S. No.	Description	As at March 31,2005	As at March 31, 2004
I.	**Estimated Value of Contracts Remaining**		
	To be executed on capital account and not provided for net of capital advances Capital advances Rs 3,451,196 (2004 – Rs 1,980,836)	313,259,350	29,003,048
II.	**Contingent Liabilities and Commitments** Financial Bank Guarantees [refer Note (a) below]	67,304,000	68,630,000
	Counter guarantee given to HFCL, the Holding Company [refer Note (a) below]	5,225,000,000	5,225,000,000
III.	**Open Letters of Credit** (Margin deposit for above Rs 9,095,000 (2004 – Rs 16,775,067)	42,769,106	49,647,956
IV.	**Income-tax matters under appeal**		
	[refer Note (b) below]	62,808,358	1,329,910
V.	**Claims against the Company not acknowledged as debts**	1,138,230	5,020,787
VI.	**Others** [refer Note (c) below]	133,388,119	98,693,699
	Total	**5,845,667,163**	**5,477,325,400**

(a) Financial bank guarantees as at March 31, 2005 of Rs 67.17 million (2004 — Rs 50 million) and performance bank guarantees of Rs 15.96 million (2004 — Rs 2.33 million) are secured against:

- First pari passu charge by way of hypothecation of movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and also book debts and receivables, both present & future;
- First pari passu charge of mortgage of immovable properties of the Company in Mohali, Jalandhar and Mumbai.
- Further, secured by corporate guarantee given by the Holding Company. The Company has furnished Counter Guarantee of Rs 5.23 billion (2004 — Rs 5.23 billion) to HFCL, the Holding Company against the corporate guarantees given by it to the Industrial Development Bank of India, ING Vysya Bank Limited, Punjab National Bank and Oriental Bank of Commerce.

(b) The Company has certain income tax related matters pending with the Income Tax Authorities for the Assessment Year from 1993-94 to Assessment Year 2000-01 aggregating to Rs 62.81 million. The said demands pertain to the NBFC business of the e*rstwhile* Investment Trust of India Limited (the Company before the merger with the e*rstwhile* HFCL Infotel Limited) {See Schedule 22, Note 1(a)]. Based on a expert opinion obtained by the Company, the management is confident that no additional tax liability needs to be provided.

(c) As per the decision of the Supreme Court in the case of State of Uttar Pradesh v Union of India based on the UP Sales Tax Act, charges collected in the nature of charges for use of the various assets that form the network tantamounting to a 'transfer of right to use the telephone system', essentially rental charges, would be liable to lease tax. The Company has estimated the maximum liability on this account to be Rs 133.39 million as at March 31, 2005 (2004 — Rs 98.69 million) in the event of dismissal of the writ petitions. Further, in another ruling, the Supreme Court has referred the matter to a larger bench and the order states that normal sales tax proceedings can continue, however, no coercive action can be taken against the Company except in regard to the completed assessments subject to any statutory remedy.

The management believes that it is currently not liable to provide for these taxes or the exposure. The matter which is being heard by a Constitutional bench, has been adjourned for hearing in July 2005 in the last hearing on April 29, 2005.

(d) Loans and advances include amounts recoverable from Essar Investments Limited ('EIL') aggregating to Rs 134.07 million. The Company had made payments in earlier years to EIL for takeover of certain accounted liabilities and certain unaccounted liabilities for services that were to be settled by EIL as per the agreement between EIL and *erstwhile* HFCL Infotel [See Schedule 22, Note 1(a)]. EIL has failed to settle the dues with the respective parties and a winding up petition u/s 434 of the Companies Act, 1956 was filed with Honourable Court of Mumbai. This petition has been dismissed vide order dated March 24, 2005. However, the Company now plans to appeal before the Division Bench of High Court. The Company has also invoked the Arbitration proceedings. Pending such recovery, provision for doubtful advance is being carried in the financial statements. However, provision for claims of third parties shall be made as and when the claims are settled.

2. **Expenditure in foreign currency** (on accrual basis)

	Year ended March 31, 2005	Year ended March 31, 2004
Travel expenses	1,292,524	203,196
Finance charges	2,052,724	1,453,740
Others	360,433	-
	3,705,681	1,656,936

3. **Managerial remuneration**

Remuneration paid to Manager designated as Chief Executive Officer ('CEO') is as under:

	Year ended March 31, 2005	Year ended March 31, 2004
Salary	1,003,710	982,215
Employer's Contribution to Provident and Other Funds	120,445	109,463
Perquisites/ Allowances	1,638,822	1,411,107
Ex-gratia/ Performance Linked Incentive	1,008,066	384,097
	3,771,043	2,886,882

Managerial remuneration does not include gratuity and leave encashment, provision for which is accounted for based on actuarial valuation for the Company as a whole and a separate amount pertaining to managerial remuneration is not accessible.

Value of perquisites and other allowances has been determined in accordance with the provision of the Income-tax Act, 1961.

On May 17, 2005, the Company obtained the approval from the Central Government for payment of remuneration to its manager under Section 269, 198(4), 309(3) and 637AA of the Act. Managerial remuneration paid by the Company is within the limits specified under Section 198 read with Section II, Part II of schedule XIII of the Act, and the Company has complied with the conditions prescribed therein.

4. **Payments to auditors (on accrual basis, excluding service tax)**

	Year ended March 31, 2005	Year ended March 31, 2004
Audit fees	2,000,000	2,000,000
Tax audit fee	200,000	200,000
Other services (including IPO related services)	1,103,000	2,581,710
Reimbursement of out-of-pocket expenses	138,218	79,085
	3,441,218	4,860,795

5. **CIF value of imports**

	Year ended March 31, 2005	Year ended March 31, 2004
Import of capital equipment (other than telephone instruments)	285,051,080	83,817,655
Import of telephone instruments	83,281,605	23,569,113
Others	417,627	28,066
	368,750,312	107,414,834

6. **Quantitative particulars of Traded Goods**

Purchase and sale of traded goods

	Purchases*				Sales/Utilisation			
	2004-2005		2003-2004		2004-2005		2003-2004	
	Qty. Nos.	Value	Qty Nos.	Value	Qty Nos.	Value	Qty. Nos.	Value
Router	-	-	17	325,312	-	-	17	417,411
Nt-1	-	-	17	29,750	-	-	17	34,911
Modem	-	-	14	208,040	-	-	14	218,286
Ethernet converter	-	-	2	54,000	-	-	2	72,704
Optimux	-	-	2	58,000	-	-	2	88,339
Beetel clip phone	-	-	310	177,040	-	-	310	190,540
Cisco 3725 router	-	-	1	533,350	-	-	1	589,285
Total	-	-	363	1,385,492	-	-	363	1,611,476

**Includes cost transferred from fixed assets*

7. **Consumption of Stores & Spares**

	Year ended March 31, 2005		Year ended March 31, 2004	
	Value	%	Value	%
Indigenous	40,675,971	98.98	24,898,502	97.64
Imported	417,627	1.02	6,02,708	2.36
	41,093,598	100.00	25,501,210	100.00

8. **Share Capital**

Equity shares

a. Of the total paid up equity share capital comprising of 525,517,152 equity shares, 515,070,338 equity shares (98 per cent) are yet to be listed on the recognized stock exchanges in India. As a pre-condition to the listing of the Company's shares on the Bombay Stock Exchange ('BSE'), the BSE had stipulated that the promoters' shareholding in the Company be reduced to a certain level by way of Public Offer for sale ('offer for sale') by the promoters. However, the management believes that upon allotment of equity shares and OFCDs to the lenders as a part of the CDR scheme [See Schedule 22, Note 1(c)], the shareholding of the promoters has already been reduced to the required level and, accordingly, an offer for sale is not required. On November 24, 2004, the Company filed a petition before the Securities Appellate Tribunal ('SAT') to direct BSE to list the Company's shares without the condition of offer for sale. The same remains pending as on date.

On September 30, 2004, the Company obtained the approval from the shareholders for de-listing the shares listed in the Calcutta Stock Exchange Association Limited ('CSE'). Consequently, the Company has applied for de-listing the same but the approval from the CSE is yet to be obtained.

b. Based on a legal opinion, the Company pursuant to the CDR scheme [See Schedule 22, Note 1(c)], issued 19,696,978 equity shares of the aggregate 83,070,088 equity shares to certain lender banks as per Chapter XIII of the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 (as amended), at a Premium of Rs 0.50 per equity share [See Schedule 1, Note 1(a)(iii)].

c. Of the total paid up equity share capital comprising of 525,517,152 equity shares, letter of allotment for 316,200,000 equity shares (60 per cent) was issued but pending the results of the petition filed with the SAT [See Note (a) above], issue of share certificate in physical or dematerialised form is yet to be decided.

9. Loans

a) Secured Loans

(i) Term Loans of Rs 1,300 million (2004– Rs 1,300 million) from Banks are secured by first pari passu charge on movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and other movables including book debts by way of hypothecation, both present and future, first pari passu charge of mortgage of immovable properties of the Company situated at Mohali, Jalandhar and Kandivali (East), Mumbai. Further term loans from Banks amounting to Rs 250 million are secured by assignment of all rights, title, benefits, claims and interest in, to and under the project documents, insurance policies and project contracts including Basic Telephony Licence of Punjab Circle, all statutory, government and regulatory approvals, permissions, exemptions and waivers on pari passu basis. Further, term loan from banks amounting to Rs 1,050 million are secured by corporate guarantee given by the Holding Company. As per the CDR Scheme approved on March 10, 2004, the Company is required to charge interest on ballooning basis of 10 per cent from April 1, 2003 to March 31, 2006 and at 14 per cent from April 1, 2006 to March 31, 2014. These long term loans are repayable in 24 quarterly installments commencing from October 1, 2007 to July 1, 2013.

(ii) Vehicle Loans of Rs 8.62 million (March 31, 2004 – Rs 5.68 million) are secured by way of exclusive hypothecation charge in favour of Bank on the specific assets acquired out of the loan proceeds of the Company. These loans are repayable in monthly installments and shall be repaid by 2008.

(iii) Term loan of Rs 4,750 million (2004 – Rs 4,750 million) from a financial institutions is fully secured by first pari passu charge on movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and other movables including book debts by way of hypothecation, both present and future, first pari passu charge of mortgage of immovable properties of the Company situated at Mohali, Jalandhar and Kandivali (East), Mumbai and assignment of all rights, title, benefits, claims and interest in, to and under the project documents, insurance policies and project contracts including Basic Telephony Licence of Punjab Circle, all statutory, government and regulatory approvals, permissions, exemptions and waivers on pari passu basis. Further term loans from Financial Institutions amounting to Rs 4,000 million are secured by pledge of 163,000,000 equity shares of the Company held by the Holding Company and corporate guarantee given by the Holding Company. As per the CDR Scheme approved on March 10, 2004, the Company is required to charge interest on ballooning basis of 10 per cent from April 1, 2003 to March 31, 2006 and at 14 per cent from April 1, 2006 to March 31, 2014. These long term loans are repayable in 24 quarterly installments commencing from October 1, 2007 to July 1, 2013.

(iv) On October 16, 2004, the Company issued 7,551,178 Zero percent Optionally Fully Convertible Debentures ('OFCDs') of Rs 100 each in lieu of interest accrued on term loans from financial institutions and banks from January 1, 2004 to March 31, 2005. In addition to the securities created for the term loans, the OFCDs are yet to be secured by way of assignment of the License from the DoT for provision of basic telephony services in the Punjab Circle, extension of the pari-passu charge on all the assets of the Company, Corporate Guarantee of the Holding Company, extension of pledge of 163,000,000 equity shares and personal guarantee of the promoter directors. The OFCDs are redeemable at a premium of 12 per cent on March 31, 2006. The OFCD holders also have the option to convert the OFCDs at par subject to the then prevailing guidelines of the SEBI and provisions of the Companies Act, 1956.

(v) The Company has a bank overdraft facility of Rs 75 million from the Oriental Bank of Commerce ('OBC'). The facility is secured by second pari passu charge of movable properties of the Company including movable plant and machinery, machinery spares, tools and accessories and other movables by way of hypothecation, both present and future. As per the CDR Scheme approved on March 10, 2004, the Company is required to charge interest at 13 per cent per annum compounded on a monthly basis. The amount against this facility is repayable on demand. The facility is further secured by way of a corporate guarantee given by the Holding Company. The bank overdraft of Rs 68.63 million (2004 – Rs 53.24 million) includes interest amounting to Rs 5.47 million (2004 – Nil).

b) *Unsecured Loans*

(i) On October 16, 2004, the Company issued 1,667,761 Zero percent Optionally Fully Convertible Debentures ('OFCDs') of Rs 100 each in lieu of interest accrued on term loans from a financial institution and a bank for the period April 1, 2003 to December 31, 2003. The OFCDs are redeemable at par on March 31, 2014 after repayment of the term loans.

(ii) The Company had entered into a payment restructuring agreement on March 11, 2004 for payment to the original vendor of USD 0.88 million. The amount outstanding USD 0.82 million as on March 31, 2004 has been repaid during the current year as per the restructuring agreement.

(iii) Interest payable on vendor finance facilities amounting to Rs 3.94 million as at March 31, 2005 (2004 – Rs 3.48 million) is yet to be remitted..

10. Fixed Assets and Capital work-in-progress

(a) Capital Work in Progress includes capital advances aggregating to Rs 5.75 million (2004 – Rs 0.21 million) and Goods in Transit of Rs 42.29 million (2004 - Rs 1.22 milllion)

(b) Gross Block of Fixed Assets and Capital Work In Progress includes capitalized exchange gain of Rs 4.71 million and Rs 2.5 million, respectively. (2004 – gain of Rs 4.85 million and Rs Nil, respectively).

(c) Effective April 1, 2004, the Company has revised the economic useful life of furniture and fixtures from 16 years to 10 years, office equipment from 21 years to 10 years and vehicles from 5 years to 4 years and has accordingly depreciated the written down value as on March 31, 2004 over the remaining useful life. As a result, the Company has recorded accelerated depreciation of Rs 11.44 million for the year ended March 31, 2005 resulting in an increase in the loss for the year by Rs 11.44 million.

(d) Sale/Adjustment includes prior period depreciation amounting to Rs Nil (2004 - Rs 20.64).

(e) As on March 31, 2005, the Capital Work in Progress includes an amount of Rs 7.54 million of Optical Fibre Cable ('OFCs') as usable cut pieces. The Company is in the process of determining the utility of these OFCs. Accordingly, these financials have not been adjusted for the same.

(f) During the year ended March 31, 2005, the Company entered into a contract with equipment supplier for expansion of capacity and roll-out of CDMA based wireless networks to most parts of the Punjab circle. The new equipment supplier is different from the original/existing equipment supplier. Based on its expansion plan, the Company is also in the final stages of formulising a contract with the original equipment supplier for the redeployment of the existing equipment at certain other parts of the circle.

Further, the management has revised the economic useful life of the equipment purchased from the original equipment supplier and believes that the same would be utilised upto the year ended March 31, 2008. As a result of the revision in the economic useful life, the depreciation charge and the losses reflected in the Statement of Profit and Loss are higher by Rs 68.64 million.

(g) During the year the Company has fully depreciated certain fixed assets (ATM Switch and CorDect Telephone Instruments) which are not being used. As a result, the Company has recorded an additional depreciation of Rs 13.41 million.

(h) As on March 31, 2005, telephone instruments aggregating to a net book value of Rs 330.49 million (2004 – Rs 182.33 million) located at customer premises.

11. Investments

The Company has invested Rs 18 million, in The Investment Trust of India Limited ('ITI'), representing 46.67 per cent of the total equity share capital of that Company. As at March 31, 2005, ITI has a networth of Rs 235 million and has earned a profit of Rs 34.40 million (including a write back of provision of Rs 32.65 million) for the year 2004 - 05. The management of the Company is confident that ITI shall continue to generate operating profits in the long-term and, accordingly, believes that there is no long term diminution in the value of the investment.

12. Income Tax

a) *Deferred taxes*

During the year ended March 31, 2005, the Company has incurred losses of Rs 936.03 million (accumulated losses of Rs 5,432.04 million) resulting into a tax loss carry forward situation. Further to the migration of the Licence to Unified Access Services, the Company is expanding the footprint of its wireless network to most parts of the State. The Company is eligible for a tax holiday under section 80IA of the Indian Income-tax Act, 1961, allowing the Company a tax deduction equivalent to 100 per cent of profits and gains for any 5 consecutive financial years and 30 per cent for the next 5 financial years, out of 15 financial years, beginning with the financial year in which the Company started providing telecommunication services. Though the management is confident of generating profits in the future, there is currently no convincing evidence of virtual certainty that the Company would reverse the tax loss carry forwards beyond the tax holiday period. Accordingly, the Company has not recognized any deferred tax assets resulting from the carry forward tax losses. Further, no deferred tax liabilities on account of temporary timing differences have been recognized since they are expected to reverse in the tax holiday period.

b) Provision for Tax for earlier years

On March 31, 2004, the Company had an advance tax of Rs 5.36 million (net off tax provision of Rs 3.77 million) pertaining to the NBFC business of the e*rstwhile* Investment Trust of India Limited (the Company before the merger with the e*rstwhile* HFCL Infotel Limited). During the year, on completion of the assessment for the earlier years, the Company has provided for the tax payable of Rs 3.84 million relating to the earlier years.

13. Current liabilities and Provisions

(a) *Current Liabilities*

a. Sundry Creditors include amount payable to Small Scale Industrial Undertakings ('SSI') as at March 31, 2005 of Rs Nil (2004 — Rs Nil) (based on the information, to the extent available with the Company, and as certified by the management).

b. On December 14, 2004, the Company entered into an agreement with a vendor for the supply of telecommunications equipment aggregating to USD 14 million. Further, on February 8, 2005, the Company entered into an agreement with The Export Import Bank of China for a loan of USD 12 million equivalent to 85 per cent of the total contract value of USD 14 million (as above) [See Schedule 22, Note 1(c)]. The said loan facility is yet to be utilized by the Company as on March 31, 2005, as certain conditions precedent to the execution of the aforementioned agreement are pending. As at March 31, 2005, payment of equipment of the value amounting to Rs 191.54 million supplied by the vendor against letters of credit or advance, is yet to be paid.

(b) *Provisions*

Particulars	Balance as at April 1,2004	Additions during the year	Amounts paid/ adjusted during the year	Balance as at March 31, 2005
Leave encashment	3,202,993	2,916,370	2,637,788	3,481,575
Gratuity	3,278,302	1,464,048	2,608,705	2,133,645
Provision for doubtful debt	13,299,761	48,950,603	3,586,394	58,663,970
Provision for advances	136,071,173	—	—	136,071,173

14. Loss per share

The calculations of loss per share are based on the loss and number of shares as computed below.

	Year ended March 31, 2005	Year ended March 31, 2004
Loss for the year (Rs)	936,026,556	1,136,157,235
Weighted average number of shares	480,454,474	441,524,909
Nominal value per equity share (In Rs)	10	10
Loss per share – basic and diluted (In Rs)	1.95	2.57

15. Operating leases

The Company has entered into various lease agreements for leased premises, which expire at various dates in the future. Gross rental expenses for the year ended March 31, 2005 aggregated Rs 39.12 million (March 31, 2004 — Rs 31.46).

Future lease payments under non-cancellable operating leases are as follows:

	Year ended March 31, 2005	Year ended March 31, 2004
Payable not later than one year	1,806,000	1,680,000
Payable later than one year and not later than five years	2,898,000	4,242,000
Total	**4,704,000**	**5,922,000**

16. Segmental Reporting

The primary reporting of the Company has been performed on the basis of business segments. The Company had only one business segment, which is the provision of unified access services. Accordingly, the amounts appearing in these financial statements relate to this primary business segment. Further, the Company provides services only in the domestic markets in India and, accordingly, no disclosures are required under secondary segment reporting.

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17. Related Party Disclosures

Relationship	Holding Company		Wholly owned subsidiary		Companies under Common Control		Fellow Subsidiary Company		Associates		Company Under Key Management Personal		Total	
Nature of Transaction	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04
ASSETS														
Purchase of Equity Shares	–	–	500,000	–	-	–	–	–	–	–	–	–	500,000	–
Purchase of Capital Goods	110,275,787	83,457,361	–	–	410,493	12,517,047	–	–	–	–	–	–	110,686,280	95,974,408
Purchase of Capital Services	3,723,119	27,721,731	–	–	–	–	–	–	–	–	–	–	3,723,119	27,721,731
Payment against capital purchase/Services	128,651,794	102,979,216	–	–	25,496,513	4,022,367	–	–	–	–	–	–	154,148,307	107,001,583
LIABILITIES														
Short Term Funds received by Company	–	40,000,000	–	140,028	–	–	–	35,635	–	6,277,186	–	–	–	46,452,849
Balance - Payable	53,305,985	68,211,946	–	–	3,330,933	28,424,249	–	–	–	–	–	–	56,636,918	96,636,195
Balance - Receivable	–	–	–	–	6,478,142	1,097,600	89,265	–	1,149,999	650,321	8,121,107	1,227,334	15,838,513	2,975,255
Relationship	Holding Company		Wholly owned subsidiary		Companies under Common Control		Fellow Subsidiary Company		Associates		Company Under Key Management Personal		Total	
Nature of Transaction	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04
INCOME/RECEIPT														
Services Provided	–	–	1,000	–	8,811,106	–	–	–	–	–	–	–	8,812,106	–
Sale of Goods	–	–	–	–	–	1,097,000	–	–	–	–	–	219,048	–	1,316,048
Sale of Investment	–	–	–	32,703,000	–	–	–	–	–	2,405,500	–	–	–	35,108,500
EXPENSES/PAYMENTS														
Interest expense on ICD received Bank guarantee commission Debit Notes raised on us (Expenses)	45,228	1,178,963	–	20,507,417	–	1,087,686	–	–	16,611	222,814	–	19,719,852	61,839	42,716,732
Debit Notes raised by us (Expenses)	615,198	473,637	19,739	18,000	531,985	1,813	137,655	–	–	–	405,583	123,275	1,710,160	616,725
Purchase of Consulmbales Goods/ Repair & Maintainances	2,856,711,	4,482,457	–	–	424,593	657,349	–	–	–	–	–	1,518,265	3,281,304	6,658,071
Purchase of Services (Expenditure Nature)	1,800,000	–	–	–	1,082,247	–	–	–	–	–	38,336,338	18,418,471	41,218,585	18,418,471
Reimbursement of expenses incurred on behalf of subsidiary companies														
Payment made agst purchase of Goods/ Services (Expenditure Nature)	–													
Payments made on our behalf	–	841,550	300,143	3,316,695	–	–	–	–	–	–	–	–	300,143	4,158,245
Payment received on our behalf	–	–	716,013	–	–	–	–	–	–	–	–	–	716,013	–
Payment received by us	–	–	436,609	–	3,000,000	–	48,390	–	96,372	–	6,576,470	–	10,157,841	–
Payments made by the Company	4,086,741	6,029,333	–	4,040,241	974,855	–	–	35,635	612,661	222,814	50,648,848	–	56,323,105	10,328,023
OTHERS														
Corporate guarantee/letters of comfort given to banks on behalf of the Company	5,225,000,000	5,225,000,000	–	–	–	–	–	–	–	–	–	–	5,225,000,000	5,225,000,000

a. Holding Company is Himachal Futuistic Communications Limited.
Wholly owned subsidiary is Connect Broadband Services Limited
Fellow subsidiariy is HTL Limited.
Associate enterprise include The Investment Trust of India Limited
Other Companies under common control include Microwave Communications Limited, Himachal Exicom Communications Limited, HFCL Satellite Communications Limited, HFCL Nine Broadcasting India Private Limited, Westel Wireless Limited, Platinum EDU Limited, HFCL Kongsung Limited, WPPL Limited, Consolidated Futuristic Solutions Limited, Excel Netcommerce Limited, HFCL Bezeq Telecom Limited, ITI Financial Services Limited, Pagepoint Services India Limited, Nextra Technologies Private Limited, HFCL Dacom Infocheck Limited, India Sign Private Limited
Company under Key Managerial Personal is HFCL Internet Services Limited

b. Key managerial persons include the remuneration paid to Mr Surendra Lunia for the period from July 26, 2004 to March 31, 2005

18. Closure of Non-Banking Financial Corporation business

During the year ended March 31, 2004, the Company surrendered its licence granted by RBI to carry out NBFC business. Accordingly, the Company foreclosed all the unpaid / unclaimed deposits as on September 15, 2003 and the interest accruing thereon as on that date, and have been transferred to the Escrow Account in February 2004. On May 24, 2004, the RBI approved the cancellation of the Company's certificate of NBFC registration and provided certain directives to the Company to be complied with pending completion of which the Company would continue to be governed by the relevant provisions of the Reserve Bank of India Act, 1934 and various directions/instructions issued by RBI from time to time. [See Schedule 10 & 13 and Schedule 22, Note 1(a))]. On August 10, 2004 the Company has obtained the approval of the shareholders for the removal of NBFC related objects from the Memorandum of Association. The Registrar of Companies , Jalandhar, is yet to register the resolution of the shareholder due to delay in filing of the documents for which the Company has moved an application to Central Government and same remains pending as on date. Further, the Company submitted a letter dated July 7, 2004 for compliance and RBI vide its letter dated July 30, 2004 gave some concessions from compliance and has advised to follow certain instructions till the balance in the escrow account is settled. In addition, the accompanying financial statements include the following account balances relating to the NBFC business:

• Unclaimed Deposits From Public	Rs 1,740,599
• Interest accrued and due on public deposits upto September 15, 2003	Rs 232,795
• Interest accrued and due on deposits to be transferred to Investor Protection and Education Fund	Rs 174,848
• Cheques outstanding beyond 6 months	Rs 592,780
• Others (Under reconciliation)	Rs 29,207
	Rs 2,770,229
Balances with Scheduled banks in Escrow account [See Schedule 10]	Rs 2,770,229

19. Debenture redemption reserve

As discussed in Schedule 22, Note 1(c), pursuant to the CDR scheme [See Schedule 22, Note 1(c)] on October 16, 2004, the Company has issued OFCDs aggregating to Rs 755.12 million and Rs 166.78 repayable as on March 31, 2006 and March 31, 2014. As per section 117C(1) of the Companies Act, 1956, a debenture redemption reserve ('DRR') is to be created to which adequate amounts is to be credited out of the profits of each year until such debentures are redeemed.

During the year ended March 31, 2005 the Company has incurred losses of Rs 936.03 million , hence, in accordance with the clarification received from the Department of Company Affairs vide circular No 6/3/2001-CL.V dated April 18, 2002, the Company has not created Debenture redemption reserve.

20. Prior period expenditure

Description	Year ended March 31, 2005	Year ended March 31, 2004
Staff Welfare Expenses	-	4,192
Advertisement expenses	-	23,940
Sales Commission and Incentive	-	787,910
Printing & Stationary	-	25,363
Consumables	-	36,887
Rent	-	77,712
Software Expenses	-	312,500
Legal and Professional Expenses	-	2,086,990
Traveling and Conveyance	-	18,528
Communication Expenses	-	250,492
Repairs and Maintenance	-	93,562
Access Charges	7,258,575	31,430
Electricity and Water (Network Expenses)	626,309	265,306
Billing and Collection	-	38,251
Freight and Cartage	-	1,405,528
Miscellaneous Expenses	40816	29,352
Depreciation	-	20,644,173
Security Charges	68735	-
WPC Charges	1,685,693	-
Revenue from Basic Telephony Service	(1,437,815)	-
Miscellaneous Income	(156,500)	-
Total	**8,085,813**	**26,132,116**

21. Prior-year comparatives

The financial statement as at March 31, 2004 were jointly audited by another firm of chartered accountants and figures for the previous year have been reclassified, where necessary, to confirm with current year's presentation.

As per our report of even date

For S.R. BATLIBOI & ASSOCIATES Chartered Accountants	CHATURVEDI & PARTNERS Chartered Accountants	For and on behalf of the Board	
Prashant Singhal Partner Membership No. 93283	R.N. Chaturvedi Partner Membership No. 92087	Mahendra Nahata Director	M.P.Shukla Director
Place : New Delhi Date : June 13, 2005	Surendra Lunia Chief Executive Officer	Pradeep Goel General Manager (F&A)	Sanjeev Vashishta GM (Corporate & Legal) & Company Secretary

HFCL INFOTEL LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2005

PARTICULARS	For the Year Ended March 31, 2005 (Rs.)	For the Year Ended March 31, 2004 (Rs.)
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(Loss) for the year	(936,026,556	(1,136,157,235)
Adjustments for:		
Depreciation	1,028,326,987	796,737,087
Prior Period Expense / (Income) (Net)	8,085,813	26,132,116
Excess Provision Written Back	(18,980,178)	(1,530,398)
Loss on Fixed Assets Sold / Discarded	15,695,880	30,809,663
Bad Debts Writen Off	81,320,624	65,276,255
Provision for Doubtful Advances	–	2,000,933
Provision for Doubtful Debts	48,950,603	3,207,285
Tax deducted at source written off	3,846,821	-
Finance Expenses	627,231,451	691,118,058
Interest Income	(2,386,875)	(2,603,847)
Profit on Sale of Investment	-	(487,590)
Wealth tax	33,964	56,800
Operating profit before working capital changes	**856,098,535**	**474,559,128**
Adjustments for changes in:		
(Increase) / Decrease in debtors	(189,826,041)	(1,782,908)
(Increase) / Decrease in Loans and Advances	(31,199,651)	
Increase / (Decrease) in Current liabilites	180,699,889	78,152,021
Cash generated from operations	**815,772,732**	**550,928,240**
Direct Taxes paid (Net)	(6,252,331)	4,623,377
Prior Period Expense / (Income) (Net)	(8,085,813)	(5,487,943)
NET CASH GENERATED FROM OPERATING ACTIVITIES (A)	**801,434,589**	**550,063,675**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(818,499,962)	377,569,426
Sale of fixed assets	2,660,820	(18,948,727)
Purchase of investments	(500,000)	288,676
Licence entry fee (refund)	77,710,386	
Realization of Fixed Deposits	8,662,316	24,416,606
Interest Received	2,393,080	(4,985,968)
NET CASH USED IN INVESTING ACTIVITIES (B)	**(727,573,360)**	**378,340,013**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Equity Share Capital	–	17,308,140
Receipts from Secured loan	18,329,251	(5,061,626)
Repayment of Public Deposits	(608,684)	(12,708,802)
Receipts from Unsecured loan	(36,050,881)	(74,976,130)
Interest paid	(20,511,266)	(62,368,811)
Loan from Subsidiary / Associate (Net)	-	(6,822,707)
Dividend Paid	(129,642)	(224,238)
NET CASH GENERATED FROM FINANCING ACTIVITIES (C)	**(38,971,222)**	**(144,854,174)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	**34,890,007**	**26,869,487**
Cash and Cash Equivalents at the beginning of the year (Opening Balance)	43,059,018	16,189,531
Cash and Cash Equivalents at the end of the year (Closing Balance)	77,949,025	43,059,018

Notes:

1. The cash flow statement has been prepared under the indirect method as set out in the Accounting Standard 3 on Cash Flow Statement issued by the Institute of Chartered Accountants of India.
2. Figures in brackets indicate cash outflow.
3. Previous year figures have been regrouped and recast wherever necessary to conform to current year classification.
4. Cash & Cash Equivalents include :

Cash in Hand	1,924,615	725,711
Cheques in Hand	8,410,956	7,919,270
Balances with Scheduled Banks		
- In Current Account	64,843,225	31,090,097
- In Escrow Account	2,770,229	3,323,940
	77,949,025	**43,059,018**

As per our report of even date

For S.R. BATLIBOI & ASSOCIATES Chartered Accountants	CHATURVEDI & PARTNERS Chartered Accountants	For and on behalf of the Board	
Prashant Singhal Partner Membership No. 93283	R.N. Chaturvedi Partner Membership No. 92087	Mahendra Nahata Director	M.P.Shukla Director
Place : New Delhi Date : June 13, 2005	Surendra Lunia Chief Executive Officer	Pradeep Goel General Manager (F&A)	Sanjeev Vashishta GM (Corporate & Legal) & Company Secretary

HFCL INFOTEL LIMITED

STATEMENT PURSUANT TO PART-IV OF SCHEDULE VI OF THE COMPANIES ACT, 1956

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I	REGISTRATION DETAILS	
	Registration No.	26718
	State Code	16
	Balance Sheet	March 31, 2005
II	CAPITAL RAISED DURING THE YEAR (RUPEES)	
	Public Issue	NIL
	Bonus Shares	NIL
	Rights Issue	NIL
	Private Placement	1,480,700,880
III	POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (RUPEES)	
	Total Liabilities	8,916,491,544
	Total Assets	8,916,491,544
	SOURCE OF FUNDS	
	Shareholders' Funds	5,905,171,520
	Reserves & Surplus	234,409,392
	Secured Loans	6,927,734,724
	Unsecured Loans	170,713,842
	APPLICATION OF FUNDS	
	Net Fixed Assets	
	(Including Intangible Asset)	7,687,439,572
	Accumulated Losses	5,432,041,291
	Investments	718,170,900
	Net Current Liabilities	(599,622,285)
IV	PERFORMANCE OF THE COMPANY (RUPEES)	
	Turnover	2,555,422,792
	Total Expenditure	3,487,602,527
	Profit /(Loss) Before Tax	(932,179,735)
	Profit /(Loss) After Tax	(936,026,556)
	Earning Per Share	1,95
	Dividend	Nil
V	GENERIC NAMES OF THREE PRINCIPAL PRODUCTS /SERVICES OF THE COMPANY	
	Item Code No(ITC Code)	N.A.
	Product Description	Unified Access Services

For and on behalf of the Board

Mahendra Nahata Director	M.P.Shukla Director	Surendra Lunia Chief Executive Officer
	Sanjeev Vashishta GM (Corporate & Legal) & Company Secretary	Pradeep Goel General Manager (F&A)

Place : New Delhi
Date : June 13, 2005

AUDITORS' REPORT
To the Board of Directors of HFCL INFOTEL LIMITED

1. We have audited the attached Consolidated Balance Sheet of HFCL INFOTEL LIMITED, its subsidiary CONNECT BROADBAND SERVICES LIMITED and its associate company THE INVESTMENT TRUST OF INDIA LIMITED (together referred to as 'the Group' as described in Schedule 24, Note 1(a)), as at March 31, 2005, and also the Consolidated Profit and Loss account and Consolidated Cash Flow Statement for the year ended on that date annexed thereto. These consolidated financial statements are the responsibility of the Group'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 the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 audit provides a reasonable basis for our opinion.

3. Without qualifying our opinion, we draw attention to Note 1(c) of Schedule 24 to the financial statements, the Company has incurred a loss of Rs 936.03 million (accumulated loss of Rs 5,398.45 million), resulting into erosion of 88 per cent of networth. However, the Company is in the process of implementing an overall restructuring of the liabilities as approved by the Corporate Debt Restructuring ('CDR') Scheme and accordingly, these financial results are prepared on a going concern basis.

4. Without qualifying our opinion, we draw attention to Note 4(a)(iv) of Schedule 25 to the financial statements with respect to certain Optionally Fully Convertible Debentures ('OFCDs'), the security of which is in the process of being created.

5. We did not audit the financial statements of The Investment Trust of India Limited, whose financial statements reflect a total assets of Rs 934.71 million, as at March 31, 2005 and profit for the year of Rs 34.40 million (which represents 4 per cent of the consolidated net loss) for the year ended on that date. These financial statements have been audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of the associate, is based solely on the report of other auditors.

6. We did not audit the financial statements of Connect Broadband Services Limited, whose financial statements reflect a total assets of Rs 0.5 million (which represents less than 1 per cent of the consolidated assets), as at March 31, 2005. These financial statements have been audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of the subsidiary, is based solely on the report of other auditors.

7. We report that the consolidated financial statements have been prepared by the Group in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements and Accounting Standard (AS) 23, Accounting for Investments in Associates in Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate financial statements of The Investment Trust of India Limited and Connect Broadband Services Limited, included in the consolidated financial statements.

8. In our opinion and to the best of our information and according to the explanation given to us, 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 state of affairs of the Group as at March 31, 2005;

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

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

For S.R. Batliboi & Associates Chartered Accountants	For Chaturvedi & Partners Chartered Accountants
Prashant Singhal Partner Membership No: 93283	R.N.Chaturvedi Partner Membership No. 92087
Place: New Delhi Date: June 13, 2005	Place: New Delhi Date: June 13, 2005

HFCL INFOTEL LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31St MARCH, 2005

PARTICULARS	SCHEDULE	AS AT 31st MARCH 2005 (Rs.)	AS AT 31st MARCH 2004 (Rs.)
SOURCES OF FUNDS			**Schedule 25, Note 16**
Share Capital	1	5,905,171,520	4,424,470,640
Advance Against Share Application Money	2	-	1,490,926,946
Reserves and Surplus	3	234,409,392	269,919,182
		6,139,580,912	**6,185,316,768**
Loan Funds			
Secured Loans	4	6,927,734,724	6,108,929,394
Unsecured Loans	5	170,713,842	355,322,077
		7,098,448,566	**6,464,251,471**
		13,238,029,478	**12,649,568,239**
APPLICATION OF FUNDS			
Fixed Assets	6		
Gross Block		8,002,128,032	7,256,204,013
Less: Depreciation		(2,504,472,175)	(1,678,621,583)
Net Block		**5,497,655,857**	**5,577,582,430**
Capital Work-In-Progress		440,928,993	144,607,182
		5,938,584,851	**5,722,189,612**
Intangible Assets, net	7	**1,748,854,722**	**1,976,551,698**
Investments	8	**751,260,249**	**735,205,998**
Current Assets, Loans and Advances			
Sundry Debtors	9	295,985,499	236,430,684
Cash and Bank Balances	10	112,434,449	85,924,119
Other Current Assets	11	244,819	251,024
Loans and Advances	12	102,498,945	68,948,885
		511,163,711	**391,554,712**
Less: Current Liabilities and Provisions	13		
Current Liabilities		1,104,872,498	647,878,121
Provisions		5,648,084	6,535,295
		1,110,520,582	**654,413,416**
Net Current Liabilities		**599,356,871**	**262,858,704**
Miscellaneous Expenditure			
(to the extent of not written off or adjusted)			
Preliminary Expenses		174,958	-
Pre-operative Expenses (Pending Allocation)		59,628	-
		234,586	-
Profit and Loss Account		5,398,451,941	4,478,479,635
		13,238,029,478	**12,649,568,239**
Significant Accounting Policies	24		
Notes to Accounts	25		

The Schedules referred to above and the notes to Accounts form an integral part of the Balance Sheet.

As per our report of even date

For S.R. BATLIBOI & ASSOCIATES Chartered Accountants	CHATURVEDI & PARTNERS Chartered Accountants	For and on behalf of the Board	
Prashant Singhal Partner Membership No. 93283	R.N. Chaturvedi Partner Membership No. 92087	Mahendra Nahata Director	M.P.Shukla Director
Place : New Delhi Date : June 13, 2005	Surendra Lunia Chief Executive Officer	Pradeep Goel General Manager (F&A)	Sanjeev Vashishta GM (Corporate & Legal) & Company Secretary

HFCL INFOTEL LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31St MARCH, 2005

PARTICULARS	SCHEDULE	For the year ended 31st MARCH 2005 (Rs.)	For the year ended 31st MARCH 2004 (Rs.)
Income			**Schedule 25, Note 16**
Service Revenue	14	2,533,177,806	1,916,730,166
Revenue from Hire Purchase and Finance Business	15	-	51,863,118
Income from Investments	16	-	4,073,633
Other Income	17	22,244,986	7,456,365
		2,555,422,792	1,980,123,282
Expenditure			
Network Operation Expenditure	18	1,094,015,004	955,270,970
Cost of Goods Sold	19	-	1,385,492
Personnel Expenditure	20	224,487,854	199,379,338
Sales and Marketing Expenditure	21	157,088,805	122,275,412
Administrative and Other Expenditure	22	348,366,613	273,427,309
Loss on Dilution of Investment in Subsidiary		-	12,236,290
		1,823,958,276	1,563,974,811
Operating Profit before Finance Expenses, Amortisation and Depreciation		731,464,516	416,148,471
Finance Charges	23	627,231,451	691,134,615
Depreciation	6	866,391,300	634,294,071
Amortisation	7	161,935,687	163,543,569
Provisions, Lease Equilisation Charge		-	1,079,860
Loss for the year before Prior Period Expenditure and Tax		**924,093,922**	**1,073,903,644**
Prior Period Expenditure (Net)	25 Note 15	8,085,813	17,577,856
Loss for the year before Tax		**932,179,735**	**1,091,481,500**
Current Tax			2,065,000
Provision for Taxation for earlier years	25 Note 7(b)	3,846,821	-
Loss for the year		**936,026,556**	**1,093,546,500**
Share of Profit of Associate		**16,054,251**	**8,445,549**
Net Loss		**919,972,305**	**1,085,100,951**
Loss, brought forward from previous year		**4,478,479,635**	**3,393,378,684**
Loss carried to the Balance Sheet		**5,398,451,941**	**4,478,479,635**
Loss per share (equity shares, par value of Rs 10 each)	25 Note 9		
Basic (in Rs)		1.91	2.46
Diluted (in Rs)		1.91	2.46
Weighted average number of shares used in computing earnings per share			
Basic		480,454,474	441,524,909
Diluted		480,454,474	441,524,909
Significant Accounting Policies	24		
Notes to Accounts	25		

The Schedules referred to above and the notes to Accounts form an Integral Part of the Profit & Loss Account.
As per our report of even date

For S.R. BATLIBOI & ASSOCIATES Chartered Accountants	CHATURVEDI & PARTNERS Chartered Accountants	For and on behalf of the Board	
Prashant Singhal Partner Membership No. 93283	R.N. Chaturvedi Partner Membership No. 92087	Mahendra Nahata Director	M.P.Shukla Director
Place : New Delhi Date : June 13, 2005	Surendra Lunia Chief Executive Officer	Pradeep Goel General Manager (F&A)	Sanjeev Vashishta GM (Corporate & Legal) & Company Secretary

PARTICULARS Schedules forming Part of Balance Sheet	AS AT 31st MARCH 2005 (Rs.)	AS AT 31st MARCH 2004 (Rs.)
SCHEDULE 1		
SHARE CAPITAL		
Authorised:		
1,000,000,000 (2004 - 1,000,000,000) equity shares of Rs 10 each (2004 - Rs 10 each)	10,000,000,000	10,000,000,000
20,000,000 (2004 - 20,000,000) preference shares of Rs 100 each (2004 - Rs 100 each)	2,000,000,000	2,000,000,000
	12,000,000,000	**12,000,000,000**
Issued, Subscribed and Paid up		
525,517,152 (2004 - 442,447,064) equity shares of Rs 10 each (2004 - Rs 10 each) fully paid.	5,255,171,520	4,424,470,640
6,500,000 (2004 - Nil) 7.5 per cent Cumulative Redeemable Preference Shares ('CRPS') of Rs 100 each	650,000,000	-
	5,905,171,520	**4,424,470,640**

(a) Of the above

(i) 490,750 (2004 - 490,750) equity shares of Rs 10 each ,were alloted as fully paid bonus shares in the earlier years by way of capitalisation of reserves.

(ii) 346,705,000 (2004 - 348,705,000) equity shares are held by Himachal Futuristic Communications Limited (Holding Company)

(iii) 83,070,088 equity shares of Rs 10 each were allotted on October 16, 2004, pursuant to the Corporate Debt Restructuring ('CDR') Scheme [See Schedule 24, Note 1(c)]

Out of the above, 63,373,110 equity shares of Rs 10 each were issued by the Company to Industrial Development Bank of India ('IDBI'), at par and the balance of 12,171,778 and 7,525,200 equity shares of Rs 10 each to Oriental Bank of Commerce ('OBC') and ING Vysya Bank Limited ('ING'), respectively, at a premium of Re 0.50 per equity share [See Schedule 3, Note (a)]. The lender Banks have discussed the issue of premium in the meeting of the Executive Group of CDR Cell and have advised the Company/promoters to settle the equity pricing/compensation issues with the lender banks. The Company together with its promoters is pursuing this matter with the concerned lender banks and is confident of amicably settling the issue and that no additional liability would result on account of this matter.

(b) As more fully discussed in Schedule 24, Note 1(a), the Company in accordance with the scheme of amalgamation approved by the High Court of the State of Punjab and Haryana and the State of Tamil Nadu on March 6, 2003 and March 20, 2003, respectively under section 391 and 394 of the Companies Act, 1956, the *erstwhile* HFCL Infotel Limited (name earlier allotted to the transferor company), amalgamated with HFCL Infotel Limited ('HIL' or 'the Company'), (*formerly* The Investment Trust of India Limited). Subsequent to the approved amalgamation:

(i) 432,000,250 equity shares of Rs 10 each were allotted to the shareholders of *erstwhile* HFCL Infotel Limited on June 17,2003.

(ii) 1,730,814 equity shares of Rs 10 each were allotted on October 13, 2003, on conversion of the warrants issued to the shareholders of The Investment Trust of India Limited prior to June 11, 2003.

(c) 6,500,000 (2004 - Nil) 7.5 per cent CRPS were alloted to Himachal Futuristic Communications Limited (Holding Company) on October 16, 2004, pursuant to the CDR Scheme [See Schedule 24, Note 1(c)], the specified part of the amount due to HFCL by the Company has been converted into 7.5 per cent CRPS redeemable after the repayment of Rupee Term Loan (i.e. July 1, 2013). Prior approval of the lenders is required to declare dividend on the 7.5 per cent CRPS and all the voting rights attached to the CRPS to be assigned in favour of the term lenders.

SCHEDULE 2		
ADVANCE AGAINST SHARE APPLICATION MONEY		
Advance Against Equity Share Application Money	-	840,926,946
Advance Against Application Money for Cumulative Redeemable Preference Shares	-	650,000,000
	-	**1,490,926,946**

Pursuant to the CDR scheme [See Schedule 24, Note 1(c)], the Company transferred certain overdue interest and loan amounts and disclosed as advance against share application money as at March 31, 2004 based on the approval of the lenders, during the current year on final receipt of the lenders approval letters, the Company recomputed the interest amount and the loan to be converted into equity and consequently adjusted Rs 377,577 to the finance charge of the current year, being the excess amount transferred in the previous year.

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

	AS AT 31st MARCH 2005 (Rs.)	AS AT 31st MARCH 2004 (Rs.)
SCHEDULE 3		
RESERVES AND SURPLUS		
Capital Reserve	**34,032,776**	**34,032,776**
Securities Premium [See Note (a) & (b) below]		
Balance, beginning of the year	119,548,250	119,548,250
Received during the year	9,848,489	-
Less: Utilised towards the premium payable on redemption of Optionally Fully convertible debentures	45,358,279	-
	84,038,460	**119,548,250**
Statutory Reserve [See Note (c) below]	**11,900,000**	**11,900,000**
General Reserve	**104,438,156**	**104,438,156**
	234,409,392	**269,919,182**

(a) Share premium includes an amount of Rs 9,848,489 received on allotment of 19,696,978 equity shares of Rs 10 each on October 16, 2004 at a premium of Rs 0.5 per equity share [See Schedule 1, Note (a)(iii)]

(b) In accordance with the CDR Scheme [See Schedule 24, Note 1(c)], the Company has provided for the premium on Zero per cent Optionally Fully Covertible Debentures (OFCDs) and has utilised the share premium to that extent

(c) As more fully discussed in Schedule 24, Note 1(a), the Company (*formerly* The Investment Trust of India Limited) was a Non-Banking Financial Corporation ('NBFC') under the Certificate of Registration ('CoR') No 07.00222 dated April 18, 1998. Further, as more fully discussed in Schedule 25, Note 13, the Company has surrendered its CoR. with the Reserve Bank of India ('RBI'). As a condition for the cancellation of the CoR, the RBI has advised the Company to follow certain strictures till the balance in the escrow account is settled

SCHEDULE 4		
SECURED LOANS [SEE SCHEDULE 25, NOTE 4(a)]		
Term Loans		
From Financial Institutions	4,750,000,000	4,750,000,000
From Banks	1,300,000,000	1,300,000,000
Zero per cent Optionally Fully Convertible Debentures ('OFCDs') (to be secured, redeemable at premium)	755,117,800	-
Premium on Redemption of OFCD accrued but not due	45,358,279	-
Vehicle Loans	8,623,509	5,689,828
Bank Overdraft	68,635,136	53,239,566
	6,927,734,724	**6,108,929,394**
Amounts payable within one year - OFCDs with a premium of Rs 45,358,279	800,476,079	**-**
Amounts repayable within a year - Vehicle Loan	3,929,132	2,460,137

SCHEDULE 5		
UNSECURED LOANS [SEE SCHEDULE 25, NOTE 4(b)]		
Advance against Application Money for Optionally Fully Convertible Debentures	-	318,071,775
Zero per cent Optionally Fully Convertible Debentures ('OFCDs') (others)	166,776,100	-
Vendor Finance Facilities	-	36,050,881
Interest accrued and due on other Vendor Finance Facilities	3,937,742	1,199,421
	170,713,842	**355,322,077**

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET
SCHEDULE 6
FIXED ASSET
(See Schedule 25, Note 5)

ASSETS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at March 31, 2004	Additions	Sale/ adjustment	As at March 31, 2005	As at March 31, 2004	Depreciation	On Sale/ adjustment	As at March 31, 2005	As at March 31, 2005	As at March 31, 2004
Freehold Land	16,142,623	-	-	16,142,623	-	-	-	–	16,142,623	16,142,623
Leasehold Land	8,896,419	-	-	8,896,419	463,355	92,671	–	556,026	8,340,393	8,433,064
Building	174,822,166	-	-	174,822,166	12,178,286	3,286,810	–	15,465,096	159,357,070	162,643,880
Leasehold Improvements	65,584,532	4,487,926	-	70,072,458	18,936,895	7,560,088	–	26,496,983	43,575,475	46,647,637
Network Equipment	2,589,455,515	259,016,636	(614,121)	2,847,858,030	728,118,061	372,293,304	(97,529)	1,100,313,836	1,747,544,194	1,861,337,454
Optical Fibre Cable and Copper Cable	3,810,733,503	139,682,499	-	3,950,416,002	637,324,147	264,493,355	–	901,817,502	3,048,598,500	3,173,409,356
Telephone Instruments at Customers Premises	388,250,133	333,996,795	(44,772,983)	677,473,945	205,921,436	178,559,862	(37,497,218)	346,984,080	330,489,865	182,328,697
Computers	118,240,494	42,984,893	(1,323,772)	159,901,615	49,641,631	22,535,919	(895,562)	71,281,988	88,619,627	68,598,863
Office Equipment	30,296,192	7,703,165	(1,144,507)	36,854,850	6,609,801	4,904,031	(179,175)	11,334,657	25,520,193	23,686,391
Furniture & Fixture	33,868,634	2,089,780	(448,103)	35,510,311	14,918,210	3,441,776	(79,787)	18,280,199	17,230,112	18,950,424
Vehicles	19,913,802	9,563,935	(5,298,124)	24,179,613	4,509,761	9,223,484	(1,791,437)	11,941,808	12,237,805	15,404,041
	7,256,204,013	**799,525,629**	**(53,601,610)**	**8,002,128,032**	**1,678,621,583**	**866,391,300**	**(40,540,708)**	**2,504,472,175**	**5,497,655,857**	**5,577,582,430**
Previous Year	6,635,411,590	685,756,844	(64,964,421)	7,256,204,013	1,050,038,897	633,347,658	(4,764,972)	1,678,621,583	5,577,582,430	5,585,372,693

SCHEDULE 6
INTANGIBLE ASSETS

ASSETS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at March 31, 2004	Additions	Sale/ adjustment	As at March 31, 2005	As at March 31, 2004	Depreciation	On Sale/ adjustment	As at March 31, 2005	As at March 31, 2005	As at March 31, 2004
Portal Software	6,471,479	-	(6,471,479)	-	6,471,479		(6,471,479)	-	-	-
Computer Software	106,968,368	11,949,097	-	118,917,465	45,805,352	25,880,397		71,685,749	47,231,716	61,163,016
Licence Entry Fees	2,430,368,989	-	(77,710,386)	2,352,658,603	514,980,307	136,055,290		651,035,597	1,701,623,006	1,915,388,682
	2,543,808,836	**11,949,097**	**(84,181,865)**	**2,471,576,068**	**567,257,138**	**161,935,687**	**(6,471,479)**	**722,721,346**	**1,748,854,722**	**1,976,551,698**
Previous Year	2,518,245,693	25,563,143	-	2,543,808,836	403,867,709	163,389,429	-	567,257,138	1,976,551,698	2,114,377,984

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

SCHEDULE 8
INVESTMENTS
(Non Trade-Long term)
Associate company (See Schedule 25, Note 6)

	AS AT 31st MARCH 2005 Rs.	AS AT 31st MARCH 2004 Rs.
Long Term (at cost)		
Unquoted		
1,750,000 [2004 - 1,750,000] equity shares of Rs 10 each fully paid in The Investment Trust of India Limited ('ITI') (See Note (c) below)	51,589,349	35,535,098
6,996,709 [2004 - 6,996,709] Optionally Fully Convertible Debentures Limited ('OFCDs') of Rs 100 each fully paid in The Investment Trust of India Limited ('ITI')	699,670,900	699,670,900
	751,260,249	735,205,998
Less: Provision for diminution in value of investments	-	-
	751,260,249	**735,205,998**

Notes

(a) The company acquired the entire shareholding in The Investment Trust of India Ltd ('ITI') (*formerly* Rajam Finance and Investments Company India Limited, an unlisted registered NBFC) from the erstwhile promoters [See Schedule 22, Note 1(a)]. Consequently ITI became a wholly owned subsidiary of the company with effect from August 19, 2002. Subsequently to September 30, 2003 with infusion of fresh equity, ITI became an associate company.

(b) The company has acquired OFCDs in ITI in the year 2002-03. Terms and conditions associated with debentures are:

(i) The OFCDs of Rs 100 each are convertible into 10 equity shares (with pari passu right with the existing equity shares in terms of the present Articles of Association of the Company) of Rs 10 each after three years at the option of the holder.

(ii) The OFCDs are redeemable after 10 years at a premium of Rs 60 per OFCD.

(iii) The issuing company shall have an option to redeem the OFCDs anytime after a period of one year at aproportionate premium as mentioned in condition (ii) above.

(c) Break up of the carrying value of investment in associate:

	As at March 31, 2005	**As at March 31,2004**
Cost		
Opening balance	35,535,098	18,000,000
Add:		
Adjustment for net assets upto September 30,2003, net of loss on dilution of investment in subsidiary of Rs. 12,606,131	-	9,089,549
Share of Profit in Associate	16,054,251	8,445,549
	51,589,349	**35,535,098**

(d) As a part of the consolidation, the Company has not considered the Capital Reserves of Rs 171,142,382 of its associate company ITI.

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT 31st MARCH 2005 (Rs.)	AS AT 31st MARCH 2004 (Rs.)
SCHEDULE 9		
SUNDRY DEBTORS		
Debts outstanding for a period exceeding six months:		
Secured and Considered Good	3,180,686	31,967,048
Unsecured and Considered Good	2,659,577	-
Unsecured and Considered Doubtful	20,480,745	9,423,244
Debts outstanding for a period less than six months:		
Secured and Considered Good	18,983,449	12,020,529
Unsecured and Considered Good	271,161,787	192,443,107
Unsecured and Considered Doubtful	38,183,225	3,876,517
	354,649,469	249,730,445
Less: Provision for Doubtful Debts	58,663,970	13,299,761
	295,985,499	**236,430,684**

Notes:

a) Debtors are secured to the extent of deposit received from the subscribers.

b) Includes Rs 155,017,877 of unbilled revenues, the invoices for which have been raised subsequent to March 31, 2005 [See Schedule 24, Note 2.9]

c) During the year company has revised the method of estimating the provision for doubtful debts on account of which there is an increase in loss of Rs 14,169,898.

SCHEDULE 10
CASH AND BANK BALANCES

Cash in Hand	1,928,296	725,711
Cheques in Hand	8,410,956	7,919,270
Balances with Scheduled Banks		
In Current Account	65,092,183	31,090,097
In Fixed Deposit [Receipts pledged with Banks as margin money for guarantees and LCs issued Rs 34,202,785, (2004 - Rs. 42,865,101)]	34,232,785	42,865,101
In Escrow Account [See note below]	2,770,229	3,323,940
	112,434,449	**85,924,119**

Notes:
The balance with scheduled banks in Escrow account is towards public deposits payable by the Company [See Schedule 25, Note 13]

SCHEDULE 11
OTHER CURRENT ASSETS

Interest Accrued on Fixed Deposits	241,977	175,354
Interest Accrued on Investment	2,842	75,670
	244,819	**251,024**

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

	AS AT 31st MARCH 2005 (Rs.)	AS AT 31st MARCH 2004 (Rs.)
SCHEDULE 12		
LOANS AND ADVANCES		
(Unsecured , considered good except otherwise stated)		
Advances Recoverable in cash or in kind or for value to be received		
Considered Good	38,630,737	46,252,112
Considered Doubtful [See Schedule 25, Note 1(d)]	134,859,908	134,859,908
Due from The Investment Trust of India Limited - Associate (Maximum outstanding balance during the year Rs 1,149,999 (2004 - Rs 39,353,035)	1,149,999	650,321
Security Deposits		
Considered Good	14,315,707	12,861,223
Considered Doubtful	1,211,265	1,211,265
Advance Tax [Net of provision Nil , (2004 - Rs 3,772,300)]	11,535,639	9,185,229
Balance with Customs and Excise	36,866,864	-
	238,570,118	**205,020,058**
Less Provision for Doubtful Advances	136,071,173	136,071,173
	102,498,945	**68,948,885**
Notes:		
Advance recoverable inculdes dues from Chief Executive Officer as under		
Housing Loan (Maximum amount outstanding during the year Rs.950,000)	800,000	-
Other Advances (Maximum amount outstanding during the year Rs.231,064)	93,573	-
SCHEDULE 13		
CURRENT LIABILITIES AND PROVISIONS		
Current Liabilities		
Sundry Creditors		
Capital Goods	472,844,480	178,252,103
Expenses [See Note (b), below]	87,952,262	82,313,826
Interconnection Usage Charges ('IUC') payable to other operators	32,565,472	2493439
Expenses Payable	129,147,060	90,101,344
Book Overdraft [See Note (a), below]	23,209,404	1,146,626
Advance Against Booking	2,179,076	1,183,168
Advance From Customers and Unaccrued Income	85,246,707	47,512,811
Security Deposits		
From Subscribers	190,518,754	197,846,013
From Others	17,197,503	12,027,301
Investor Education and Protection Fund		
Unclaimed Dividends	735,160	864,801
Unclaimed Deposits from Public	1,740,599	2,349,283
Interest accrued and due on Public Deposits	232,795	327,041
Minority Interest	600	–
Other Liabilities	61,302,627	29,180,598
Interest Accrued but not Due on Loans	-	2,279,767
	1,104,872,498	**647,878,121**
Provisions		
Wealth Tax	32,864	54,000
Leave Encashment	3,481,575	3,202,993
Gratuity	2,133,645	3,278,302
	5,648,084	**6,535,295**
	1,110,520,582	**654,413,416**

Notes:

(a) Book overdraft has been settled subsequent to the year end.

(b) Sundry creditors include cheques outstanding beyond six months of Rs 592,780 (2004 - 592,780) towards repayment of public deposits under the NBFC CoR [See Schedule 25, Note 13]

HFCL INFOTEL LIMITED

SCHDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

	For the year ended 31st MARCH 2005 (Rs.)	For the year ended 31st MARCH 2004 (Rs.)
SCHEDULE 14		
SERVICE REVENUE		
Revenue		
From Unified Access Services	2,221,447,805	1,665,424,738
From Interconnection Usage Charge	219,541,950	206,086,617
From Infrastructure Services	46,583,891	24,824,274
From Internet Services	45,604,160	20,394,537
	2,533,177,806	**1,916,730,166**
Schedule 15:Revenue From Hire Purchase And Finance Business		
Hire Purchase	-	10,907,756
Leasing	-	6,468,289
Interest income on Loans (Gross of TDS Rs Nil, Previous Year Rs 1,720,335)	-	(763,040)
Income from Securities Trading Operations	-	35,250,113
	-	**51,863,118**
Schedule 16: Income From Investments		
Dividends (Gross of TDS Rs Nil, Previous Year Rs. 9,680)	-	1,746,122
Profit/Loss on sale of Government Securities	-	487,590
Interest on Government Securities (Gross of TDS Rs. NIL, Previous Year Rs.808,874)	-	1,839,921
	-	**4,073,633**
SCHEDULE 17		
OTHER INCOME		
Interest Income [Gross of tax deducted at source - Rs 386,216 (2004 - Rs 253,370)]	2,386,875	1,827,113
Interest on Tax Refunds	-	369,959
Excess Provision written back	18,980,178	1,929,102
Sale of Telephone sets, Modems etc.	-	1,611,476
Rent Receipts	–	404,958
Profit/Loss on sale of Government Securities	-	
Interest on Government Securities (Gross)	-	
Miscellaneous Income	877,933	1,313,757
	22,244,986	**7,456,365**
SCHEDULE 18		
NETWORK OPERATION EXPENDITURE		
Interconnect Usage Charges	676,017,698	635,110,295
Other Value Added Service charges	10,573,672	-
Port Charges	26,035,568	27,030,477
Testing and Technical Survey Expenses	1,960,000	930,000
Licence Fees on Revenue Share Basis	149,734,898	126,727,024
Royalty and licence fees to Wireless Planning Commission	12,483,159	7,719,619
Stores and Spares Consumed	41,093,598	25,501,210
Rent	23,083,829	17,350,667
Electricity and Water	35,418,145	28,903,515
Security Charges	2,826,519	3,182,351
Repair & Maintenance - Network	94,864,376	67,942,819
Bandwidth Charges	19,923,542	14,872,993
	1,094,015,004	**955,270,970**
SCHEDULE 19		
COST OF GOODS SOLD		
Opening Stock	-	
Purchases	-	1,385,492
Less Closing stock	-	-
	-	**1,385,492**

HFCL INFOTEL LIMITED
SCHDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

		For the year ended 31st MARCH 2005 (Rs.)	For the year ended 31st MARCH 2004 (Rs.)
SCHEDULE 20			
PERSONNEL EXPENDITURE			
Salaries, Wages and Bonus		190,799,201	174,213,955
Employer's Contribution to Provident and Other Funds		12,153,877	13,391,047
Staff Welfare Expenses		15,006,032	8,486,471
Recruitment & Training Expenses		6,528,744	3,287,865
		224,487,854	**199,379,338**
SCHEDULE 21			
SALES AND MARKETING EXPENDITURE			
Sales and Business Promotion		8,129,162	4,096,363
Advertisement Expenses		38,082,934	24,731,475
Customers Acquisition Costs		110,876,709	93,447,574
		157,088,805	**122,275,412**
SCHEDULE 22			
ADMINISTRATIVE AND OTHER EXPENDITURE			
Legal and Professional Expenses		19,273,577	17,323,711
Travelling and Conveyance		39,846,163	28,618,667
Communication Expenses		4,960,651	4,173,387
Rent		16,037,471	15,287,902
Auditors' Remuneration		3,441,218	4,860,795
Security Charges		3,350,031	2,914,353
Repairs and Maintenance - Building		2,395,782	787,216
Repairs and Maintenance - Others		11,619,082	7,289,002
Electricity and Water		11,241,857	9,816,320
Insurance		4,815,309	6,899,462
Rates and Taxes		7,305,889	23,379,206
Freight & Cartage		7,028,561	3,721,853
Printing and Stationary		5,472,029	4,981,901
Billing and Collection Expenses		62,314,950	40,137,455
Software Expenses		403,580	169,685
Directors' Fees		495,000	417,000
Interest Tax		-	596,997
Provision for diminution in value of Investments (Net)		–	269,000
Provision for Doubtful Advances		-	2,000,933
Bad Debts Written off		81,320,624	65,276,255
Provision for Doubtful Debts	48,950,603		
Less Transferred to Bad Debts Written off	(3,586,394)	45,364,209	3,207,285
Provision for Non Performing Assets		-	450,000
Loss on Sold/Discarded Fixed Assets and Capital Work in Progress		15,695,880	25,476,547
Wealth Tax		33,964	56,800
Miscellaneous Expenses		5,950,786	5,315,577
		348,366,613	**273,427,309**
SCHEDULE 23			
FINANCE CHARGES			
Interest on Public Deposits		-	693,529
Interest on Term Loans		604,352,459	669,567,240
Interest to Others		13,442,162	13,254,794
Bank Guarantee Commission		3,950,907	5,805,614
Trustees Fee		1,371,233	-
Other Finance Charges		4,114,690	1,813,438
		627,231,451	**691,134,615**

HFCL INFOTEL LIMITED

SCHEDULES FORMING PART OF CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AS AT AND FOR THE YEAR ENDED MARCH 31, 2005

[All amounts in Indian Rupees, except share data, unless otherwise stated]

SCHEDULE 24

BACKGROUND AND SIGNIFICANT ACCOUNTING POLICIES

1. Background

(a) Nature of business and ownership

HFCL Infotel Limited ('the Company' or 'HIL'), Unified Access Services Licensee for Punjab & Chandigarh, is providing a full gamut of Telecommunication Services, which includes voice telephony, both wireline and fixed wireless, CDMA based mobile, Internet services, Broadband data services and a wide range of value added service viz., Centrex, Leased lines, VPNs, Voice mail, Video Conferencing etc. The services were commercially launched in October 2000 and as on date the Company has a subscriber base of over 2.47 lacs. HIL has established a State-wide optical fiber network in Punjab and is providing services in more than 110 cities/towns.

The company is a subsidiary Company of Himachal Futuristic Communications Limited ('the Holding Company' or 'HFCL'). It was incorporated on August 2, 1946 with the name of The Investment Trust of India Limited which was subsequently changed to HFCL Infotel Limited on May 12, 2003. This was done pursuant to a scheme of amalgamation, approved by the High Court of the State of Punjab and Haryana and the State of Tamil Nadu on March 6, 2003 and March 20, 2003, respectively, whereby the *erstwhile* HFCL Infotel Limited (name earlier allotted to the transferor Company) ('*erstwhile* HFCL Infotel') was merged with the Company with effect from September 1, 2002. As per the Scheme envisaged the Company's then existing business of hire purchase, leasing and securities trading to its wholly owned subsidiary, Rajam Finance & Investments Company (India) Limited ('Rajam Finance') with effect from September 1, 2002. Rajam Finance was renamed as The Investment Trust of India Limited with effect from June 17, 2003 and it ceased to be the subsidiary of the Company with effect from September 30, 2003, due to allotment of fresh equity by it to other investors. The Company, during the year ended March 31, 2004, surrendered its licence granted by Reserve Bank of India ('RBI') to carry out NBFC business; RBI confirmed the cancellation of the NBFC licence as per their letter dated May 24, 2004.

On July 2, 2004, the Company has incorporated a subsidiary company Connect Broadband Services Limited ('CBSL') with the main object to carry on the business as service provider and operator for distribution of cable television network. CBSL will provide data transmission services, internet services and other related services through cable. CBSL is yet to commence its commercial operations.

HIL, together with its subsidiary, CBSL, and associate company ITI, is hereinafter collectively referred to as 'the Group'.

(b) License Fees

The Company obtained licence for Basic Telephony Service for the Punjab circle by way of amalgamation of the erstwhile HFCL Infotel with the Company. Erstwhile HFCL Infotel had obtained this licence under fixed license fee regime under National Telecom Policy ('NTP') 1994, valid for a period of 20 years from the effective date, and subsequently migrated from the fixed license fee regime to revenue sharing regime upon implementation of NTP 1999. Further to the Telecom Regulatory Authority of India's ('TRAI') recommendations of October 27, 2003 and the Department of Telecommunications ('DoT') guidelines on Unified Access (Basic & Cellular) Services Licence ('UASL') dated November 11, 2003, the Company migrated its licence to the UASL regime with effect from November 14, 2003. A fresh Licence Agreement was signed on May 31, 2004. Pursuant to this migration, the Company became additionally entitled to provide full mobility services, Erstwhile HFCL Infotel had also entered into a Licence Agreement dated June 28, 2000 and amendments thereto with DoT to establish, maintain and operate internet service in Punjab telecom circle.

The License Entry Fees for Punjab Circle was based on the total fixed license fees of Rs 1,775.85 million paid under the old license fee regime from inception till July 31, 1999, were considered as the License Entry Fees of the Punjab circle as part of the migration package to NTP 1999.

With effect from August 1, 1999, the Company is required to pay revenue share license fees as a fraction of Adjusted Gross Revenue ('AGR'), which is defined as total income including service revenues [refer Note 2.7], finance income and non-operating income, reduced by interconnection costs, service tax and/or sales tax, if applicable. The revenue share fraction was set at 10 per cent with effect from August 1, 1999 and was reduced to 8 per cent with effect from April 1, 2004. In addition, spectrum charges calculated at 2 per cent of the AGR earned through the wireless technology is payable under the license agreement. Income from internet services is excluded from the service revenues for the definition of the AGR.

(c) Project Financing

The Company's project was initially appraised by Industrial Development Bank of India ('IDBI') during the year ended March 31, 2000 for an estimated peak fund requirement of Rs 11,800 million. The appraised means of finance for the project was by way of equity capital of Rs 5,240 million and debt of Rs 6,560 million.

Pursuant to the migration to UASL regime, the consortium of lenders, led by IDBI approved, through the Corporate Debt Restructuring ('CDR') mechanism approved an overall restructuring of the liabilities of the Company, upward revision of the peak funding requirements from Rs 11,800 million to Rs 13,470 million upto March 31, 2006, with peak funding gap of Rs 1,670 million.

The revised project cost was envisaged to be funded by way of equity share capital to the tune of Rs 6,360 million, preference share capital of Rs 650 million; debts of Rs 6,300 million and Zero per cent Unsecured OFCDs of Rs 160 million.

Of this, the Company as at March 31, 2005, has an equity share capital of Rs 5,255 million, preference share capital of Rs 650 million, term loans aggregating to Rs 6,050 million and Zero per cent Unsecured OFCDs of Rs 166 million for the project. Pending tie-up of the balance equity, the term lenders have extended bridge funding of Rs 900 million (inclusive of premium of Rs 140 million) upto March 31, 2006 by way of subscribing to zero per cent OFCDs at a premium. The gap in debt and balance equity funding is proposed to be met by way of vendor credit and to this effect the Company entered into an agreement on February 8, 2005 with The Export Import Bank of China for USD 12 million amounting to 85 per cent of the total contract value of USD 14 million with a vendor for supply of telecommunications equipment [Schedule 23, See Note 13(b)]. The Company, as at March 31, 2005, is in the process of complying certain pre-conditions to the agreements to make it effective.

Subsequently, on May 23, 2005, the Company has submitted a proposal to the lenders for providing services in the States of Haryana, Himachal Pradesh and Jammu & Kashmir and expansion of Mobile network & launch of Cable Access services in Punjab. Consequent to the proposed expansion plan, the revised peak funding requirement would increase to Rs 15,470 million upto March 31, 2007. The funding for the same shall be arranged on the completion of the appraisal.

The ability of the Company to continue its operations as a going concern and realise its assets and discharge its liabilities in the normal course of business is dependent on its ability to successfully arrange for additional funding requirements on satisfactory terms; generating operating cash flows in order not to have a material adverse effect on the Company's business, operating results and financial conditions for the next twelve months. Based on the commitments and funding provided by the Shareholders and the Lenders so far, the Company is confident that it would be able to arrange the additional funding requirements, for the project and, accordingly, these financial statements are prepared on a going concern basis.

2. Summary of significant accounting policies

2.1 Basis of presentation of financial statements

These consolidated financial statements are prepared under the historical cost convention, on the accrual basis of accounting and to comply in all material respects with the generally accepted accounting principles in India including the mandatory accounting standards issued by the Institute of Chartered Accountants of India ('ICAI') to reflect the financial position and the results of operations of the HIL together with its subsidiary company, CBSL and associate company, ITI. Further, the financial statements are presented in the general format specified in Schedule VI to the Companies Act, 1956 ('the Act'). However, as these financial statements are not statutory financial statements, full compliance with the above Act is not required and so they do not reflect all the disclosure requirements of the Act.

2.2 Principles of consolidation

These consolidated financial statements of the Group have been prepared based on a line-by-line consolidation of the balance sheet, statement of profit and loss and cash flows of HIL and CBSL as at March 31, 2005. As explained in Note 1(a), the Group transferred its business of hire purchase, leasing and securities trading to its wholly owned subsidiary, ITI, which became an associate company with effect from September 30, 2003, and the results of its operations since that date have been accounted under the equity method, as an associate company. All material inter-company transactions and balances between the entities included in the consolidated financial statements have been eliminated.

Minority interest represents that part of the net assets of a subsidiary attributable to interests, which are not owned directly or indirectly through subsidiary, by HIL.

The significant accounting policies adopted by the Group in respect of the consolidated financial statements are detailed as follows:

2.3 Fixed Assets

Fixed assets are stated at cost less impairment loss, if any, and accumulated depreciation. The Company capitalises direct costs including taxes, duty, freight and incidental expenses attributable to the acquisition and installation of fixed assets. Capital work-in-progress is stated at cost.

Telephone sets lying with deactivated customers for more than 90 days since disconnection are written off.

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the income statement for items of fixed assets carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtained from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset, from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if not possible, for the cash generating unit. Impairment loss recognised for an asset in earlier accounting periods is reversed, to the extent of its recoverable amount, if there has been a change in the estimates of used to determine the asset's recoverable amount since the last impairment loss was recognised.

Effective April 1, 2004, the Company has adopted Accounting Standard 28, Impairment of Assets ('AS 28'), which has not given rise to any impairment loss to be recognised in the financial statements for the year ended March 31, 2005.

2.4 Depreciation

(i) Depreciation is provided pro-rata to the period of use (except for Telephone Instruments at the customer premises which are depreciated from the beginning of the month, following the month of purchase), on the straight line method based on the estimated useful life of the assets, as follows:

Asset	Useful life (in years)
Leasehold Land Buildings	Over the primary period of the lease Factory Building 30 years Others 58 years
Leasehold Improvements:	10 years or over the primary period of the lease, whichever is lower
Network Equipment	9.67 years
Testing Equipments (included in Network Equipments)	5 years
Optical Fibre Cable and Copper Cable	15 years
Telephone Instruments at Customer's Premises	5 years
Computers	6 years
Software	5 years
Office Equipments	10 years, except in case issued to employees where asset is depreciated in 5 years
Furniture and Fixture	10 years, except in case issued to employees where asset is depreciated in 5 years
Vehicles	4 years
Fixed Assets costing less than Rs 5,000	Fully depreciated when they are ready to use

(ii) Depreciation rates derived from the above are not less than the rates prescribed under Schedule XIV of the Companies Act, 1956.

(iii) Depreciation on the amount capitalized on upgradation of the existing assets is provided over the balance life of the original asset.

(iv) Depreciation on the amount capitalised on account of foreign exchange fluctuations is provided over the balance life of the original asset.

(v) Effective April 1, 2004, the Company has revised the economic useful life of furniture and fixtures from 16 years to 10 years, office equipment from 21 years to 10 years and vehicles from 5 years to 4 years and has accordingly depreciated the written down value as on March 31, 2004 over the remaining useful life. As a result, the Company has recorded accelerated depreciation of Rs 11.44 million for the year ended March 31, 2005 resulting in an increase in the loss for the year by Rs 11.44 million.

(vi) During the year, the Company has revised the economic useful life of the certain network equipment purchased from the original supplier. The Company believes that these network equipment would be utilised upto March 31, 2008. As a result, the Company has recorded accelerated depreciation of Rs 68.64 million for the year ended March 31, 2005 resulting in an increase in the loss for the year by Rs 68.64 million.

2.5 Licence Fees

(i) Licence Entry Fee

The Licence Entry Fee [See Note 1(b)] has been recognised as an intangible asset and is amortised over the remainder of the licence period of 20 years from the date of commencement of commercial operations [Refer Note 1(a)]. Licence entry fees includes interest on funding of licence entry fees, foreign exchange fluctuations on the loan taken upto the date of commencement of commercial operations.

The carrying value of license entry fees are assessed for recoverability by reference to the estimated future discounted net cash flows that are expected to be generated by the asset. Where this assessment indicates a deficit, the assets are written down to the market value or fair value as computed above.

(ii) Revenue Sharing Fee

Revenue Sharing Fee, currently computed at the prescribed rate of AGR is expensed in the Statement of Profit and Loss in the year in which the related income from providing unified access services is recognised.

An additional revenue share towards spectrum charges is computed at the prescribed rate of the service revenue earned from the customers who are provided services through the CDMA and CorDect wireless technology. This is expensed in the Statement of Profit and Loss in the year in which the related income is recognised.

2.6 Investments

Investments that are readily realisable and intended to be held for not more than 12 months are classified as current investments. All other investments are classified as long-term investments. Long term investments are stated at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments. Current investments are carried at lower of cost and fair value and determined on an individual investment basis.

2.7 Provisions

A provision is recognised when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

2.8 Miscellaneous Expenditure

Preliminary Expenditure are written off in the year of the commencement of commercial operations.

2.9 Revenue Recognition

Revenue from unified access services are recognised on services rendered and are net of rebates, discounts and service tax. Unbilled revenues resulting from unified access services provided from the billing cycle date to the end of each month are estimated and recorded. Revenues from unified access services rendered through prepaid cards are recognised based on actual usage by the customers. Billings made but not expected to be collected , if any, are estimated by the management and not recognized as revenues in accordance with Accounting Standard on Revenue Recognition ('AS 9').

Revenue on account of internet services and revenue from infrastructure services are recognised as services are rendered, in accordance with the terms of the related contracts.

2.10 Interconnection Usage Revenue and Charges

The TRAI issued Interconnection Usage Charges Regulation 2003 ('IUC regime') effective May 1, 2003 and subsequently amended twice with effect from February 1, 2004 and February 1, 2005. Under the IUC regime, with the objective of sharing of call revenues across different operators involved in origination, transit and termination of every call, the Company pays interconnection charges (prescribed as Rs per minute of call time) for all outgoing calls originating in its network to other operators, depending on the termination point of the call i.e. mobile, fixed line, and distance i.e. local, national long distance and international long distance. The Company receives certain interconnection charges from other operators for all calls terminating in its network

Accordingly, interconnect revenue are recognised on those calls originating in another telecom operator network and terminating in the Company's network. Interconnect cost is recognised as charges incurred on termination of calls originating from the Company's network and terminating on the network of other telecom operators. The interconnect revenue and costs are recognised in the financial statement on a gross basis and included in service revenue and network operation expenditure, respectively.

2.11 Foreign Currency Transactions

Initial Recognition

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

Conversion

At the year end, monetary items denominated in foreign currencies, other than those covered by forward contracts, are converted in to rupee equivalents at the year end exchange rates.

Exchange Differences

Exchange differences arising on the settlement or reporting of monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year in which they arise except those arising from investments in non-integral operations.

All exchange differences arising on settlement/ conversion of foreign currency transactions are included in the profit & loss account, except in cases where they relate to the acquisition of Fixed Assets from outside India, in which they are adjusted in the in carrying cost of the corresponding assets.

2.12 Borrowing Costs

Borrowing costs that are attributable to the acquisition and construction of a qualifying asset are capitalised as a part of the cost of the asset. Other borrowing costs are recognised as an expense in the year in which they are incurred.

2.13 Leave Encashment

Liability for leave encashment is in accordance with the rules of the Company and is provided on the basis of an actuarial valuation performed by an independent actuary at the year end.

2.14 Other Retirement Benefits

The contributions towards provident fund are made to statutory authorities and are charged to the profit and loss account The gratuity benefits of the Company are administered by a trust formed for this purpose through the group gratuity scheme with Life Insurance Corporation of India ('LIC') to cover the gratuity liability for its employees. Provision is made for the shortfall if any in the contribution made as compared to the actuarial valuation at the close of the year.

2.15 Income-Tax

Tax Expenses for the year, comprises both current tax and deferred tax, is included in determining the net profit/(loss) for the year. Current tax is measured at the amount expected to be paid to/recovered from the taxation authorities, using the applicable tax rates and laws.

Deferred income taxes reflect the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets, other than on unabsorbed depreciation and tax losses carried forward, are recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. Deferred tax assets from unabsorbed depreciation and tax losses carried forward are recognized and carried forward only to the extent that there is a virtual certainty that such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become virtually certain that future taxable income will be available against which such deferred tax assets can be realised.

2.16 Operating Leases

Leases under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under operating leases are recognized as an expense in the profit and loss account on a straight-line basis over the lease term.

2.17 Earning Per Share

Basic earning per share is calculated by dividing the net earnings for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year.

For calculating diluted earning per share, the number of shares comprises the weighted average shares considered for deriving basic earning per share, and also the weighted average number of shares, if any which would have been used in the conversion of all dilutive potential equity shares. The number of shares and potentially dilutive equity shares are adjusted for the bonus shares and the sub-division of shares, if any.

2.18 Segment Reporting

Identification of segments:

The Company's operating businesses are organized and managed separately according to the nature of products manufactured/traded, with each segment representing a strategic business unit that offers different products to different markets. The analysis of geographical segments is based on the areas in which the Company's products are sold.

Allocation of common costs:

Common allocable costs are allocated to each segment according to the relative contribution of each segment to the total common costs.

Unallocated items:

The Corporate and other segment include general corporate income and expense items which are not allocated to any business segment.

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AS AT AND FOR THE YEAR ENDED MARCH 31, 2005

[All amounts in Indian Rupees, except share data, unless otherwise stated]

SCHEDULE 25

NOTES FORMING PART OF THE ACCOUNTS

1. Contingent liabilities not provided for in respect of:

S. No.	Description	As at March 31,2005	As at March 31, 2004
I.	**Estimated Value of Contracts Remaining**		
	To be executed on capital account and not provided for net of capital advances Capital advances Rs 3,451,196 (2004 – Rs 1,980,836)	313,259,350	29,003,048
II.	**Contingent Liabilities and Commitments** Financial Bank Guarantees [refer Note (a) below]	67,304,000	68,630,000
	Counter guarantee given to HFCL, the Holding Company [refer Note (a) below]	5,225,000,000	5,225,000,000
III.	**Open Letters of Credit** (Margin deposit for above Rs 9,095,000 (2004 – Rs 16,775,067)	42,769,106	49,647,956
IV.	**Income-tax matters under appeal** [refer Note (b) below]	62,808,358	1,329,910
V.	**Claims against the Company not acknowledged as debts**	1,138,230	5,020,787
VI.	**Others** [refer Note (c) below]	133,388,119	98,693,699
	Total	**5,845,667,163**	**5,477,325,400**

(a) Financial bank guarantees as at March 31, 2005 of Rs 67.17 million (2004 — Rs 50 million) and performance bank guarantees of Rs 15.96 million (2004 — Rs 2.33 million) are secured against:

- First pari passu charge by way of hypothecation of movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and also book debts and receivables, both present & future;
- First pari passu charge of mortgage of immovable properties of the Company in Mohali, Jalandhar and Mumbai.
- Further, secured by corporate guarantee given by the Holding Company. The Company has furnished Counter Guarantee of Rs 5.23 billion (2004 — Rs 5.23 billion) to HFCL, the Holding Company against the corporate guarantees given by it to the Industrial Development Bank of India, ING Vysya Bank Limited, Punjab National Bank and Oriental Bank of Commerce.

(b) The Company has certain income tax related matters pending with the Income Tax Authorities for the Assessment Year from 1993-94 to Assessment Year 2000-01 aggregating to Rs 62.81 million. The said demands pertain to the NBFC business of the e*rstwhile* Investment Trust of India Limited (the Company before the merger with the e*rstwhile* HFCL Infotel Limited) {See Schedule 24, Note 1(a)]. Based on a expert opinion obtained by the Company, the management is confident that no additional tax liability needs to be provided.

(c) As per the decision of the Supreme Court in the case of State of Uttar Pradesh v Union of India based on the UP Sales Tax Act, charges collected in the nature of charges for use of the various assets that form the network tantamounting to a 'transfer of right to use the telephone system', essentially rental charges, would be liable to lease tax. The Company has estimated the maximum liability on this account to be Rs 133.39 million as at March 31, 2005 (2004 — Rs 98.69 million) in the event of dismissal of the writ petitions. Further, in another ruling, the Supreme Court has referred the matter to a larger bench and the order states that normal sales tax proceedings can continue, however, no coercive action can be taken against the Company except in regard to the completed assessments subject to any statutory remedy.

The management believes that it is currently not liable to provide for these taxes or the exposure. The matter which is being heard by a Constitutional bench, has been adjourned for hearing in July 2005 in the last hearing on April 29, 2005.

(d) Loans and advances include amounts recoverable from Essar Investments Limited ('EIL') aggregating to Rs 134.07 million. The Company had made payments in earlier years to EIL for takeover of certain accounted liabilities and certain unaccounted liabilities for services that were to be settled by EIL as per the agreement between EIL and *erstwhile* HFCL Infotel [See Schedule 24, Note 1(a)]. EIL has failed to settle the dues with the respective parties and a winding up petition u/s 434 of the Companies Act, 1956 was filed with Honourable Court of Mumbai. This petition has been dismissed vide order dated March 24, 2005. However, the Company now plans to appeal before the Division Bench of High Court. The Company has also invoked the Arbitration proceedings. Pending such recovery, provision for doubtful advance is being carried in the financial statements. However, provision for claims of third parties shall be made as and when the claims are settled.

2. Managerial remuneration

Remuneration paid to Manager designated as Chief Executive Officer ('CEO') is as under:

	Year ended March 31, 2005	Year ended March 31, 2004
Salary	1,003,710	982,215
Employer's Contribution to Provident and Other Funds	120,445	109,463
Perquisites/ Allowances	1,638,822	1,411,107
Ex-gratia/ Performance Linked Incentive	1,008,066	384,097
	3,771,043	2,886,882

Managerial remuneration does not include gratuity and leave encashment, provision for which is accounted for based on actuarial valuation for the Company as a whole and a separate amount pertaining to managerial remuneration is not accessible.

Value of perquisites and other allowances has been determined in accordance with the provision of the Income-tax Act, 1961.

On May 17, 2005, the Company obtained the approval from the Central Government for payment of remuneration to its manager under Section 269, 198(4), 309(3) and 637AA of the Act. Managerial remuneration paid by the Company is within the limits specified under Section 198 read with Section II, Part II of schedule XIII of the Act, and the Company has complied with the conditions prescribed therein.

3. Share Capital

Equity shares

a. Of the total paid up equity share capital comprising of 525,517,152 equity shares, 515,070,338 equity shares (98 per cent) are yet to be listed on the recognized stock exchanges in India. As a pre-condition to the listing of the Company's shares on the Bombay Stock Exchange ('BSE'), the BSE had stipulated that the promoters' shareholding in the Company be reduced to a certain level by way of Public Offer for sale ('offer for sale') by the promoters. However, the management believes that upon allotment of equity shares and OFCDs to the lenders as a part of the CDR scheme [See Schedule 24, Note 1(c)], the shareholding of the promoters has already been reduced to the required level and, accordingly, an offer for sale is not required. On November 24, 2004, the Company filed a petition before the Securities Appellate Tribunal ('SAT') to direct BSE to list the Company's shares without the condition of offer for sale. The same remains pending as on date.

   On September 30, 2004, the Company obtained the approval from the shareholders for de-listing the shares listed in the Calcutta Stock Exchange Association Limited ('CSE'). Consequently, the Company has applied for de-listing the same but the approval from the CSE is yet to be obtained.

b. Based on a legal opinion, the Company pursuant to the CDR scheme [See Schedule 24, Note 1(c)], issued 19,696,978 equity shares of the aggregate 83,070,088 equity shares to certain lender banks as per Chapter XIII of the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 (as amended), at a Premium of Rs 0.50 per equity share [See Schedule 1, Note (a)(iii)].

c. Of the total paid up equity share capital comprising of 525,517,152 equity shares, letter of allotment for 316,200,000 equity shares (60 per cent) was issued but pending the result of the petition filed with the SAT [See Note (a) above], issue of share certificates in physical or dematerialised form is yet to be decided.

4. Loans

a) Secured Loans

(i) Term Loans of Rs 1,300 million (2004 – Rs 1,300 million) from Banks are secured by first pari passu charge on movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and other movables including book debts by way of hypothecation, both present and future, first pari passu charge of mortgage of immovable properties of the Company situated at Mohali, Jalandhar and Kandivali (East), Mumbai. Further term loans from Banks amounting to Rs 250 million are secured by assignment of all rights, title, benefits, claims and interest in, to and under the project documents, insurance policies and project contracts including Basic Telephony Licence of Punjab Circle, all statutory, government and regulatory approvals, permissions, exemptions and waivers on pari passu basis. Further, term loan from banks amounting to Rs 1,050 million are secured by corporate guarantee given by the Holding Company. As per the CDR Scheme approved on March 10, 2004, the Company is required to charge interest on ballooning basis of 10 per cent from April 1, 2003 to March 31, 2006 and at 14 per cent from April 1, 2006 to March 31, 2014. These long term loans are repayable in 24 quarterly installments commencing from October 1, 2007 to July 1, 2013.

(ii) Vehicle Loans of Rs 8.62 million (March 31, 2004 – Rs 5.68 million) are secured by way of exclusive hypothecation charge in favour of Bank on the specific assets acquired out loan proceeds of the Company. These loans are repayable in monthly installments and shall be repaid by 2008.

(iii) Term loan of Rs 4,750 million (2004 – Rs 4,750 million) from a financial institutions is fully secured by first pari passu charge on movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and other movables including book debts by way of hypothecation, both present and future, first pari passu charge of mortgage of immovable properties of the Company situated at Mohali, Jalandhar and Kandivali (East), Mumbai and assignment of all rights, title, benefits, claims and interest in, to and under the project documents, insurance policies and project contracts including Basic Telephony Licence of Punjab Circle, all statutory, government and regulatory approvals, permissions, exemptions and waivers on pari passu basis. Further term loans from Financial Institutions amounting to Rs 4,000 million are secured by pledge of 163,000,000 equity shares of the Company held by the Holding Company and corporate guarantee given by the Holding Company. As per the CDR Scheme approved on March 10, 2004, the Company is required to charge interest on ballooning basis of 10 per cent from April 1, 2003 to March 31, 2006 and at 14 per cent from April 1, 2006 to March 31, 2014. These long term loans are repayable in 24 quarterly installments commencing from October 1, 2007 to July 1, 2013.

(iv) On October 16, 2004, the Company issued 7,551,178 Zero percent Optionally Fully Convertible Debentures ('OFCDs') of Rs 100 each in lieu of interest accrued on term loans from financial institutions and banks from January 1, 2004 to March 31, 2005. In addition to the securities created for the term loans, the OFCDs are yet to be secured by way of assignment of the License from the DoT for provision of basic telephony services in the Punjab Circle, extension of the pari-passu charge on all the assets of the Company, Corporate Guarantee of the Holding Company, extension of pledge of 163,000,000 equity shares and personal guarantee of the promoter directors. The OFCDs are redeemable at a premium of 12 per cent on March 31, 2006. The OFCD holders also have the option to convert the OFCDs at par subject to the then prevailing guidelines of the Securities and Exchange Board of India ('SEBI') and provisions of the Companies Act, 1956.

(v) The Company has a bank overdraft facility of Rs 75 million from the Oriental Bank of Commerce ('OBC'). The facility is secured by second pari passu charge of movable properties of the Company including movable plant and machinery, machinery spares, tools and accessories and other movables by way of hypothecation, both present and future. As per the CDR Scheme approved on March 10, 2004, the Company is required to charge interest at 13 per cent per annum compounded on a monthly basis. The amount against this facility is repayable on demand. The facility is further secured by way of a corporate guarantee given by the Holding Company. The bank overdraft of Rs 68.63 million (2004 – Rs 53.24 million) includes interest amounting to Rs 5.47 million (2004 – Nil).

b) Unsecured Loans

(i) On October 16, 2004, the Company issued 1,667,761 Zero percent Optionally Fully Convertible Debentures ('OFCDs') of Rs 100 each in lieu of interest accrued on term loans from a financial institution and a bank for the period April 1, 2003 to December 31, 2003. The OFCDs are redeemable at par on March 31, 2014 after repayment of the term loans.

(ii) The Company had entered into a payment restructuring agreement on March 11, 2004 for payment to the original vendor of USD 0.88 million. The amount outstanding USD 0.82 million as on March 31, 2004 has been repaid during the current year as per the restructuring agreement.

(iii) Interest payable on vendor finance facilities amounting to Rs 3.94 million as at March 31, 2005 (2004 – Rs 3.48 million) is yet to be remitted..

5. Fixed Assets and Capital work-in-progress

(a) Capital Work in Progress includes capital advances aggregating to Rs 5.75 million (2004 - Rs 0.21 million) and Goods in Transit of Rs 42.29 million (2004 - Rs 1.22 million)

(b) Gross Block of Fixed Assets and Capital Work In Progress includes capitalized exchange gain of Rs 4.71 million and Rs 2.5 million, respectively. (2004 – gain of Rs 4.85 million and Rs Nil, respectively).

(c) Effective April 1, 2004, the Company has revised the economic useful life of furniture and fixtures from 16 years to 10 years, office equipment from 21 years to 10 years and vehicles from 5 years to 4 years and has accordingly depreciated the written down value as on March 31, 2004 over the remaining useful life. As a result, the Company has recorded accelerated depreciation of Rs 11.44 million for the year ended March 31, 2005 resulting in an increase in the loss for the year by Rs 11.44 million.

(d) Sale/Adjustment includes prior period depreciation amounting to Rs Nil (2004 - Rs 20.64).

(e) As on March 31, 2005, the Capital Work in Progress includes an amount of Rs 7.54 million of Optical Fibre Cable ('OFCs') as usable cut pieces. The Company is in the process of determining the utility of these OFCs. Accordingly, these financials have not been adjusted for the same.

(f) During the year ended March 31, 2005, the Company entered into a contract with equipment supplier for expansion of capacity and roll-out of CDMA based wireless networks to most parts of the Punjab circle. The new equipment supplier is different from the original/existing equipment supplier. Based on its expansion plan, the Company is also in the final stages of formulising a contract with the original equipment supplier for the redeployment of the existing equipment at certain other parts of the circle.

Further, the management has revised the economic useful life of the equipment purchased from the original equipment supplier and believes that the same would be utilised upto the year ended March 31, 2008. As a result of the revision in the economic useful life, the depreciation charge and the losses reflected in the Statement of Profit and Loss are higher by Rs 72.63 million.

(g) During the year the Company has fully depreciated certain fixed assets (ATM Switch and CorDect Telephone Instruments) which are not being used. As a result, the Company has recorded an additional depreciation of Rs 13.41 million.

(h) As on March 31, 2005, telephone instruments aggregating to a net book value of Rs 330.49 million (2004 – Rs 182.33 million) located at customer premises.

6. Investments

The Company has invested Rs 18 million, in The Investment Trust of India Limited ('ITI'), representing 46.67 per cent of the total equity share capital of that Company. As at March 31, 2005, ITI has a networth of Rs 235 million and has earned a profit of Rs 34.40 million (including a write back of provision of Rs 32.65 million) for the year 2004 - 05. The management of the Company is confident that ITI shall continue to generate operating profits in the long-term and, accordingly, believes that there is no long term diminution in the value of the investment.

7. Income Tax

a) *Deferred taxes*

During the year ended March 31, 2005, the Group has incurred losses of Rs 919.97 million (accumulated losses of Rs 5,398.45 million) resulting into a tax loss carry forward situation. Further to the migration of the Licence to Unified Access Services, the Company is expanding the footprint of its wireless network to most parts of the State. The Company is eligible for a tax holiday under section 80IA of the Indian Income-tax Act, 1961, allowing the Company a tax deduction equivalent to 100 per cent of profits and gains for any 5 consecutive financial years and 30 per cent for the next 5 financial years, out of 15 financial years, beginning with the financial year in which the Company started providing telecommunication services. Though the management is confident of generating profits in the future, there is currently no convincing evidence of virtual certainty that the Company would reverse the tax loss carry forwards beyond the tax holiday period. Accordingly, the Company has not recognized any deferred tax assets resulting from the carry forward tax losses. Further, no deferred tax liabilities on account of temporary timing differences have been recognized since they are expected to reverse in the tax holiday period.

b) *Provision for Tax for earlier years*

On March 31, 2004, the Company had an advance tax of Rs 5.36 million (net off tax provision of Rs 3.77 million) pertaining to the NBFC business of the e*rstwhile* Investment Trust of India Limited (the Company before the merger with the e*rstwhile* HFCL Infotel Limited). During the year, on completion of the assessment for the earlier years, the Company has provided for the tax payable of Rs 3.84 million relating to the earlier years.

8. Current liabilities and Provisions

(a) *Current Liabilities*

(i) Sundry Creditors include amount payable to Small Scale Industrial Undertakings ('SSI') as at March 31, 2005 of Rs Nil (2004 — Rs Nil) (based on the information, to the extent available with the Company, and as certified by the management).

(ii) On December 14, 2004, the Company entered into an agreement with a vendor for the supply of telecommunications equipment aggregating to USD 14 million. Further, on February 8, 2005, the Company entered into an agreement with The Export Import Bank of China for a loan of USD 12 million equivalent to 85 per cent of the total contract value of USD 14 million (as above) [See Schedule 24, Note 1(c)]. The said loan facility is yet to be utilized by the Company as on March 31, 2005, as certain conditions precedent to the execution of the aforementioned agreement are pending. As at March 31, 2005, payment of equipment of the value amounting to Rs 191.54 million supplied by the vendor against letters of credit or advance, is yet to be paid.

(b) *Provisions*

Particulars	Balance as at April 1,2004	Additions during the year	Amounts paid/ adjusted during the year	Balance as at March 31, 2005
Leave encashment	3,202,993	2,916,370	2,637,788	3,481,575
Gratuity	3,278,302	1,464,048	2,608,705	2,133,645
Provision for doubtful debt	13,299,761	48,950,603	3,586,394	58,663,970
Provision for advances	136,071,173	-	-	136,071,173

9. Loss per share

The calculations of loss per share are based on the loss and number of shares as computed below.

	Year ended March 31, 2005	Year ended March 31, 2004
Loss for the year (Rs)	919,972,305	1,136,157,235
Weighted average number of shares	480,454,474	441,524,909
Nominal value per equity share (In Rs)	10	10
Loss per share – basic and diluted (In Rs)	1.91	2.57

10. Operating leases

The Company has entered into various lease agreements for leased premises, which expire at various dates in the future. Gross rental expenses for the year ended March 31, 2005 aggregated Rs 39.12 million (March 31, 2004 — Rs 31.46).

Future lease payments under non-cancellable operating leases are as follows:

	Year ended March 31, 2005	Year ended March 31, 2004
Payable not later than one year	1,806,000	1,680,000
Payable later than one year and not later than five years	2,898,000	4,242,000
Total	**4,704,000**	**5,922,000**

11. Segmental Reporting

The primary reporting of the Company has been performed on the basis of business segments. The Company had only one business segment, which is the provision of unified access services. Accordingly, the amounts appearing in these financial statements relate to this primary business segment. Further, the Company provides services only in the domestic markets in India and, accordingly, no disclosures are required under secondary segment reporting.

12. Related Party Disclosures

Relationship	Holding Company		Companies under Common Control		Fellow Subsidiary Company		Associates		Company Under Key Management Personal		Total	
Nature of Transaction	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04
ASSETS												
Purchase of Equity Shares	–	–	–	–	–	–	–	–	–	–	–	–
Purchase of Capital Goods	110,275,787	83,457,361	410,493	12,517,047	–	–	–	–	–	–	110,686,280	95,974,408
Purchase of Capital Services	3,723,119	27,721,731	–	–	–	–	–	–	–	–	3,723,119	27,721,731
Payment against capital purchase/Services	128,651,794	102,979,216	25,496,513	4,022,367	–	–	–	–	–	–	154,148,307	107,001,583
LIABILITIES												
Short Term Funds received by Company	–	40,000,000	–	–	–	35,635	–	6,277,186	–	–	–	46,312,821
Balance - Payable	53,305,985	68,211,946	3,330,933	28,424,249	–	–	–	–	–	–	56,636,918	96,636,195
Balance - Receivable	–	–	6,478,142	1,097,600	89,265	–	1,149,999	650,321	8,121,107	1,227,334	15,838,513	2,975,255
Relationship	Holding Company		Companies under Common Control		Fellow Subsidiary Company		Associates		Company Under Key Management Personal		Total	
Nature of Transaction	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04	31-Mar-05	31-Mar-04
INCOME/RECEIPT												
Services Provided	–	–	8,811,106	–	–	–	–	–	–	–	8,811,106	–
Sale of Goods	–	–	–	1,097,000	–	–	–	–	–	219,048	–	1,316,048
Sale of Investment	–	–	–	–	–	–	–	2,405,500	–	–	–	35,108,500
EXPENSES/PAYMENTS												
Interest expense on ICD received Bank guarantee commission Debit Notes raised on us (Expenses)	45,228	1,178,963	–	1,087,686	–	–	16,611	222,814	–	19,719,852	61,839	22,209,315
Debit Notes raised by us (Expenses)	615,198	473,637	531,985	1,813	137,655	–	–	–	405,583	123,275	1,690,421	598,725
Purchase of Consulmbales Goods/ Repair & Maintainances	2,856,711,	4,482,457	424,593	657,349	–	–	–	–	–	1,518,265	3,281,304	6,658,071
Purchase of Services (Expenditure Nature)	1,800,000	–	1,082,247	–	–	–	–	–	38,336,338	18,418,471	41,218,585	18,418,471
Reimbursement of expenses incurred on behalf of subsidiary companies												
Payment made agst purchase of Goods/ Services (Expenditure Nature)	–											
Payments made on our behalf	–	841,550	–	–	–	–	–	–	–	–	–	841,550
Payment received on our behalf	–	–	–	–	–	–	–	–	–	–	–	–
Payment received by us	–	–	3,000,000	–	48,390	–	96,372	–	6,576,470	–	9,721,232	–
Payments made by the Company	4,086,741	6,029,333	974,855	–	–	35,635	612,661	222,814	50,648,848	–	56,323,105	6,287,782
OTHERS												
Corporate guarantee/letters of comfort given to banks on behalf of the Company	5,225,000,000	5,225,000,000	–	–	–	–	–	–	–	–	5,225,000,000	5,225,000,000

a. Holding Company is Himachal Futuistic Communications Limited.
Fellow subsidiary is HTL Limited.
Associate is The Investment Trust of India Limited
Other Companies under common control include Microwave Communications Limited, Himachal Exicom Communications Limited, HFCL Satellite Communications Limited, HFCL Nine Broadcasting India Private Limited, Westel Wireless Limited, Platinum EDU Limited, HFCL Kongsung Limited, WPPL Limited, Consolidated Futuristic Solutions Limited, Excel Netcommerce Limited, HFCL Bezeq Telecom Limited, ITI Financial Services Limited, Pagepoint Services India Limited, Nextra Technologies Private Limited, HFCL Dacom Infocheck Limited, India Sign Private Limited
Company under Key Managerial Personal is HFCL Internet Services Limited

b. Key managerial persons include the remuneration paid to Mr Surendra Lunia for the period from July 26, 2004 to March 31, 2005

13. Closure of Non-Banking Financial Corporation business

During the year ended March 31, 2004, the Company surrendered its licence granted by RBI to carry out NBFC business. Accordingly, the Company foreclosed all the unpaid / unclaimed deposits as on September 15, 2003 and the interest accruing thereon as on that date, and have been transferred to the Escrow Account in February 2004. On May 24, 2004, the RBI approved the cancellation of the Company's certificate of NBFC registration and provided certain directives to the Company to be complied with pending completion of which the Company would continue to be governed by the relevant provisions of the Reserve Bank of India Act, 1934 and various directions/instructions issued by RBI from time to time. [See Schedule 10 & 13 and Schedule 24, Note 1(a))]. On August 10, 2004 the Company has obtained the approval of the shareholders for the removal of NBFC related objects from the Memorandum of Association. The Registrar of Companies , Jalandhar, is yet to register the resolution of the shareholder due to delay in filing of the documents for which the Company has moved an application to Central Government and same remains pending as on date. Further, the Company submitted a letter dated July 7, 2004 for compliance and RBI vide its letter dated July 30, 2004 gave some concessions from compliance and has advised to follow certain instructions till the balance in the escrow account is settled. In addition, the accompanying financial statements include the following account balances relating to the NBFC business:

• Unclaimed Deposits From Public	Rs 1,740,599
• Interest accrued and due on public deposits upto September 15, 2003	Rs 232,795
• Interest accrued and due on deposits to be transferred to Investor Protection and Education Fund	Rs 174,848
• Cheques outstanding beyond 6 months	Rs 592,780
• Others (Under reconciliation)	Rs 29,207
	Rs 2,770,229
Balances with Scheduled banks in Escrow account [See Schedule 10]	Rs 2,770,229

14. Debenture redemption reserve

As discussed in Schedule 24, Note 1(c), pursuant to the CDR scheme [See Schedule 24, Note 1(c)] on October 16, 2004, the Company has issued OFCDs aggregating to Rs 755.12 million and Rs 166.78 repayable as on March 31, 2006 and March 31, 2014. As per section 117C(1) of the Companies Act, 1956, a debenture redemption reserve ('DRR') is to be created to which adequate amounts is to be credited out of the profits of each year until such debentures are redeemed.

During the year ended March 31, 2005 the Group has incurred losses of Rs 919.97 million , hence, in accordance with the clarification received from the Department of Company Affairs vide circular No 6/ 3/2001-CL.V dated April 18, 2002, the Company has not created Debenture redemption reserve.

15. Prior period expenditure

Description	Year ended March 31, 2005	Year ended March 31, 2004
Staff Welfare Expenses	-	4,192
Advertisement expenses	-	23,940
Sales Commission and Incentive	-	787,910
Printing & Stationary	-	25,363
Consumables	-	36,887
Rent	-	77,712
Software Expenses	-	312,500
Legal and Professional Expenses	-	2,086,990
Traveling and Conveyance	-	18,528
Communication Expenses	-	250,492
Repairs and Maintenance	-	93,562
Access Charges	7,258,575	31,430
Electricity and Water (Network Expenses)	626,309	265,306
Billing and Collection	-	38,251
Freight and Cartage	-	1,405,528
Miscellaneous Expenses	40816	29,352
Depreciation	-	20,644,173
Adjustment of Capital Reserve wrongly accounted for in the previous year		(2,780,905)
Adjustment on account of Premium on Debenture Redemption wrongly accounted for in previous year		(5,773,355)
Security Charges	68735	-
WPC Charges	1,685,693	-
Revenue from Basic Telephony Service	(1,437,815)	-
Miscellaneous Income	(156,500)	-
Total	**8,085,813**	**17,577,856**

16. Prior-year comparatives

Previous years figures are reclassified/rearranged, wherever necessary, to confirm to the current year classification. CBSL the subsidiary company was incorporated in current year and therefore previous year figures exclude CBSL.

Further, during the previous year, ITI together with its associate ITI Financial Services Limited was consolidated as a subsidiary upto September 30, 2003 and has since been accounted for as an associate.

Hence the current years figures are not directly comparable with those of the previous year.

As per our report of even date

For S.R. BATLIBOI & ASSOCIATES Chartered Accountants	CHATURVEDI & PARTNERS Chartered Accountants	For and on behalf of the Board	
Prashant Singhal Partner Membership No. 93283	R.N. Chaturvedi Partner Membership No. 92087	Mahendra Nahata Director	M.P.Shukla Director
Place : New Delhi Date : June 13, 2005	Surendra Lunia Chief Executive Officer	Pradeep Goel General Manager (F&A)	Sanjeev Vashishta GM (Corporate & Legal) & Company Secretary

HFCL INFOTEL LIMITED

CONSIDILATED CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2005

PARTICULARS	For the Year Ended March 31, 2005 (Rs.)	For the Year Ended March 31, 2004 (Rs.)
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(Loss) for the year	(936,026,556	(1,085,100,953)
Adjustments for:		
Depreciation	1,028,326,987	797,837,641
Prior Period Expense / (Income) (Net)	8,085,813	26,132,116
Excess Provision Written Back	(18,980,178)	(1,530,398)
Loss on Fixed Assets Sold / Discarded	15,695,880	30,809,663
Bad Debts Writen Off	81,320,624	65,276,255
Provision for Doubtful Advances	–	2,000,933
Provision for Doubtful Debts	48,950,603	3,207,285
Tax deducted at source written off	3,846,821	-
Finance Expenses	627,231,451	691,118,058
Interest Income	(2,386,875)	(2,603,847)
Profit on Sale of Investment	-	(487,590)
Wealth tax	33,964	56,800
Operating profit before working capital changes	**856,098,535**	**474,559,128**
Adjustments for changes in:		
(Increase) / Decrease in debtors	(189,826,041)	(1,782,908)
(Increase) / Decrease in Loans and Advances	(31,199,651)	
Increase / (Decrease) in Current liabilites	180,699,889	78,152,021
Cash generated from operations	**815,772,732**	**550,928,240**
Direct Taxes paid (Net)	(6,252,331)	4,623,377
Prior Period Expense / (Income) (Net)	(8,085,813)	(5,487,943)
NET CASH GENERATED FROM OPERATING ACTIVITIES (A)	**801,434,589**	**550,063,675**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(818,499,962)	377,569,426
Sale of fixed assets	2,660,820	(18,948,727)
Purchase of investments	(500,000)	288,676
Licence entry fee (refund)	77,710,386	
Realization of Fixed Deposits	8,662,316	24,416,606
Interest Received	2,393,080	(4,985,968)
NET CASH USED IN INVESTING ACTIVITIES (B)	**(727,573,360)**	**378,340,013**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Equity Share Capital	–	17,308,140
Receipts from Secured loan	18,329,251	(5,061,626)
Repayment of Public Deposits	(608,684)	(12,708,802)
Receipts from Unsecured loan	(36,050,881)	(74,976,130)
Interest paid	(20,511,266)	(62,368,811)
Loan from Subsidiary / Associate (Net)	-	(6,822,707)
Dividend Paid	(129,642)	(224,238)
NET CASH GENERATED FROM FINANCING ACTIVITIES (C)	**(38,971,222)**	**(144,854,174)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	**34,890,007**	**26,869,487**
Cash and Cash Equivalents at the beginning of the year (Opening Balance)	43,059,018	16,189,531
Cash and Cash Equivalents at the end of the year (Closing Balance)	77,949,025	43,059,018

Notes:

1. The cash flow statement has been prepared under the indirect method as set out in the Accounting Standard 3 on Cash Flow Statement issued by the Institute of Chartered Accountants of India.
2. Figures in brackets indicate cash outflow.
3. Previous year figures have been regrouped and recast wherever necessary to conform to current year classification.
4. Cash & Cash Equivalents include :

Cash in Hand	1,924,615	725,711
Cheques in Hand	8,410,956	7,919,270
Balances with Scheduled Banks		
- In Current Account	64,843,225	31,090,097
- In Escrow Account	2,770,229	3,323,940
	77,949,025	**43,059,018**

As per our report of even date

For S.R. BATLIBOI & ASSOCIATES Chartered Accountants	CHATURVEDI & PARTNERS Chartered Accountants	For and on behalf of the Board	
Prashant Singhal Partner Membership No. 93283	R.N. Chaturvedi Partner Membership No. 92087	Mahendra Nahata Director	M.P.Shukla Director
Place : New Delhi Date : June 13, 2005	Surendra Lunia Chief Executive Officer	Pradeep Goel General Manager (F&A)	Sanjeev Vashishta GM (Corporate & Legal) & Company Secretary

HFCL INFOTEL LIMITED

STATEMENT PURSUANT TO PART-IV OF SCHEDULE VI OF THE COMPANIES ACT, 1956

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I	REGISTRATION DETAILS	
	Registration No.	26718
	State Code	16
	Balance Sheet	March 31, 2005
II	CAPITAL RAISED DURING THE YEAR (RUPEES)	
	Public Issue	NIL
	Bonus Shares	NIL
	Rights Issue	NIL
	Private Placement	1,480,700,880
III	POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (RUPEES)	
	Total Liabilities	8,916,491,544
	Total Assets	8,916,491,544
	SOURCE OF FUNDS	
	Shareholders' Funds	5,905,171,520
	Reserves & Surplus	234,409,392
	Secured Loans	6,927,734,724
	Unsecured Loans	170,713,842
	APPLICATION OF FUNDS	
	Net Fixed Assets	
	(Including Intangible Asset)	7,687,439,572
	Accumulated Losses	5,432,041,291
	Investments	718,170,900
	Net Current Liabilities	(599,622,285)
IV	PERFORMANCE OF THE COMPANY (RUPEES)	
	Turnover	2,555,422,792
	Total Expenditure	3,487,602,527
	Profit /(Loss) Before Tax	(932,179,735)
	Profit /(Loss) After Tax	(936,026,556)
	Earning Per Share	1,95
	Dividend	Nil
V	GENERIC NAMES OF THREE PRINCIPAL PRODUCTS /SERVICES OF THE COMPANY	
	Item Code No(ITC Code)	N.A.
	Product Description	Unified Access Services

For and on behalf of the Board

Mahendra Nahata
Director

M.P.Shukla
Director

Surendra Lunia
Chief Executive Officer

Sanjeev Vashishta
GM (Corporate & Legal)
& Company Secretary

Pradeep Goel
General Manager (F&A)

Place : New Delhi
Date : June 13, 2005

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACTS, 1956
Relating To Subsidiary Company, Connect Broadband Services Ltd.

1.	Name of the Subsidiary Company	Connect Broad Band Services Ltd
2.	Financial Year ended on	31.03.2005
3.	Shares of the subsidiary held by the Company on the above date (a) Number and Face Value (b) Extent of Holding	50,000 equity shares of Rs. 10/-each.99.80%
4.	Net aggregate of profits/losses of the subsidiary for the above financial year so far as they concern members of the Company (Rs) (a) Dealt within the accounts of the Holding Company for the year ended on March 31,2005 (b) Not Dealt within the accounts of the Holding Company for the year ended on March 31,2005	NIL NIL(Since Company has not started commercial operations)
5.	The Net Aggregate of Profits or losses of the Subsidiary Company for its previous financial year since its become a subsidiary so far as they cocern the members of the Company (a) Dealt with in the accounts of the Holding Company for the period ended March 31,2005 (b) Not dealt with in the accounts of the Holding Company for the period ended March 31,2005	NIL NIL (Since Company has not started commercial operations)

For and On behalf of the Board

PLACE : Mohali
DATE : JULY 30, 2005

Mahendra Nahata
Chairman

M.P. Shukla
Director

DIRECTORS' REPORT

CONNECT BROADBAND SERVICES LTD. (CBSL)

Dear Members

Yours Directors take pleasure in presenting their first report together with the audited accounts for the period ended March 31, 2005.

Operations

During the Year, the Company has not stared the commercial operations, though the necessary spadework for the same has been initiated.

Dividend

The Company has not commenced its operations and thus, you directors have not recommended any dividend.

Holding Company

Your Company continued to remain as wholly owned Subsidiary of HFCL Infotel Ltd. during the year.

Directors

Mr. Mahendra Nahata was appointed as an Additional Director Cum Chairman on the Board w.e.f July 14, 2004. Due to preoccupation, Mr. Mahendra Nahata was unable to devote much of his time in the activities of the Company and he resigned from the Board on July 1, 2005. Mr. Surendra Lunia, Mr. G.D. Singh and Mr. Pradeep Goel are directors on the Board of the Company since incorporation.

In accordance with the articles of Association of the Company and the provisions of the Companies Act, 1956, Mr. Surendra Lunia retires by rotation at the ensuing AGM and being eligible, offers himself for re-appointment to the office of Director on the Board of your Company.

Auditors

M/s Chaturvedi & Co., Chartered Accountants, New Delhi, Auditors of the Company retire at the conclusion of the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

Public Deposit

During the Year under review, your Company has not accepted any deposit under the provisions of section 58A of the Companies Act,1956 and Rules made thereunder.

Share Capital

The Authorised Capital of the Company is Rupees One Crore divided into Ten Lakh Equity Shares of Rs. 10/- each. The issued and paid up Capital of the Company is Rs. 5,00,600/- (Rupees Five Lakh Six Hundred) divided into 50,060/- (Fifty Thousand Sixty) Shares of Rs. 10 each.

Director's Responsibility Statement

Pursuant to the requirements under Section 217(2AA) of the Companies Act, your Directors confirm as under:

i. that in the preparation of the annual accounts, for the period ended March 31,2005,the applicable accounting standards had been followed along with proper explanation relating to material departures;

ii. that the directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as at 31 March, 2005;

iii. that the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

iv. that the directors have prepared the annual account on a going concern basis.

Statutory Statements

Conservation of energy, technology absorption and Foreign Earnings/ Outgo .

CBSL not being engaged in any manufacturing activity, the provisions pertaining to furnishing information regarding Conservation of Energy and Technology Absorption are not applicable.

There is no foreign earnings/ outgo during the year.

Particulars of Employees under section 217(2A)

There is no employee drawing salary as stipulated under section 217(2A) of the Companies Act,1956, read with the Companies (Particulars of Employees) Rules,1975 and amendments made there under.

Acknowledgements

Directors of the company wish to place their appreciation for the cooperation and support extended by the Shareholders, the promoter company, HFCL Infotel Ltd., State Governments, Department of Telecommunications and Regulatory Authorities.

On behalf of the Board

Sd/-

Place : Mohali
Dated : July 07, 2005

Surendra Lunia
Chairman

AUDITORS' REPORT

TO THE MEMBERS OF CONNECT BROADBAND SERVICES LIMITED

1. We have audited the attached Balance Sheet of Connect Broadband Services Limited, as at March 31, 2005 annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit. No Profit & Loss Account has been drawn as the Company has not yet commenced its commercial operations.

1. We conducted our audit in accordance with the 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 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.

2. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' (the 'Act') we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order;

3. Further to our comments in paragraph 3 above, we report that:

   (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

   (b) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;

   (c) The Balance Sheet dealt with by this report is in agreement with the books of account;

   (d) In our opinion, the Balance Sheet dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;

   (e) On the basis of written representations received from the directors as on March 31, 2005 and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2005 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;

   (f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto, give in the prescribed manner the information required by the Act and give a true and fair view in conformity with the accounting principles generally accepted in India in the case of the Balance Sheet, of the state of affairs of the company as at March 31, 2005;

For Chaturvedi & Co
Chartered Accountants

D R Baid
Partner
Membership No. 10517

Place: New Delhi
Date: 6th June, 2005

Annexure referred to in paragraph 3 of our report of even date

(i) The company has not acquired any fixed assets, accordingly clauses (i) (a) to (i) (c) of Para 4 of the Companies (Auditor's Report) Order, 2003 are not applicable to the company for the current period.

(ii) The Company does not maintain any inventory, accordingly clauses (ii) (a) to (ii)(c) of Para 4 of the Companies (Auditor's Report) Order, 2003 are not applicable to the company for the current period.

(iii) The company has neither granted nor taken any loans, secured or unsecured, to/from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly clauses (iii) (a) to (iii) (g) of Para 4 of the Companies (Auditor's Report) Order, 2003 are not applicable to the company for the current period.

(iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business. However, there were no purchases of inventory, fixed assets, sale of goods and services. Further, on the basis of our examination of the books and records of the company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the internal control system.

(v) In our opinion and according to the information and explanations given to us, there are no contracts or arrangements, the particulars of which need to be entered into the register required to be maintained Section 301 of the Act. Accordingly, clause (v) (b) of Para 4 of the Companies (Auditor's Report) Order, 2003 are not applicable to the company for the current period.

(vi) According to the information and explanations given to us, the company has not accepted any deposit from the public within the meaning of directives issued by the Reserve bank of India and the provisions of Sections 58A, 58AA or any other relevant provisions of the Act, and the rules framed there under.

(vii) Considering the turnover and the paid up capital and reserves of the company, in our opinion, the company is not required to have internal audit system.

(viii) According to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Companies Act, 1956 in respect of items proposed to be manufactured or services to be provided by the Company.

(ix) (a) According to the records of the company, the company is regular in depositing undisputed statutory dues including sales tax with the appropriate authorities. Provisions of other statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, service tax, custom duty, excise duty, cess are not applicable to the Company.

(b) According to the records of the company and as per information and explanations given to us, there are no dues of income-tax, sale tax, wealth tax, service tax ,customs duty , excise duty or cess which have not been deposited on account of any dispute.

(x) The Company does not have any accumulated losses at the end of the period and has not incurred cash losses in the period covered by our audit. The Company has been incorporated in the current financial year only.

(xi) In our opinion and according to the information and explanations given to us, the company has not borrowed any amount from a financial institution or bank. The Company has not issued any debentures. Accordingly clause (xi) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current period.

(xii) The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly clause (xii) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current period.

(xiii) In our opinion, and according to the information and explanations given to us, the provisions of any special statute applicable to chit fund / nidhi / mutual benefit fund / societies are not applicable to the company. Accordingly clause (xiii) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current period.

(xiv) In our opinion, the company is not a dealer or trader in shares, securities, debentures and other investments. Accordingly clause (xiv) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current period.

(xv) In our opinion, and according to the information and explanations given to us, the company has not given any guarantee for loans taken by others from banks or financial institutions during the year. Accordingly clause (xv) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current period.

(xvi) The company has not obtained any term loan during the year. Accordingly, clause 4(xvi) of the order is not applicable.

(xvii) On the basis of an overall examination of the balance sheet of the company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.

(xviii) The company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year. Accordingly clause (xviii) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current period.

(xix) The Company does not have any debentures issued and outstanding as at the year end. Accordingly clause (xix) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company.

(xx) The company has not raised any money by public issue during the year. Accordingly clause (xx) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current period.

(xxi) During the course of our examination of the books and records of the Company carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, no fraud (i.e., intentional material misstatements resulting from fraudulent financial reporting and misappropriation of assets) on or by the company has been noticed or reported during the period by the Company.

For Chaturvedi & Co
Chartered Accountants

D R Baid
Partner
Membership No. 10517

Place: New Delhi
Date: 6th June, 2005

CONNECT BROADBAND SERVICES LIMITED

BALANCE SHEET AS AT 31St March, 2005

(for the period from July 2, 2004, (the date of incorporation of the company) to March 31, 2005)

PARTICULARS	SCHEDULE	AS AT 31st MARCH 2005 (Rs.)
SOURCES OF FUNDS		
Shareholders' Fund		
Share Capital	1	500,600
		500,600
APPLICATION OF FUNDS		
Current Assets, Loans and Advances		
Cash and Bank Balances	2	282,639
		282,639
Less: Current Liabilities and Provisions		
Sundry Creditors		16,625
		16,625
Net Current Assests		266,014
Miscellaneous Expenditure		
(to the extent not written off or adjusted)		
Preliminery Expenses		174,958
Pre-operative Expenses (Pending Allocation)	3	59,628
		500,600
Significant Accounting Polices	4	
Notes to Accounts	5	

The Schedules referred to above and the Notes to Accounts form an integral part of the Balance Sheet.

As per our report of even date

CHATURVEDI & Co.
Chartered Accountants

For and on behalf of the Board

D R Baid
Partner
Membership No. 10517

Surendra Lunia
Director

Pradeep Goel
Director

Place : New Delhi
Date : June 6, 2005

	AS AT 31st MARCH 2005 (Rs.)
SCHEDULE 1	
SHARE CAPITAL	
Authorised:	
1,000,000 Equity Shares od Rs 10/- each	**10,000,000**
	10,000,000
Issued, Subscribed and Paid up	
50,060 Paid Equity Shares of Rs 10/- each	**500,600**
	500,600
Note :	
Of the above, 50,000 equity shares are held by HFCL Infotel Limited (Holding Company)	
SCHEDULE 2	
CASH AND BANK BALANCES	
Cash in Hand	**3,681**
Balances with Banks	
- In Current Account	**248,958**
- In Fixed Deposit [Receipts pledged with Banks as margin money for guarantees issued, Rs 30,000]	**30,000**
	282,639
SCHEDULE 3	
PRE- OPERATIVE EXPENSES (PENDING ALLOCATION)	
Travelling and Conveyance	**17,114**
Rent	**8,000**
Legal and Professional Charges	**6,500**
Auditors' Remuneration	**10,000**
Bank Charges	**1,935**
Rates and Taxes	**15,225**
Printing and Stationary	**625**
Miscellaneous Expenses	**625**
Less: Miscellaneous Income	**(396)**
	59,628

CONNECT BROADBAND SERVICES LIMITED

STATEMENT PURSUANT TO PART - IV OF SCHEDULE VI OF THE COMPANIES ACT, 1956

Balance Sheet Abstract and Company's General Business Profile

I	REGISTRATION DETAILS			
	Registration No.	U64200PB2004PLC27271	State Code	16
	Balance Sheet	31-03-2005		
II	CAPITAL RAISED DURING THE YEAR (RUPEES)			
	Public Issue	NIL	Rights Issue	NIL
	Bonus Shares	NIL	Private Placement	500,600
III	POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (RUPEES)			
	Total Liabilities	517,225	Total Assets	517,225
	SOURCE OF FUNDS			
	Shareholders' Funds	500,600	Reserves & Surplus	NIL
	Secured Loans	NIL	Unsecured Loans	NIL
	APPLICATION OF FUNDS			
	Net Fixed Assets	NIL	Investments	NIL
	Accumulated Losses	NIL	Misc. Expenditure	234,586
	Net Current Assets	266,014		
IV	PERFORMANCE OF THE COMPANY (RUPEES)			
	Turnover	NIL	Total Expenditure	NIL
	Profit /(Loss) Before Tax	NIL	Profit /(Loss) After Tax	NIL
	Earning Per Share	NIL	Dividend	Nil
V	GENERIC NAMES OF THREE PRINCIPAL PRODUCTS /SERVICES OF THE COMPANY			
	Item Code No(ITC Code)	N.A.	Product Description	Distribution of Cable Television Network

For and on behalf of the Board of Directors

Surendra Lunia
Director

Pradeep Goel
Director

Place : New Delhi
Date : 6th June, 2005

SCHEDULE 4
SIGNIFICANT ACCOUNTING POLICIES

1) BASIS OF ACCOUNTING
   i) Financial Statements have been prepared under the historical cost convention in accordance with the generally accepted accounting principles, the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956.
   ii) The Company follows the mercantile system of accounting & recognizes the income & expenditure on accrual basis except those with significant uncertainties.
2) PREOPERATIVE EXPENDITURE
   Expenditure incurred before the commencement of commercial operations are considered as pre-operative expenditure and are written off in the year of commencement of commercial operations.
3) REVENUE RECOGNITION
   i) Revenue from sales is recognised on dispatch of goods from the warehouse/premises. Sales are exclusive of sales tax.
   ii) Interest income is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.
4) MISCELLANEOUS EXPENDITURE
   Preliminary Expenditure are written off in the year of the commencement of commercial operations.
5) CONTINGENT LIABILITIES
   Contingent liabilities are determined on the basis of available information and are disclosed by way of a note to the accounts.

SCHEDULE 5
NOTES TO ACCOUNTS

1. Nature of Operations
   The Company was incorporated on July 2, 2004 with the main object of to carry on the business as service provider and operator for distribution of Cable television network. The company will provide data transmission services, Internet services and other connected services through cable.
2. As the Financial Statements are being prepared first time for the period from July 2, 2004 to March 31 2005, corresponding amounts for the Previous Year have not been given.
3. Company has not yet started the commercial operations during the year under audit and hence no Profit & Loss Account has been drawn.
4. The company does not have any item resulting into timing differences as at March 31, 2005 and therefore no provision for deferred taxes is required.
5. Sundry Creditors include amount payable to Small Scale Industrial Undertakings ('SSI') as at March 31, 2005 of Rs Nil (based on the information, to the extent available with the Company, and as certified by the management).
6. Payment to Auditors

	Period ended March 31, 2005
Audit Fee	10,000

7. CIF value of Imports	Nil
8. Expenditure in Foreign Currency	Nil
9. Earning in Foreign Exchange	Nil

10. Additional information pursuant to paragraph 3 & 4 of part II of schedule VI of the Companies Act, 1956 are not applicable, as the Company has not yet started any commercial activity.

As per our report of even date attached
For CHATURVEDI & Co.
Chartered Accountants

D.R. Baid
Partner

For and on behalf of the Board

Surendra Lunia
Director

Pradeep Goel
Director

Place : New Delhi
Date : 6th June, 2005

ATTENDANCE SLIP

HFCL INFOTEL LIMITED

Registered Office:- B-71, Phase VII, Industrial Focal Point, Mohali, (Punjab) – 160 055

PLEASE FILL ATTENDANCE SLIP AND HAND IT OVER AT THE ENTRANCE OF THE MEETING HALL.

Joint Shareholders may obtain additional slip on request.

DP Id*	
Client Id*	

Registered Folio No.	

NAME AND ADDRESS OF SHAREHOLDER

No. of Share(s) Held:-

I hereby record my presence at the 58th Annual General Meeting of the Company held on Thursday, the 29th day of September, 2005 at 12.00 noon at B-71, Phase VII, Industrial Focal Point, Mohali, Punjab – 160 055

Signature of the Shareholder or Proxy ………………………………………………….

* Applicable for investors holding shares in electronic form.

……………………………………………………………………………………………………..

PROXY FORM

HFCL INFOTEL LIMITED

Registered Office:- B-71, Phase VII, Industrial Focal Point, Mohali, (Punjab) – 160 055

DP Id*	
Client Id*	

Registered Folio No.	

I/We...............…………………….…………………………………………………………………………………………………of ……………………….……………………………………… ……….being a member / members of HFCL Infotel Limited hereby appoint...............…………………………...………………………………………………………………………………..of ……………………............. ………………………………………………………………………………………….or failing him ………………………………………………………..of................ ………………………………………………………………….. as my/ our proxy to vote for me/ us and on my / our behalf at the 58th Annual General Meeting to be held on Thursday, the 29th day of September, 2005 at 12.00 noon at B-71, Phase VII, Industrial Focal Point, Mohali, Punjab – 160 055 or at any adjournments thereof.

Signed this ………. day of ………………. 2005

* Applicable for investors holding shares in electronic form.

Note:- The Proxy in order to be effective should be duly stamped, completed and signed and must be deposited at the Registered Office of the Company not less than 48 hours before the time for holding the aforesaid meeting. The proxy need not be a member of the Company.