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. R.K. Bansal
Mr. S.S. Dawra (upto 17th January, 2006)

Manager & 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. M.P. Shukla
Mr. S.S. Dawra (upto 17th January, 2006)
Mr. R.M.Kastia (w.e.f. 24th January, 2006)

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

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

Internal Auditors
Khandelwal Jain & Co., Chartered Accountants

Compliance Officer
Mr. S. Prabhakar
Company Secretary &
Head - Legal & Regulatory

Banks & Financial Institutions
IDBI Bank Ltd.
LIC of India Ltd.
State Bank of Patiala
Oriental Bank of Commerce
ING Vysya Bank Ltd.
Punjab National Bank
Centurion Bank of Punjab Ltd.
ICICI Bank Ltd.

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

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

NOTICE

NOTICE is hereby given that the **Fifty Ninth Annual General Meeting** of shareholders of HFCL Infotel Ltd. will be held on Friday, the 29th day of September, 2006**,** 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 consider and adopt the Audited Balance Sheet as at March 31, 2006, the Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon;

2. To appoint a Director in place of Mr. Krishan Behari Lal, who retires by rotation and being eligible offers himself for re-appointment;

3. To appoint a Director in place of Dr. Ranjeet Mal Kastia, who retires by rotation and being eligible offers himself for re-appointment;

4. To consider and if thought fit, to pass, with or without modifications, if any, the following resolution(s) 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 S. R. Batliboi & Associates, Chartered Accountants, New Delhi and M/s Atul Kulshrestha & Co., Chartered Accountants, New Delhi be and are hereby 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 on a remuneration as may be decided by the Board of Directors".

By Order of the Board
for HFCL Infotel Limited

Sd/-
S.Prabhakar
Company Secretary &
Head - Legal & Regulatory

Place: New Delhi
Date : 1st September, 2006

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 23rd September 2006 to 29th September 2006 (both days inclusive).

3. Company has received a notice from joint auditors Chaturvedi & Partners expressing their un-willingness for being re-appointed as Auditors. The joint auditors have mentioned in their notice that there are no circumstances which need to be brought to the notice of the share holders at the Annual General Meeting. In view of the above and based on the recommendation of the Audit Committee the Board of Directors proposed the appointment of Atul Kulshrestha & Co., as joint auditors. Company has received a letter from Atul Kulshrestha & Co., Chartered Accountants confirming that if appointed their appointment will be within limits prescribed under Section 224(1B)

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" (IEPF) established by the Government and in terms of Section 205C of the Companies Act, 1956, no claim shall lie against the Company or the said fund after the said transfer. 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 1999 onwards.

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. The information required to be provided under the Listing Agreement entered into with various Stock exchanges, regarding the Directors who are proposed to be appointed/re-appointed as set out above are annexed hereto.

Details of Directors retiring by rotation and seeking re-appointment (In Pursuance of Clause 49 of the Listing Agreement)		
Name	**Mr. Krishan Behari Lal**	**Dr. Ranjeet Mal Kastia**
Date of Birth	02.01.1944	10.10.1941
Date of Appointment	29.10.2003	19.06.2004
Qualification	B.E(Hons), M.B.A	Ph.D,FBIM(London)
Expertise in specific functional areas	Over all Management Mr. Lal has 30 years of experience in Telecom Industry. He has worked as Director (Switching) in centre for Development of Telematics for about 5 years.	Over all Management He has been a pioneer in the manufacturing of entire range of high-tech telecom equipments. He has played a pivotal role in developing a vast base for the indigenous telecom equipment manufacturing industry in the country.
Directorships in other Public Companies	None	1. Himachal Futuristic Communications Limited 2. HTL Ltd
Chairmanship / Membership of Committees of the Board of Public Companies of which he is a Director	**1. HFCL Infotel Ltd** - STIG* Committee - Member - Project Review Management Committee-Member	**1. HFCL Infotel Limited** - Remuneration Committee - Member - STIG* Committee - Member **2. Himachal futuristic Communication Limited** - STIG Committee - Member

* Share Transfer & Investor Grievance Committee (STIG)

DIRECTORS' REPORT

Your Directors take pleasure in presenting the Fifty Ninth Annual Report of your Company together with the Audited Accounts for the year ended 31st March, 2006.

SUMMARY OF FINANCIAL RESULTS

The summarized Financial Results for the year ended 31st March, 2006 are as under: -

(Rs. in Crores)

Particulars	2006	2005
Gross Income –		
- Service Revenue	291.89	253.32
- Other Income	1.15	0.51
Total	293.04	253.83
Operating Profit before Finance Charges, Depreciation, Amortisation and loss on sold/ discarded fixed Assets	76.27	74.72
Loss on sold/discarded Fixed Assets and Capital work in progress	18.88	1.57
Finance Cost	59.98	62.72
Depreciation and Amortisation	109.01	102.83
Loss for the year before prior period Expenditure and Tax	111.61	92.41
Prior period Expenditure (net)	0.95	0.81
Loss for the year before Tax	112.56	93.22
Provision for taxation for earlier years	(0.16)	0.38
Fringe Benefit tax	0.64	0.0
Loss for the year	113.04	93.60
Loss, brought forward from previous year	543.20	449.60
Loss carried to the Balance Sheet	656.24	543.20

DIVIDEND

Being in the initial years of operation in a highly capital intentive telecom sector, your Company has accumulated losses. Your Directors therefore are not in a position to recommend any dividend for the financial year 2005-06.

INCREASE IN AUTHORISED CAPITAL

The shareholders of the Company passed a resolution at Extraordinary General Meeting on 27th February, 2006 and increased the Authorised Capital to Rs.1500 crores comprising of 130 crores Equity Shares of Rs.10/- each and 2 crores of Preference Shares of Rs.100/- each.

PERFORMANCE

The Year 2005-06 was a challenging year for the Company. The revenue from telecom service increased from Rs. 254 Crores in the previous year to Rs. 293 Crores during the current year. The Operating Profits, i.e. Earnings Before Finance Charges, Depreciation, Amortisation and loss on sold / discarded fixed assets stood at Rs.76.27 Crores as compared to the previous year's figure of Rs. 74.72 Crores. The subscriber base grew by 29% to 3.19 lacs subscribers from 2.47 lacs subscribers during the preceding year.

The DSL Broadband services (high-speed Internet) received an overwhelming response from the subscribers and the Company has drawn up aggressive plans for rolling out these services in the residential segments as a part of its Triple Play Strategy.

During the year under review Connect Broadband Services Limited (CBSL), a subsidiary of the Company, commercially launched Cable TV services in Punjab as an MSO, thus marking the Company's entry into the Triple Play segment. This is your Company's first step towards becoming a significant player in the fast growing Infotainment and Home entertainment segment in the country.

SHARE CAPITAL/OFCDs

In line with the Corporate Debt Restructuring (CDR) package Optionally Fully Convertible Debentures (OFCDs) issued to the lenders were to be converted into Equity Shares. However, pending settlement of the conversion price as per SEBI guidelines, the amount is being held as Share Application Money pending allotment of equity shares.

DIRECTORS

Mr. S.S. Dawra, Director on the Board of the Company resigned w.e.f 17th January, 2006 from the Board of Directors, as he has been appointed as the Chairman of the Punjab VAT and Sales Tax Tribunal. The Board wishes to place on record its sincere appreciation for the valuable services rendered by Mr. S.S. Dawra during his tenure as Director on the Board of the Company and wishes him all the success in his new assignment.

In accordance with the Articles of Association of the Company and the provisions of the Companies Act, 1956, Mr. K.B.Lal and Mr. Ranjeet Mal Kastia retire by rotation in the ensuing AGM and being eligible offer themselves for re-appointment 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, 2006, 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, 2006 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 fraud and other irregularities and

(iv) that the Directors have prepared the accounts for the financial year ended 31st March, 2006 on a going concern basis.

SUBSIDIARY

The subsidiary of the Company, Connect Broadband Services Limited which was formed in July, 2004 to undertake the business of distribution of Video and Cable TV services has commercially started its operations in October, 2005. Information on subsidiary companies required under Section 212 of the Companies Act, 1956 is provided in Annexure to this report.

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 and Accounts.

FIXED DEPOSITS

The Company has not accepted / renewed any deposits from the public under Section 58A of the Companies Act, 1956 during the year. The Company had discontinued the NBFC business in the year 2004 and transferred the outstanding amounts to an 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 years or above have been transferred to Investor Education and Protection Fund (IEPF) under section 205C of the Companies Act, 1956 out of said Escrow Account.

An amount of Rs. 3,98,083 remains unclaimed for payment.

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 31st March, 2006, 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 has already taken remedial steps in this regard and is in the process of implementing ERP package for better control and automation. The implementation of SAP is in progress and is expected to be completed in the current Financial year 2006-07
- 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, deposit of service tax and withholding tax, it is clarified that as per the direction of RBI, the Company has deposited amounts payable to the Fixed Deposit holders in an Escrow Account maintained with the Global Trust Bank (now known as the Oriental Bank of Commerce). All the payments on account of service tax and withholding tax till March, 2006 have been regularised.
- In response to the observation made by the Auditors that the company has made cash losses after considering the interest on terms loans and loss on sale / discard of assets during the year, it is clarified that the company has made operating profits. Further, interest expenses include provision for interest payable in future years as per the CDR package approved by the lenders while the loss on sale/discard of fixed assets is a non recurring one time expense.
- In response to the observation made by the auditors that the Company has delayed the payments of interest made to the financial institution and banks, it is clarified that all the interest till March, 2006 have been subsequently paid and regularized.

CORPORATE GOVERNANCE

Corporate Governance and Management Discussion and Analysis Reports as well as Corporate Governance Compliance Certificate are being presented as Annexure to this report.

HUMAN RESOURCE DEVELOPMENT

The Company's HR policies and processes are aligned to effectively drive its expanding business and forays into emerging opportunities. This has been achieved by continuously investing in learning and development programs, creating a compelling work environment, empowering employees at all levels and maintaining well structured reward and recognition mechanism. Employee development continues to be the key focus of HR initiatives being undertaken by the Company.

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 and total foreign up exchange outgo was to the tune of Rs. 180.39 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, The 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
Date : 31st July, 2006

(Mahendra Nahata)
Chairman

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACTS, 1956 RELATING TO SUBSIDIARY COMPANY		
1.	Name of the Subsidiary Company	**Connect Broadband Services Ltd**
2.	Financial Year ended on	**31.03.2006**
3.	Shares of the subsidiary held by the Company on the above date	
	(a) Number and Face Value	**50,000 equity shares of Rs. 10/-each.**
	(b) Extent of Holding	**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 31,2006	**33,100,732**
	(b) not dealt within the accounts of the Holding Company for the year ended on March 31,2006	**N.A**
5.	The Net Aggregate of Profits or losses of the Subsidiary Company for its previous financial year since it became a subsidiary so far as they concern the members of the Company	
	(a) Dealt with in the accounts of the Holding Company for the period ended March 31,2006	**N.A**
	(b) Not dealt with in the accounts of the Holding Company for the period ended March 31,2006	**N.A**

CORPORATE GOVERNANCE REPORT FOR THE YEAR 2005-06

(as required under Clause 49 of the Listing Agreement entered into with Stock Exchanges)

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 as the 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 entered into with Stock Exchanges 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 the framework of effective accountability.

The Corporate Governance in the Company, based on the principles and philosophy as mentioned above, takes place at 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 eight Directors including two Nominee Directors nominated by the Industrial Development Bank of India Limited. 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 and Manager under Section 269 of the Companies Act, 1956, of the Company in consultation with the senior Management team.

The entire Board consists of Non-Executive directors and Independent Directors constitute 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. Necessary disclosures were made by directors in this respect

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

Name of the Director	Date of Joining	Category	No. of other Directorships	Committee Membership	Committee chairmanship*
Mr.Mahendra Nahata	29.04.2003	(C/NED/ PD)	5	2	0
Mr. Vinay Maloo	17.06.2003	(NED/ PD)	7	0	0
Mr.T.S.V. Panduranga Sarma	12.12.2003	(NED/ID)	1	2	1
Mr. R.K. Bansal # (Nominee of IDBI)	19.04.2005	(NED/ID/ Nominee)	1	2	0
Mr. S.Lakshmanan (Nominee of LIC)	17.06.2003	(NED/ID/ Nominee)	0	3	1
Mr. M.P.Shukla	29.04.2003	(NED/ID)	2	2	1
Mr. K.B. Lal	29.10.2003	(NED/ID)	0	2	0
Dr. R.M. Kastia	19.06.2004	(NED/PD)	2	2	1
Mr.S. S. Dawra**	19.06.2004	(NED/ID)	3	1	0

Note:

**Includes Membership / Chairmanship in HFCL Infotel Ltd.; excludes private companies; includes membership acquired after 31st March, 2006; 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]

*** Resigned from the Board w.e.f. 17th January, 2006*

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

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

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 01.04.2005 to 31.03.2006, the Board met 6 times on the following dates viz. 13th June, 2005, 30th July, 2005, 16th October, 2005, 17th January, 2006, 24th January, 2006 and 29th March, 2006.

The 58th Annual General Meeting of your Company was held on 29th September, 2005.

Attendance of Directors at the Board Meetings held during the year 2005-06 and at the last Annual General Meeting is as under:

Attendance of the Directors for the FY 2005-06

Sl. No.	Name of the Director	Board Meetings held during the tenture	Board Meetings Atten-ded	Last AGM atten-ded
1	Mr. Mahendra Nahata	6	6	No
2	Mr. Vinay Maloo	6	0	No
3	Mr. T.S.V.Panduranga Sarma	6	6	Yes
4	Mr. R.K. Bansal	6	4	Yes
5	Mr. S.Lakshmanan	6	5	Yes
6	Mr. M.P.Shukla	6	6	Yes
7	Mr. K.B.Lal	6	2	Yes
8	Mr. S.S.Dawra	4	2	Yes
9	Dr. R. M. Kastia	6	6	Yes

(C) Information Placed before the Board

As required in 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. Taking note of Legal Compliance reports and Certificates.

k. Accounts of the subsidiary Companies.

3. Committees of the Board

Board has constituted various Committees for smooth and efficient operations of Company's activities. The Committees meet at regular intervals to review their respective areas of operation. The draft minutes of the proceedings of each Committee meeting 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.

(A) Audit Committee

The Audit Committee comprised of:

- Mr. T S V Panduranga Sarma, Chairman
- Mr. Mahendra Nahata
- Mr. S Lakshmanan
- Mr. T.B.I. Anantanarayanan (Till 29.04.05)
- Mr. R.K.Bansal (w.e.f 30.05. 2005)

Head of Finance and Internal Auditors of the Company are permanent invitees to the Committee Meetings.

The Audit Committee of the Company is constituted in line with the provisions of Clause 49 of the Listing Agreement with Stock Exchanges read with Section 292A of the Companies Act, 1956. 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 two members.

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

- Overview of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the Statutory Auditor and the fixation of audit fees.
- Approval of payment to Statutory Auditors
- Reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to :
  a. Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956
  b. Changes, if any, in accounting policies and practices and reasons for the same
  c. Major accounting entries involving estimates based on the exercise of judgment by management
  d. Significant adjustments made in the financial statements arising out of audit findings
  e. Compliance with listing and other legal requirements relating to financial statements

f. Disclosure of any related party transactions.

g. Qualifications in the draft audit report.

- Reviewing, with the management, the quarterly financial statements before submission to the Board for approval
- Reviewing, with the management, performance of Statutory and Internal Auditors, adequacy of the internal control systems.
- Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- Discussion with Internal Auditors any significant findings and follow up there on.
- Reviewing the findings of any internal investigations by the Internal Auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
- Discussion with Statutory Auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
- To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.

The Audit Committee has been mandatory authorized to review the following information:

- Management discussion and analysis of financial condition and results of operations
- Statement of significant related party transactions, submitted by the management
- Management letters / letters of internal control weaknesses issued by the statutory auditors;
- Internal audit reports relating to internal control weaknesses;

During the year under review, six Audit Committee meetings were held on the following dates :

13th June, 2005, 30th July, 2005, 16th October, 2005, 17th January, 2006, 24th January, 2006 and 29th March, 2006.

The attendance of the members at the meetings was as under:

Meetings and the attendance of the Directors for the FY 2005-06

S. No.	Name of Member	No.of Meetings held during the tenure	No. of Meetings Attended
1	Mr.T.S.V.Panduranga Sarma	6	6
2	Mr.Mahendra Nahata	6	6
3	Mr.S.Lakshmanan	6	5
4	Mr.R.K. Bansal	6	3

(B) Remuneration Committee

The Remuneration Committee of the Company comprises of all Non-Executive Directors and the Chairman of the Committee is an Independent Director. The constitution of the Remuneration Committee meets with the requirements of the Listing Agreements.

During the year the Remuneration Committee comprised of :

- Mr. S. Lakshmanan, Chairman
- Mr. M.P.Shukla
- Mr. S. S. Dawra (till 17th January, 2006)
- Mr. R. M. Kastia (w.e.f 24th January, 2006)

The Committee is responsible for overseeing the following matters:

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

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

The Committee met once during the last Financial Year i.e on 13th June 2005. 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
Mr. R. M. Kastia*	–	–

*Mr. R. M. Kastia was appointed as member of Remuneration Committee w.e.f 24th January, 2006.

(C) Share Transfer and Investors' Grievance Committee

There are two Committees viz. Share Transfer and Investors' Grievance Committee & Share Transfer In-house Committee to look into redressal of shareholders complaints in respect of transfer / transmission / transposition split of shares, issue of duplicate share and non-receipt of dividend etc. and to oversee the performance of Registrar and Share Transfer Agent and recommends measures for overall improvement in quality of investor services etc.

Board level Committee, which is known as the Share Transfer and Investors' Grievance Committee (STIG), consist of

1. Dr. R. M. Kastia as Chairman
2. Mr. T. S. V. Panduranga Sarma
3. Mr. K. B. Lal

Mr.Sanjeev Vashishta, G.M. (Corporate, Legal & Regulatory) was the Compliance officer from 1st April, 2005 to 17th January, 2006 and Mr. S. Prabhakar, Company Secretary & Head – Leal & Regulatory is the Compliance Officer from 20th March, 2006 onwards.

This Committee meets on need basis to approve the share transfer / transmission / issue of duplicate share certificates etc. above 5000 shares. In the case of request received for loss of share certificates, however, only STIG is empowered to issue the duplicate share certificates.

During the year under review, the STIG Committee consisting of Board Members met six times on 9th May, 2005, 6th July, 2005, 30th July, 2005, 21st September, 2005, 20th October, 2005 and 30th November, 2005 and the attendance of the Members at the meetings was as under:

Name of Member	No. of Meetings held	No. of Meetings Attended
Dr. R.M. Kastia	6	6
Mr. T.S.V.Panduranga Sarma	6	6
Mr. K.B.Lal	6	3

Besides the aforesaid Committee consisting of the Board Members, another Committee known as the Share Transfer In-house Committee has also been constituted which comprised of the following members :

1. Mr. Surendra Lunia, CEO,
2. Mr. Pradeep Goel , A.V.P (Finance & Accounts)
3. Mr Mr.Sanjeev Vashishta, G.M. (Corporate, Legal & Regulatory) upto 17th January, 2006 and
4. Mr. S. Prabhakar, Company Secretary & Head-Legal & Regulatory w.e.f. 20th March, 2006

The Share Transfer In-house Committee is empowered to approve transfer / transmission / transposition / issue duplicate share certificates up to 5000 nos. only. A meeting of this Committee is held fortnightly. This Committee is not empowered to issue duplicate share certificate in case of loss of share certificate and is authorized to handle issue of duplicate share certificate only in the case of mutilated / torn / partially burnt shares etc. During the year-ended 31st March, 2006, 23 meetings of In-house Share Transfer Committee were held.

Total number of complaints received and replied to the satisfaction of shareholders during the year was 31. There were no unresolved complaints as on 31st March, 2006.

(D) Project Management Review Committee (PMRC)

Project Management Review Committee comprised of

- Mr. M. P. Shukla, Chairman
- Mr. Mahendra Nahata
- Mr. R. K. Bansal
- Mr. S. Lakshmanan
- Mr. K. B. Lal

Scope of Review of the Committee includes:

- Review of the cost of project and means of finance.
- 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 and 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 once on 29th September, 2005 and the 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	1	1
Mr. Mahendra Nahata	–	–
Mr. R.K. Bansal	1	1
Mr. S. Lakshmanan	1	1
Mr. K.B. Lal	1	1

(E) Sitting fee paid to the Directors

The Company pays sitting fee 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 2005-06 are as under:-

S. No.	Name of the Director	Sitting Fee (in Rs.)					Total Sitting Fee paid
		Board Meeting	Audit Com-mittee	Remu-nerat-ion Comm-ittee	Project man-age-ment Review Com-mittee	STIG Com-mittee	
1	Mr. Mahendra Nahata	30000	30000	Nil	Nil	Nil	60000
2	Mr. Vinay Maloo	Nil	Nil	Nil	Nil	Nil	Nil
3	Mr. T.S.V. Panduranga Sarma*	30000	30000	Nil	5000*	30000	95000
4	Mr. R.K. Bansal	20000	20000	Nil	5000	Nil	45000
5	Mr. S.Lakshmanan	25000	25000	5000	5000	Nil	60000
6	Mr. M.P.Shukla	30000	Nil	5000	5000	Nil	40000
7	Mr. K.B.Lal	10000	Nil	Nil	5000	15000	30000
8	Dr. R. M. Kastia	30000	Nil	Nil	5000*	30000	65000
9	Mr. S.S.Dawra	10000	Nil	5000	5000*	Nil	20000

*Mr. Panduranga Sarma, Dr. R. M. Kastia and Mr. S. S. Dawra were paid sitting fee of Rs. 5,000/- each for attending Project Management Review Committee Meetings (PMRC) 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
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
2004-2005	58	B-71, Industrial Area, Phase-VII, Mohali	29.09.2005	12.00 Noon

Location and time where last EGM was held during 2005–06:

Date	Location	Time
27th February, 2006	HFCL Infotel Limited B-71, Industrial Area, Phase-7, Mohali	11.30 A.M

Postal Ballot

No resolution was put up through postal ballot last year as per provisions of Section 192 A of the Companies Act, 1956 and the Rules framed there under during last year. No resolution on matters requiring postal ballot is proposed to be placed at the forthcoming Annual General Meeting for shareholders' approval.

Special Resolutions

During the last three Annual General Meetings following Resolutions were passed as Special Resolutions.

In the Annual General Meeting held on 25th September, 2003, Special Resolutions were passed for:-

I) Appointment and deciding the remuneration of Mr. Simon Solomon as Manager of the Company.

II) Appointment and deciding the remuneration of Mr. Sunil Batra as Manager of the Company.

III) Alteration of Articles of Association of the Company.

In the Annual General Meeting held on 30th September, 2004, Special Resolutions were passed for:-

I) Delisting the Equity shares of the Company from The Calcutta Stock Exchange Association Limited, Kolkata.

II) Appointment and deciding the remuneration of Mr. Surendra Lunia, as Manager of the Company.

III) Corporate Debt Restructuring

In the Annual General Meeting held on 29th September, 2005, Special resolutions was passed for:-

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).

In the last Extra ordinary General Meeting held on 27th February, 2006, special resolutions were passed for

i) Obtaining approval for issue of equity shares/ preference shares/equity shares through Global Depository Receipts (GDRs)/Amercian Depository Receipts (ADRs)

ii) Obtaining approval for Employee Stock Option Scheme

iii) Alteration of Memorandum and Articles of Association to increase the authorized capital to Rs. 1500 crores

5. Disclosures

a. Subsidiary Companies

The Company has one material non-listed subsidiary company namely Connect Broadband Services Limited. The Audit Committee reviews the financial statements and investments made by unlisted subsidiary company. The minutes of the Board meeting as well as statements of all significant transactions of the unlisted subsidiary company are placed regularly before the Board of Directors for their review. Mr. T.S.V. Panduranga Sarma an Independant Director of the Company is on the Board of the subsidiary.

b. Related Party Transactions

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.

c. Code of Conduct

The Board in its meeting held on 17th March, 2005 has adopted the Code of Conduct for members of the Board and Senior Management. The Code lays down, in detail, the standards of business conduct, ethics and governance.

A copy of the Code is posted on the Company's website, www.hfclconnect.com

The Code has been circulated to all the members of the Board and Senior Management and they have affirmed compliance of the same. A declaration signed by the Manager and CEO to this effect is annexed and forms part of this report.

d. Risk Management

The company has adequate internal control systems in place and exercise various risk mitigating measures. The Company is in the process of laying down a detailed formal framework for risk assessment and risk management.

e. **Non Compliance by the Company, penalties, and 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 three 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 three years.

f. **Secretarial Audit**

A qualified practicing Company Secretary carried out secretarial audit to reconcile the total admitted capital with National Securities Depository Limited (NSDL) and Central Depository Services (India) limited (CDSL) and the total issued and listed capital on quarterly basis. The secretarial audit report confirms that the total issued/paid up capital is in agreement with the total number of shares in physical form and the total number in dematerialized shares held with NSDL and CDSL.

g. **Code for Prevention of Insider Trading Practices**

In terms of the provisions of SEBI (Prevention of Insider Trading Regulations), 2002, as amended, the Company has formulated a "Code of Internal procedure and conduct for prevention of insider trading". The Code lays down the guidelines and advises the designated employees on procedure to be followed and disclosures to be made while dealing in shares of the Company.

6. Whistle blower Policy

The Company has not adopted any Whistle blower policy since it is not a mandatory requirement, and in view of the Management, the grievance handling process is quite adequate

7. Means of Communication

The Quarterly, Half Yearly and Annual financial results are published in The Financial Express, English financial daily and Desh Sevak, vernacular language paper and forwarded to 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.

8. Management Discussion and Analysis Report

Management Discussion and Analysis Report forms part of the Annual Report.

9. General Shareholder Information

a. 59th Annual General Meeting

Date : 29th September, 2006

Time : 12.00 Noon

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

b. Financial Year and Financial Calendar

Financial Year : 1st April to 31st March

c. Financial Calendar of the Company (Tentative)

Results for the Qtr ending June 30, 2006	31st July, 2006
Results for the Qtr ending September 30, 2006	Last week of October 2006
Results for the Qtr ending December 31, 2006	Last week of January 2007
Results for the year ending March 31,2007(un-audited)	Last week of April 2007
Annual General Meeting	September, 2007

d. Dates of Book Closure

The Company's Register of Members and Share Transfer Books will remain closed before date of Annual General Meeting and intimation of the same shall be given to stock exchanges and published in news papers.

e. Dividend payment date :

No dividend was recommended by the Board for the Financial year 2005-06

f. Registered Office

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

g. Listing of Equity Shares on Stock Exchanges

Company's shares are listed at Mumbai and Chennai 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 Bombay Stock Exchange (BSE) and Madras Stock Exchange (MSE).

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 viz. Industrial Development Bank of India (IDBI), Oriental Bank of Commerce (OBC), ING Vysya Bank on 16th October, 2004, pursuant to the restructuring package approved under Corporate Debt Restructuring (CDR) 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 it’s earlier stand that the Company should come out with an “Offer for Sale”. The Company filed an appeal against the decision of the BSE in the Hon’ble SAT and the appeal was finally disposed off with the mutual consent of BSE and HFCL Infotel, wherein the Hon’ble SAT advised the BSE to take up the matter in their Listing Committee. Based on the directions of the Listing Committee, BSE, vide its letter Ref No. DCS/SMG/RCG/2005/ 511116 dated 2nd November, 2005 agreed for listing of HFCL Infotel’s shares subject to certain conditions, which includes promoter to divest atleast 1.33% of the paid up share capital to the Indian public by way of an offer for sale or the Company to undertake public offer in the domestic market to raise the non promoter holding to 25%. Therefore, the offer for sale is being made as per the direction of Hon’ble SAT / BSE.

The offer document was filed with SEBI, Delhi on 23rd December, 2005. Certain queries were raised by BSE and SEBI, which were responded to their complete satisfaction. Final acknowledgement for going ahead with the issue is being awaited.

The requisite listing fee has been paid to all these Stock Exchanges in time

h. Stock Code

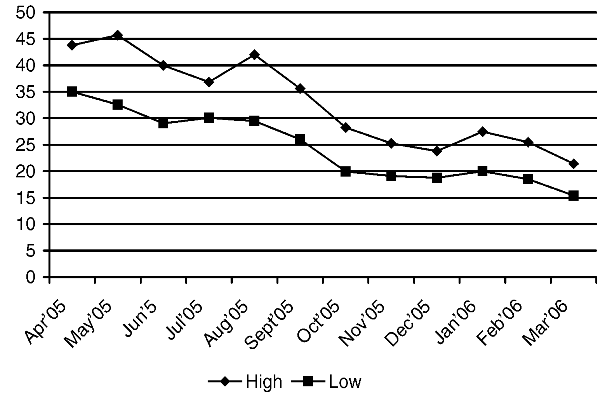
- The Stock Exchange, Mumbai – 511116
- Madras Stock Exchange Ltd. – ITR

i. Stock Price Data

The reported high and low closing prices of the Company’s shares traded during the fiscal 2005-2006 on the Stock Exchange, Mumbai are given below:

Month	High	Low
Apr’05	43.80	35.00
May’05	45.70	32.60
Jun’5	40.00	29.05
Jul’05	36.85	30.10
Aug’05	42.00	29.50
Sept’05	35.60	26.00
Oct’05	28.25	19.95
Nov’05	25.25	19.10
Dec’05	23.80	18.75
Jan’06	27.45	20.00
Feb’06	25.50	18.50
Mar’06	21.40	15.40

Performance in comparison to BSE sensex



j. Registrar & Share Transfer Agents

All Securities transfer work, both in physical and demat segments are 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.

k. 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.

l. 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 21 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. Pradeep Goel, AVP (Finance & Accounts) and Mr. S.Prabhakar, Company Secretary & Head – Legal & Regulatory is authorized to approve transfers / transmissions / issue of duplicate share certificates in cases where number of shares involved is below 5000 in number. In case of request for issue duplicate share certificates in lieu of the lost share certificates, a Board level Committee known as Share Transfer and Investors' Grievance Committee (STIG) is authorized to approve issue duplicate share certificates and the Share Transfer In-house Committee does not have any powers. The Share Transfer and Shareholders / Investors Grievance Committee meets at regular intervals to consider the other transfer proposals and attend to shareholder grievances.

m. Distribution of Shareholding as on 31st March, 2006

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**	**100.00**	**5255171520**	**100.0000**

n. **Categories of Shareholding as on 31st March 2006.**

A	Category	Shares	%
	Promoters Holding		
1	Indian Promoters	325705000	61.9780
	Foreign Promoters	-	Nil
2	Persons Acting in concert	-	Nil
	Sub Total	**325705000**	**61.9780**
B	**Non-Promoters Holding**		
3	**Institutional Investor**		
a	Mutual Funds & UTI	-	Nil
b	Bank, Financial Institutions, Insurance Companies (Central/State Government Institutions/Non-Government Institutions)	87910731	16.7284
c	Foreign Institutional Investors	25826	0.0049
	Sub Total	**87936557**	**16.7333**
4	**Others**		
a	Private Corporate Bodies	98272229	18.7001
b	Indian Public	13183552	2.5087
c	NRI's/OCB	398278	0.0758
d	Any Other - Clearing Member	21536	0.0041
	Sub Total	**111875595**	**21.2887**
	Grand Total	**525517152**	**100.0000**

o. Dematerialization of Shares

1.84% of the issued Equity Share Capital is held in dematerialized form with National Securities Depository Limited and Central Depository Services (India) Limited as on 31st March, 2006. 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 viz., Industrial Development Bank of India, Oriental Bank of Commerce, and ING Vysya on 16th October, 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.

p. Unclaimed Dividends

Pursuant to Section 205C of the Companies Act, 1956, all unclaimed dividends upto the Financial year 1997-1998 have been transferred to the Investors Education and Protection Fund (IEPF), administered by the Central Government.

q. Outstanding GDR/ADR or Warrants

As on date there are no Global Depository Receipts (GDR), American Depository Receipts (ADR) or warrants pending conversion and likely to impact the equity share capital of the Company.

7,551,178 Zero percent Secured Optionally Fully Convertible Debentures : The revised CDR Package, as approved on 24th June, 2005, laid down that the secured OFCDs, which was issued on 16th October, 2004, shall be converted into shares at par, subject to the applicable provisions of SEBI Guidelines and other relevant Acts during Financial year 2005-06.

There was no-consensus as to the pricing norms on which these OFCDs were to be converted into equity. Lenders were of view that the same shall be converted at par whereas the Company was of view that the same shall be converted into equity at a price calculated as per SEBI formula. It was decided that pending resolution of the pricing issue, the Company should transfer the amount of OFCDs along with the agreed premium into Advance against equity/share application account so that the condition of conversion gets fulfilled before deadline 31st March, 2006. The Company has transferred the amount of OFCDs along with premium to Advance against equity/share application money account.

To resolve the above difference of opinion over conversion price, the lenders and Company officials have agreed to obtain the SEBI's informal opinion under the SEBI (Informal Guidance) Rules and the Company has submitted its queries on the issue with SEBI on 3rd May, 2006.

1,667,761 Zero percent Unsecured Optionally Convertible Debentures : As per the revised CDR package approved on 24th June, 2005 the unsecured OFCDs issued to LIC and SBOP shall be redeemable at par, after the full settlement of dues to term lenders on 31st March, 2016.

r. **Head Office**

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

s. **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.

t. **Website: http://www.hfclconnect.com**

DECLARATION

As provided under Clause 49 of the Listing Agreement with the Stock Exchange (s), it is hereby declared that all the Board members and senior management personnel of the Company have affirmed compliance with the Code of conduct for the year ended 31st March, 2006

Place : New Delhi
Date : 31st July, 2006

SURENDRA LUNIA
Chief Executive Officer

CEO/CFO CERTIFICATION

26th June, 2006

To,
The Board of Directors
HFCL Infotel Ltd.

Compliance Certificate by Manager & CEO & CFO under Corporate Governance pursuant to the revised Clause 49 of Listing Agreement.

We, Surendra Lunia, Manager & CEO appointed in terms of the Companies Act, 1956 and Pradeep Goel, AVP (F&A) certify to the Board that:

(a) We have reviewed the financial statements and the cash flow statement for the year and that to the best of our knowledge and belief:

   (i) These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;

   (ii) These statements together present a true and fair view of the Company's affairs and are in compliance with the existing Accounting Standards, applicable laws and regulations.

(b) There are, to best of our knowledge and belief, no transactions entered into by the Company during the year, which are fraudulent, illegal or violative of the Company's code of conduct.

(c) We accept responsibility for establishing and maintaining internal controls and that we have evaluated the effectiveness of the internal control systems of the Company and we have disclosed to the Auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.

(d) We have indicated to the Auditors and the Audit Committee

   (i) Significant changes in internal control during the year.

   (ii) Significant changes in accounting policies during the year and the same have been disclosed in the notes to the financial statements; and

There are no significant frauds which we became aware and the involvement of management or employee.

(Pradeep Goel)
AVP (F & A)

(Surendra Lunia)
Chief Executive Officer

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, 2006 as stipulated in clause 49 of the Listing Agreement of the said Company with the stock exchanges.

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 compliance with the conditions of 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, subject to the laying down of detailed formal framework for risk assessment and minimization procedures by the Company in process, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in clause 49 of the abovementioned Listing Agreement.

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For Chaturvedi & Partners
Chartered Accountants

R.N. Chaturvedi
Partner
Membership No. 92087

Place: New Delhi
Date : 31st July, 2006

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). 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. The Company started operations in September, 2000 and since then has achieved many milestones in the past five years and is presently the first and the only operator in the country offering voice, video and data services to subscribers in Punjab. The key mile stones achieved by the Company are as follows:

October, 2000	Launch of Telephony Services
January, 2001	Launch of Internet Services
February, 2001	Launch of Mobility Services
June, 2002	EBIDTA Break-even
June, 2004	Cash Break-even
July, 2004	Launch of Broadband Internet access service
October, 2005	Launch of Video Services
December, 2005	Crossed 300,000 voice subscriber base

The Company's services are offered under the brand name "CONNECT". At the end of the financial year (i.e. March 2006), the Company had 3.19 Lacs telephony subscribers, including 256,000 in the fixed-line segment and 62,359 in the mobile segment. In addition, the Company had 26,000 Internet Access subscribers, including 16,000 with broadband access (speed: 512 kbps or more).

The Company with its extensive optic fiber cable network of over 3000 km, provides services in about 132 cities/ towns in its service area. These cities/ towns are spread over 52 of the 55 Short Distance Charging Areas ("SDCA") in Punjab Circle, as defined by the Department of Telecommunications, Government of India.

The Company, using its extensive network reach, has started distributing Broadcast TV signals in analog mode through its subsidiary Connect Broadband Services Limited (CBSL). This would be soon followed by Digital TV services including interactive premium multimedia content.

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

- Over 16,000 Broadband Internet Access services on ADSL technology, giving subscribers access speed of upto 1 mbps.
- CDMA wireless network was upgraded to the contemporary 3G1x standards.
- Cable TV services were launched by the Company's subsidiary CBSL.
- Subscriber base grew by 30% from about 246,700 at the end of March, 2005 to 324,000 at the end of March 2006.
- Gross Revenue grew by 15% from Rs 253.83 Crores for Financial Year 2004-05 to Rs 293.04 Crore for Financial Year 2005-06.
- Operating Profit (EBIDTA) grew by 2% from Rs 74.72 Crore for Financial Year 2004-05 to Rs 76.27 Crores for Financial Year 2005-06.

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 issues 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

<u>**Telecom Services**</u>

During the Financial Year 2005-06, Indian Telecom Services sector continued its high growth trajectory, mainly driven by intense competition and aggressive pricing. The mobile segment continued to grow at a very high 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 has grown 6 times and is expected to show tremendous growth in future with the increase in PC penetration. Segmental growth of subscribers is shown below:

Service	Subscribers as on (in million)		Growth
	March '05	March '06	
Fixed including WLL(F)	46.19	50.18	8.64%
Mobile including Cellular & WLL (M)	52.22	90.14	72.62%
Gross Total	**98.41**	**140.32**	**42.59%**
Broadband	0.18	1.35	636.61%
Internet	5.55	6.94	25.05%

Telecom growth is expected to be driven by the following factors:

- Increasing Household incomes as the economy grows
- Increased coverage by network operators – reaching out to untapped markets
- Higher affordability through lower tariffs as regulatory and equipment costs decline
- India's booming economy would further drive growth
- Sectors such as IT Services and IT enabled Services growing sharply
- Services such as banking, insurance, hospitality, etc. showing growth with increased demand and competitive activity.
- As Multinational Corporations increase their presence in India and Indian Companies expand overseas, India will integrate with the global economy giving further impetus to telecom growth
- As Companies organize their operations using ERPs and expand their networks for SCM, CRM, etc., the need for telecom services will expand sharply.

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 cutting tariffs by up to 70% depending on the distance and capacity.

Inter-connection Usage Charges (IUC) and Access Deficit Charge (ADC) norms were reviewed during the year and further modified with effect from 1st March, 2006. Salient changes from the previous regulations were:

- ADC on domestic calls would no longer be on minute basis. All licensees of Unified Access Service, Cellular Mobile Telephone Services, National Long Distance Services and International Long Distance Services are required to pay 1.5% of their Adjusted Gross Revenue (AGR) as ADC to the BSNL. BSNL will retain ADC chargeable as percentage of its AGR while the Unified Access Licensee/BSOs will retain the ADC pertaining to the wireline subscribers.
- ADC on International Long Distance traffic will continue to be on per minute basis but at a reduced rate of Rs. 1.60/minute (more than 50% reduction) for Incoming International Calls while on the Outgoing International Calls it has been reduced to Re.0.80/ minute (reduction of more than 65%).
- No changes were made in the mobile and fixed termination charges, which continue to be Re. 0.30/ minute.
- A ceiling of Re. 0.65/minute has been fixed for the carriage charges payable for National Long distance calls irrespective of distance.
- No ADC charge on rural revenue of operators to incentivise penetration of telecom services in rural areas.

Impact on the Company

- ADC on wireless revenue now has to be paid @ 1.5% of AGR.
- Reduction in carriage charges to Re. 0.65/minute on national long distance calls will improve margins in short run till further reduction in long distance tariffs.
- Reduction in ADC on Outgoing ISD reduced to Re 0.80/minute will result in further reduction of international long distance tariffs
- No ADC is payable on Local/NLD/ILD traffic generated from wire line subscribers of the Company.

Video / Cable TV services

India has around 214 mn households of which around 114 mn have a Television (TV). Of the 114 mn TV households there are around 65 mn TV households with a cable TV connection. There are an estimated 50,000 to 60,000 Local Cable Operators (LCOs) in India providing cable services.

In December, 2002 the parliament passed the Cable Television Networks (Amendment) Act, 2002. In January 2004, the Government has mandated the Telecom Regulatory Authority of India (TRAI) to act as a regulatory body to define the rules in the new era of Conditional Access System (CAS).

On, 20 July 2006, Delhi High Court set a deadline of Decemble 31,2006 for implementation of CAS in three metros of Mumbai, Kolkata and NCR of Delhi. Government of India has issued a notification specifying the following responsibilities:-

- TRAI
  - To issue draft interconnect agreements
    - Between Broadcasters & MSOs
    - Between MSOs & Cable Operators
  - To set maximum limits for Security deposits, monthly rental for supply, maintenance & servicing of STBs of prescribed specs

   - To set Tariff for Basic Service Tier alongwith minimum number of FTA channels to be provided
   - To overrule the tariff set by Broadcasters and lay down its own
- Broadcasters
   - To declare its channels as FTA or Pay
   - MRP of Pay Channels to be charged by MSO/ Cable Operator
- MSOs & Cable Operators
   - Need permission to provide Addressable System
   - To apply within 30 days to Ministry of Information & Broadcasting -a fee of Rs10,000 ($222)
   - MSOs license to be revoked for non-compliance of directives of TRAI

Future Perspective

- Television is the main source of Entertainment in India and likely to remain in the future.
- Given that the avenues of entertainment in the smaller cities and towns are limited, the proportion of TV households is expected to increase from the present 50% to more than 70%.
- Subscription charges as a proportion of Personal Disposable Income indicates that as incomes rise, there is scope for increasing consumer spend on entertainment and related services.
- As per an Interconnect order issued by TRAI, every broadcaster is required to provide on request, signals of its TV channels on non-discriminatory terms, to all distributors of TV channels, which may include, but may not be limited to a cable operator, direct-to-home (DTH) operator, multi-system operator (MSO) and Headend-in-the-sky (HITS) operator.
- TRAI is trying to resolve addressability issues which would usher in a CAS regime. In any form, addressability would require investments by MSOs and LCOs to upgrade the current infrastructure.
- Cable MSOs have been waiting for a CAS environment to provide broadband services using their cable infrastructure.

Data Services

Data services & broadband holds a very promising future with number of subscribers projected to reach around 20 mn by 2010 from 1.35 million presently.

To increase the penetration of broadband services, the Government has announced a Broadband Policy in 2004, which included:

- The spread of the networks of private service providers have to play an important role in bringing optical fiber to homes as well as the rural areas and they are expected to focus on it.
- The owners of copper loop have to be given a high priority because their role is critical as key drivers in the Broadband service market using DSL.
- Access providers shall be free to enter into mutually agreed commercial arrangements for utilization of available copper loop for expansion of broadband services.
- Cable TV network can be used as franchisee network of the service provider for provisioning Broadband services. However, all responsibilities for ensuring compliance of terms and conditions of the licence shall vest with the Licensee.
- VSAT and DTH services would be encouraged for penetration of Broadband and Internet services with the added advantage to serve remote and inaccessible areas.

Future Perspective

- Broadband subscriber base to touch 18-20 mn by 2009-10
- Broadband to become dominant internet access media. Around 73% of Internet subscribers will be on broadband by 2009-10 as against 3% in 2004-05.
- The major demand drivers for broadband would be:
   - o Increase in PC penetration
   - o Reduction in broadband access pricing
   - o Increased availability of broadband with rollout of network by operators
   - o Relevant content and applications increasingly being made available
   - o PC based education spreading across schools – impacting home usage
- DSL will have an edge over all other delivery mechanisims for the next 4-5 years.
- Incumbent wireline operators will have an edge over standalone broadband service providers. Existing wireline operators can leverage their current infrastructure to grab subscribers and market share.

OPPORTUNITIES AND THREATS

Opportunities

During the year, the Company further expanded the reach of its fixedline voice services to smaller towns and currently has presence in 132 towns of Punjab.

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 extensively deployed broadband network equipment in its wireline service areas and has already achieved over 10% Broadband penetration in its wireline base.

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 – both analog and digital and interactive premium multimedia services) for the retail/ household segment along with the core services of voice telephony and Broadband data.

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 operations to the neighbouring states of Haryana, Himachal Pradesh, Uttar 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 future.

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 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, Uttar 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 continuously 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 Financial Year 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 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 by the Board. In addition a budgetary control on all capital expenditure ensures that actual spending is in line with the capital budget.

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 2005-06, the Company has expanded its services to 132 cities / towns of Punjab. The subscribers' base has also shown a growth of over 29% which correspond, to almost 3.19 lacs subscribers as compared to 2.47 lacs subscribers during the preceding year.

The revenue from telecom service increased from Rs. 253.32 Crores in the previous year to Rs. 291.89 Crores during the current year. The Operating Profits, i.e. Earnings Before Interest, Depreciation, Extra Ordinary Items and Tax stood at Rs. 76.27 Crores as compared to the previous year's figure of Rs. 74.72 Crores.

Revenue at glance are as follows:

Parameter	2005-06	2004-05
	(Rs. In Cores)	(Rs. In Cores)
Unified Access Services	252.03	222.14
Internet Services	16.64	4.56
Inter connect Usage Charges	17.63	21.95
Infrastructure Services	5.60	4.66
Other Income	1.15	.51
Total	293.04	253.83

FINANCIAL PERFORMANCE

Key Financial Indicators

Telecom Business

(Rs. In Crores)

Parameter	2005-06	2004-05
Revenue from Telephony Service	291.89	253.32
EBIDTA	76.27	74.72

On Gross Basis

(Rs. In Cores)

Parameter	2005-06	2004-05
Gross Income	293.04	253.83
Operating Profit	76.27	74.72
Loss after Tax	113.04	93.60

Major Expenses at a glance are as follows:

(Rs in Crores)

Parameter	2005-06	2004-05
Network Operations Expenditure	125.78	106.05
Personnel Cost	38.34	29.39
Sales & Marketing Expenditure	12.58	12.33
Administration & Other Expenditure	40.07	31.35
Finance Cost	59.98	62.72
Total	276.75	241.83

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 decreased from Rs. 692.77 Crores on March 31, 2005 to Rs. 624.32 crores on March 31, 2006 pursuant to conversion of Zero persent optionally Fully Convertible Debenture('OFCDs') redeemable at premium into Advance against Equity Shares during the year.

Unsecured Loans

Unsecured Loans Increased from Rs. 17.07 Cores on March 31, 2005 to Rs 66.67 Crores on March 31, 2006 on account Buyers Credit Facility availed from The Export Import Bank of China during the year.

Fixed Assets

The company made net addition of Rs. 59.94 crores in the Gross Block during the year 2005-06. The net block has Increased from Rs. 549.77 crores on March 31, 2005 to Rs. 556.34 crores on March 31, 2006. The Capital Work In Progress was Rs 23.67 crores on March 31, 2006 as compared to Rs. 44.09 crores on March 31, 2005.

Intangible assets

The intangible assets (net) have been decreased from Rs. 174.89 Crores on March 31, 2005 to Rs. 159.77 Crores on March 31, 2006, as a result of yearly amortization.

Investments

The investments made by the company has increased from Rs. 71.82 Crores on March 31, 2005 to Rs 75.32 Cores on March 31, 2006. This increase is on account of investment in equity shares of its wholly owned subsidiary Connect Broadband Services limited.

Current liabilities and Provisions

The Current liabilities and Provisions of the company stood at Rs. 148.65 Crores on March 31, 2006 as compared to Rs. 111.05 Crores on March 31, 2005. The increase is mainly on account of increase in capital creditors.

Current Assets

The current assets of the company stood at Rs 63.87 Crores as on March 31, 2006 as compared to Rs. 51.09 Crores as on March 31, 2005. These include cash & bank balances, loans and advances and sundry Debtors.

MATERIAL DEVELOPMENTS IN HUMAN RESOURCE

The Company strongly believes that its human capital is the key to successfully growing its business. The year ended on March 31, 2006 saw the employee strength growing to 713, with an average age of less than 30 yrs. The company has a professionally qualified work force of which more than 70% are post graduate Engineers, MBA's, C.A / C.S. etc.

In a survey conducted by an external agency, managerial competence and a strong feeling of camaraderie amongst the employees has come out as the major strengths of the organization.

The Company has taken a number 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 performance based incentives and market-based compensation to identify meritocracy are basis of all compensation design and review in company. A system of quarterly appraisals encourages 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.

AUDITORS' REPORT

The Members of HFCL INFOTEL LIMITED

1. We have audited the attached Balance Sheet of HFCL INFOTEL LIMITED, as at March 31, 2006, 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 21 to the financial statements, the Company has incurred a loss of Rs 1,130.37 million during the year (accumulated loss of Rs 6,562.40 million) resulting into substantial erosion of its net-worth, and has a net current liability of Rs 863.39 million (after considering provision for interest amounting to Rs 384.84 million being the difference in the amount paid in comparison to the amount accrued on yield basis as per the CDR scheme) as of March 31, 2006. The Company has achieved profitability at the 'Earnings before interest and depreciation' level, and is also able to generate cash from operations since previous financial year. The ability of the Company to continue as a going concern is dependent on its ability to successfully arrange the balance funding in terms of the CDR scheme and achieve financial closure to fund its operating and capital funding requirements. The management is confident of generating cash flows to fund the operating and capital requirements of the Company in the event of any delay in the arrangement of the balance funding. Accordingly, these statements have been prepared on a going concern basis.

5. 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, 2006 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2006 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, 2006;

   (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 30, 2006	Place: New Delhi Date: June 30, 2006

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 verification have been noticed.

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

2. 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. As informed, the Company has neither granted nor taken any loans, secured or unsecured to 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 and for the sale of services. *The internal control system relating to generation of aging reports of receivables and subscriber security deposits, needs 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 during the previous year; however such process of strengthening the internal control procedures is yet to be completed.*

5. According to the information and explanations provided to us, there are no transactions of goods made in pursuance of contract 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 22, 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, custom duty, excise duty, service tax and cess have generally been regularly deposited with the appropriate authorities except *there have been delays in certain number of cases in respect of investor education and protection fund, deposit of service tax and withholding 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 custom 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 statute	Nature of dues	Amount (Rs)	Financial Year	Forum where dispute is pending
Income-Tax Act, 1961	Interest tax	8,007,274	1992-1993	Income Tax Appellate Tribunal
Income-Tax Act, 1961	Interest tax	8,229,930	1993-1994	Income Tax Appellate Tribunal
Income-Tax Act, 1961	Income tax	1,849,224	1994-1995	Income Tax Appellate Tribunal
Income-Tax Act, 1961	Interest tax	11,098,055	1994-1995	Income Tax Appellate Tribunal
Income-Tax Act, 1961	Interest tax	1,086,976	1995-1996	Income Tax Appellate Tribunal
Income-Tax Act, 1961	Interest tax	698,379	1996-1997	Income Tax Appellate Tribunal

Income-Tax Act, 1961	Interest tax	1,805,317	1998-1999	Income Tax Appellate Tribunal
Income-Tax Act, 1961	Interest tax	295,988	1999-2000	Income Tax Appellate Tribunal
Income-Tax Act, 1961	Income tax	7,424,968	2000-2001	Income Tax Appellate Tribunal
Income-Tax Act, 1961	Income tax	347,139	2000-2001	Income Tax Appellate Tribunal
Income-Tax Act, 1961	Income tax	1,022,668	2001-2002	Income Tax Appellate Tribunal

10. *The accumulated losses of the Company as at March 31, 2006, are more than fifty percent of its net worth as at that date. The Company has Cash loss of Rs. 25,956,345 after considering the Provision for interest amounting to Rs 384,838,920 and loss on sold / discard of fixed assets amounting to Rs 179,336,400 (refer Schedule 22, Note 11.d). The Company has not incurred cash losses during the immediately preceding financial year.*

11. Based on our audit procedures and as per the information and explanations given by the management, *the Company has delayed in payment of interests due to a financial institution and banks as presented below.* The Company has not defaulted in repayment of dues to debenture holders.

(Amount in Rs millions)

Lender	**Due Date**	**Interest (Rs. In million)**	**Date of Payment**
LIC, ING, OBC, IDBI	**July 1, 2005**	**10.00**	**Aug. 31, 2005**
LIC, ING, OBC, IDBI	**August 1, 2005**	**38.44**	**Sept. 06, 2005 Sept. 16, 2005 Sept. 19, 2005 Sept. 22, 2005**
LIC, ING, OBC, IDBI	**September 1, 2005**	**10.00**	**Oct. 26, 2005**
LIC, ING, SBOP, IDBI, OBC	**October 1, 2005**	**10.32**	**Nov. 22, 2005 Nov. 24, 2005**
LIC, ING, SBOP, IDBI, OBC	**November 1, 2005**	**24.79**	**Dec. 03, 2005 Dec. 05, 2005 Dec. 14, 2005 Dec. 17, 2005 Dec. 31, 2005**
LIC, OBC, ING, SBOP, IDBI	**December 1, 2005**	**15.25**	**Jan. 02, 2006 Jan. 03, 2006 Jan. 06, 2006 Jan. 14, 2006 Jan. 19, 2006**
LIC, OBC, ING, SBOP, IDBI	**January 1, 2006**	**15.15**	**Feb. 06, 2006 Feb. 06, 2006 Feb. 28, 2006**
LIC, OBC, ING, SBOP, IDBI	**February 1, 2006**	**16.75**	**Mar. 03, 2006 Mar. 09, 2006 Mar. 29, 2006 Mar. 31, 2006**
LIC, OBC, ING, SBOP, IDBI	**March 1, 2006**	**16.77**	**Apr. 28, 2006 May 13, 2006 May 27, 2006 May 30, 2006**

Due to the delays above, the Company has paid Rs 1.2 million and accrued Rs 1.4 million as penal interest to be paid to the financial institution and banks.

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. The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.

19. The Company has not issued any debentures during the year and the securities / charge has been created during the year for 7,551,178 Zero per cent Optionally Fully Convertible Debentures ('OFCDs') of Rs 100 each issued during the previous year.

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 30, 2006	Place: New Delhi Date: June 30, 2006

HFCL INFOTEL LIMITED

BALANCE SHEET AS AT MARCH 31, 2006

(Unless and otherwise stated all amounts are in rupees)

PARTICULARS	SCHEDULE	AS AT MARCH 31, 2006 (Rs.)	AS AT MARCH 31, 2005 (Rs.)
SOURCES OF FUNDS			**Schedule 22, Note 22**
Shareholders' Funds			
Share Capital	1	5,905,171,520	5,905,171,520
Advance Against Share Application Money	2	874,991,394	-
Reserves and Surplus	3	159,894,077	234,409,392
		6,940,056,991	**6,139,580,912**
Loan Funds			
Secured Loans	4	6,243,160,372	6,927,734,724
Unsecured Loans	5	666,712,211	170,713,842
		6,909,872,583	**7,098,448,566**
		13,849,929,574	**13,238,029,478**
APPLICATION OF FUNDS			
Fixed Assets	6		
Gross Block		8,601,513,150	8,002,128,032
Less: Accumulated Depreciation		(3,038,111,512)	(2,504,472,175)
Net Block		**5,563,401,638**	**5,497,655,857**
Capital Work-In-Progress (Includes capital advances for Rs 5,777,267 (2005 - Rs 5,751,196)		236,690,319	440,928,993
		5,800,091,957	**5,938,584,850**
Intangible Assets, net	7	**1,597,650,428**	**1,748,854,722**
Investments	8	**753,170,900**	**718,170,900**
Current Assets, Loans and Advances			
Sundry Debtors	9	405,910,460	295,985,498
Cash and Bank Balances	10	118,781,818	112,151,810
Other Current Assets	11	17,972,277	244,819
Loans and Advances	12	95,997,040	102,498,945
		638,661,595	**510,881,072**
Less: Current Liabilities and Provisions	13		
Current Liabilities		1,493,377,984	1,104,855,273
Provisions		8,675,904	5,648,084
		1,502,053,888	**1,110,503,357**
Net Current Liabilities		**863,392,293**	**599,622,285**
Profit and Loss Account		6,562,408,582	5,432,041,291
		13,849,929,574	**13,238,029,478**
Significant Accounting Policies	21		
Notes to Accounts	22		

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.

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
Associate Vice President (F&A)

S. Prabhakar
Company Secretary & Head – Legal & Regulatory

Place : New Delhi
Date : June 30, 2006

Place : New Delhi
Date : June 30, 2006

HFCL INFOTEL LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2006

(Unless and otherwise stated all amounts are in rupees)

PARTICULARS	SCHEDULE	For the Year Ended MARCH 31, 2006 (Rs.)	For the Year Ended MARCH 31, 2005 (Rs.)
INCOME			
Service Revenue	14	2,918,898,214	2,533,177,806
Other Income	15	11,473,277	5,089,091
		2,930,371,491	**2,538,266,897**
Expenditure			
Network Operation Expenditure	16	1,257,757,910	1,060,471,304
Personnel Expenditure	17	383,424,273	293,880,027
Sales and Marketing Expenditure	18	125,755,983	123,290,898
Administrative and Other Expenditure	19	400,731,753	313,464,272
		2,167,669,919	**1,791,106,501**
Operating Profit before Finance Charges, Depreciation, Amortisation and Loss on Sold/Discarded Fixed Assets		**762,701,572**	**747,160,396**
Loss on Sold/Discarded Fixed Assets	22 Note 11(d)	188,814,488	15,695,880
Finance Charges	20	599,843,429	627,231,451
Depreciation	6	919,332,871	866,391,300
Amortisation	7	170,798,382	161,935,687
Loss for the year before Prior Period Expenditure and Tax		**1,116,087,598**	**924,093,922**
Prior Period Expenditure (Net)	22 Note 21	9,471,974	8,085,813
Loss for the year before Tax		**1,125,559,572**	**932,179,735**
Provision for Taxation for earlier years	22 Note 13	(1,561,832)	3,846,821
Fringe Benefit Tax		6,369,551	-
Loss for the year		**1,130,367,291**	**936,026,556**
Loss, brought forward from previous year		**5,432,041,291**	**4,496,014,735**
Loss carried to the Balance Sheet		**6,562,408,582**	**5,432,041,291**
Loss per share (equity shares, par value of Rs 10 each)	22 Note 15		
Basic (in Rs)		2.15	1.95
Diluted (in Rs)		2.15	1.95
Weighted average number of shares used in computing earnings per share			
Basic		525,517,152	480,454,474
Diluted		525,517,152	480,454,474
Significant Accounting Policies	21		
Notes to Accounts	22		

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.

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

Place : New Delhi
Date : June 30, 2006

For and on behalf of the Board

Mahendra Nahata
Director

M.P.Shukla
Director

Surendra Lunia
Chief Executive Officer

Pradeep Goel
Associate Vice President (F&A)

S. Prabhakar
Company Secretary & Head
– Legal & Regulatory

Place : New Delhi
Date : June 30, 2006

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT MARCH 31, 2006 (Rs.)	AS AT MARCH 31, 2005 (Rs.)
SCHEDULE 1 : Share Capital[See Schedule 22, Note 7]		
Authorised:		
1,300,000,000 (2005 - 1,000,000,000) equity shares of Rs 10 each (2005 - Rs 10 each)	13,000,000,000	10,000,000,000
20,000,000 (2005 - 20,000,000) preference shares of Rs 100 each (2005 - Rs 100 each)	2,000,000,000	2,000,000,000
	15,000,000,000	**12,000,000,000**
Issued, Subscribed and Paid up		
525,517,152 (2005 - 525,517,152) equity shares of Rs 10 each (2005 - Rs 10 each) fully paid	5,255,171,520	5,255,171,520
6,500,000 (2005 -6,500,000) 2 per cent Cumulative Redeemable Preference Shares ('CRPS') of Rs 100 each	650,000,000	650,000,000
	5,905,171,520	**5,905,171,520**

(a) Of the above

(i) 490,750 (2005 - 490,750) equity shares of Rs 10 each, were allotted as fully paid bonus shares in the earlier years by way of capitalisation of reserves.

(ii) 325,705,000, (2005 - 346,705,000) 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 21, Note 1 (c)] Out of these, 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 . 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 21, 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 (2005 -6,500,000) 7.5 per cent CRPS were allotted to Himachal Futuristic Communications Limited ('HFCL') (Holding Company) on October 16, 2004, pursuant to the CDR Scheme [See Schedule 21, 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. On June 24, 2005 as per revised CDR Scheme, the dividend percentage is reduced to 2 per cent from 7.5 per cent with effect from date of issuance of CPRS.

HFCL INFOTEL LIMITED

SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT MARCH 31, 2006 (Rs.)	AS AT MARCH 31, 2005 (Rs.)
SCHEDULE 2: Advance Against Share Application Money [See Schedule 22, Note 8]		
Advance Against Equity Share Application Money	874,991,394	-
	874,991,394	**-**
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	84,038,460	119,548,250
Received during the year	-	9,848,489
Less: Utilised towards the premium payable on redemption of Optionally Fully convertible debentures	74,515,315	45,358,279
	9,523,145	**84,038,460**
Statutory Reserve [See Note (c) below]	**11,900,000**	**11,900,000**
General Reserve	**104,438,156**	**104,438,156**
	159,894,077	**234,409,392**

(a) There are no share allotments during the year. 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 Rs 0.50 per equity share [See Schedule 1, Note 1(a) (iii)]

(b) In accordance with the CDR Scheme [See Schedule 21, 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 21, 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 22, Note 19, 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 22, Note 9]		
Term Loans		
From Financial Institution	750,000,000	750,000,000
From Banks	5,300,000,000	5,300,000,000
Interest accrued & due on term loans from Banks and financial institution	22,834,373	-
Zero per cent Optionally Fully Convertible Debentures ('OFCDs') (redeemable at premium) [See Schedule 22, Note 8]	-	755,117,800
Premium on redemption of OFCD accrued but not due	-	45,358,279
Vehicle loans	10,731,960	8,623,509
Bank overdraft	159,594,039	68,635,136
	6,243,160,372	**6,927,734,724**
Amounts payable within one year - OFCDs with a premium of Rs Nil (2005 - Rs 45,358,279)	-	800,476,079
Amounts repayable within a year - Vehicle Loan	5,305,011	3,929,132
Schedule 5: Unsecured Loans [See Schedule 22, Note 10]		
Zero per cent Optionally Fully Convertible Debentures ('OFCDs') (others)	166,776,100	166,776,100
Interest accrued and due on other Vendor Finance Facilities	3,937,742	3,937,742
Buyers Credit Facility (Loan from foreign bank)	495,998,369	-
	666,712,211	**170,713,842**

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET
SCHEDULE 6 : FIXED ASSET

ASSETS	GROSS BLOCK				ACCUMULATED DEPRECIATION				NET BLOCK	
	As at April 1, 2005	Additions	Sale/ Adjustment	As at March 31, 2006	As at April 1, 2005	For the year	On Sale / Adjustment	As at March 31, 2006	As at March 31, 2006	As at March 31, 2005
Freehold Land	16,142,623	-	-	16,142,623	-	-	-	-	16,142,623	16,142,623
Leasehold Land	8,896,419	-	-	8,896,419	556,026	92,671	-	648,697	8,247,722	8,340,393
Building	174,822,166	10,010,444	-	184,832,610	15,465,096	3,360,882	-	18,825,978	166,006,632	159,357,070
Leasehold Improvements	70,072,458	15,949,820	-	86,022,278	26,496,983	8,735,338	-	35,232,321	50,789,957	43,575,475
Network Equipment	2,847,858,030	689,569,425	(549,539,751)	2,987,887,704	1,100,313,836	411,577,612	(353,481,906)	1,158,409,542	1,829,478,162	1,747,544,194
Optical Fibre Cable and Copper Cable	3,950,416,002	181,631,055	-	4,132,047,057	901,817,502	279,533,728	-	1,181,351,230	2,950,695,827	3,048,598,500
Telephone Instruments	677,473,945	235,812,128	(35,677,512)	877,608,561	346,984,080	172,067,627	(28,451,205)	490,600,502	387,008,059	330,489,865
Computers	159,901,615	40,141,954	(213,510)	199,830,059	71,281,988	29,092,002	(103,847)	100,270,143	99,559,916	88,619,627
Office Equipment	36,854,850	4,817,155	(574,216)	41,097,789	11,334,657	4,372,730	(238,782)	15,468,605	25,629,184	25,520,193
Furniture & Fixture	35,510,311	2,812,755	(262,202)	38,060,864	18,280,199	4,987,740	(148,627)	23,119,312	14,941,552	17,230,112
Vehicles	24,179,613	10,988,410	(6,080,837)	29,087,186	11,941,808	5,512,541	(3,269,167)	14,185,182	14,902,004	12,237,805
	8,002,128,032	**1,191,733,146**	**(592,348,028)**	**8,601,513,150**	**2,504,472,175**	**919,332,871**	**(385,693,534)**	**3,038,111,512**	**5,563,401,638**	**5,497,655,856**
Previous Year	*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*

SCHEDULE 7 : INTANGIBLE ASSETS

ASSETS	GROSS BLOCK				AMORTISATION				NET BLOCK	
	As at April 1, 2005	Additions	Sale/ Adjustment	As at March 31, 2006	As at April 1, 2005	For the year	On Sale / Adjustment	As at March 31, 2006	As at March 31, 2006	As at March 31, 2005
Computer Software	118,917,465	19,594,088	-	138,511,553	71,685,749	34,743,092	-	106,428,841	32,082,712	47,231,716
Licence Entry Fees	2,352,658,603	-	-	2,352,658,603	651,035,597	136,055,290	-	787,090,887	1,565,567,716	1,701,623,006
	2,471,576,068	**19,594,088**	**-**	**2,491,170,156**	**722,721,346**	**170,798,382**	**-**	**893,519,728**	**1,597,650,428**	**1,748,854,722**
Previous Year	*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*

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT MARCH 31, 2006 (Rs.)	AS AT MARCH 31, 2005 (Rs.)
SCHEDULE 8: Investments (Non Trade - Long term) [See Schedule 22, Note 12]		
Subsidiary company		
Long Term (at cost)		
Unquoted		
50,000 [2005 - 50,000] equity shares of Rs 10 each fully paid in Connect Broadband Services Limited ('CBSL')	500,000	500,000
Advance Against Share Application Money in Connect Broadband Services Limited ('CBSL')	35,000,000	-
Associate company		
Long Term (at cost)		
Unquoted		
1,750,000 [2005 - 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 [2005 - 6,996,709] Optionally Fully Convertible Debentures ('OFCDs') of Rs 100 each fully paid in The Investment Trust of India Limited ('ITI')	699,670,900	699,670,900
	753,170,900	**718,170,900**

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 related 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 21, 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. The Company has not exercised this option as on March 31, 2006.

(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 appropriate premium as mentioned in condition (ii) above.

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT MARCH 31, 2006 (Rs.)	AS AT MARCH 31, 2005 (Rs.)
SCHEDULE 9: Sundry Debtors		
Debts outstanding for a period exceeding six months:		
Secured and Considered Good	8,331,361	3,180,686
Unsecured and Considered Good	2,594,928	2,659,577
Unsecured and Considered Doubtful	56,089,243	20,480,745
Debts outstanding for a period less than six months:		
Secured and Considered Good	39,227,042	18,983,449
Unsecured and Considered Good	355,757,129	271,161,787
Unsecured and Considered Doubtful	31,553,566	38,183,224
	493,553,269	354,649,468
Less: Provision for Doubtful Debts	87,642,809	58,663,970
	405,910,460	**295,985,498**

Notes:

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

b) Includes Rs 155,219,454 (2005 - Rs 155,017,877) of unbilled revenues, the invoices for which have been raised subsequent to March 31, 2006 [See Schedule 21, Note 2.9]

c) Debtors includes amount due from HFCL Satellite Communication Limited, the company under the same management, amounting to Rs 9,330,004 (2005 - Rs 6,478,142)

Maximum amount outstanding during the year Rs 9,330,004 (2005 - Rs 9,908,706).

SCHEDULE 10: Cash and Bank Balances		
Cash in Hand	1,457,395	1,924,615
Cheques in Hand	8,033,776	8,410,956
Balances with Scheduled Banks		
In Current Account (includes unclaimed dividend account Rs 568,549 2005 - Rs 735,160)	35,357,653	64,843,225
In Fixed Deposit [Receipts pledged with Banks as margin money for guarantees and LCs issued Rs 71,886,014 (2005 - Rs. 34,202,785)]	71,886,014	34,202,785
In Escrow Account	2,046,980	2,770,229
	118,781,818	**112,151,810**

Notes:

The balance with scheduled banks in Escrow account is towards public deposits payable by the Company **[See Schedule 22, Note 19]**

SCHEDULE 11: Other Current Assets		
Interest Accrued on Fixed Deposits	2,279,457	241,977
Interest Accrued on Investment	-	2,842
Assets held for sale [See Schedule 22, Note 11(d)]	15,692,820	-
	17,972,277	**244,819**

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT MARCH 31, 2006 (Rs.)	AS AT MARCH 31, 2005 (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	27,752,540	38,541,472
Considered Doubtful	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, 2005 - Rs 1,149,999)	1,149,999	1,149,999
Due from Connect Broadband Services Limited - Subsidiary (Maximum outstanding balance during the year Rs 39,437,103, 2005 - Rs 384,839)	3,256,350	-
Due from HTL Limited - Company under the same management (Maximum outstanding balance during the year Rs 119,784, 2005 - Rs 89,265)	119,784	89,265
Security Deposits		
Considered Good	15,503,916	14,315,707
Considered Doubtful	1,211,265	1,211,265
Tax deducted at source recoverable	8,577,206	11,535,639
Balance with Customs and Excise	39,637,245	36,866,863
	232,068,213	**238,570,118**
Less: Provision for Doubtful Advances	136,071,173	136,071,173
	95,997,040	**102,498,945**
Notes:		
Advance recoverable includes dues from Chief Executive Officer as under		
Interest free Housing Loan (Maximum amount outstanding during the year Rs 800,000, 2005 - Rs 950,000)	650,000	800,000
Other Advances (Maximum amount outstanding during the year Rs 638,266, 2005 - Rs 231,064)	31,046	93,573

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT MARCH 31, 2006 (Rs.)	AS AT MARCH 31, 2005 (Rs.)
SCHEDULE 13: Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors		
Capital Goods	260,795,455	472,844,480
Expenses	80,509,248	65,256,102
Interconnection Usage Charges ('IUC') payable to other operators	125,516,470	32,565,472
Expenses Payable	151,374,944	151,826,595
Book Overdraft	11,151,491	23,209,404
Advance Against Booking	1,722,020	2,179,076
Advance From Customers and Unaccrued Income	142,361,732	85,246,706
Security Deposits		
From Subscribers	185,116,714	190,518,754
From Others	24,940,819	17,197,503
Investor Education and Protection Fund*		
Unclaimed Dividends	568,549	735,160
Unclaimed Deposits from Public	1,058,574	1,740,599
Interest accrued and due on Public Deposits	146,323	232,795
Other Liabilities	107,747,426	61,302,627
Provision for interest**	400,368,219	-
	1,493,377,984	**1,104,855,273**

* To be transferred to Investor Education and Protection Fund (as and when due)

** Includes interest accrued on secured loan as difference between the interest paid and interest accrued on yield basis amounting to Rs 384,838,920 (2005-Nil) as per CDR Scheme

Provisions		
Wealth Tax	27,254	32,864
Leave Encashment	4,858,401	3,481,575
Gratuity	3,790,249	2,133,645
	8,675,904	**5,648,084**
	1,502,053,888	**1,110,503,357**

Notes:

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

(b) Sundry creditors include cheques outstanding beyond six months of Rs 523,617 (2005 - 592,780) towards repayment of public deposits under the NBFC CoR [See Schedule 22, Note 19]

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

PARTICULARS	For the year Ended MARCH 31, 2006 (Rs.)	For the year Ended MARCH 31, 2005 (Rs.)
SCHEDULE 14: Service Revenue		
Revenue from		
Unified Access Services	2,520,287,328	2,221,447,805
Interconnection Usage Charge	176,266,535	219,541,950
Infrastructure Services	55,961,133	46,583,891
Internet Services	166,383,218	45,604,160
	2,918,898,214	**2,533,177,806**
SCHEDULE 15: Other Income		
Interest Income [Gross of tax deducted at source - Rs 72,771 (2005 - Rs 386,216)]	2,955,879	2,386,875
Excess Provision written back	5,323,739	1,824,283
Miscellaneous Income	3,193,659	877,933
	11,473,277	**5,089,091**
SCHEDULE 16: Network Operation Expenditure		
Interconnect Usage Charges	798,136,479	658,861,803
Other Value Added Service charges	7,090,737	10,573,672
Port Charges	31,173,841	26,035,568
Testing and Technical Survey Expenses	556,000	1,960,000
Licence Fees on Revenue Share Basis	158,083,947	149,734,898
Royalty and licence fees to Wireless Planning Commission	14,873,867	12,483,159
Stores and Spares Consumed	45,209,861	41,093,598
Rent	31,809,458	23,083,829
Electricity and Water	45,112,478	35,418,145
Security Charges	3,865,789	2,826,519
Repair & Maintenance - Network	75,218,375	78,476,571
Bandwidth Charges	46,627,078	19,923,542
	1,257,757,910	**1,060,471,304**
SCHEDULE 17: Personnel Expenditure		
Salaries, Wages and Bonus	335,168,831	260,191,374
Employer's Contribution to Provident and Other Funds	16,739,207	12,153,877
Staff Welfare Expenses	18,592,099	15,006,032
Recruitment & Training Expenses	12,924,136	6,528,744
	383,424,273	**293,880,027**
SCHEDULE 18: Sales and Marketing Expenditure		
Sales and Business Promotion	13,625,093	8,129,162
Advertisement Expenses	29,006,279	38,082,934
Customers Acquisition Costs	83,124,611	77,078,802
	125,755,983	**123,290,898**

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

PARTICULARS		For the year Ended MARCH 31, 2006 (Rs.)	For the year Ended MARCH 31, 2005 (Rs.)
SCHEDULE 19: Administrative and Other Expenditure			
Legal and Professional Expenses		37,215,256	22,714,795
Travelling and Conveyance		55,304,233	39,846,163
Communication Expenses		6,232,199	4,960,651
Rent		17,973,955	16,037,471
Security Charges		3,657,371	3,350,031
Repairs and Maintenance - Building		1,765,842	2,395,782
Repairs and Maintenance - Others		10,137,578	11,619,082
Electricity and Water		13,759,190	11,241,857
Insurance		6,539,066	4,815,309
Rates and Taxes		14,444,436	7,305,889
Freight & Cartage		7,918,123	7,028,561
Printing and Stationery		6,685,831	5,472,029
Billing and Collection Expenses		53,695,073	43,108,489
Software Expenses		111,214	403,580
Directors' Fees		420,000	495,000
Bad Debts Written off		110,568,247	81,320,624
Provision for Doubtful Debts	79,538,779		
Less: Transferred to Bad Debts Written off	(29,171,386)	50,367,393	45,364,209
Wealth Tax		27,254	33,964
Miscellaneous Expenses		3,909,492	5,950,786
		400,731,753	**313,464,272**
SCHEDULE 20: Finance Charges			
Interest on Term Loans**		571,529,986	604,352,459
Interest to Others		14,752,211	13,442,162
Bank Guarantee Commission		5,948,043	3,950,907
Trustees Fee		1,000,000	1,371,233
Other Finance Charges		6,613,189	4,114,690
		599,843,429	**627,231,451**

Repair & maintenance — network, salaries, wages and bonus, legal and professional expenses, travelling and conveyance, electricity and water, rent, security charges, other finance charges as disclosed above are net of recovery from CBSL of Rs 1.15 million, Rs 9.94 million, Rs 1.69 million, Rs 5.83 million, Rs 2.37 million, Rs 0.3 million, Rs 0.3 million and Rs 6.48 million, respectively.

** Includes interest accrued on secured loan as difference between the interest paid and interest accrued on yield basis amounting to Rs 384,838,920 (2005-Nil) as per CDR Scheme

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET AND PROFIT AND LOSS ACCOUNT
AS AT AND FOR THE YEAR ENDED MARCH 31, 2006

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

SCHEDULE 21

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 Circle (including Chandigarh and Panchkula), 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 March 31, 2006, the Company has an active subscriber base of over 3.19 lakhs.

The Company is a subsidiary company of Himachal Futuristic Communications Limited ('the Holding Company' or 'HFCL'). The Company was incorporated on August 2, 1946 with the name of The Investment Trust of India Limited (ITI) which was subsequently changed to HFCL Infotel Limited on May 12, 2003. This was done pursuant to a Scheme of amalgamation (the Scheme), approved by the Honorable 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 was transferred by way of slump sales 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 Rajam Finance to other investors.

The Company, during the year ended March 31, 2004, surrendered its license granted by Reserve Bank of India ('RBI') to carry out NBFC business. RBI confirmed the cancellation of the NBFC license as per their letter dated May 24, 2004.

On July 2, 2004, the Company has incorporated a subsidiary company in the name of Connect Broadband Services Limited ('CBSL' or 'Subsidiary') with the main object to carry on the business as service provider and operator for distribution of cable television network. During the year, the Company has launched the integrated service to provide for voice, video and data services through cable television network, CBSL being the video service provider through cable television network. CBSL has launched the video services in October 2005.

(b) License Fees

The Company obtained licence for Basic Telephony Service for the Punjab circle (including Chandigarh and Panchkula) 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 License Agreement was signed on May 31, 2004. Pursuant to this migration, the Company became additionally entitled to provide full mobility services. HFCL Infotel has also entered into a Licence Agreement dated June 28, 2000, and amendments thereto, with DoT to establish maintain and operate internet service in Punjab circle (including Chandigarh and Panchkula).

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 (including Chandigarh and Panchkula) 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, 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 of AGR with effect from August 1, 1999 and was reduced to 8 per cent of AGR 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 revenue for the purpose of the calculation of 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 to be funded 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, through the Corporate Debt Restructuring ('CDR') mechanism approved an overall restructuring of the liabilities of the Company and thereby revised the peak funding requirements from Rs 11,800 million to Rs 13,450 million up to March 31, 2006, with peak funding gap of Rs 1,650 million.

Further, the CDR Empowered Group has approved the proposal of the Company for expansion of services, change in the scope of the project, cost of project and means of finance and restructuring of debt as per the letter dated June 24, 2005. As per the said proposal, the peak funding requirement has been further revised to Rs 15,470 million and the principal repayment of existing term loan would be rescheduled and will be repaid between May 1, 2008 and April 1, 2016. Moreover, the rate of interest on existing term loan, OFCDs and working capital shall be 9.3 per cent per annum monthly compounding. The secured OFCD shall be converted into equity shares at par subject to applicable provisions of SEBI guidelines and other relevant Acts during financial year ended March 31, 2006.

Further, the project cost is to be funded by way of Equity share capital of Rs 6,020 million, preference share capital of Rs 650 million, term loan of Rs 7,000 million, Buyer's credit facility of Rs 1,630 million and Unsecured OFCD of Rs 170 million.

For the year ended March 31, 2006, the Company has incurred losses of Rs 1,130.37 million resulting into accumulated loss of Rs 6,562.40 million as at March 31, 2006 which has substantially eroded its net worth and has a net current liability of Rs 863.39 million (after considering provision for interest amounting to Rs 384,838,920 being the difference in the amount paid in comparison to the amount accrued on yield basis as per the CDR Scheme) As at March 31, 2006, the Company has arranged Rs 13,541 million and is in advanced stage of discussions for the arrangement of Rs 1,929 million by way of term loans / buyer credit facility and expects to achieve the complete financial closure in the immediate future. The ability of the Company to continue as a going concern is dependent on its ability to successfully arrange the remaining funding and achieve financial closure to fund its operating and capital funding requirements. The management is confident of generating cash flows to fund the operating and capital requirements of the Company in the event of any delay in the arrangement of the balance funding. Accordingly, these statements have been prepared on going concern basis.

2. Summary of significant accounting policies

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 financial statements have been prepared under the historical cost convention on an 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 disclosed in Note 2.3 below. The significant accounting policies are as follows:

2.2 Fixed Assets

Fixed assets are stated at cost (net of cenvat credit) less impairment loss, if any, and accumulated depreciation. The Company capitalises direct costs including taxes (excluding cenvat), 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.

2.3 Depreciation

(i) Depreciation is provided pro-rata to the period of use (except for Telephone Instruments 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 Office Building 30 years Others 61 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	5 years
Computers	6.17 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 up gradation 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.

2.4 Impairment

The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the assets net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital. After impairment, depreciation is provided on the revised carrying amount of the assets over its remaining useful life.

A previously recognized impairment loss is increased or reversed depending on changes in circumstances. However the carrying value after reversal is not increased beyond the carrying value that would have prevailed by charging usual depreciation if there was no impairment.

2.5 Intangibles

All expenditure on intangible items are expensed as incurred unless it qualifies as an intangible assets as defined in Accounting Standard 26. The carrying value of intangible assets is 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.

Preliminary, pre-bid and deferred revenue expenditure, customer acquisition costs is expensed as incurred.

For accounting policy related to Licence Entry Fees, see note 2.6(i), below.

2.6 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 Profit and Loss Account 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 Profit and Loss Account in the year in which the related income is recognised.

Further, effective March 1, 2006, the TRAI has issued an amendment to IUC Regulation 2006, requiring to pay additional 1.5 per cent of AGR towards access deficit charge. These costs are expensed in the Profit and Loss Account in the year in which the related revenues are recognised.

2.7 Investments

Investments that are readily realisable and intended to be held for not more than a year 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.

2.8 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.

2.9 Revenue Recognition

Revenue from unified access services are recognised on services rendered and is 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

Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

Exchange Differences

Exchange differences arising on the settlement or on reporting company's 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. Gratuity liability under the Payment of Gratuity Act and provision for leave encashment is accrued and provided for on the basis of an actuarial valuation made at the end of each financial year. 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') and with ICICI Prudential Life Insurance effective March 10, 2006 to cover the gratuity liability for its employees.

2.15 Income-Tax

Tax expense comprises of current, deferred and fringe benefit tax. Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act. Deferred income taxes reflects 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 are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. If the company has carry forward of unabsorbed depreciation and tax losses, deferred tax assets are recognised only if there is 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 reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

2.16 Operating Leases

Where the Company is the lessee

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

Where the Company is the lessor

Assets subject to operating leases are included in fixed assets. Lease income is recognised in the Profit and Loss Account on a straight-line basis over the lease term. Costs, including depreciation are recognised as an expense in the Profit and Loss Account. Initial direct costs such as legal costs, brokerage costs, etc. are recognised immediately in the Profit and Loss Account.

2.17 Loss Per Share

Basic loss per share is calculated by dividing the net loss 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 loss 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, 2006

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

SCHEDULE 22

NOTES FORMING PART OF THE ACCOUNTS

1. **Commitments and contingent liabilities not provided for in respect of:**

S. No.	Description	2006	2005
I.	**Estimated Value of Contracts Remaining**		
	To be executed on capital account and not provided for net of capital advances Rs. 5,777,267 (2005- Rs 5,751,196)	108,056,869	313,259,350
II.	**Contingent Liabilities and Commitments**		
	Financial Bank Guarantees (refer Note (a) below)	205,037,159	67,304,000
	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.8,280,000 (2005-Rs 9,095,000)	73,166,895	42,769,106
IV.	**Income-tax matters under appeal** (refer Note (b) below)	41,865,920	62,808,358
V.	**Claims against the Company not acknowledged as debts**	4,966,675	1,138,230
VI.	**Others** (refer Note (c) below)	29,585,211	133,388,119
	Total	**5,687,678,729**	**5,845,667,163**

(a) Financial bank guarantees as at March 31, 2006 of Rs 204.36 million (2005 — Rs 67.17million) and performance bank guarantees of Rs 60.28 million (2005 — Rs 15.96 million) are secured. The details of security created in detailed out in note no 9 (a) below. Further, the financial bank guarantee given by Punjab National Bank ('PNB') to The Export Import Bank of China of Rs 108.82 million are not secured by the Consolidate Corporate Bank Guarantee of Rs 5,225 million by HFCL, the Holding Company.

(b) The Company has certain income tax related matters pending with the Income Tax Authorities for the Assessment Year 1995-96 and 2001-02 aggregating to Rs 9.27 million and interest tax related matters for the Assessment Year 1993-94 to 2000-01aggregating to Rs 31.22 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). In addition to above the Company has certain income tax related matters pending with the Income Tax Authorities for the Assessment Year 2001-02 to 2002-03 aggregating to Rs 1.37 million The said demands pertain to the telecom business of the Company. Based on an expert opinion obtained by the Company, the management is confident that no additional tax liability needs to be provided.

(c) The Wireless Finance Division of Department of Telecommunications has claimed an outstanding of Rs 29.58 million towards the Spectrum Charges dues from year 2001 to year 2005 vide their letter 1020/48/2005-WFD dated October 7, 2005. The Company has submitted its reply to the department on October 25, 2005 confirming the total due of Rs 29,472 only and paid the said amount. The Company has not received any communication from the department since then.

(d) Loans and advances include amounts recoverable from Essar Investments Limited ('EIL') aggregating to Rs 134.86 million. The Company had made payments in earlier years to EIL for takeover of certain accounted and unaccounted liabilities for services that were to be settled by EIL as per the agreement between EIL and *erstwhile* HFCL Infotel. EIL has failed to settle the dues with the respective parties and the Company has filed a winding up petition u/s 434 of the Companies Act, 1956 with Honourable Court of Mumbai. This petition has been dismissed vide Order dated March 24, 2005. Subsequently, the Company has filed an appeal before the division bench of the Honourable High Court against the order dated March 24, 2005 and also sent a notice to EIL invoking arbitration proceedings. The Honourable High Court disposed off the appeal as no case for interference in the impugned order vide its order dated November 1, 2005. However, the Honourable High Court referred the dispute to the sole Arbitrator of Justice Mr D.R. Dhanuka. The Company has filed the statement of claim on May 15, 2006 before the sole arbitrator and next date of hearing is fixed for July 3, 2006. 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)

	2006	2005
Travel expenses [includes expense transferred to CBSL Rs 3,212,214 (2005 – Nil)]	4,051,228	1,292,524
Finance charges [includes expense transferred to CBSL Rs 6,493,731 (2005 – Nil)]	13,534,623	2,052,724
Others	454,014	360,433
Total	**18,039,865**	**3,705,681**

3. Managerial remuneration

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

	2006	2005
Salary	1,728,000	1,003,710
Employer's contribution to provident fund	207,360	120,445
Perquisites/ Allowances	2,655,063	1,638,822
Ex-gratia/ Performance linked incentive	693,500	1,008,066
Total	**5,283,923**	**3,771,043**

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 ascertainable.

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)

	2006	2005
Audit fees	2,000,000	2,000,000
Tax audit fee	220,000	200,000
Other services (including OFS related services)	2,000,000	1,103,000
Reimbursement of out-of-pocket expenses	1,001,229	138,218
Total	**5,221,229**	**3,441,218**

5. CIF value of imports

	2006	2005
Import of capital equipment (other than telephone instruments)	378,558,490	285,051,080
Import of telephone instruments	103,902,533	83,281,605
Others	1,010,591	417,627
Total	**483,471,614**	**368,750,312**

6. Consumption of Stores & Spares

	2006		2005	
	Value	%	Value	%
Indigenous	44,199,269	97.76	40,675,971	98.98
Imported	1,010,591	2.24	417,627	1.02
Total	**45,209,860**	**100.00**	**41,093,598**	**100.00**

7. Share Capital

Equity shares

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') and applied for de-listing of its shares in CSE. CSE's approval in this regard is awaited.

Out of the total paid up equity share capital comprising of 525,517,152 equity shares of Rs 10 each, 515,070,338 equity shares are yet to be listed on any of the recognized stock exchanges in India. As a pre-condition to the listing of the aforesaid shares of the Company on the Bombay Stock Exchange ('BSE'), the BSE has directed the Company to get at least 1.33 percent of the total share capital diluted from the promoters share holding by way of Public Offer for Sale ('OFS'). The Company has filed the draft OFS with the Securities and Exchange Board of India ('SEBI') on December 23, 2005, thereby offering 8,000,000 shares (1.52 percent) shares held by promoter to public.

8. Advance Against Share Application Money

On October 16, 2004 the Company had 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 institution and banks from January 1, 2004 to March 31, 2005. Pursuant to the revised CDR scheme dated June 24, 2005, and lender's confirmation regarding conversion of Zero percent Optionally Fully Convertible Debenture ('OFCD') including premium accrued till March 31, 2006, the Company has transferred OFCDs of Rs 755.12 million and OFCDs premium of Rs 119.87 million to advance against Equity Share Application Money, pending informal opinion from SEBI regarding share issue price for conversion.

9. Secured Loans

(a) As per the CDR Scheme approved on March 10, 2004 and subsequently approved on June 24, 2005, the Lenders have signed Master Restructuring Agreement ('MRA') for reconstruction of their Debts and Security Trusteeship Agreement, whereby the Lenders have entered into an agreement and appointed IDBI Trusteeship Services Limited (herein after referred as "ITSL") as their custodian of security. On November 11, 2005 the charges were registered in favour of the ITSL for Rupee Term Loans, for providing Specific Credit Facility, for Working Capital Assistance and Zero percent Secured OFCDs. The same are secured by first pari passu charge on immovable properties of the Company situated at Kandivali (East), Mumbai and properties situated at Mohali & Jalandhar under equitable mortgage, first pari passu charge of mortgage of 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. Further, the same are also secured by assignment of all rights, title, benefits, claims and interest in, under the project documents, insurance policies, all statutory, government and regulatory approvals, permissions, exemptions and waivers on pari passu basis. These arrangements/loans are further secured by consolidated corporate guarantee given by HFCL, the Holding Company, to the tune of Rs 5225 million.

During the year, Centurion Bank of Punjab ('CBOP') also provided fund based Working Capital facility to the Company. This amount is secured against entire receivables, current assets and fixed assets of the Company on pari passu basis with other members.

Master Restructuring Agreement and Security Trusteeship Agreement ('STA') has been further amended on March 9, 2006. Centurion Bank of Punjab has agreed to appoint ITSL as their custodian for security and signed the STA as one of the lenders.

The above mentioned security has been further extended to amount of loans, working capital assistance, specific facility and OFCDs together with the interest, compound interest, additional interest, default interest, costs, charges, expenses and any other monies payable by the Company in relation thereto and in terms with MRA and STA entered into between the lenders and ITSL.

(b) Vehicle Loans of Rs 10.73 million (2005 – Rs 8.62 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 instalments and shall be repaid by 2009. Vehicle loans repayable within one-year amounts to Rs 5.30 million. Interest rates on vehicle loans vary from 4.75 per cent per annum to 12.51 percent per annum. The tenure of loan ranges from 18 months to 36 months.

(c) Interest accrued and due includes an amount of Rs 6 million pertaining to differential interest pertaining to difference due to monthly vis-à-vis. Quarterly compounding in respect of loan from a scheduled bank. Pending approval from the CDR cell, for conversion into OFCD/advance against equity share capital, this is included under interest accrued and due.

10. Unsecured Loans

(a) 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 earlier redeemable at par on March 31, 2014, are now redeemable at par on March 31, 2016 after repayment of the term loans as per revised CDR Scheme effective from April 1, 2005.

(b) Interest payable on vendor finance facilities amounting to Rs 3.93 million as at March 31, 2006 (2005 – Rs 3.93 million) is yet to be remitted.

(c) On February 8, 2005, the Company has entered into a buyer's credit loan agreement with The Export Import Bank of China to facilitate payment to one of its equipment supplier for a total amount of Rs 544.13 million (US$ 12.13 million). As on March 31, 2006, the Company has utilized Rs 495.99 million (US$ 11.06 million) of this facility. The facility is secured by a financial Bank guarantee of Rs 109.20 million and by a Corporate Guarantee of Rs 544.13 million given by HFCL, the Holding Company.

11. Fixed Assets and Capital work-in-progress

(a) Capital Work in Progress includes Goods in Transit of Rs 10.07 million (2005 - Rs 42.29 million).

(b) Gross Block of Fixed Assets and Capital Work in Progress includes capitalized foreign exchange loss of Rs 8.84 million, (2005 – gain of Rs 7.21 million).

(c) As on March 31, 2006, telephone instruments aggregating to a net book value of Rs 345.18 million (2005 – Rs 330.49 million) and other assets aggregating to net book value Rs 12.36 million (2005 – Rs Nil) are located at customer premises and at other operators sites, respectively.

(d) During the previous year, the Company entered into a contract with equipment supplier for expansion of capacity and rollout of CDMA based wireless networks to most of the areas of Punjab circle. As a result, in previous year, the management has revised the economic useful life of the equipment purchased from the original equipment supplier based on its plan of redeploying these at other zones and utilization till the year ended March 31, 2008. As on March 31, 2006, the Company has decided to sell these assets instead of redeployment. Accordingly, the assets with a carrying cost of Rs 195.03 million (net of accumulated depreciation of Rs 352.73 million) as on March 31, 2006 have been stated at their net realisable value, based on part of the assets sold subsequent to balance sheet date. Accordingly, an amount of Rs 179.34 million has been determined as loss on discard of the asset and Rs 15.69 million has been disclosed as Asset Held for Sale under Other Current Assets.

(e) Effective April 1, 2005, the Company changed its policy to depreciate Telephone Instruments, Fixed Wireless Phone ('FWP'), Cordect and Routers (collectively referred as Telephone Instruments) being integral part of the network of the Company, over the estimated useful life of five years from the earlier policy of depreciating these assets costing less than Rs 5,000 fully in the year when they are ready to use. Had the Company followed its earlier policy the loss and depreciation for the year would have been higher by Rs 171.38 million.

12. Investments

(a) The Company had invested Rs 717.67 million (Rs 18 million as equity and Rs 699.67 million as unsecured convertible OFCD) in an associate company, The Investment Trust of India Limited ('ITI'). ITI, a non-banking finance company, earned a net profit of Rs

29.13 million for the year ended March 31, 2006 and has a positive net worth as on March 31, 2006. The Company is confident that ITI shall continue to generate profits in the long-term and, accordingly, believes that there is no permanent diminution in the value of these long-term investments.

(b) During the year, the Company has incurred certain cost for its subsidiary, CBSL amounting to Rs 38 million, out of which Rs 35 million has been converted as contribution towards Advance Against Equity Share Capital of CBSL and is disclosed as an investment. The said investment is pending approval from the CDR cell.

CBSL has incurred a loss of Rs 33 million for the year ended March 31, 2006 and has a net worth of Rs 2.4 million as of that date. As CBSL has launched cable television network services in October 2005 bundled with the data services and voice services provided by the Company and expects significant growth in this integrated service, the Company is confident that CBSL shall generate profits in the long term, and accordingly believes that there is no permanent diminution in the value of these long term investment.

13. Deferred Taxes

During the year, the Company has incurred losses of Rs 1,130.37 million (accumulated losses of Rs 6,562.40 million) resulting into a tax loss carry forward situation. The Company is eligible for a tax holiday under section 80IA of the Income-tax Act, 1961. 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.

14. Current liabilities and Provisions

Sundry Creditors include amount payable to Small Scale Industrial Undertakings ('SSI') as at March 31, 2006 of Rs Nil (2005 — Rs Nil) (based on the information, to the extent available with the Company, and as certified by the management).

15. Loss per share

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

	2006	**2005**
Loss for the year (in Rs.)	1,130,367,291	936,026,556
Weighted average number of shares	525,517,152	480,454,474
Nominal value per equity share (in Rs)	10	10
Loss per share – basic and diluted (in Rs)	2.15	1.95

16. Operating leases

<u>Company as a Lessee</u>

(a) The Company has entered into various cancelable lease agreements for leased premises. Gross rental expenses for the year ended March 31, 2006 is Rs 49.78 million aggregated (March 31, 2005 — Rs 39.12 million).

(b) The Company has entered into site sharing agreements with other operators for sharing of their infrastructure sites. During the year, the Company has incurred Rs 2.84 million (2005 – Rs Nil) towards site sharing cost.

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

	2006	**2005**
Payable not later than one year	2,794,277	-
Payable later than one year and not later than five years	3,017,819	-
Total	**5,812,096**	-

<u>Company as a Lessor</u>

(c) The Company has entered into site sharing agreements with other operators for sharing of its infrastructure sites. During the year, the Company has accrued Rs 1.35 million (2005 – Rs Nil) towards site sharing revenue.

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

	2006	**2005**
Receivable not later than one year	699,433	-
Receivable later than one year and not later than five years	755,388	-
Total	**1,454,821**	-

17. 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 telephony services. Accordingly, the amounts appearing in these financial statements relate to this primary business segment. Further, the Company provides services only in the State of Punjab (including Chandigarh and Panchkula) and, accordingly, no disclosures are required under secondary segment reporting.

18. Related Party transaction : Related Party Transactions for the Financial Year 2005-06

Relationship	Holding Company		Wholly owned subsidiary		Companies under Common Control		Fellow Subsidiary		Associates		Company Under Key Management Personal	
Nature of Transaction	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05
ASSETS												
Purchase of Equity Shares	–	–	–	500,000	–	–	–	–	–	–	–	–
Advance against equity	–	–	35,000,000	–	–	–	–	–	–	–	–	–
Purchase of Capital Goods	77,660,776	110,275,787	–	–	78,665	410,493	–	–	–	–	4,981,577	–
Purchase of Capital Services	3, 584, 293	3,723,119	–	–	–	–	–	–	–	–	–	–
Payment against capital Purchase/Services	97,148,292	128,651,794	–	–	–	25,496,513	–	–	–	–	–	–
LIABILITIES												
Amount received by company	11,000,000	–	–	–	–	–	–	–	–	–	–	–
Balance - Payable	43,031,262	53,305,985	–	–	261,800	3,330,933	–	–	–	–	3,323,455	–
Balance - Receivable	–	–	3,256,350	–	9,330,004	6,478,142	119,784	89,265	1,149,999	1,149,999	–	8,121,107
Relationship	Holding Company		Wholly owned subsidiary		Companies under Common Control		Fellow Subsidiary		Associates		Company Under Key Management Personal	
Nature of Transaction	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05
INCOME/RECEIPT												
Services Provided	–	–	–	1,000	9,679,087	8,811,106	–	–	–	–	–	–
EXPENSES/PAYMENTS												
Debit Notes raised on us (Expenses)	394,486	45,228	–	–	–	–	–	–	–	16,611	56,075	–
Debit Notes raised by us (Expenses)	5,185,072	615,198	28,161,350	19,739	–	531,985	–	137,655	–	–	1,472,416	405,583
Purchase of Consulmbales Goods/ Repair & Maintainances	755,569	2,856,711	–	–	–	424,593	–	–	–	–	–	–
Purchase of Services (Expenditure Nature)	–	1,800,000	–	–	1,899,869	1,082,247	–	–	–	–	58,234,614	38,336,338
Payments made on our behalf	–	–	–	300,143	–	–	–	–	–	–	2,525,300	–
Payment received on our behalf	–	–	–	716,013	–	–	–	–	–	–	–	–
Payment received by us	–	–	–	436,609	6,800,000	3,000,000	–	48,390	–	96,372	2,574,999	6,576,470
Payments made by the Company	1,150,055	4,086,741	10,095,000	–	5,016,237	974,855	30,519	–	–	612,661	54,150,436	50,648,848
OTHERS												
Consolidated Corporate Guarantee/ Individual Corporate Guarantee give to Bank on behalf of the Company	5,769,131,662	5,225,000,000	–	–	–	–	–	–	–	–	–	–
Counter Guarantee given by Company	5,225,000,000	5,225,000,000	–	–	–	–	–	–	–	–	–	–

a. Disclosure of Material Transactions with Related Parties

HFCL Satellite Communication Limited
- Payments received by the company Rs 6,800,000 (2005-Rs 3,000,000) and debit notes raised by the company Rs 9,651,862 (2005- Rs 8,811,106).
- Balance receivable is Rs 9,330,004 (2005- Rs 6,478,142).

Himachal Exicom Communications Limited
- Purchase of capital goods by the company Rs 78,665 (2005- Rs 410,493), purchase of services Rs 187,340 (2005- Rs 827,804) and payments made by the company Rs 3,330,933 (2005- Rs 25,800,014).
- Balance payable is Rs 261,800 (2005- Rs 3,330,933).

Microwave Communication Limited
- Purchase of Services by the company of Rs 1,712,529 (2005- Rs 1,082,247) and payment made by the company of Rs 1,685,304 (2005- Rs 1,171,368).

Advances given to Key Managerial Personnel (Chief Executive Officer)

Interest Free Housing loan Rs 650,000 (2005 – 800,000), other advances Rs 31,046 (2005 – Rs 93,573)
- Holding Company: Himachal Futuristic Communications Limited.
- Wholly owned subsidiary: Connect Broadband Services Limited.
- Companies under common control: HFCL Satellite Communication Limited, Himachal Exicom Communications Limited and Microwave Communication Limited.
- Fellow subsidiary: HTL Limited.
- Associate enterprise includes The Investment Trust of India Limited.
- Company under Key Managerial Personnel: HFCL Internet Services Limited.
- Key managerial personnel include the remuneration paid to Mr Surendra Lunia (CEO) for the year ended March 31, 2006 (Refer Schedule 22, Note 3).
- Related parties with whom the Company does not have any transaction are:

  Companies under common control

  HFCL Bezeq Telecom Limited, Consolidated Futuristic Solutions Limited, WPPL Limited, HFCL Dacom Infocheck Limited, HFCL Kongsung Telecom Limited, Platinum EDU Limited, Westel Wireless Limited, Pagepoint Services Pvt. Limited

19. Unclaimed deposit from public

During the year ended March 31, 2004, the Company surrendered its licence granted by Reserve Bank of India ('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 of the year end. 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.

The accompanying financial statements include the following account balances relating to the NBFC business whose licence granted by RBI was surrendered during the year ended March 31, 2004:

• Unclaimed Deposits From Public	Rs 1,058,574
• Interest accrued and due on public deposits upto September 15, 2003	Rs 146,322
• Interest accrued and due on deposits to be transferred to Investor Protection and Education Fund	Rs 298,410
• Cheques outstanding beyond 6 months	Rs 523,617
• Others (Under reconciliation)	Rs 20,057
	Rs 2,046,980
Balances with Scheduled banks in Escrow account	Rs 2,046,980

20. Debenture redemption reserve

Pursuant to the CDR scheme on October 16, 2004, the Company has issued OFCDs aggregating to Rs 166.78 million repayable as on March 31, 2016. 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, 2006, the Company has incurred losses of Rs 1,130.37 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.

21. Prior period expenditure (net)

Description	2006	2005
Electricity Water	–	626,309
Miscellaneous Expenses	–	40,816
Security Charges	–	68,735
Customers Acquisition Costs	87,765	–
Legal and Professional Expenses	46,200	–
Communication Expenses	12,889	–
Staff Welfare Expenses	21,314	–
Repair & Maintenance–Network	3,644,810	–
Interest on Term Loans	5,550,374	–
Interconnect Usage Charges	392,562	7,258,575
Royalty and licence fees to Wireless Planning Commission	–	1,685,693
Travelling and Conveyance	5,464	–
Revenue from Unified Access Services	(284,178)	(1,437,815)
Miscellaneous Income	(5,226)	(156,500)
Total	**9,471,974**	**8,085,813**

22. Prior year comparatives

Previous year figures have been regrouped where necessary to conform to this year's classification.

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

Place : New Delhi
Date : June 30, 2006

For and on behalf of the Board

Mahendra Nahata
Director

M.P.Shukla
Director

Surendra Lunia
Chief Executive Officer

Pradeep Goel
Associate Vice President (F&A)

S. Prabhakar
Company Secretary & Head – Legal & Regulatory

Place : New Delhi
Date : June 30, 2006

HFCL INFOTEL LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2006

(Unless and otherwise stated, all amounts are in rupees)

PARTICULARS	For the Year Ended MARCH 31, 2006 (Rs.)	For the Year Ended MARCH 31, 2005 (Rs.)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) for the year before Taxation	(1,125,559,572)	(936,026,556)
Adjustments for:		
Depreciation and Amortisation	1,090,131,252	1,028,326,987
Prior Period Expense / (Income)	9,471,974	8,085,813
Excess Provision Written Back	(5,323,739)	(18,980,178)
Loss on Fixed Assets Sold / Discarded	188,814,489	15,695,880
Bad Debts Writen Off	110,568,247	81,320,624
Provision for Doubtful Debts	50,367,393	48,950,603
Tax deducted at source written off	-	3,846,821
Finance Expenses*	599,843,428	627,231,451
Interest Income	(2,955,879)	(2,386,875)
Wealth tax	27,254	33,964
Operating profit before working capital changes	**915,384,847**	**856,098,534**
Adjustments for changes in:		
(Increase) / Decrease in debtors	(270,860,602)	(189,826,041)
(Increase) / Decrease in Loans and Advances	3,543,472	(31,199,651)
Increase / (Decrease) in Current liabilites	209,490,185	180,699,889
Cash generated from operations	**857,557,902**	**815,772,731**
Direct Taxes paid (Net)	(1,876,540)	(6,252,331)
Prior Period Expense / (Income)	(9,471,974)	(8,085,813)
NET CASH GENERATED FROM OPERATING ACTIVITIES (A)	**846,209,388**	**801,434,587**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(1,219,137,585)	(818,499,962)
Sale of fixed assets	2,147,185	2,660,820
Purchase of investments	(35,000,000)	(500,000)
Licence entry fee (refund)	-	77,710,386
Realization of Fixed Deposits	(37,683,230)	8,662,316
Interest Received	921,241	2,393,080
NET CASH USED IN INVESTING ACTIVITIES (B)	**(1,288,752,389)**	**(727,573,360)**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Equity Share Capital	-	-
Receipts from Secured loan	93,067,354	18,329,251
Repayment of Public Deposits	(682,025)	(608,684)
Receipts from Unsecured loan	495,998,369	(36,050,881)
Interest paid	(176,727,308)	(20,511,266)
Loan from Subsidiary / Associate (Net)	-	-
Dividend Paid	(166,611)	(129,642)
NET CASH GENERATED FROM FINANCING ACTIVITIES (C)	**411,489,779**	**(38,971,222)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	**(31,053,222)**	**34,890,005**
Cash and Cash Equivalents at the beginning of the year (Opening Balance)	77,949,025	43,059,020
Cash and Cash Equivalents at the end of the year (Closing Balance)	46,895,804	77,949,025

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*. Includes interest accrued on secured loan as difference between the interest paid and interest accrued on yield basis amounting to Rs 384,838,920 (2005-Nil) as per CDR Scheme
4. Previous year figures have been regrouped and recast wherever necessary to conform to current year classification.
5. Cash & Cash Equivalents include :

	2006	2005
Cash in Hand	1,457,395	1,924,615
Cheques in Hand	8,033,776	8,410,956
Balances with Scheduled Banks		
- In Current Account	35,357,653	64,843,225
- In Escrow Account	2,046,980	2,770,229
	46,895,804	**77,949,025**

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 **Mahendra Nahata** Director	 **M.P.Shukla** Director
Prashant Singhal Partner Membership No. 93283	**R.N. Chaturvedi** Partner Membership No. 92087	**Surendra Lunia** Chief Executive Officer	**Pradeep Goel** Associate Vice President (F&A)
		S. Prabhakar Company Secretary & Head – Legal & Regulatory	
Place : New Delhi Date : June 30, 2006		Place : New Delhi Date : June 30, 2006	

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, 2006
II	CAPITAL RAISED DURING THE YEAR (RUPEES)	
	Public Issue	NIL
	Bonus Shares	NIL
	Rights Issue	NIL
	Private Placement	NIL
III	POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (RUPEES)	
	Total Liabilities	8,789,574,880
	Total Assets	8,789,574,880
	SOURCE OF FUNDS	
	Shareholders' Funds	6,780,162,914
	Reserves & Surplus	159,894,077
	Secured Loans	6,243,160,372
	Unsecured Loans	666,712,211
	APPLICATION OF FUNDS	
	Net Fixed Assets	
	(Including Intangible Asset)	7,397,742,385
	Accumulated Losses	6,562,408,582
	Investments	753,170,900
	Net Current Liabilities	863,392,293
IV	PERFORMANCE OF THE COMPANY (RUPEES)	
	Turnover	2,930,371,491
	Total Expenditure	4,055,931,063
	Profit /(Loss) Before Tax	(1,128,559,572)
	Profit /(Loss) After Tax	(1,130,367,291)
	Earning Per Share	(2.15)
	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 of Directors

Mahendra Nahata
Director

M.P.Shukla
Director

Surendra Lunia
Chief Executive Officer

S. Prabhakar
Company Secretary & Head
– Legal & Regulatory

Pradeep Goel
Associate Vice President
(F&A)

Place : New Delhi
Date : June 30, 2006

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 22, Note 1(a)), as at March 31, 2006, 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 22 to the financial statements, the Group has incurred a loss of Rs 1,149.87 million during the year (accumulated loss of Rs 6,548.33 million) resulting into substantial erosion of its net-worth, and has a net current liability of Rs 861.02 million (after considering provision for interest amounting to Rs 384.84 million being the difference in the amount paid in comparison to the amount accrued on yield basis as per the CDR scheme) as of March 31, 2006. The Group has achieved profitability at the 'Earnings before interest and depreciation' level, and is also able to generate cash from operations since previous financial year. The ability of the Company to continue as a going concern is dependent on its ability to successfully arrange the balance funding in terms of the CDR scheme and achieve financial closure to fund its operating and capital funding requirements. The management is confident of generating cash flows to fund the operating and capital requirements of the Company in the event of any delay in the arrangement of the balance funding. Accordingly, these statements have been prepared on a going concern basis.

4. We did not audit the financial statements of The Investment Trust of India Limited, whose financial statements reflect a total assets of Rs 963 million, as at March 31, 2006 and profit for the year of Rs 29.13 million (which represents 2.5 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.

5. We did not audit the financial statements of Connect Broadband Services Limited, whose financial statements reflect a total assets of Rs 35.5 million (which represents less than 1 per cent of the consolidated assets), as at March 31, 2006. 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.

6. 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.

7. 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, 2006;

(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 30, 2006	Place: New Delhi Date: June 30, 2006

HFCL INFOTEL LIMITED

CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2006

(Unless and otherwise stated, all amount are in rupees)

PARTICULARS	SCHEDULE	AS AT MARCH 31, 2006 (Rs.)	AS AT MARCH 31, 2005 (Rs.)
SOURCES OF FUNDS			**Schedule 23, Note 18**
Shareholders' Fund			
Share Capital	1	5,905,171,520	5,905,171,520
Advance Against Share Application Money	2	874,991,394	-
Reserves and Surplus	3	159,894,077	234,409,392
		6,940,056,991	**6,139,580,912**
Loan Funds			
Secured Loans	4	6,243,160,372	6,927,734,724
Unsecured Loans	5	666,712,211	170,713,842
		6,909,872,583	**7,098,448,566**
		13,849,929,574	**13,238,029,478**
APPLICATION OF FUNDS			
Fixed Assets	6		
Gross Block		8,601,542,973	8,002,128,032
Less: Accumulated Depreciation		(3,038,111,884)	(2,504,472,175)
Net Block		**5,563,431,089**	**5,497,655,857**
Capital Work-In-Progress (Includes capital advances for Rs 5,777,267 (2005 - Rs 5,751,196)		236,690,319	440,928,993
		5,800,121,408	**5,938,584,851**
Intangible Assets, net	7	**1,597,650,428**	**1,748,854,722**
Investments	8	**764,853,763**	**751,260,249**
Current Assets, Loans and Advances			
Inventories		6,439,504	-
Sundry Debtors	9	406,776,314	295,985,499
Cash and Bank Balances	10	119,377,087	112,434,449
Other Current Assets	11	17,972,277	244,819
Loans and Advances	12	93,603,047	102,498,945
		644,168,229	**511,163,711**
Less: Current Liabilities and Provisions	13		
Current Liabilities		1,496,484,296	1,104,872,498
Provisions		8,706,410	5,648,084
		1,505,190,706	**1,110,520,582**
Net Current Liabilities		**861,022,477**	**599,356,871**
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		6,548,326,451	5,398,451,941
		13,849,929,574	**13,238,029,478**
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

Place : New Delhi
Date : June 30, 2006

For and on behalf of the Board

Mahendra Nahata
Director

M.P.Shukla
Director

Surendra Lunia
Chief Executive Officer

Pradeep Goel
Associate Vice President (F&A)

S. Prabhakar
Company Secretary & Head – Legal & Regulatory

Place : New Delhi
Date : June 30, 2006

HFCL INFOTEL LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2006

(Unless and otherwise stated, all amounts are in rupees)

PARTICULARS	SCHEDULE	For the Year Ended MARCH 31, 2006 (Rs.)	For the Year Ended MARCH 31, 2005 (Rs.)
Income			
Service Revenue	14	2,922,069,650	2,533,177,806
Other Income	15	11,476,175	5,089,091
		2,933,545,825	2,538,266,897
Expenditure			
Network Operation Expenditure	16	1,261,537,019	1,060,471,304
Cost of Goods Sold	17	95,071	-
Personnel Expenditure	18	390,140,811	293,880,027
Sales and Marketing Expenditure	19	125,755,983	123,290,898
Administrative and Other Expenditure	20	417,061,705	313,464,272
Preliminary Expenses-Written-off		174,958	-
Pre-operative Expenses-Written-off		8,656,404	-
		2,203,421,951	1,791,106,501
Operating Profit before Finance Charges, Depreciation, Amortisation and Loss on Sold/Discarded Fixed Assets		**730,123,874**	**747,160,396**
Loss on Sold/Discarded Fixed Assets and Capital Work in Progress	23 Note 7(d)	188,814,488	15,695,880
Finance Charges	21	599,843,429	627,231,451
Depreciation	6	919,333,242	866,391,300
Amortisation	7	170,798,382	161,935,687
Loss for the year before Prior Period Expenditure and Tax		**1,148,665,667**	**924,093,922**
Prior Period Expenditure (Net)	23 Note 17	9,471,974	8,085,813
Loss for the year before Tax		**1,158,137,641**	**932,179,735**
Provision for Taxation for earlier years		(1,561,832)	3,846,821
Fringe Benefit Tax		6,892,214	-
Loss for the year		**1,163,468,023**	**936,026,556**
Share of Profit of Associate		**13,593,514**	**16,054,251**
Loss, brought forward from previous year		**5,398,451,941**	**4,478,479,635**
Loss carried to the Balance Sheet		**6,548,326,451**	**5,398,451,941**
Loss per share (equity shares, par value of Rs 10 each)	23 Note 11		
Basic (in Rs)		2.19	1.91
Diluted (in Rs)		2.19	1.91
Weighted average number of shares used in computing earnings per share			
Basic		525,517,152	480,454,474
Diluted		525,517,152	480,454,474
Significant Accounting Policies	22		
Notes to Accounts	23		

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

Prashant Singhal
Partner
Membership No. 93283

CHATURVEDI & PARTNERS
Chartered Accountants

R.N. Chaturvedi
Partner
Membership No. 92087

Place : New Delhi
Date : June 30, 2006

For and on behalf of the Board

Mahendra Nahata
Director

M.P.Shukla
Director

Surendra Lunia
Chief Executive Officer

Pradeep Goel
Associate Vice President (F&A)

S. Prabhakar
Company Secretary & Head – Legal & Regulatory

Place : New Delhi
Date : June 30, 2006

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT MARCH 31, 2006 (Rs.)	AS AT MARCH 31, 2005 (Rs.)
SCHEDULE 1: Share Capital [See Schedule 23, Note 3]		
Authorised:		
1,300,000,000 (2005 - 1,000,000,000) equity shares of Rs 10 each (2005 - Rs 10 each)	13,000,000,000	10,000,000,000
20,000,000 (2005 - 20,000,000) preference shares of Rs 100 each (2005 - Rs 100 each)	2,000,000,000	2,000,000,000
	15,000,000,000	**12,000,000,000**
Issued, Subscribed and Paid up		
525,517,152 (2005 - 525,517,152) equity shares of Rs 10 each (2005 - Rs 10 each) fully paid.	5,255,171,520	5,255,171,520
6,500,000 (2005 -6,500,000) 2 per cent Cumulative Redeemable Preference Shares ('CRPS') of Rs 100 each	650,000,000	650,000,000
	5,905,171,520	**5,905,171,520**

(a) Of the above

(i) 490,750 (2005 - 490,750) equity shares of Rs 10 each, were allotted as fully paid bonus shares in the earlier years by way of capitalisation of reserves.

(ii) 325,705,000, (2005 - 346,705,000) 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 these, 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 . 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 (2005 -6,500,000) 7.5 per cent CRPS were allotted to Himachal Futuristic Communications Limited ('HFCL') (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 to the CRPS to be assigned in favour of the term lenders. On June 24, 2005 as per revised CDR Scheme, the dividend percentage is reduced to 2 per cent from 7.5 per cent with effect from date of issuance of CPRS.

SCHEDULE 2: Advance Against Share Application Money [See Schedule 23, Note 4]		
Advance Against Equity Share Application Money	874,991,394	-
	874,991,394	**-**

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT MARCH 31, 2006 (Rs.)	AS AT MARCH 31, 2005 (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	84,038,460	119,548,250
Received during the year	-	9,848,489
Less: Utilised towards the premium payable on redemption of Optionally Fully convertible debentures	74,515,315	45,358,279
	9,523,145	**84,038,460**
Statutory Reserve [See Note (c) below]	**11,900,000**	**11,900,000**
General Reserve	**104,438,156**	**104,438,156**
	159,894,077	**234,409,392**

(a) There are no share allotments during the year. 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 Rs 0.50 per equity share [See Schedule 1, Note 1(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 22, Note 19, 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.

PARTICULARS	AS AT MARCH 31, 2006 (Rs.)	AS AT MARCH 31, 2005 (Rs.)
SCHEDULE 4: Secured Loans [See Schedule 23, Note 5]		
Term Loans		
From Financial Institution	750,000,000	750,000,000
From Banks	5,300,000,000	5,300,000,000
Interest accrued & due on term loans from Banks and financial institution	22,834,373	-
Zero per cent Optionally Fully Convertible Debentures ('OFCDs') (redeemable at premium) [See Schedule 23, Note 4]	-	755,117,800
Premium on redemption of OFCD accrued but not due	-	45,358,279
Vehicle loans	10,731,960	8,623,509
Bank overdraft	159,594,039	68,635,136
	6,243,160,372	**6,927,734,724**
Amounts payable within one year - OFCDs with a premium of Rs Nil (2005 - Rs 45,358,279)	-	800,476,079
Amounts repayable within a year - Vehicle Loan	5,305,011	3,929,132
SCHEDULE 5: Unsecured Loans [See Schedule 23, Note 6]		
Zero per cent Optionally Fully Convertible Debentures ('OFCDs') (others)	166,776,100	166,776,100
Interest accrued and due on other Vendor Finance Facilities	3,937,742	3,937,742
Buyers Credit Facility (Loan from foreign bank)	495,998,369	-
	666,712,211	**170,713,842**

SCHEDULES FORMING PART OF BALANCE SHEET

SCHEDULE 6 : FIXED ASSET

ASSETS	GROSS BLOCK				ACCUMULATED DEPRECIATION				NET BLOCK	
	As at April 1, 2005	Additions	Sale/ adjustment	As at March 31, 2006	As at April 1, 2005	For the year	On Sale / Adjustment	As at March 31, 2006	As at March 31, 2006	As at March 31, 2005
Freehold Land	16,142,623	-	-	16,142,623	-	-	-	-	16,142,623	16,142,623
Leasehold Land	8,896,419	-	-	8,896,419	556,026	92,671	-	648,697	8,247,722	8,340,393
Building	174,822,166	10,010,444	-	184,832,610	15,465,096	3,360,882	-	18,825,978	166,006,632	159,357,070
Leasehold Improvements	70,072,458	15,949,820	-	86,022,278	26,496,983	8,735,338	-	35,232,321	50,789,957	43,575,475
Network Equipment	2,847,858,030	689,569,425	(549,539,751)	2,987,887,704	1,100,313,836	411,577,612	(353,481,906)	1,158,409,542	1,829,478,162	1,747,544,194
Optical Fibre Cable and Copper Cable	3,950,416,002	181,631,055	-	4,132,047,057	901,817,502	279,533,728	-	1,181,351,230	2,950,695,827	3,048,598,500
Telephone Instruments	677,473,945	235,812,128	(35,677,512)	877,608,561	346,984,080	172,067,627	(28,451,205)	490,600,502	387,008,059	330,489,865
Computers	159,901,615	40,141,954	(213,510)	199,830,059	71,281,988	29,092,002	(103,847)	100,270,143	99,559,916	88,619,627
Office Equipment	36,854,850	4,831,005	(574,216)	41,111,639	11,334,657	4,372,777	(238,782)	15,468,652	25,642,987	25,520,193
Furniture & Fixture	35,510,311	2,828,728	(262,202)	38,076,837	18,280,199	4,988,065	(148,627)	23,119,637	14,957,200	17,230,112
Vehicles	24,179,613	10,988,410	(6,080,837)	29,087,186	11,941,808	5,512,541	(3,269,167)	14,185,182	14,902,004	12,237,804
	8,002,128,032	**1,191,762,969**	**(592,348,028)**	**8,601,542,973**	**2,504,472,175**	**9,19,333,243**	**(385,693,534)**	**3,038,111,884**	**5,563,431,089**	**5,497,655,856**
Previous Year	*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*

SCHEDULE 7 : INTANGIBLE ASSETS

ASSETS	GROSS BLOCK				AMORTISATION				NET BLOCK	
	As at April 1, 2005	Additions	Sale/ adjustment	As at March 31, 2006	As at April 1, 2005	For the year	On Sale / Adjustment	As at March 31, 2006	As at March 31, 2006	As at March 31, 2005
Computer Software	118,917,465	19,594,088	-	138,511,553	71,685,749	34,743,092	-	106,428,841	32,082,712	47,231,716
Licence Entry Fees	2,352,658,603	-	-	2,352,658,603	651,035,597	136,055,290	-	787,090,887	1,565,567,716	1,701,623,006
	2,471,576,068	**19,594,088**	**-**	**2,491,170,156**	**722,721,346**	**170,798,382**	**-**	**893,519,728**	**1,597,650,428**	**1,748,854,722**
Previous Year	*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*

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

	AS AT MARCH 31, 2006 Rs.	AS AT MARCH 31, 2005 Rs.
SCHEDULE 8: Investments (Non Trade - Long term) [See Schedule 23, Note 8]		
Associate company		
Long Term (at cost)		
Unquoted		
1,750,000 [2005 - 1,750,000] equity shares of Rs 10 each fully paid in The Investment Trust of India Limited ('ITI')	65,182,863	51,589,349
6,996,709 [2005 - 6,996,709] Optionally Fully Convertible Debentures ('OFCDs') of Rs 100 each fully paid in The Investment Trust of India Limited ('ITI')	699,670,900	699,670,900
	764,853,763	**751,260,249**

Note:

(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. The Company has not exercised this option as on March 31, 2006.

(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 appropriate premium as mentioned in condition (ii) above.

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

Cost	18,000,000	18,000,000
Opening Profit sharing of Associate	33,589,349	17,535,098
Add:		
Share of Profit in Associate during the year	13,593,514	16,054,251
	65,182,863	**51,589,349**

(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.

SCHEDULE 9: Sundry Debtors

Debts outstanding for a period exceeding six months:		
Secured and Considered Good	8,331,361	3,180,686
Unsecured and Considered Good	2,594,928	2,659,577
Unsecured and Considered Doubtful	56,089,243	20,480,745
Debts outstanding for a period less than six months:		
Secured and Considered Good	39,227,042	18,983,449
Unsecured and Considered Good	356,622,983	271,161,787
Unsecured and Considered Doubtful	31,553,566	38,183,225
	494,419,123	354,649,469
Less: Provision for Doubtful Debts	87,642,809	58,663,970
	406,776,314	**295,985,499**

Notes:

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

b) Includes Rs 155,219,454 (2005 - Rs 155,017,877) of unbilled revenues, the invoices for which have been raised subsequent to March 31, 2006 [See Schedule 22, Note 2.9]

c) Debtors includes amount due from HFCL Satellite Communication Limited, the company under the same management, amounting to Rs 9,330,004 (2005 - Rs 6,478,142)

Maximum amount outstanding during the year Rs 9,330,004 (2005 - Rs 9,908,706).

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT MARCH 31, 2006 (Rs.)	AS AT MARCH 31, 2005 (Rs.)
SCHEDULE 10: Cash and Bank Balances		
Cash in Hand	1,458,721	1,928,296
Cheques in Hand	8,033,776	8,410,956
Balances with Scheduled Banks		
In Current Account (includes unclaimed dividend account Rs 568,549 2005 - Rs 735,160)	35,918,698	65,092,183
In Fixed Deposit [Receipts pledged with Banks as margin money for guarantees and LCs issued Rs 71,886,014 (2005 - Rs. 34,202,785)]	71,918,912	34,232,785
In Escrow Account	2,046,980	2,770,229
	119,377,087	**112,434,449**

Notes:

The balance with scheduled banks in Escrow account is towards public deposits payable by the Company [See Schedule 23, Note 15]

PARTICULARS	AS AT MARCH 31, 2006 (Rs.)	AS AT MARCH 31, 2005 (Rs.)
SCHEDULE 11: Other Current Assets		
Interest Accrued on Fixed Deposits	2,279,457	241,977
Interest Accrued on Investment	-	2,842
Assets held for sale [See Schedule 23, Note 7(d)]	15,692,820	-
	17,972,277	**244,819**

PARTICULARS	AS AT MARCH 31, 2006 (Rs.)	AS AT MARCH 31, 2005 (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	28,034,052	38,541,472
Considered Doubtful	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, 2005 - Rs 1,149,999)	1,149,999	1,149,999
Due from HTL Limited - Company under the same management (Maximum outstanding balance during the year Rs 119,784, 2005 - Rs 89,265)	119,784	89,265
Security Deposits		
Considered Good	16,003,916	14,315,707
Considered Doubtful	1,211,265	1,211,265
Tax deducted at source recoverable	8,577,206	11,535,639
Balance with Customs and Excise	39,718,090	36,866,863
	229,674,220	**238,570,118**
Less: Provision for Doubtful Advances	136,071,173	136,071,173
	93,603,047	**102,498,945**
Notes:		
Advance recoverable includes dues from Chief Executive Officer as under		
Interest free Housing Loan (Maximum amount outstanding during the year Rs 800,000, 2005 - Rs 950,000)	650,000	800,000
Other Advances (Maximum amount outstanding during the year Rs 638,266, 2005 - Rs 231,064)	31,046	93,573

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT MARCH 31, 2006 (Rs.)	AS AT MARCH 31, 2005 (Rs.)
SCHEDULE 13: Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors		
Capital Goods	260,795,455	472,844,480
Expenses	81,893,916	65,272,727
Interconnection Usage Charges ('IUC') payable to other operators	125,516,470	32,565,472
Expenses Payable	151,374,944	151,826,595
Book Overdraft	11,151,491	23,209,404
Advance Against Booking	1,722,020	2,179,076
Advance From Customers and Unaccrued Income	142,927,454	85,246,706
Security Deposits		
From Subscribers	185,116,714	190,518,754
From Others	25,465,819	17,197,503
Investor Education and Protection Fund*		
Unclaimed Dividends	568,549	735,160
Unclaimed Deposits from Public	1,058,574	1,740,599
Interest accrued and due on Public Deposits	146,323	232,795
Minority Interest	600	600
Other Liabilities	108,377,749	61,302,627
Provision for interest**	400,368,218	-
	1,496,484,296	**1,104,872,498**

* To be transferred to Investor Education and Protection Fund (as and when due)

** Includes interest accrued on secured loan as difference between the interest paid and interest accrued on yield basis amounting to Rs 384,838,920 (2005-Nil) as per CDR Scheme

Provisions		
Wealth Tax	27,254	32,864
Leave Encashment	4,888,907	3,481,575
Gratuity	3,790,249	2,133,645
	8,706,410	**5,648,084**
	1,508,447,056	**1,110,520,582**

Notes:

(a) Book overdraft has been settled subsequent to the year end.
(b) Sundry creditors include cheques outstanding beyond six months of Rs 523,617 (2005 - 592,780) towards repayment of public deposits under the NBFC CoR [See Schedule 22, Note 19]

HFCL INFOTEL LIMITED
SCHDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

PARTICULARS	For the Year Ended MARCH 31, 2006 (Rs.)	For the Year Ended MARCH 31, 2005 (Rs.)
SCHEDULE 14: Service Revenue		
Revenue from		
Unified Access Services	2,520,287,328	2,221,447,805
Interconnection Usage Charge	176,266,535	219,541,950
Infrastructure Services	55,961,133	46,583,891
Internet Services	166,383,218	45,604,160
Income from CBSL operations	3,171,436	-
	2,922,069,650	**2,533,177,806**
SCHEDULE 15: Other Income		
Interest Income [Gross of tax deducted at source - Rs 72,771 (2005 - Rs 386,216)]	2,955,879	2,386,875
Excess Provision written back	5,323,739	1,824,283
Miscellaneous Income	3,196,557	877,933
	11,476,175	**5,089,091**
SCHEDULE 16: Network Operation Expenditure		
Interconnect Usage Charges	798,136,479	658,861,803
Other Value Added Service charges	7,090,737	10,573,672
Port Charges	31,173,841	26,035,568
Testing and Technical Survey Expenses	556,000	1,960,000
Licence Fees on Revenue Share Basis	158,083,947	149,734,898
Royalty and licence fees to Wireless Planning Commission	14,873,867	12,483,159
Stores and Spares Consumed	45,209,861	41,093,598
Rent	31,809,458	23,083,829
Electricity and Water	45,112,478	35,418,145
Security Charges	3,865,789	2,826,519
Repair & Maintenance - Network	75,218,375	78,476,571
Bandwidth Charges	46,627,078	19,923,542
Subscription Charges and Channel Operating Cost	3,779,109	-
	1,261,537,019	**1,060,471,304**
SCHEDULE 17: Cost of Goods Sold		
Opening Stock	-	-
Purchases	6,534,575	-
Less Closing Stock	6,439,504	-
	95,071	**-**
SCHEDULE 18: Personnel Expenditure		
Salaries, Wages and Bonus	341,681,482	260,191,374
Employer's Contribution to Provident and Other Funds	16,912,486	12,153,877
Staff Welfare Expenses	18,622,707	15,006,032
Recruitment & Training Expenses	12,924,136	6,528,744
	390,140,811	**293,880,027**
Schedule 19: Sales and Marketing Expenditure		
Sales and Business Promotion	13,625,093	8,129,162
Advertisement Expenses	29,006,279	38,082,934
Customers Acquisition Costs	83,124,611	77,078,802
	125,755,983	**123,290,898**

HFCL INFOTEL LIMITED
SCHDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

PARTICULARS		For the Year Ended MARCH 31, 2006 (Rs.)	For the Year Ended MARCH 31, 2005 (Rs.)
SCHEDULE 20: Administrative and Other Expenditure			
Legal and Professional Expenses		43,978,842	22,714,795
Travelling and Conveyance		62,170,067	39,846,163
Communication Expenses		6,287,574	4,960,651
Rent		18,157,692	16,037,471
Security Charges		3,808,963	3,350,031
Repairs and Maintenance - Building		1,765,842	2,395,782
Repairs and Maintenance - Others		10,649,318	11,619,082
Electricity and Water		14,847,247	11,241,857
Insurance		6,555,558	4,815,309
Rates and Taxes		14,453,283	7,305,889
Freight & Cartage		7,918,123	7,028,561
Printing and Stationery		6,749,547	5,472,029
Billing and Collection Expenses		53,695,074	43,108,489
Software Expenses		111,214	403,580
Directors' Fees		422,500	495,000
Bad Debts Written off		110,568,247	81,320,624
Provision for Doubtful Debts	79,538,779		
Less: Transferred to Bad Debts Written off	(29,171,386)	50,367,393	45,364,209
Wealth Tax		27,254	33,964
Miscellaneous Expenses		4,527,967	5,950,786
		417,061,705	**313,464,272**
SCHEDULE 21: Finance Charges			
Interest on Term Loans**		571,529,986	604,352,459
Interest to Others		14,752,211	13,442,162
Bank Guarantee Commission		5,948,043	3,950,907
Trustees Fee		1,000,000	1,371,233
Other Finance Charges		6,613,189	4,114,690
		599,843,429	**627,231,451**

** Includes interest accrued on secured loan as difference between the interest paid and interest accrued on yield basis amounting to Rs 384,838,920 (2005-Nil) as per CDR Scheme

HFCL INFOTEL LIMITED

SCHEDULES FORMING PART OF CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AS AT AND FOR THE YEAR ENDED MARCH 31, 2006

[All amounts in Indian Rupees, except share data including share price, 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 Circle (including Chandigarh and Panchkula), 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 March 31, 2006, the Company has an active subscriber base of over 3.19 lakhs.

The Company is a subsidiary company of Himachal Futuristic Communications Limited ('the Holding Company' or 'HFCL'). The Company was incorporated on August 2, 1946 with the name of The Investment Trust of India Limited (ITI) which was subsequently changed to HFCL Infotel Limited on May 12, 2003. This was done pursuant to a Scheme of amalgamation (the Scheme), approved by the Honorable 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 was transferred by way of slump sales 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 Rajam Finance to other investors.

The Company, during the year ended March 31, 2004, surrendered its license granted by Reserve Bank of India ('RBI') to carry out NBFC business. RBI confirmed the cancellation of the NBFC license as per their letter dated May 24, 2004.

On July 2, 2004, the Company has incorporated a subsidiary company in the name of Connect Broadband Services Limited ('CBSL' or 'Subsidiary') with the main object to carry on the business as service provider and operator for distribution of cable television network. During the year, the Company has launched the integrated service to provide for voice, video and data services through cable television network, CBSL being the video service provider through cable television network. CBSL has launched the video services in October 2005. 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 (including Chandigarh and Panchkula) 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 License Agreement was signed on May 31, 2004. Pursuant to this migration, the Company became additionally entitled to provide full mobility services. HFCL Infotel has also entered into a Licence Agreement dated June 28, 2000, and amendments thereto, with DoT to establish maintain and operate internet service in Punjab circle (including Chandigarh and Panchkula).

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 (including Chandigarh and Panchkula) 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, 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 of AGR with effect from August 1, 1999 and was reduced to 8 per cent of AGR 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 revenue for the purpose of the calculation of 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 to be funded 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, through the Corporate Debt Restructuring ('CDR') mechanism approved an overall restructuring of the liabilities of the Company and thereby revised the peak funding requirements from Rs 11,800 million to Rs 13,450 million up to March 31, 2006, with peak funding gap of Rs 1,650 million.

Further, the CDR Empowered Group has approved the proposal of the Company for expansion of services, change in the scope of the project, cost of project and means of finance and restructuring of debt as per the letter dated June 24, 2005. As per the said proposal, the peak funding requirement has been further revised to Rs 15,470 million and the principal repayment of existing term loan would be rescheduled and will be repaid between May 1, 2008 and April 1, 2016. Moreover, the rate of interest on existing term loan, OFCDs and working capital shall be 9.3 per cent per annum monthly compounding. The secured OFCD shall be converted into equity shares at par subject to applicable provisions of SEBI guidelines and other relevant Acts during financial year ended March 31, 2006.

Further, the project cost is to be funded by way of Equity share capital of Rs 6,020 million, preference share capital of Rs 650 million, term loan of Rs 7,000 million, Buyer's credit facility of Rs 1,630 million and Unsecured OFCD of Rs 170 million.

For the year ended March 31, 2006, the Group has incurred losses of Rs 1,149.87 million resulting into accumulated loss of Rs 6,548.33 million as at March 31, 2006 resulting into substantial erosion of its net-worth and has a net current liability of Rs 861.02 million (after considering provision for interest amounting to Rs 384,838,920 being the difference in the amount paid in comparison to the amount accrued on yield basis as per the CDR Scheme). As at March 31, 2006, the Company has arranged Rs 13,541 million and is in advanced stage of discussions for the arrangement of Rs 1,929 million by way of term loans / buyer credit facility and expects to achieve the complete financial closure in the immediate future. The ability of the Company to continue as a going concern is dependent on its ability to successfully arrange the balance funding in terms of the CDR scheme and achieve financial closure to fund its operating and capital funding requirements. The management is confident of generating cash flows to fund the operating and capital requirements of the Company in the event of any delay in the arrangement of the balance funding. Accordingly, these statements have been prepared on going concern basis.

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

2.1 Basis of preparation of Financial Statements

The consolidated financial statements have been prepared under the historical cost conversion, 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 results of operations of HIL together with its subsidiary company, CBSL and associate company, ITI. Further the financial statements are presented in the format specified in Schedule VI to the Companies Act 1956 ('the Act'). The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year other than disclosed in Note 2.3 below. The significant accounting policies are as follows:

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, 2006. 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 (net of cenvat credit) less impairment loss, if any, and accumulated depreciation. The Company capitalises direct costs including taxes (excluding cenvat), 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.

2.4 Depreciation

(i) Depreciation is provided pro-rata to the period of use (except for Telephone Instruments 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 Office Building 30 years Others 61 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	5 years
Computers	6.17 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.

2.5 Impairment

The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the assets net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital. After impairment, depreciation is provided on the revised carrying amount of the assets over its remaining useful life.

A previously recognized impairment loss is increased or reversed depending on changes in circumstances. However the carrying value after reversal is not increased beyond the carrying value that would have prevailed by charging usual depreciation if there was no impairment.

2.6 Intangibles

All expenditure on intangible items are expensed as incurred unless it qualifies as an intangible assets as defined in Accounting Standard 26. The carrying value of intangible assets is 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.

Preliminary, pre-bid and deferred revenue expenditure, customer acquisition costs is expensed as incurred.

For accounting policy related to Licence Entry Fees, see note 2.6(i), below.

2.7 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 Profit and Loss Account 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 Profit and Loss Account in the year in which the related income is recognised.

Further, effective March 1, 2006, the TRAI has issued an amendment to IUC Regulation 2006, requiring to pay additional 1.5 per cent of AGR towards access deficit charge. These costs are expensed in the Profit and Loss Account in the year in which the related revenues are recognised.

2.8 Investments

Investments that are readily realisable and intended to be held for not more than a year 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.

2.9 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.

2.10 Revenue Recognition

Revenue from unified access services are recognised on services rendered and is 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.

Revenue on account of cable services is recognized when services are rendered, in accordance with the terms of the related contracts. Revenue from sales is recognized on dispatch of goods from the warehouse / premises. Sales are exclusive of sales tax.

Interest income is recognized on a time proportion basis taking into account the amount outstanding and the rate applicable.

2.11 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.

2.12 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

Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

Exchange Differences

Exchange differences arising on the settlement or on reporting company's 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.

2.13 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.

2.14 Leave Encashment

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

2.15 Other Retirement Benefits

The contributions towards provident fund are made to statutory authorities and are charged to the profit and loss account. Gratuity liability under the Payment of Gratuity Act and provision for leave encashment is accrued and provided for on the basis of an actuarial valuation made at the end of each financial year. The gratuity benefits of the Group are administered by a trust formed for this purpose through the group gratuity scheme with Life Insurance Corporation of India ('LIC') and with ICICI Prudential Life Insurance effective March 10, 2006 to cover the gratuity liability for its employees.

2.16 Inventories

Inventories are valued at lower of cost and net realisable value after providing for obsolescence and other anticipated losses, if any. Cost is determined on FIFO basis.

2.17 Income-Tax

Tax expense comprises of current, deferred and fringe benefit tax. Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act. Deferred income taxes reflects 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 are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. If the company has carry forward of unabsorbed depreciation and tax losses, deferred tax assets are recognised only if there is 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 reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

2.18 Operating Leases

Where the Group is the lessee

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

Where the Group is the lessor

Assets subject to operating leases are included in fixed assets. Lease income is recognised in the Profit and Loss Account on a straight-line basis over the lease term. Costs, including depreciation are recognised as an expense in the Profit and Loss Account. Initial direct costs such as legal costs, brokerage costs, etc. are recognised immediately in the Profit and Loss Account.

2.19 Loss Per Share

Basic loss per share is calculated by dividing the net loss 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 loss 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.

2.20 Segment Reporting

Identification of segments:

The Group'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 Group'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.

2.21 Contingent Liability

Contingent liabilities are determined on basis of available information and are disclosed by way of a note to the accounts.

2.22 Pre-Operative Expenditure

Expenditure incurred before the commencement of commercial operations are considered as pre-operative expenditure and are charged to profit and loss account.

CONSOLIDATED HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AS AT AND FOR THE YEAR ENDED MARCH 31, 2006

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

SCHEDULE 23 : NOTES FORMING PART OF THE ACCOUNTS

1. Contingent liabilities not provided for in respect of:

S. No.	Description	2006	2005
I.	**Estimated Value of Contracts Remaining** To be executed on capital account and not provided for net of capital advances Rs. 5,777,267 (2005- Rs 5,751,196)	108,056,869	313,259,350
II.	**Contingent Liabilities and Commitments** Financial Bank Guarantees (refer Note (a) below)	205,037,159	67,304,000
	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.8,280,000 (2005-Rs 9,095,000)	73,166,895	42,769,106
IV.	**Income-tax matters under appeal** (refer Note (b) below)	41,865,920	62,808,358
V.	**Claims against the Company not acknowledged as debts**	4,966,675	1,138,230
VI.	Others (refer Note (c) below)	29,585,211	133,388,119
	Total	**5,687,678,729**	**5,845,667,163**

(a) Financial bank guarantees as at March 31, 2006 of Rs 204.36 million (2005 — Rs 67.17million) and performance bank guarantees of Rs 60.28 million (2005 — Rs 15.96 million) are secured. The details of security created in detailed out in note no 5 (a) below. Further, the financial bank guarantee given by Punjab National Bank ('PNB') to The Export Import Bank of China of Rs 108.82 million are not secured by the Consolidate Corporate Bank Guarantee of Rs 5,225 million by HFCL, the Holding Company.

(b) The Company has certain income tax related matters pending with the Income Tax Authorities for the Assessment Year 1995-96 and 2001-02 aggregating to Rs 9.27 million and interest tax related matters for the Assessment Year 1993-94 to 2000-01aggregating to Rs 31.22 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). In addition to above the Company has certain income tax related matters pending with the Income Tax Authorities for the Assessment Year 2001-02 to 2002-03 aggregating to Rs 1.37 million. The said demands pertain to the telecom business of the Company. Based on an expert opinion obtained by the Company, the management is confident that no additional tax liability needs to be provided.

(c) The Wireless Finance Division of Department of Telecommunications has claimed an outstanding of Rs 29.58 million towards the Spectrum Charges dues from year 2001 to year 2005 vide their letter 1020/48/2005-WFD dated October 7, 2005. The Company has submitted its reply to the department on October 25, 2005 confirming the total due of Rs 29,472 only and paid the said amount. The Company has not received any communication from the department since then.

(d) Loans and advances include amounts recoverable from Essar Investments Limited ('EIL') aggregating to Rs 134.86 million. The Company had made payments in earlier years to EIL for takeover of certain accounted and unaccounted liabilities for services that were to be settled by EIL as per the agreement between EIL and *erstwhile* HFCL Infotel. EIL has failed to settle the dues with the respective parties and the Company has filed a winding up petition u/s 434 of the Companies Act, 1956 with Honourable Court of Mumbai. This petition has been dismissed vide Order dated March 24, 2005. Subsequently, the Company has filed an appeal before the division bench of the Honourable High Court against the order dated March 24, 2005 and also sent a notice to EIL invoking arbitration proceedings. The Honourable High Court disposed off the appeal as no case for interference in the impugned order vide its order dated November 1, 2005. However, the Honourable High Court referred the dispute to the sole Arbitrator of Justice Mr D.R. Dhanuka. The Company has filed the statement of claim on May 15, 2006 before the sole arbitrator and next date of hearing is fixed for July 3, 2006. 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:

	2006	2005
Salary	1,728,000	1,003,710
Employer's contribution to provident fund	207,360	120,445
Perquisites/ Allowances	2,655,063	1,638,822
Ex-gratia/ Performance linked incentive	693,500	1,008,066
Total	**5,283,923**	**3,771,043**

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 ascertainable.

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

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') and applied for de-listing of its shares in CSE. CSE's approval in this regard is awaited.

Out of the total paid up equity share capital comprising of 525,517,152 equity shares of Rs 10 each, 515,070,338 equity shares are yet to be listed on any of the recognized stock exchanges in India. As a pre-condition to the listing of the aforesaid shares of the Company on the Bombay Stock Exchange ('BSE'), the BSE has directed the Company to get at least 1.33 percent of the total share capital diluted from the promoters share holding by way of Public Offer for Sale ('OFS'). The Company has filed the draft OFS with the Securities and Exchange Board of India ('SEBI') on December 23, 2005, thereby offering 8,000,000 shares (1.52 percent) shares held by promoter to public.

4. Advance Against Share Application Money

On October 16, 2004 the Company had 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 institution and banks from January 1, 2004 to March 31, 2005. Pursuant to the revised CDR scheme dated June 24, 2005, and lender's confirmation regarding conversion of Zero percent Optionally Fully Convertible Debenture ('OFCD') including premium accrued till March 31, 2006, the Company has transferred OFCDs of Rs 755.12 million and OFCDs premium of Rs 119.87 million to advance against Equity Share Application Money, pending informal opinion from SEBI regarding share issue price for conversion.

5. Secured Loans

(a) As per the CDR Scheme approved on March 10, 2004 and subsequently approved on June 24, 2005, the Lenders have signed Master Restructuring Agreement ('MRA') for reconstruction of their Debts and Security Trusteeship Agreement, whereby the Lenders have entered into an agreement and appointed IDBI Trusteeship Services Limited (herein after referred as "ITSL") as their custodian of security. On November 11, 2005 the charges were registered in favour of the ITSL for Rupee Term Loans, for providing Specific Credit Facility, for Working Capital Assistance and Zero percent Secured OFCDs. The same are secured by first pari passu charge on immovable properties of the Company situated at Kandivali (East), Mumbai and properties situated at Mohali & Jalandhar under equitable mortgage, first pari passu charge of mortgage of 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. Further, the same are also secured by assignment of all rights, title, benefits, claims and interest in, under the project documents, insurance policies, all statutory, government and regulatory approvals, permissions, exemptions and waivers on pari passu basis. These arrangements/loans are further secured by consolidated corporate guarantee given by HFCL, the Holding Company, to the tune of Rs 5225 million.

During the year, Centurion Bank of Punjab ('CBOP') also provided fund based Working Capital facility to the Company. This amount is secured against entire receivables, current assets and fixed assets of the Company on pari passu basis with other members.

Master Restructuring Agreement and Security Trusteeship Agreement ('STA') has been further amended on March 9, 2006. Centurion Bank of Punjab has agreed to appoint ITSL as their custodian for security and signed the STA as one of the lenders.

The above mentioned security has been further extended to amount of loans, working capital assistance, specific facility and OFCDs together with the interest, compound interest, additional interest, default interest, costs, charges, expenses and any other monies payable by the Company in relation thereto and in terms with MRA and STA entered into between the lenders and ITSL.

(b) Vehicle Loans of Rs 10.73 million (2005 – Rs 8.62 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 instalments and shall be repaid by 2009. Vehicle loans repayable within one-year amounts to Rs 5.30 million. Interest rates on vehicle loans vary from 4.75 per cent per annum to 12.51 percent per annum. The tenure of loan ranges from 18 months to 36 months.

(c) Interest accrued and due includes an amount of Rs 6 million pertaining to differential interest pertaining to difference due to monthly vis-à-vis. Quarterly compounding in respect of loan from a scheduled bank. Pending approval from the CDR cell, for conversion into OFCD/advance against equity share capital, this is included under interest accrued and due.

6. Unsecured Loans

(a) 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 earlier redeemable at par on March 31, 2014, are now redeemable at par on March 31, 2016 after repayment of the term loans as per revised CDR Scheme effective from April 1, 2005.

(b) Interest payable on vendor finance facilities amounting to Rs 3.93 million as at March 31, 2006 (2005 – Rs 3.93 million) is yet to be remitted.

(c) On February 8, 2005, the Company has entered into a buyer's credit loan agreement with The Export Import Bank of China to facilitate payment to one of its equipment supplier for a total amount of Rs 544.13 million (US$ 12.13 million). As on March 31, 2006, the Company has utilized Rs 495.99 million (US$ 11.06 million) of this facility. The facility is secured by a financial Bank guarantee of Rs 109.20 million and by a Corporate Guarantee of Rs 544.13 million given by HFCL, the Holding Company.

7. Fixed Assets and Capital work-in-progress

(a) Capital Work in Progress includes Goods in Transit of Rs 10.07 million (2005 - Rs 42.29 million).

(b) Gross Block of Fixed Assets and Capital Work in Progress includes capitalized foreign exchange loss of Rs 8.84 million, (2005 – gain of Rs 7.21 million).

(c) As on March 31, 2006, telephone instruments aggregating to a net book value of Rs 345.18 million (2005 – Rs 330.49 million) and other assets aggregating to net book value Rs 12.36 million (2005 – Rs Nil) are located at customer premises and at other operators sites, respectively.

(d) During the previous year, the Company entered into a contract with equipment supplier for expansion of capacity and rollout of CDMA based wireless networks to most of the areas of Punjab circle. As a result, in previous year, the management has revised the economic useful life of the equipment purchased from the original equipment supplier based on its plan of redeploying these at other zones and utilization till the year ended March 31, 2008. As on March 31, 2006, the Company has decided to sell these assets instead of redeployment. Accordingly, the assets with a carrying cost of Rs 195.03 million (net of accumulated depreciation of Rs 352.73 million) as on March 31, 2006 have been stated at their net realisable value, based on part of the assets sold subsequent to balance sheet date. Accordingly, an amount of Rs 179.34 million has been determined as loss on discard of the asset and Rs 15.69 million has been disclosed as Asset Held for Sale under Other Current Assets.

(e) Effective April 1, 2005, the Company changed its policy to depreciate Telephone Instruments, Fixed Wireless Phone ('FWP'), Cordect and Routers (collectively referred as Telephone Instruments) being integral part of the network of the Company, over the estimated useful life of five years from the earlier policy of depreciating these assets costing less than Rs 5,000 fully in the year when they are ready to use. Had the Company followed its earlier policy the loss and depreciation for the year would have been higher by Rs 171.38 million.

8. Investments

The Company had invested Rs 717.67 million (Rs 18 million as equity and Rs 699.67 million as unsecured convertible OFCD) in an associate company, The Investment Trust of India Limited ('ITI'). ITI, a non-banking finance company, earned a net profit of Rs 29.13 million for the year ended March 31, 2006 and has a positive net worth as on March 31, 2006. The Company is confident that ITI shall continue to generate profits in the long-term and, accordingly, believes that there is no permanent diminution in the value of these long-term investments.

9. Deferred Taxes

During the year, the Group has incurred losses of Rs 1,149.87 million (accumulated losses of Rs 6,548.33 million) resulting into a tax loss carry forward situation. The Company is eligible for a tax holiday under section 80IA of the Income-tax Act, 1961. 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.

10. Current liabilities and Provisions

Sundry Creditors include amount payable to Small Scale Industrial Undertakings ('SSI') as at March 31, 2006 of Rs Nil (2005 — Rs Nil) (based on the information, to the extent available with the Group and as certified by the management).

11. Loss per share

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

	2006	2005
Loss for the year (in Rs.)	1,149,874,509	919,972,305
Weighted average number of shares	525,517,152	480,454,474
Nominal value per equity share (in Rs)	10	10
Loss per share – basic and diluted (in Rs)	2.19	1.91

12. Operating leases

<u>*Company as a Lessee*</u>

(a) The Company has entered into various cancelable lease agreements for leased premises. Gross rental expenses for the year ended March 31, 2006 is Rs 49.78 million aggregated (March 31, 2005 — Rs 39.12 million).

(b) The Company has entered into site sharing agreements with other operators for sharing of their infrastructure sites. During the year, the Company has incurred Rs 2.84 million (2005 – Rs Nil) towards site sharing cost.

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

	2006	2005
Payable not later than one year	2,794,277	-
Payable later than one year and not later than five years	3,017,819	-
Total	**5,812,096**	-

<u>*Company as a Lessor*</u>

(c) The Company has entered into site sharing agreements with other operators for sharing of its infrastructure sites. During the year, the Company has accrued Rs 1.35 million (2005 – Rs Nil) towards site sharing revenue.

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

	2006	2005
Receivable not later than one year	699,433	-
Receivable later than one year and not later than five years	755,388	-
Total	**1,454,821**	-

13. Segmental Reporting

The primary reporting of the Group has been performed on the basis of business segments. The Group had only one primary business segment, which is the provision of unified telephony services. Accordingly, the amounts appearing in these financial statements relate to this primary business segment. Further, the Group provides services only in the State of Punjab (including Chandigarh and Panchkula) and, accordingly, no disclosures are required under secondary segment reporting.

14. Related Party transaction

Relationship	Holding Company		Wholly owned subsidiary		Companies under Common Control		Fellow Subsidiary		Associates		Company Under Key Management Personal	
Nature of Transaction	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05
ASSETS												
Purchase of Equity Shares	–	–	–	–	–	–	–	–	–	–	–	–
Advance against equity	–	–	–	–	–	–	–	–	–	–	–	–
Purchase of Capital Goods	77,660,776	110,275,787	–	–	78,665	410,493	–	–	–	–	4,981,577	–
Purchase of Capital Services	3, 584, 293	3,723,119	–	–	–	–	–	–	–	–	–	–
Payment against capital purchase/services	97,148,292	128,651,794	–	–	–	25,496,513	–	–	–	–	–	–
LIABILITIES												
Amounts received by Company	11,000,000	–	–	–	–	–	–	–	–	–	–	–
Balance - Payable	43,031,262	53,305,985	–	–	261,800	3,330,933	–	–	–	–	3,323,455	–
Balance - Receivable	–	–	–	–	9,330,004	6,478,142	119,784	89,265	1,149,999	1,149,999	–	8,121,107
Relationship	Holding Company		Wholly owned subsidiary		Companies under Common Control		Fellow Subsidiary		Associates		Company Under Key Management Personal	
Nature of Transaction	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05
INCOME/RECEIPT												
Services Provided	–	–	–	–	9,679,087	8,811,106	–	–	–	–	–	–
EXPENSES/PAYMENTS												
Debit Notes raised on us (Expenses)	394,486	45,228	–	–	–	–	–	–	–	16,611	56,075	–
Debit Notes raised by us (Expenses)	5,185,072	615,198	–	–	–	531,985	–	137,655	–	–	1,472,416	405,583
Purchase of Consulmbales Goods/ Repair & Maintainances	755,569	2,856,711	–	–	–	424,593	–	–	–	–	–	–
Purchase of Services (Expenditure Nature)	–	1,800,000	–	–	1,899,869	1,082,247	–	–	–	–	58,234,614	38,336,338
Payments made on our behalf	–	–	–	–	–	–	–	–	–	–	2,525,300	–
Payment received on our behalf	–	–	–	–	–	–	–	–	–	–	–	–
Payment received by us	–	–	–	–	6,800,000	3,000,000	–	48,390	–	96,372	2,574,999	6,576,470
Payments made by the Company	1,150,055	4,086,741	–	–	5,016,237	974,855	30,519	–	–	612,661	54,150,436	50,648,848
OTHERS												
Consolidated Corporate Guarantee/ Individual Corporate Guarantee given to Banks on behalf of the Company	5,769,131,662	5,225,000,000	–	–	–	–	–	–	–	–	–	–
Counter Guarantee given by Company	5,225,000,000	5,225,000,000	–	–	–	–	–	–	–	–	–	–

a. Disclosure of Material Transactions with Related Parties

HFCL Satellite Communication Limited

- Payments received by the company Rs 6,800,000 (2005-Rs 3,000,000) and debit notes raised by the company Rs 9,651,862 (2005- Rs 8,811,106).
- Balance receivable is Rs 9,330,004 (2005- Rs 6,478,142).

Himachal Exicom Communications Limited

- Purchase of capital goods by the company Rs 78,665 (2005- Rs 410,493), purchase of services Rs 187,340 (2005- Rs 827,804) and payments made by the company Rs 3,330,933 (2005- Rs 25,800,014).
- Balance payable is Rs 261,800 (2005- Rs 3,330,933).

Microwave Communication Limited

- Purchase of Services by the company of Rs 1,712,529 (2005- Rs 1,082,247) and payment made by the company of Rs 1,685,304 (2005- Rs 1,171,368).

Advances given to Key Managerial Personnel (Chief Executive Officer)

Interest Free Housing loan Rs 650,000 (2005 – 800,000), other advances Rs 31,046 (2005 – Rs 93,573)

- Holding Company: Himachal Futuristic Communications Limited.
- Companies under common control: HFCL Satellite Communication Limited, Himachal Exicom Communications Limited and Microwave Communication Limited.
- Fellow subsidiary: HTL Limited.
- Associate enterprise includes The Investment Trust of India Limited.
- Company under Key Managerial Personnel: HFCL Internet Services Limited.
- Key managerial personnel include the remuneration paid to Mr Surendra Lunia (CEO) for the year ended March 31, 2006 (Refer Schedule 22, Note 3).
- Related parties with whom the Company does not have any transaction are:

Companies under common control

HFCL Bezeq Telecom Limited, Consolidated Futuristic Solutions Limited, WPPL Limited, HFCL Dacom Infocheck Limited, HFCL Kongsung Telecom Limited, Platinum EDU Limited, Westel Wireless Limited, Pagepoint Services Pvt. Limited.

15. Unclaimed deposit from public

During the year ended March 31, 2004, the Company surrendered its licence granted by Reserve Bank of India ('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 of the year end. 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.

The accompanying financial statements include the following account balances relating to the NBFC business whose licence granted by RBI was surrendered during the year ended March 31, 2004:

• Unclaimed Deposits From Public	Rs 1,058,574
• Interest accrued and due on public deposits upto September 15, 2003	Rs 146,322
• Interest accrued and due on deposits to be transferred to Investor Protection and Education Fund	Rs 298,410
• Cheques outstanding beyond 6 months	Rs 523,617
• Others (Under reconciliation)	Rs 20,057
	Rs 2,046,980
Balances with Scheduled banks in Escrow account	Rs 2,046,980

16. Debenture redemption reserve

Pursuant to the CDR scheme on October 16, 2004, the Company has issued OFCDs aggregating to Rs 166.78 million repayable as on March 31, 2016. 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, 2006, the Company has incurred losses of Rs 1,130.37 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.

17. Prior period expenditure (net)

Description	2006	2005
Electricity Water	–	626,309
Miscellaneous Expenses	–	40,816
Security Charges	–	68,735
Customers Acquisition Costs	87,765	–
Legal and Professional Expenses	46,200	–
Communication Expenses	12,889	–
Staff Welfare Expenses	21,314	–
Repair & Maintenance–Network	3,644,810	–
Interest on Term Loans	5,550,374	–
Interconnect Usage Charges	392,562	7,258,575
Royalty and licence fees to Wireless Planning Commission	–	1,685,693
Travelling and Conveyance	5,464	–
Revenue from Unified Access Services	(284,178)	(1,437,815)
Miscellaneous Income	(5,226)	(156,500)
Total	**9,471,974**	**8,085,813**

18. Prior year comparatives

Previous year figures have been regrouped where necessary to conform to this year's classification.

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
Associate Vice President (F&A)

S. Prabhakar
Company Secretary & Head – Legal & Regulatory

Place : New Delhi
Date : June 30, 2006

Place : New Delhi
Date : June 30, 2006

HFCL INFOTEL LIMITED
CONSIDILATED CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2006
(Unless and otherwise states all amounts are in rupees)

PARTICULARS	For the Year Ended MARCH 31, 2006 (Rs.)	For the Year Ended MARCH 31, 2005 (Rs.)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) for the year before Taxation	(1,158,137,641)	(936,026,556)
Adjustments for:		
Depreciation and Amortisation	1,090,131,623	1,028,326,987
Prior Period Expense / (Income)	9,471,974	8,085,813
Excess Provision Written Back	(5,323,739)	(18,980,178)
Loss on Fixed Assets Sold / Discarded	188,814,489	15,695,880
Bad Debts Writen Off	110,568,247	81,320,624
Provision for Doubtful Debts	50,367,393	48,950,603
Tax deducted at source written off	-	3,846,821
Finance Expenses*	599,843,428	627,231,451
Interest Income	(2,955,879)	(2,386,875)
Wealth tax	27,254	33,964
Pre operative expenses written off	59,628	(59,628)
Preliminary expenses written off	174,958	(174,958)
Operating profit before working capital changes	**883,041,735**	**855,863,949**
Adjustments for changes in:		
(Increase) / Decrease in inventories	(6,439,504)	-
(Increase) / Decrease in debtors	(271,726,456)	(189,826,041)
(Increase) / Decrease in Loans and Advances	5,937,465	(31,199,651)
Increase / (Decrease) in Current liabilites	212,609,778	180,716,514
Cash generated from operations	**823,423,018**	**815,554,771**
Direct Taxes paid (Net)	(2,399,203)	(6,252,330)
Prior Period Expense / (Income), (Net)	(9,471,974)	(8,085,814)
NET CASH GENERATED FROM OPERATING ACTIVITIES (A)	**811,551,841**	**801,216,627**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(1,219,167,408)	(818,499,962)
Sale of fixed assets	2,147,185	2,660,820
Purchase of investments	-	
Licence entry fee (refund)	-	77,710,386
Realization of Fixed Deposits	(37,683,230)	8,662,316
Interest Received	921,241	2,393,080
NET CASH USED IN INVESTING ACTIVITIES (B)	**(1,253,782,212)**	**(727,073,360)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Equity Share Capital	-	600
Receipts from Secured loan	93,067,354	18,329,251
Repayment of Public Deposits	(682,025)	(608,684)
Receipts from Unsecured loan	495,998,369	(36,050,881)
Interest paid	(176,727,308)	(20,511,266)
Dividend Paid	(166,611)	(129,642)
NET CASH GENERATED FROM FINANCING ACTIVITIES (C)	**411,489,780**	**(38,970,622)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	**(30,740,591)**	**35,172,645**
Cash and Cash Equivalents at the beginning of the year (Opening Balance)	78,231,664	43,059,018
Cash and Cash Equivalents at the end of the year (Closing Balance)	47,491,073	78,231,664

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*. Represents interest accrued on secured loan as difference between the interest paid and interest accrued on yield basis amounting to Rs 384,838,920 (2005-Nil) as per CDR Scheme
4. Previous year figures have been regrouped and recast wherever necessary to conform to current year classification.
5. Cash & Cash Equivalents include :

Cash in Hand	1,458,721	1,928,296
Cheques in Hand	8,033,776	8,410,956
Balances with Scheduled Banks		
- In Current Account	35,918,698	65,092,183
- In Escrow Account and Fixed deposit	2,079,878	2,800,229
	47,491,073	**78,231,664**

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
Associate Vice President (F&A)

S. Prabhakar
Company Secretary & Head – Legal & Regulatory

Place : New Delhi
Date : June 30, 2006

Place : New Delhi
Date : June 30, 2006

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, 2006
II	CAPITAL RAISED DURING THE YEAR (RUPEES)	
	Public Issue	NIL
	Bonus Shares	NIL
	Rights Issue	NIL
	Private Placement	NIL
III	POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (RUPEES)	
	Total Liabilities	8,806,793,829
	Total Assets	8,806,793,829
	SOURCE OF FUNDS	
	Shareholders' Funds	6,780,162,914
	Reserves & Surplus	159,894,077
	Secured Loans	6,243,160,372
	Unsecured Loans	666,712,211
	APPLICATION OF FUNDS	
	Net Fixed Assets	
	(Including Intangible Asset)	7,397,771,836
	Accumulated Losses	6,548,326,451
	Investments	764,853,763
	Net Current Liabilities	861,022,477
IV	PERFORMANCE OF THE COMPANY (RUPEES)	
	Turnover	2,933,545,825
	Total Expenditure	4,091,683,466
	Profit /(Loss) Before Tax	(1,158,137,641)
	Profit /(Loss) After Tax	(1,149,874,509)
	Earning Per Share	(2.19)
	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 of Directors

Mahendra Nahata
Director

M.P.Shukla
Director

Surendra Lunia
Chief Executive Officer

S. Prabhakar
Company Secretary & Head
– Legal & Regulatory

Pradeep Goel
Associate Vice President
(F&A)

Place : New Delhi
Date : June 30, 2006

DIRECTORS' REPORT

CONNECT BROADBAND SERVICES LTD. (CBSL)

Dear Members

Yours Directors take pleasure in presenting their second report.

SUMMARY OF FINANCIAL RESULTS

The summarized Financial Results for the year ended 31st March, 2006 are as under: -

Rs.

Particulars	2006	2005
Gross Income – - Income from operations	3,171,436	–
- Other Income	2,898	–
Total	3,174,334	–
Expenses before Depreciation	35,752,032	–
Depreciation	371	–
Loss for the year before Tax	32,578,069	–
Provision for taxation	NIL	–
Fringe Benefit Tax	522,663	–
Loss for the year carried to Balance Sheet	33,100,732	-

Operations

During the year under review, your company has pioneered a revolution in the entertainment business with the launch of its "TRIPLE PLAY SERVICES". This encompasses voice, video and data via a single connectivity to our customers. Company commenced this with a strong focus to become a leading player in the home entertainment segment.

Your Company is emerging as one of the fastest growing infotainment company by offering innovative products and services ensuring customer delight. We will soon come up with more value added services such as Video on demand, IP TV and other interactive services.

Dividend

Since the company is in the initial stage of inception there was heavy capital deployment. Your company could not generate profits and hence, your Directors do not recommend any dividend for the Financial year 2005-06.

Holding Company

Your Company continues to remain a subsidiary of HFCL Infotel Ltd.

Directors

Mr. T S V Panduranga Sarma and Mr. Sannjay Sachdeva were appointed as additional Directors on the Board of the Company in the Board Meeting held on 20.12.2005 and they hold office up to the date of ensuing Annual General Meeting. Company has received a notice in writing from a member of the Company under Section 257 of the Companies Act, 1956 signifying his intention to propose the appointment of Mr. T S V Panduranga Sarma and Mr. Sanjay Sachdeva as directors of the Company, whose period of office shall be liable to determination by retirement of directors by rotation.

In accordance with the Articles of Association of the Company and the provisions of the Companies Act, 1956, Mr. Pradeep Goel retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment to the office of Director on the Board of your Company.

Auditors and Auditors Report

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

There are no adverse remarks or qualification in Auditor's report that require explanation by the Board of Directors.

Public Deposits

Your Company has not accepted any deposits from public under the provisions of Section 58A of the Companies Act, 1956 and Rules made there under since its incorporation.

Share Capital

In May 2006, Company has increased its Authorised Capital from Rs. 1.00 Crore to Rs.10 Crores to enable the Company to further mobilize funds for business expansion. Company has allotted 35,00,000 Equity shares of Rs. 10 each at par aggregating Rs. 3,50,00,000 to its holding, HFCL in lieu of advance received towards expenses in June 2006.

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 year ended March 31,2006,the applicable accounting standards had been followed along with proper explanation relating to material departures;

ii. that the directors had 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,2006;

iii. that the directors had 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 had prepared the annual account on a going concern basis.

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 above the limits 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 and acknowledge the cooperation and support extended by the Shareholders, the Holding Company, the State Government, Department of Telecommunications and other Regulatory Authorities.

On behalf of the Board

Sd/-

Place : Mohali
Dated : 28th July, 2006

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, 2006, the Profit and Loss Account and also the 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 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 the 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 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. Further to our comments in the Annexure referred to 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 31,2006 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2006 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 31,2006,

   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 Chaturvedi & Co
Chartered Accountants

D R Baid
Partner
Membership No. 10517

Place: New Delhi
Date: June 29, 2006

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

i. a. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.

b. Fixed assets have been physically verified by the management during the year pursuant to a programme for physical verification of fixed assets, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. According to the information and explanations given to us, no material discrepancies were noticed on such verification.

c. No Fixed assets were disposed off during the year.

ii. a. The inventory has been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.

b. The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

c. The Company is maintaining proper records of inventory. No discrepancy was noticed on verification between the physical stocks and the book.

iii. According to the information and explanations given to us, 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, provisions of clause 4 (iii) (a) to (g) of the Companies (Auditors' Report) Order, 2003 are not applicable to the Company.

iv. In our opinion and according to the information and explanations given to us, there exists an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchases of inventory, fixed assets and with regard to the sale of goods and services. During the course of our audit, we have neither observed nor have been informed of any continuing failure to correct major weaknesses in internal control system of the Company.

v. In our opinion and according to the information and explanations given to us, there were no contracts or arrangements that needed to be entered into the register required to be maintained under Section 301 of the Companies Act, 1956

vi. In our opinion and according to the information and explanations given to us, the Company has not accepted any deposits as defined under the provisions of section 58 and 58 AA or any other relevant provisions of the Companies Act, 1956 and the rules made there under.

vii. The paid up capital of the Company was less than Rs. 50 lacs at the commencement of the year. Accordingly provisions of clause 4 (vii) of the Companies (Auditors' Report) Order, 2003 with respect to adequacy of the internal audit system is not applicable.

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 for the products of the Company.

ix. a. According to the information and explanations given to us,, the Company is generally regular in depositing with the appropriate authorities undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax and cess and any other statutory dues applicable to it and there are no undisputed amounts payable in respect of these dues which have remained outstanding as at 31 March 2006 for a period of more than six months from the date they became payable. We were informed that the operations of the Company during the year did not give rise to any liability for Investor Education Protection Fund, Wealth Tax, Customs Duty and Excise Duty.

b. According to information and explanations given to us, there are no dues of income-tax, sales tax, wealth tax, service tax ,customs duty, excise duty or cess or any other statutory dues which have not been deposited on account of any dispute.

x. The Company is in existence for less than five years. Accordingly provisions of clause 4 (x) of the Companies (Auditors' Report) Order, 2003 is not applicable to the Company.

xi. In our opinion and according to the information and explanations given to us, the Company has not taken any loans from any of the financial institutions or banks and has not issued any debentures.

xii. In our opinion and according to the information and explanations given 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.

xiii. 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 (Auditors' Report) Order, 2003 are not applicable to the Company.

xiv. According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4 (xiv) of the Companies (Auditors' Report) Order, 2003 are not applicable to the Company.

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

xvi. The Company has not raised any term loans during the year. Accordingly, the provisions of clause 4 (xvi) of the Companies (Auditors' Report) Order, 2003 are not applicable to the Company.

xvii. According to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, we report that no funds raised on a short-term have been used for long-term investment.

xviii. The Company has not made any preferential allotment of shares during the year.

xix. The Company has not issued any debentures during the year. Accordingly, the provisions of clause 4 (xix) of the Companies (Auditors' Report) Order, 2003 are not applicable to the Company.

xx. The Company has not raised money through public issue of shares. Accordingly, the provisions of clause 4 (xx) of the Companies (Auditors' Report) Order, 2003 are not applicable to the Company.

xxi. To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For Chaturvedi & Co
Chartered Accountants

D R Baid
Partner
Membership No. 10517

Place: New Delhi
Date: June 29, 2006

CONNECT BROADBAND SERVICES LIMITED
BALANCE SHEET AS AT MARCH 31, 2006

PARTICULARS	SCHEDULE	AS AT MARCH 31, 2006 (Rs.)	AS AT MARCH 31, 2005 (Rs.)
I. SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	**1**	500,600	500,600
Advance against share application Money		35,000,000	-
TOTAL		**35,500,600**	**500,600**
II. APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	**2**	29,823	-
Less : Depreciation		371	-
Net Block		**29,452**	-
Current Assets, Loans & Advances			
Inventories	**3**	6,439,504	-
Sundry Debtors	**4**	865,854	-
Cash and Bank Balances	**5**	595,269	282,639
Loans & Advances	**6**	749,324	-
Prepaid Expenses		113,033	-
		8,762,984	**282,639**
Less: Current Liabilities and provisions			
Current Liabilities	**7**	6,362,063	16,625
Provisions		30,506	-
		6,392,569	**16,625**
Net Current Assets		**2,370,415**	**266,014**
Miscellaneous Expenditure			
(to the extent not written off or adjusted)			
Preliminary Expenses		-	174,958
Pre-Operative Expenses(Pending Allocation)		-	59,628
Profit & Loss Account		33,100,732	-
		35,500,600	**500,600**
Significant Accounting Policies	**14**		
Notes to Accounts	**15**		

The Schedules referred above and the Notes to Accounts form an integral part of the Profit and Loss Account

As per our report of even date attached

CHATURVEDI & Co.
Chartered Accountants

For and on behalf of the Board

D R Baid
Partner
Membership No. 10517

Surendra Lunia
Director

Pradeep Goel
Director

Bipan Chopra
Manager - (F&A)

Place : New Delhi
Date :29th June' 2006

CONNECT BROADBAND SERVICES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2006

PARTICULARS	SCHEDULE	For the Year Ended March 31, 2006 (Rs.)	For the Period Ended March 31, 2005 (Rs.)
INCOME			
Income from operations	8	3,171,436	-
Other Income		2,898	-
TOTAL		**3,174,334**	**-**
EXPENDITURE			
Direct Expenses	9	3,779,109	-
Cost of Goods Sold	10	95,071	-
Personnel Expenditure	11	6,716,538	-
Administrative & Selling Expenditure	12	16,329,952	-
Preliminary Expenses-Written-off		174,958	-
Pre-operative Expenses-Written-off	13	8,656,404	-
Depreciation	2	371	-
TOTAL		**35,752,403**	**-**
Profit/(Loss) before Tax		**(32,578,069)**	-
Provision for Tax			
–Fringe Benefit Tax		522,663	-
Profit/(Loss) after Tax carried to Balance Sheet		**(33,100,732)**	**-**
Significant Accounting Policies	14		
Notes to Accounts	15		

The Schedules referred above and the Notes to Accounts form an integral part of the Profit and Loss Account

As per our report of even date attached

CHATURVEDI & Co.
Chartered Accountants

For and on behalf of the Board

D R Baid	**Surendra Lunia**	**Pradeep Goel**	**Bipan Chopra**
Partner	Director	Director	Manager - (F&A)
Membership No. 10517			

Place : New Delhi
Date : 29th June' 2006

CONNECT BROADBAND SERVICES LIMITED

SCHEDULE FORMING PART OF THE BALANCE SHEET

PARTICULARS	AS AT MARCH 31, 2006 (Rs.)	AS AT MARCH 31, 2005 (Rs.)

SCHEDULE 1
SHARE CAPITAL

Authorised :		
10,00,000 (Previous year 10,00,000) Equity Share of 10/- each	10,000,000	10,000,000
Issued, Subscribed & Paid Up		
500,60 Equity Shares of Rs 10/- each	500,600	500,600
	500,600	500,600

Note:
Of the above 50,000 equity shares are held by HFCL Infotel Limited (Holding Company)

SCHEDULE 2
FIXED ASSETS

ASSETS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at April 1, 2005	Additions	Sale/ adjustment	As at March 31, 2006	As at April, 1 2005	For the Year	On Sale / Adjustment	As at March 31, 2006	As at March 31, 2006	As at March 31, 2005
Furniture & Fixtures	–	15,973	–	15,973	–	325	–	325	15.648	–
Office Equipment	–	13,850	–	13,850	–	46	–	46	13,804	–
Total	–	29,823	–	29,823	–	371	–	371	29,452	–
Previous Year	–	–	–	–	–	–	–	–	–	–

SCHEDULE 3
INVENTORIES

Lsa & Rollout Material	6,439,504	-
	6,439,504	-

SCHEDULE 4
SUNDRY DEBTORS

Debts outstanding for a period exceeding six months	-	-
Others	865,854	-
	865,854	-

SCHEDULE 5
CASH AND BANK BALANCES

Cash in Hand	1,326	3,681
Balance with Scheduled Banks		
- In Current Accounts	561,045	248,958
- In Fixed Deposits(including interest)	32,898	30,000
	595,269	282,639

SCHEDULE 6
LOANS AND ADVANCES

(Unsecured, considered good unless otherwise stated)		
Advances Recoverable in cash or kind or for value to be received	168,479	-
Security Deposit	500,000	-
Service Tax Recoverable	80,845	-
	749,324	-

PARTICULARS	AS AT MARCH 31, 2006 (Rs.)	AS AT MARCH 31, 2005 (Rs.)
SCHEDULE 7		
CURRENT LIABILITIES AND PROVISIONS		
Current Liabilities		
Sundry Creditors (Note-1)	4,641,018	16,625
Security Deposit	525,000	-
Advance from Customers	565,722	-
Other Liabilities	630,323	-
	6,362,063	16,625
Provisions		
For Leave Encashment	30,506	-
	6,392,569	**16,625**

Note :-
Sundry creditors include a sum of Rs.32,56,350 payable to holding company HFCL Infotel Ltd.Maximum balance during the year Rs.3,83,37,103
Previous year Rs.20,739

PARTICULARS	For the Year Ended March 31, 2006 (Rs.)	For the Period Ended March 31, 2005 (Rs.)
SCHEDULE 8		
INCOME FROM OPERATIONS		
Income from Operations	3,077,402	-
Sale of Net work Equipment	94,034	-
	3,171,436	**-**
SCHEDULE 9		
DIRECT EXPENSES		
Subscription charges	2,424,109	-
Channel Operating Cost	1,355,000	-
	3,779,109	**-**
SCHEDULE 10		
COST OF GOODS SOLD		
Opening Stock	-	-
Purchases	65,34,575	-
Less Closing Stock	6,439,504	-
	95,071	**-**
SCHEDULE 11		
PERSONNEL EXPENSES		
Salary & Allowances	6,512,651	-
Contribution to PF and other funds	142,773	-
Leave Encashment	30,506	-
Staff Welfare	30,608	-
	6,716,538	-

PARTICULARS	For the Year Ended March 31, 2006 (Rs.)	For the Period Ended March 31, 2005 (Rs.)
SCHEDULE 12		
ADMINISTRATIVE AND OTHER EXPENDITURE		
Travelling & Conveyance	6,683,342	-
Rent	183,737	-
Rates and Taxes	8,847	-
Business Promotion	168,472	-
Legal & Professional Charges	6,733,586	-
Advertisement	293,346	-
Insurance Expenses	16,492	-
Car On Hire	182,492	-
Electricity & Water Charges	1,088,058	-
Auditors Remuneration	30,000	-
Director Sitting Fees	2,500	-
Office Maintenance	258,256	-
Printing & Stationery	63,716	-
Repair & Maintenance - Others	253,484	-
Security Expenses	151,592	-
Telephone Expenses	55,375	-
Commision	55,000	-
Miscellaneous Expenses	1,01,657	-
	16,329,952	**-**
SCHEDULE 13		
PRE-OPERATIVE EXPENSES (WRITTEN-OFF)		
Opening Balance as on 01.04.05	59,628	-
Expenses incurred during the year		
Salary	5477218	-
Travelling & Conveyance	534409	17,114
Rent	165411	8,000
Legal and Professional charges	71525	6,500
Auditors Remuneration	–	10,000
Bank Charges & Commission	–	1,935
Rates and Taxes	670	15,225
Office Maintenance	247938	-
Business Promotion	64803	-
Electricity & Water Charges	1285886	-
Car on Hire	43593	-
Insurance Expenses	9403	-
Printing & Stationery	223	625
Repair & Maintenance - Others	289138	-
Security Expenses	179155	-
Telephone Expenses	9162	-
Advertisement	218242	-
Miscellaneous Expenses	-	625
	8,656,404	60,024
Less: Income		
Miscellaneous Income	-	396
	-	396
Closing Balance of Pre-operative Expenses (Written- off)	**8,656,404**	**59,628**

SCHEDULE 14:

SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Operations

i) The Company is engaged in the business of service provider and operator for distribution of Cable television network. The company provides cable television to the subscribers.

2. 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.

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.

4. Depreciation

Depreciation is charged on straight line method basis at the rates prescribed in the schedule XIV of the Companies Act, 1956.

5. Revenue Recognition

Revenue on account of cable services is recognized on services are rendered, in accordance with the terms of the related contracts.

Revenue from sales is recognised on dispatch of goods from the warehouse/premises. Sales are exclusive of sales tax.

Interest income is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

6. Inventories:

Inventories are valued at lower of cost and net realisable value after providing for obsolescence and other anticipated losses, if any. Cost is determined on FIFO basis.

7. Income-Tax:

Tax Expense, comprises of current, deferred and Fringe Benefit tax. Current income tax and Fringe Benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income tax Act. Deferred Income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

8. Earning Per Share

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

9. Contingent Liabilities

Contingent liabilities are determined on the basis of available information and are disclosed by way of a note to the accounts.

10. Pre-Operative Expenditure

Expenditure incurred before the commencement of commercial operations are considered as pre-operative expenditure and are charged to profit and loss account.

SCHEDULE 15:

NOTES TO ACCOUNTS

1. The loss of the company for the period is significantly higher than its paid up equity share capital. The holding Company has advanced Rs. 35,000,000 towards share application money and the Management is confident of generating sufficient cash inflows either from operations and other sources. Accordingly these financial statements of the Company have been prepared on the basis that the Company is a Going Concern.
2. Sundry Creditors do not include amount payable to Small Scale Industrial Undertakings ('SSI') as at March 31, 2006.
3. Deferred tax assets on account of carried forward loss and preliminary expenses have not been recognised and carried forward in the absence of virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised.
4. **Expenditure in foreign currency** (on accrual basis)

Particulars	Year ended *March 31, 2006 (Rupees)*	Year ended *March 31, 2005 (Rupees)*
Travel expenses	32,12,214	Nil
Professional charges	64,93,731	Nil
Total	**97,05,945**	**Nil**

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

Particulars	*Year ended March 31, 2006 (Rupees)*	*Year ended March 31, 2005 (Rupees)*
Audit fees	10,000	10,000
Other Services	20,000	Nil
Total	**30,000**	**10,000**

6. **Share Application Money**

During the year, Company has credited Rs. 35,000,000 as Advance against Share Application Money from HFCL Infotel Limited, the Holding Company. Out of this Rs. 10,095,000 was received in cash and balance Rs. 24,905,000 was appropriated against credit balance lying in its account.

7. **Quantative details of Traded Goods**

Particulars	UOM	Opening Stock		Purchases		Sales		Closing Stock	
		Qty	Value	Qty	Value	Qty	Value	Qty	Value
Cable	Mtrs	–	–	222	4912399	2	68540	220	4842020
Pole Fixtures & Accessories	No's	–	–	8200	266276	126	16242	8074	250206
PVC Items	No's	–	–	8965	83173	–	–	8965	83173
Wall fixtures/Rings	No's	–	–	18300	278394	764	9252	17536	269772
Others	–	–	–	–	994333	–	–	–	994333
Total	–	–	–	–	6534575	–	94034	–	6439504

8. **Related Party Disclosures**

List of Related parties :

Name of Company	**Relation with Company**
Himachal Futuristic Communications Limited (HFCL)	Ultimate Holding Company
HFCL Infotel Limited	Holding Company
HTL Limited	Fellow Subsidiary of Ultimate Holding Company
HFCL Satellite Communication Limited, Himachal Exicom Communications Limited and Microwave Communications Limited.	Companies under common control of Holding Company
HFCL Internet Services Limited	Company Under Key Managerial Personnel
Investment Trust of India Limited	Associate Enterprises
Key managerial Personnel	G.D. Singh

Following are the transactions with the related parties :

Relationship	HFCL Infotel Limited		HFCL Internet		Total	
	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05	31-Mar-06	31-Mar-05
Nature of Transaction						
Assets Puchase of Equity Shares	–	–	–	–	–	–
Liabilities						
Issue of Equity Shares	–	5,00,600	–	–	–	5,00,600
Advance against share Application Money	3,50,00,000	–	–	–	3,50,00,000	–
Balance-Payable	32,56,350	–	9,250	–	32,65,600	–
Balance - Receivable	–	–	–	–	–	–
Income / Receipt						
Services Provided	–	–	–	–	–	–
Expenses / Payments						
Debit Notes raised on us	2,81,61,350	19,739	–	–	2,81,61,350	19,739
Purchase of Services (Expenditure Nature)	–	1000	–	–	–	1000
Payments made on our behalf	–	–	9,250	–	9,250	–
Payments received by us	1,00,95,000	7,16,013	–	–	1,00,95,000	7,16,013
Payments made by the company	–	7,36,752	–	–	–	7,36,752

9. Previous year figures have been regrouped where necessary to conform to this year's classification.

For and on behalf of the Board

Surendra Lunia
Director

Pradeep Goel
Director

Bipan Chopra
Manager - (F&A)

CONNECT BROADBAND SERVICES LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2006

PARTICULARS	For the Year Ended March 31, 2006 (Rs.)	For the Period Ended March 31, 2005 (Rs.)
CASH FLOW FROM OPERATING ACTIVITIES		
Profit / (Loss) for the Year	(32,578,069)	-
Adjustment for :		
Depreciation	371	-
Pre opertative expenses w/o	59,628	(59,628)
Preliminary Expenses w/o	174,958	(174,958)
Operating profit before working capital changes	(32,343,112)	(234,586)
Adjustments for changes in :		
(Increase)/Decrease in Inventories	(6,439,504)	-
(Increase)/Decrease in Debtors	(865,854)	-
(Increase)/Decrease in Loan & Advances	(862,357)	-
(Increase)/Decrease in Current Liabilties	6,345,437	16,625
Provision for leave encashment	30,506	-
Fringe Benefit Tax	(522,663)	-
NET CASH GENERATED FROM OPERATING ACTIVITIES (A)	(34,657,547)	(217,961)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed assets	(29,823)	-
NETCASH USED IN INVESTING ACTIVITIES (B)	(29,823)	-
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Share capital	-	500,600
Advance against share application Money	35,000,000	-
NET CASH GENERATED FROM FINANCING ACTIVITIES (C)	35,000,000	500,600
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	**312,630**	**282,639**
cash and cash Equivalents at the beginning of the year (opening balance)	282,639	-
cash and cash Equivalents at the end of the year (Closing balance)	**595,269**	**282,639**

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 Institute of Chartered Accountants of India.
2. Figures in Bracket indicate cash outflow.
3. Previous year figures have been re-grouped and recast wherever necessary to confirm to current year classification.
4. Cash and cash equivalents include :

Cash in hand	1,326	3,681
Balance with Scheduled Banks		
- In Current Accounts	561,045	248,958
- In Fixed Deposits(including interest)	32,898	30,000
	595,269	282,639

As per our report of even date attached

CHATURVEDI & Co.
Chartered Accountants

For and on behalf of the Board

D R Baid
Partner
Membership No. 10517

Surendra Lunia
Director

Pradeep Goel
Director

Bipan Chopra
Manager - (F&A)

Place : New Delhi
Date : 29th June, 2006

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	31-03-2006		
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	879,2436	Total Assets	879,2436
	SOURCE OF FUNDS			
	Shareholders' Funds	500,600	Reserves & Surplus	NIL
	Secured Loans	NIL	Unsecured Loans	NIL
	Advance Against Share Application Money	35,000,000		
	APPLICATION OF FUNDS			
	Net Fixed Assets (Including Intangible Asset)	29,452	Investments	NIL
	Accumulated Losses	33,100,732		
	Net Current Assets	2370415		
IV	PERFORMANCE OF THE COMPANY (RUPEES)			
	Turnover	3,174,334	Total Expenditure	35,752,403
	Profit /(Loss) Before Tax	(32,578,069)	Profit /(Loss) After Tax	(33,100,732)
	Earning Per Share	–661	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	**Pradeep Goel**	Bipan Chopra
Director	Director	Manager (F&A)

Place : New Delhi
Date : 29th June, 2006

ATTENDANCE SLIP

HFCL INFOTEL LIMITED

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

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 59th Annual General Meeting of the Company held on Friday, the 29th day of September, 2006 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-160 055, Punjab

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 59th Annual General Meeting to be held on Friday, the 29th day of September, 2006 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

Signature ....

No. of Shares held ....

Affix
Revenue
Stamp

* 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.